



## Price reactions to the announcement of Mr Trump's win in the US election

## Trump Election Puts Euro Under Pressure

**With a new skipper helming the USA, the euro's internal and external value may soon be getting that sinking feeling.**

Just three days ago many would have discounted the notion that financial markets would take kindly to the announcement that Donald J. Trump won the election. But when the news broke on 9 November that this real estate tycoon will indeed be the 45<sup>th</sup> president of the United States of America, prices on international stock exchanges climbed, the US dollar exchange rate soared, and interest rates went up. All this suggests that financial markets' take on Trump's presidency is more cheerful than the gloomy outlook many would have predicted. The fact that the gold price surged certainly does not sour this overall impression.

Mr Trump has made no bones about his thoughts on US foreign and economic policy, but it remains to be seen if he will put these thoughts into action. The bottom line is that no one knows what his presidency will actually look like. It seems Mr Trump has no truck with the ranks of the globalists who, in their efforts to establish a new world order, have entangled the USA in one ill-fated overseas adventure after another. Perhaps US foreign policy will change on his watch; it may well become far less aggressive. If Mr Trump does strike a conciliatory tone in his dealings with Russia, a more cooperative relationship could help deescalate conflicts in hotspots, say in the Middle and Far East.

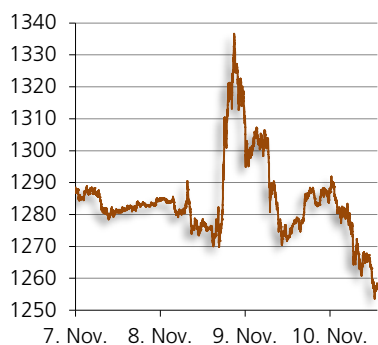
His economic policy would seem straightforward enough. Mr. Trump's top priority appears to be boosting economic growth and creating jobs at home. How would his administration achieve this? The executive branch could focus on the supply side, cutting taxes for firms and income earners, while curbing government spending. Or it could zero in on the demand side, encouraging more credit-financed spending on infrastructure and the like, while pursuing a laissez-faire monetary policy and taking up a protectionist stance on trade.

The first scenario would be a regime changer. The US government machine, a juggernaut of swelling proportions, may not grind to a screeching halt, but its growth would be checked. This, of course, would be the boldest stateside political act in recent memory, and it would take some serious stamina to see it through. But then Mr. Trump is a wealthy businessman with few allegiances to the party and little to fear from lobbyists. Perhaps he will capitalize on this independence and seize the opportunity to make a real difference. The situation is certainly auspicious enough with a Republican majority secured in Congress for the next two years.

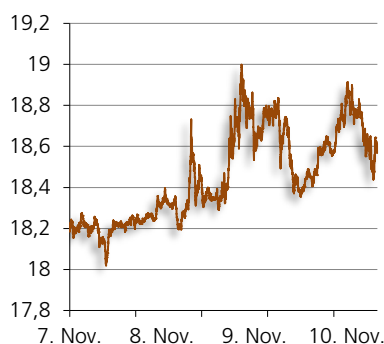
The mere probability of the US economy improving under Trump's presidency has financial markets bracing themselves for somewhat higher interest rates going forward. It is expected that the Federal Reserve (Fed) will act on its plan to edge up borrowing costs further in December. If this comes to pass, the US dollar's value will probably appreciate against other currencies, in particular the euro.

The yield gap between the USA and the euro zone would then widen, and the euro owner will have to pay more to buy a US dollar. On top of that, the European integration project may be deprived of its most powerful political advocate. Even if Mr Trump's administration does not buy wholesale into the neo-isolationist ideology he espoused during the election campaign, it may not be willing to actively champion the cause of globalism. This would undermine

(a) Gold price (USD/oz)



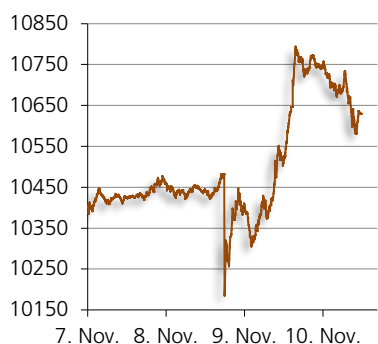
(b) Silver price (USD/oz)



(c) EURUSD



(d) DAX



staunch EU defenders' position and do little to dispel investors' uncertainty about the euro's future.

