

## USD per ounce f gold



## USD per ounce of silver



## EURUSD



Source: Thomson Financial.

Precious metals prices				
	Actual (spot)	Change against (in percent):		
		2 W	3 M	12 M
<b>I. In US-dollar</b>				
Gold	1.219.9	-0.5	-0.3	-4.3
Silver	14.4	-1.5	-7.4	-12.5
Platinum	858.0	3.4	2.8	-8.9
Palladium	1.125.2	4.1	21.1	11.8
<b>II. In euro</b>				
Gold	1.075.2	1.0	2.8	0.5
Silver	12.7	0.0	-4.5	-8.0
Platinum	756.3	5.2	5.6	-4.1
Palladium	992.0	5.6	24.2	17.3
<b>III. Gold price in other currencies</b>				
JPY	138.854.0	0.6	1.5	-3.2
CNY	8.474.0	-0.2	1.8	0.6
GBP	936.7	-0.1	#VALUE!	-0.6
INR	88.704.9	1.9	5.9	7.9
RUB	81.484.2	1.5	6.6	9.4

Source: Thomson Financial; own calculations.

## OUR TOP ISSUES

*This is a short summary of our fortnightly **Degussa Marktreport**.*

### The Missing Fear – And The Case For Gold

The level of “financial market stress” has remained relatively low in recent years. Take, for instance, the financial market stress index published by the Federal Reserve Bank of St. Louis. The index stood at -0.997 at the end of October, quite a notch below its long-term average (which has been indexed to zero). Likewise, the volatility of stock prices was 19 per cent at the beginning of November (with a spike to 24.7 per cent at the end of October) – and was equal to the average volatility level that could be observed since 1990.

The message these indicators (and various other variables) convey is that investors seem to be quite relaxed, that they do not appear to expect significant setbacks. At the same time, however, one should take into account that financial market stress indicators are not forward-looking, they merely show the status quo. This means that prices move first, and then the indices react. That said, the currently prevailing market stress level would not tell us what the future will bring in any way.

Nevertheless, the currently low level of financial market stress is an interesting piece of information as it begs the question: Why are investors so relaxed? One answer could be: Investors believe that central banks will successfully fend off any unfavourable financial and/or economic “shocks” going forward. This, in turn, props stock prices up, pushes credit to tight spreads, and keeps markets liquidity high. Viewed from this perspective, investors would rely on central banks putting out a ‘lifeline’ in times of trouble.

One could even argue that investors trade on a perception that says: We do not have to fear anything because central banks have put up a permanent ‘safety net’ under financial markets. Once things turn sour – if, for instance, the stock market were to drop 20 per cent – central banks would rush to lower interest rates promptly and substantially and to inject new money into the system. Any headwind to the asset market price boom and economic expansion can thus be expected to be short-lived.

If this interpretation is correct, it does not come as a surprise that the urge on the part of investors to buy portfolio insurance has remained subdued. Take, for instance, the demand for gold. The yellow metal typically serves as a ‘safe haven’: In times of crisis – and especially so if there is concern about the health of the financial system –, investors often try to rush into gold. Such a crisis-driven gold demand, however, is systematically discouraged if central banks are expected to keep the system going. But are they?

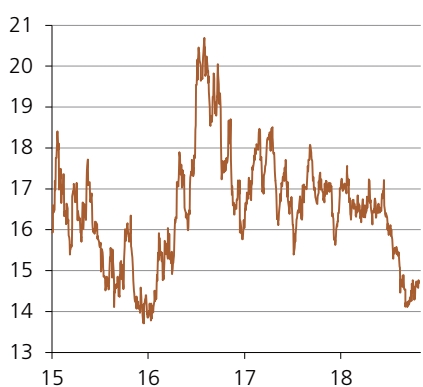
Central banks can keep the financial system liquid. They are the monopolists of money production and can provide any quantity of money deemed politically desirable. However, even they cannot square the circle. If in times of crises, central banks opt for bailing out the system by running the printing press, they run

### Precious metal prices (USD/oz) in the last 4 years

(a) Gold



(b) Silver



(c) Platinum



(d) Palladium



the risk of stirring up inflation concerns at some point – as the policy of increasing the quantity of money seriously raises the chances of the purchasing power of money dwindling.