The United Kingdom's decision in June to leave the European Union dealt a heavy blow to the European integration project. The chances of the project stalling are now greater, and the ties that bind the union together may even unravel. This prospect raises the question as to the single currency's *raison d'être*. Doubts about its viability may yet exacerbate the economic misery of many euro member countries. Investment in these countries will slow down, further weakening production and employment.

Many euro zone banks engage in cross-border lending, and they will suffer if the euro's very existence is called into question. Investors are already reluctant to extend new capital to ailing banks in view of their low profitability and sizable liabilities with so many bad loans on their books. More than ever, the weal and woe of euro banks will be in the hands of the European Central Bank (ECB). It will have to churn out more and more euros to provide these banks with sorely needed funds. And if the printing presses are fired up, the euro's internal and external value will not fare well.

So, what options are open to savers and investors in the euro zone? As far as liquid assets go, portfolio owners could benefit from holding US dollars, Swiss francs, and the currency that is gold. The latter looks particularly enticing at this stage. Gold is not only immunized against the loss of buying power caused by central banks' policies; it also provides the investor with upside price potential if the going gets terribly tough on financial markets.

Healthy exposure to the stock market also looks to be a good option. This observation comes with a caveat, though: Be sure to invest in companies with inflation-resistant business models. They are in a position to produce positive real returns on invested capital even in times of economic and monetary turbulence. In any case, savers and investors in the euro zone should brace themselves for the prospect of choppy price action on financial markets, especially if Mr Trump's presidency turns out to be a regime changer.

### The Greenback seems to be on an appreciation trend

Trade weighted exchange rate of the US dollar



Source: Bloomberg.

## Selected market developments

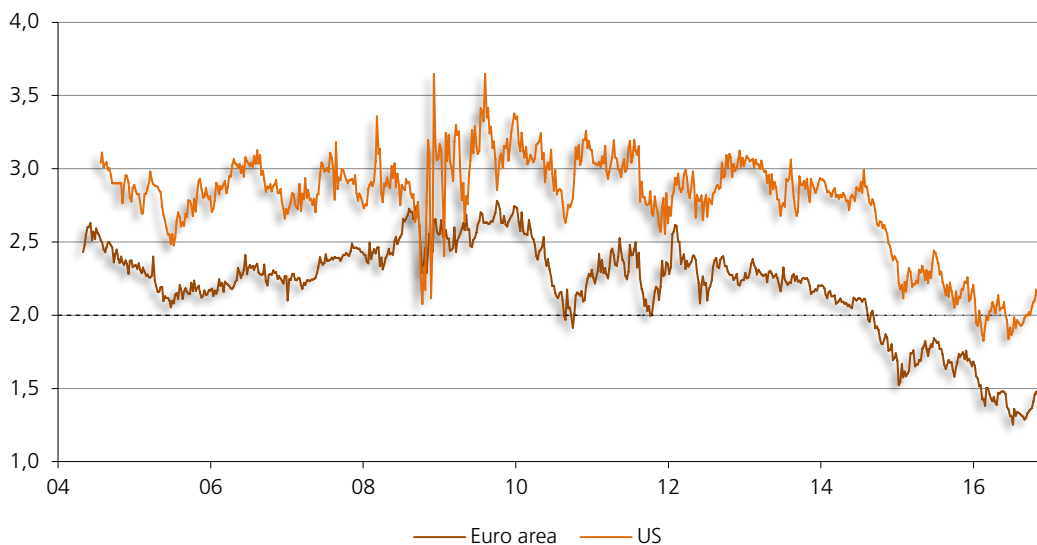
### 1 Trade weighted exchange rate of the US dollar



► The US dollar has been appreciating against its peers since 2011. This may well continue if the USA succeeds in returning to higher growth and employment.