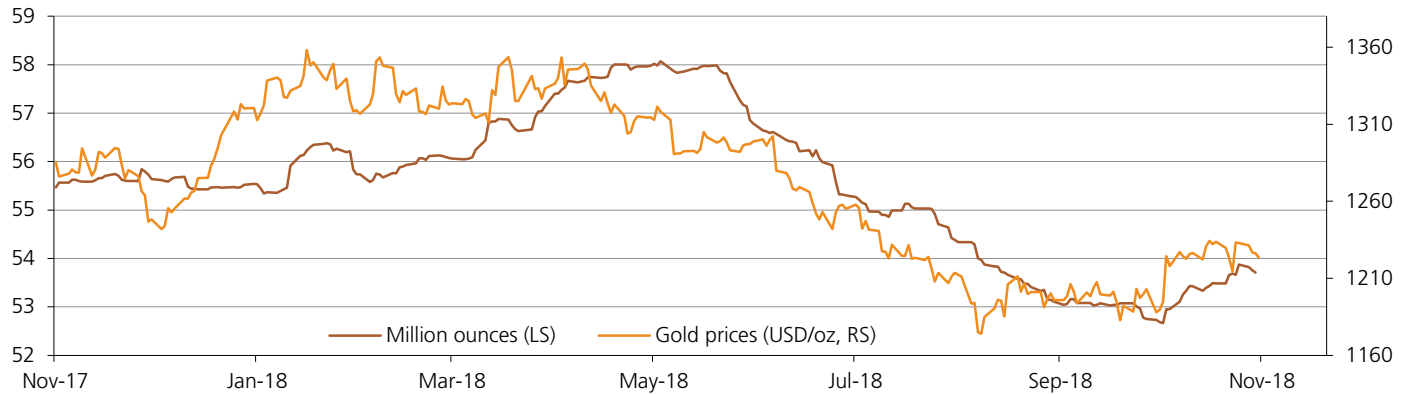
In other words: If central banks have to fight another 'credit crisis' by throwing ever greater quantities of money at it, they may end up with a subsequent 'currency crisis'. A currency crisis means that people lose confidence in the currency. Central banks could therefore easily be caught between a rock and a hard place, putting investors into a somewhat tricky situation as well. This is particularly problematic as central banks have succeeded in putting investor risk awareness to sleep, evidenced by the persistently low level of market stress.

The way things are going, default concerns and inflation expectations are rather low by historical standards. As a result, financial markets could take a hard hit if investors ever wake up and demand a higher price for accepting credit and/or inflation risk. Such a scenario could make holding gold a particularly interesting option. First and foremost, the current gold price does not seem to be high (a statement which admittedly carries quite some 'informed speculation'). Second, in a risk-on scenario, there is a good chance that the gold price will move up.

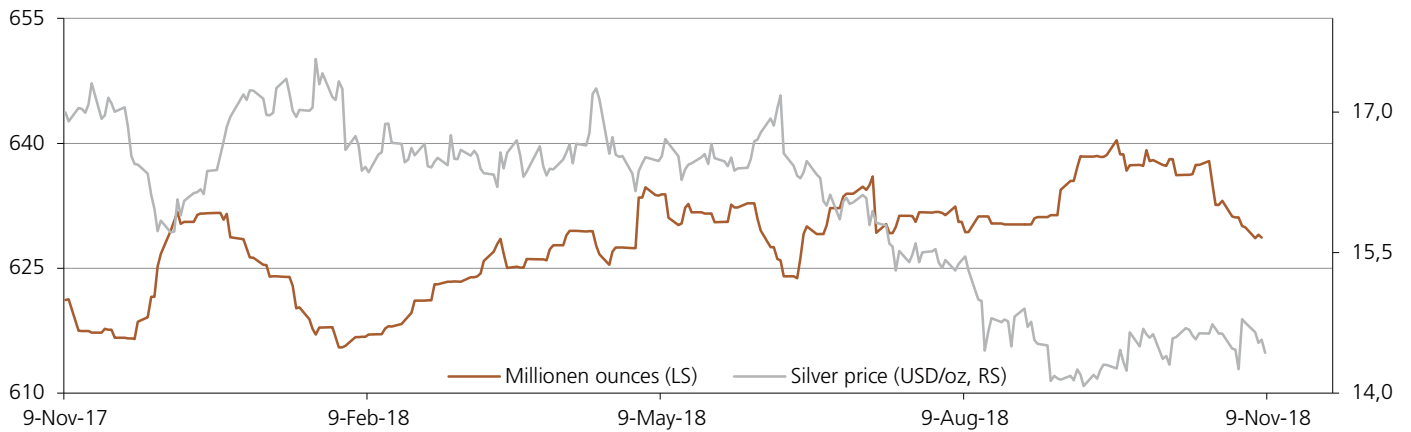
This would not only provide the gold holder with an increase in purchasing power. It would also open up an opportunity to exchange 'expensive gold' into, say, great company stocks, which are then on offer at suppressed prices. For the market liquidity of gold is hard to undermine, as Alan Greenspan noted on 29 September 2014: *"Today, the acceptance of fiat money — currency not backed by an asset of intrinsic value — rests on the credit guarantee of sovereign nations endowed with effective taxing power, a guarantee that in crisis conditions has not always matched the universal acceptability of gold."* So getting into gold in 'times of missing fear' could indeed help to improve the investor's performance.

## Precious metals prices and ETF holdings

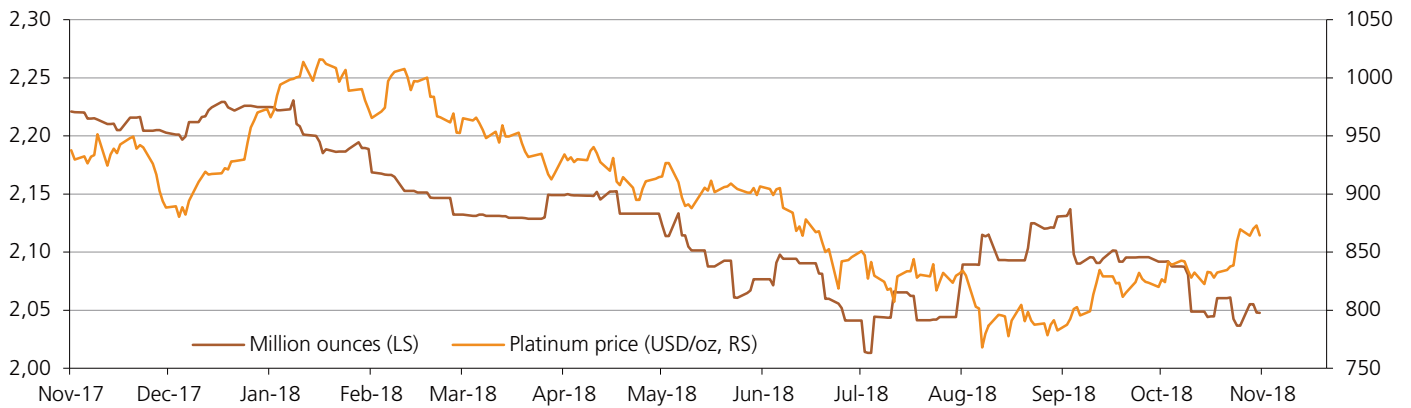
**Gold ETFs (million ounces) und gold price (USD/oz)**