Source: Thomson Financial.

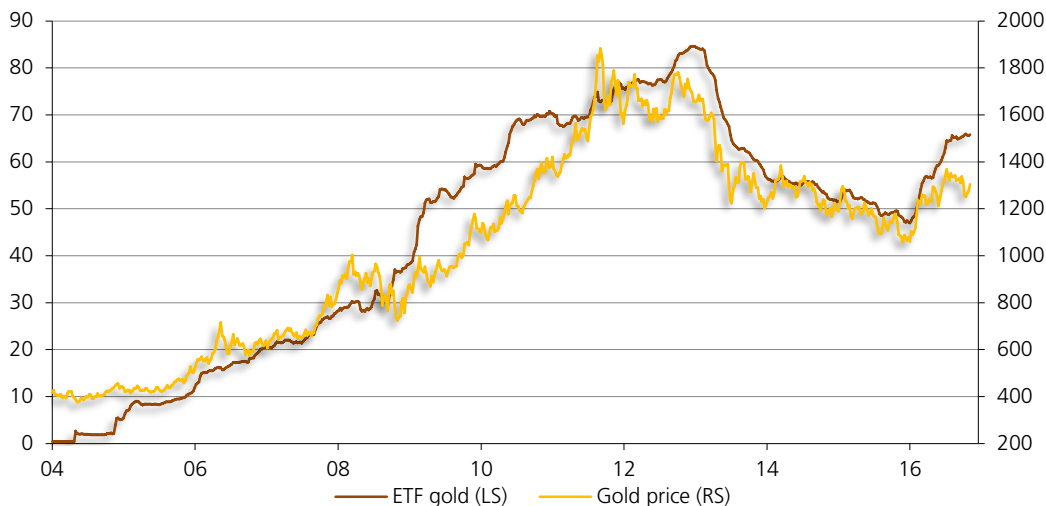
### 2 Inflation expectations in percent\*



► Inflation expectations on bond markets still look fairly tame, but they appear to be quickening as monetary policies have remained overly expansionary.

Source: Thomson Financial.  
\*Inflation swaps (5y5y)

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



► The continued influx in- to gold ETFs has helped push the price of gold up.

Source: Thomson Financial.

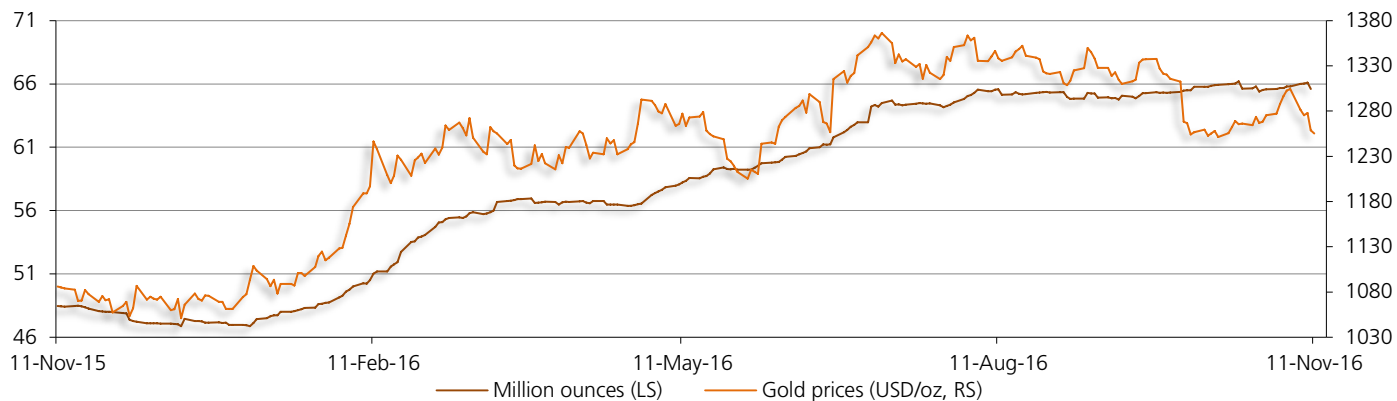
## Precious metals prices, actual and projections (per ounce)