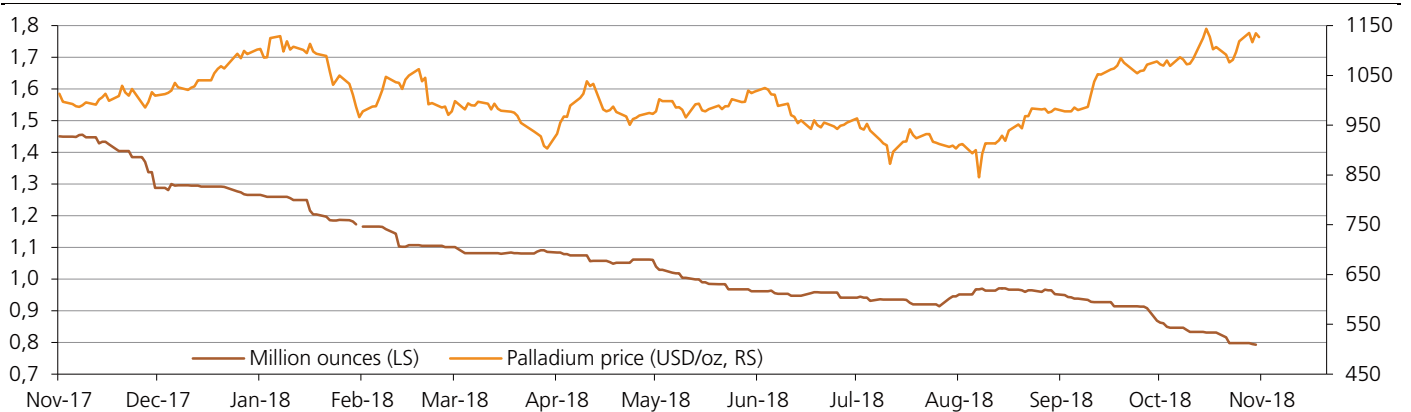
**Silver ETFs (million ounces) and silver price (USD/oz)**



**Platinum ETFs (million ounces) and platinum price (USD/oz)**



**Palladium ETFs (million ounces) and palladium price (USD/oz)**



Source: Thomson Financial.

## Precious metals prices

### In US-dollar

	Gold		Silver		Platinum		Palladium	
I. Actual		1220.2		14.4		858.2		1122.4
II. Gliding averages								
5 days		1227.8		14.7		830.2		1106.4
10 days		1225.9		14.7		833.8		1094.7
20 days		1209.8		14.6		827.5		1080.5
50 days		1202.7		14.5		809.7		1017.7
100 days		1223.9		15.2		827.9		980.1
200 days		1274.1		15.9		887.2		989.8
III. Bandwidths for 2018	<i>Low</i>	<i>High</i>	<i>Low</i>	<i>High</i>	<i>Low</i>	<i>High</i>	<i>Low</i>	<i>High</i>
	1248	1472	16.0	21.0	936	1048	1033	1261
(1)	2	21	11	46	9	22	-8	12
IV. Annual averages								
2014		1260		19.1		1382		800
2015		1163		15.7		1065		706
2016		1242		17.0		985		617
2017		1253		17.1		947		857