In US-dollar								
	Gold		Silver		Platinum		Palladium	
I. Actual	1,255.9		18.6		968.1		679.3	
II. Gliding averages								
5 days	1,271.7		18.5		991.8		675.9	
10 days	1,283.2		18.4		991.9		650.2	
20 days	1,275.0		18.0		971.3		639.8	
50 days	1,293.3		18.5		999.4		663.8	
100 days	1,315.2		19.0		1,048.2		665.8	
200 days	1,280.8		17.6		1,016.8		611.9	
III. Projections	Range		Range		Range		Range	
	Low	High	Low	High	Low	High	Low	High
Q4 2016	1,251	1,360	17.1	20.1	800	1,170	660	730
Q1 2017	1,279	1,390	17.8	20.9	1,040	1,220	700	760
Q2 2017	1,306	1,420	18.5	21.8	1,080	1,270	730	790
Q3 2017	1,334	1,450	19.2	22.6	1,140	1,330	760	820
IV. Annual averages								
2013	1,398		23.4		1,473		725	
2014	1,252		18.6		1,370		805	
2015	1,154		15.5		1,043		684	
2016 (projected)	1,209		17.3		931		619	
In Euro								
	Gold		Silver		Platinum		Palladium	
I. Actual	1,153.2		17.1		889.0		623.8	
II. Gliding averages								
5 days	1,155.3		16.8		901.0		614.1	
10 days	1,163.8		16.7		899.7		589.9	
20 days	1,161.2		16.4		884.7		582.7	
50 days	1,164.4		16.6		899.6		597.5	
100 days	1,182.8		17.1		942.6		598.7	
200 days	1,146.0		15.8		909.6		547.6	
III. Projections	Range		Range		Range		Range	
	Low	High	Low	High	Low	High	Low	High
Q4 2016	1,180	1,283	16.1	19.0	755	1,104	623	689
Q1 2017	1,242	1,350	17.3	20.3	1,010	1,184	680	738
Q2 2017	1,281	1,392	18.1	21.3	1,059	1,245	716	775
Q3 2017	1,334	1,450	19.2	22.6	1,140	1,330	760	820
IV. Annual averages								
2013	1,052		18		1,108		545	
2014	949		14		1,036		611	
2015	1,045		14		945		619	
2016 (projected)	1,098		16		846		562	

Source: Bloomberg; own calculations. Projections of Degussa Goldhandel GmbH (end of quarter); numbers are rounded.

## Precious metals prices and ETF holdings

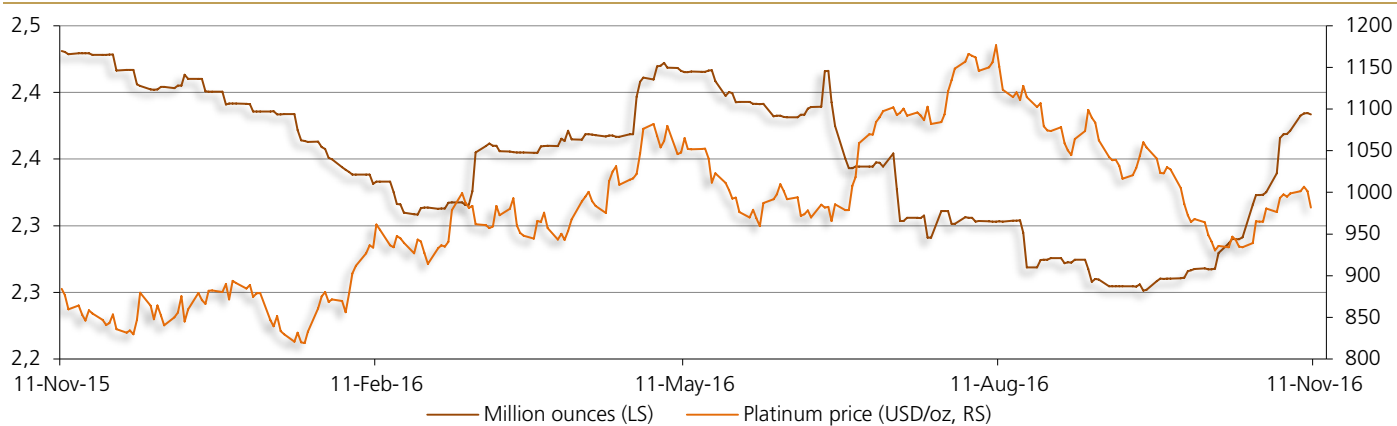
### Gold ETFs (million ounces) und gold price (USD/oz)