### In Euro

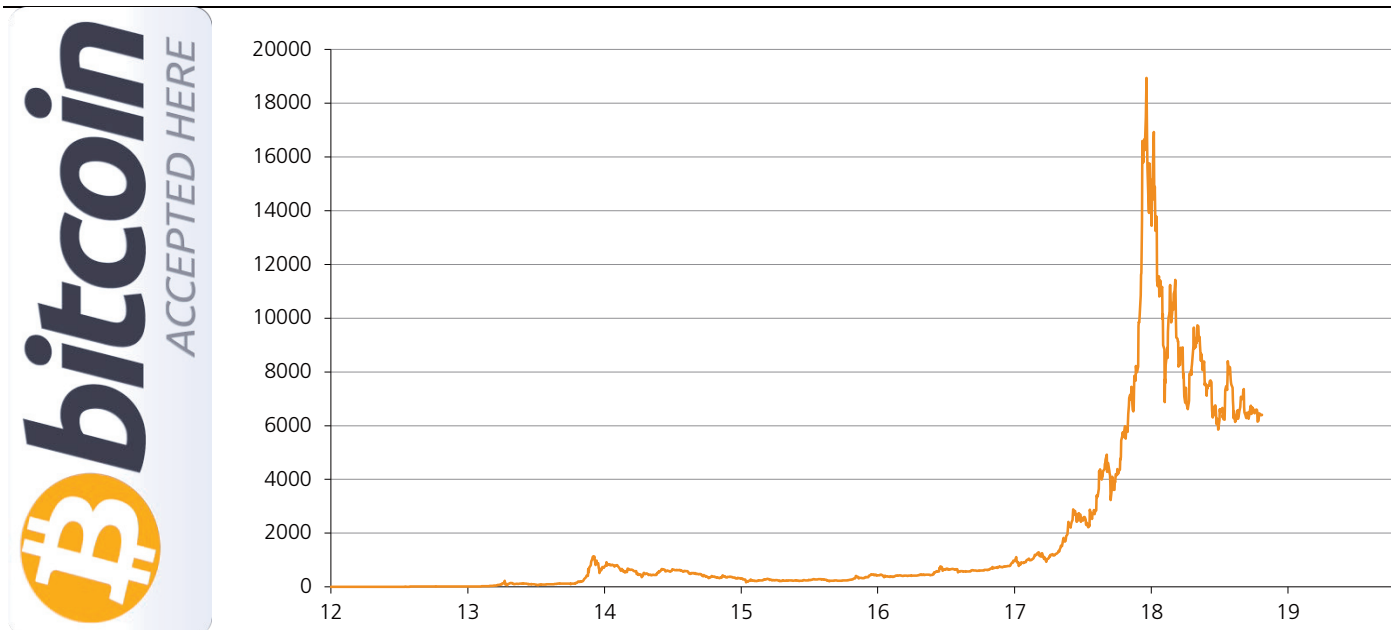
	Gold		Silver		Platinum		Palladium	
I. Actual		1075.9		12.7		756.7		989.6
II. Gliding averages								
5 days		1071.2		12.8		724.3		965.3
10 days		1064.8		12.7		724.2		950.9
20 days		1049.3		12.7		717.7		937.1
50 days		1037.6		12.5		698.5		878.0
100 days		1053.4		13.1		712.5		843.7
200 days		1070.6		13.4		744.9		832.3
III. Bandwidths for 2018	<i>Low</i>	<i>High</i>	<i>Low</i>	<i>High</i>	<i>Low</i>	<i>High</i>	<i>Low</i>	<i>High</i>
	1080.8	1274.2	13.8	18.2	810.4	907.6	894.1	1091.7
(1)	0	18	9	43	7	20	-10	10
IV. Annual averages								
2014		945		14		1035		601
2015		1044		14		955		633
2016		1120		15		888		557
2017		1116		15		844		760

Source: Thomson Financial; own calculations and estimates.

(1) Estimated return against actual price in percent.

# Bitcoin, performance of various asset classes

## Bitcoin in US dollars

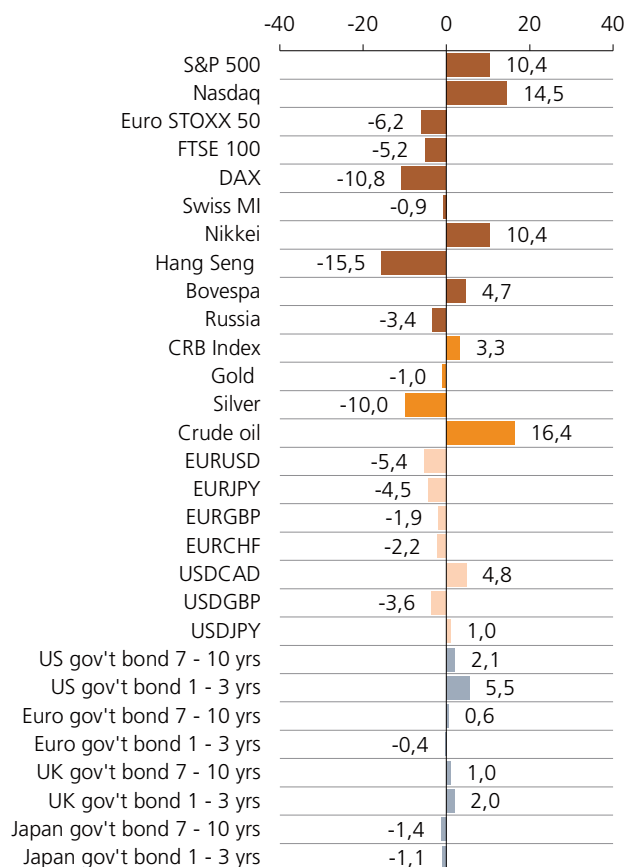
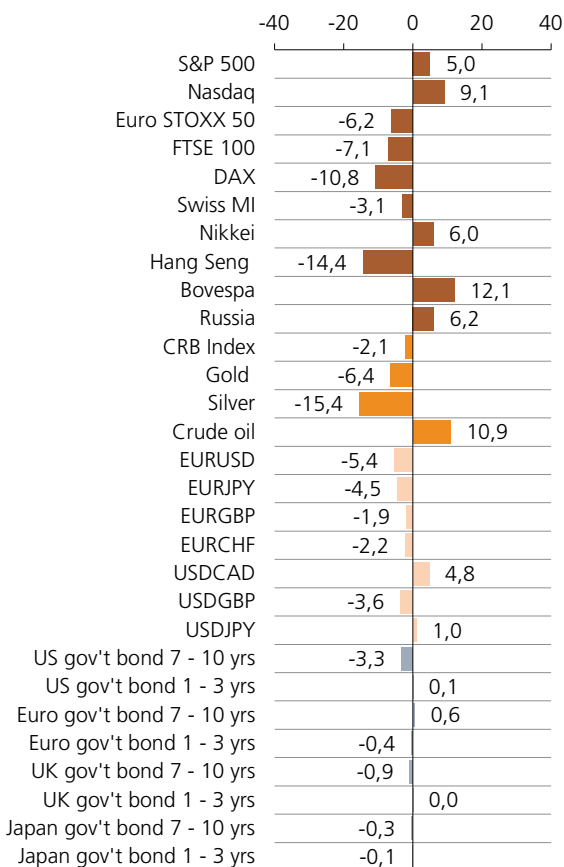


Source: Thomson Financial.

## Performance of stocks, commodities, FX and bonds

(a) In national currencies

(b) In euro



Source: Thomson Financial; own calculations

### Articles in earlier issues of the *Degussa Market Report*

Issue	Content
9 November 2018	The Missing Fear – And The Case For Gold
26 October 2018	President Trump is right: The Fed Is A Big Problem
12 October 2018	Here Goes The Punch Bowl
28 September 2018	The Fed's Blind Flight
14 September 2018	How Fed Policy Relates to the Price of Gold
31 August 2018	Central Banks Enrich a Select Few at the Expense of Many
17 August 2018	The US dollar And Gold – Is this Time Different?
20 July 2018	Not All Is Well In Financial Markets
22 June 2018	Euro-Banks In Trouble. A Case for Gold
8 June 2018	Demand for Gold ETFs up Despite Higher Interest Rates
25 May 2018	Mind The Interest Rate
11 May 2018	Mr Buffett on Gold – Viewed Differently
27 April 2018	Moving Towards Higher Gold Prices
13 April 2018	The Risk of a Currency Crisis
29 March 2018	Walking the Tightrope
16 March 2018	Gold, Interest Rates, And Money
2 March 2018	Gold in Times of Boom and Bust
16 February 2018	The Fed Makes The Stock Market A Risky Place
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### Imprint

Marktreport is published every 14 days on Fridays and is a free service provided by Degussa Goldhandel GmbH.

**Deadline for this edition:** 9 November 2018

**Publisher:** Degussa Goldhandel GmbH, Kettenhofweg 29, 60325 Frankfurt, Tel.: (069) 860068-0, Fax: (069) 860068-222

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**Degussa Market Report is available on the Internet at:** <http://www.degussa-goldhandel.de/infoteh/marktreport/>



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