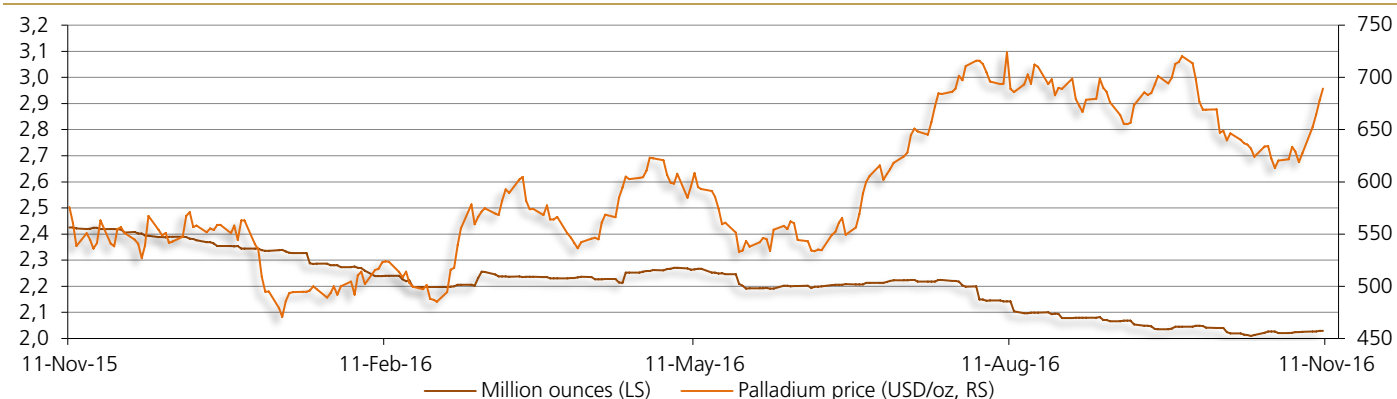
### Silver ETFs (million ounces) and silver price (USD/oz)



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



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



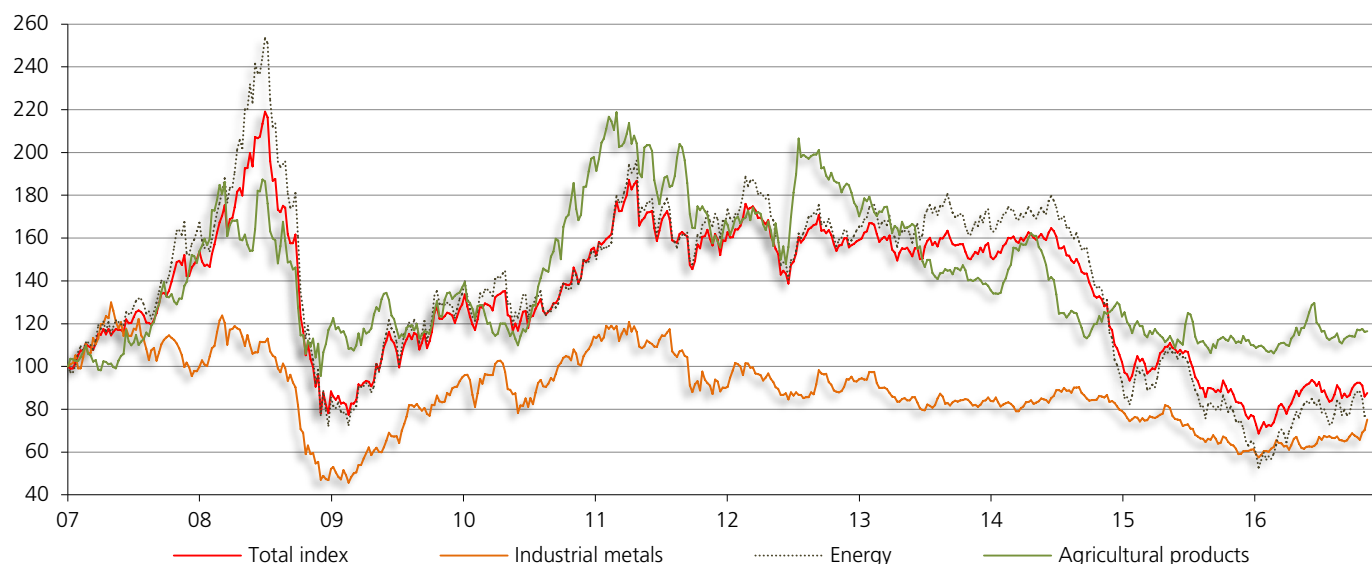
Source: Bloomberg.

## Commodity prices

Selected commodity prices								
	Actual price in US-dollar	Change against (in percent):					Volatility (in percent):	
		1 week	1 mth	3 mths	6 mths	12 mths	30 days	90 days
<b>I. Energy</b>								
WTI crude oil	44.16	-9.30	-3.80	0.73	-13.17	-12.95	25.62	34.64
Brent crude oil	45.51	-10.20	-4.55	0.98	-11.58	-18.13	23.87	33.59
Gasoline	134.15	-7.79	2.16	9.83	-4.44	-3.43	25.43	31.90
Heating oil	142.46	-8.54	-2.52	3.72	-8.57	-15.65	22.28	30.73
Gas oil	416.75	-9.84	-2.11	5.71	-10.33	...	24.50	29.78
Natural gas	2.61	-15.81	-18.39	-21.27	-12.78	-14.30	40.20	30.16
<b>II. Agriculture</b>								
Corn	342.50	-3.52	8.56	-0.07	-16.16	-16.67	24.06	22.96
Wheat	405.50	-0.73	4.44	-6.94	-17.83	-25.94	26.93	23.65
Soy beans	1011.50	-0.05	6.92	0.85	-3.94	12.51	15.75	22.16
Coffee	165.40	-2.10	10.12	8.53	28.47	22.75	30.16	27.07
Sugar	21.66	-2.26	5.35	11.42	20.80	62.73	25.77	27.36
Cotton	71.05	-0.29	7.64	-3.87	11.22	13.55	19.93	23.06
<b>III. Industrial metals</b>								
Aluminum	1770.00	2.97	9.67	7.66	13.75	12.24	13.38	14.39
Copper	5601.00	15.65	21.31	13.73	19.91	8.55	20.98	16.79
Zinc	2525.00	5.36	9.31	12.57	31.31	49.54	23.35	19.27
Lead	2154.00	4.31	13.10	18.16	26.71	28.83	17.78	18.81
Iron ore	73.40	0.2	28.10	25.90	55.51	28.32	...	...
<b>IV. Precious metals</b>								
Gold	1256.48	-1.49	-3.95	-7.02	3.42	12.70	13.64	11.81
Silver	18.58	4.64	-0.45	-8.62	16.02	27.95	23.94	22.04
Platinum	975.40	-0.53	-7.16	-15.08	-0.38	7.18	17.58	18.95
Palladium	684.54	10.32	2.06	-3.61	25.21	5.01	29.48	28.17
<b>V. Ratios</b>								
Gold-silver	67.63	-5.52	-3.52	1.55	-10.83	-11.95	15.46	14.27
Gold-platinum	1.29	-0.46	3.53	9.62	3.92	5.20	15.00	14.61
Gold-palladium	1.84	-10.71	-5.83	-3.42	-17.32	7.64	31.73	27.30
Palladium-platinum	0.70	11.52	9.93	13.53	25.58	-2.26	27.48	22.86

Source: Bloomberg; own calculations.

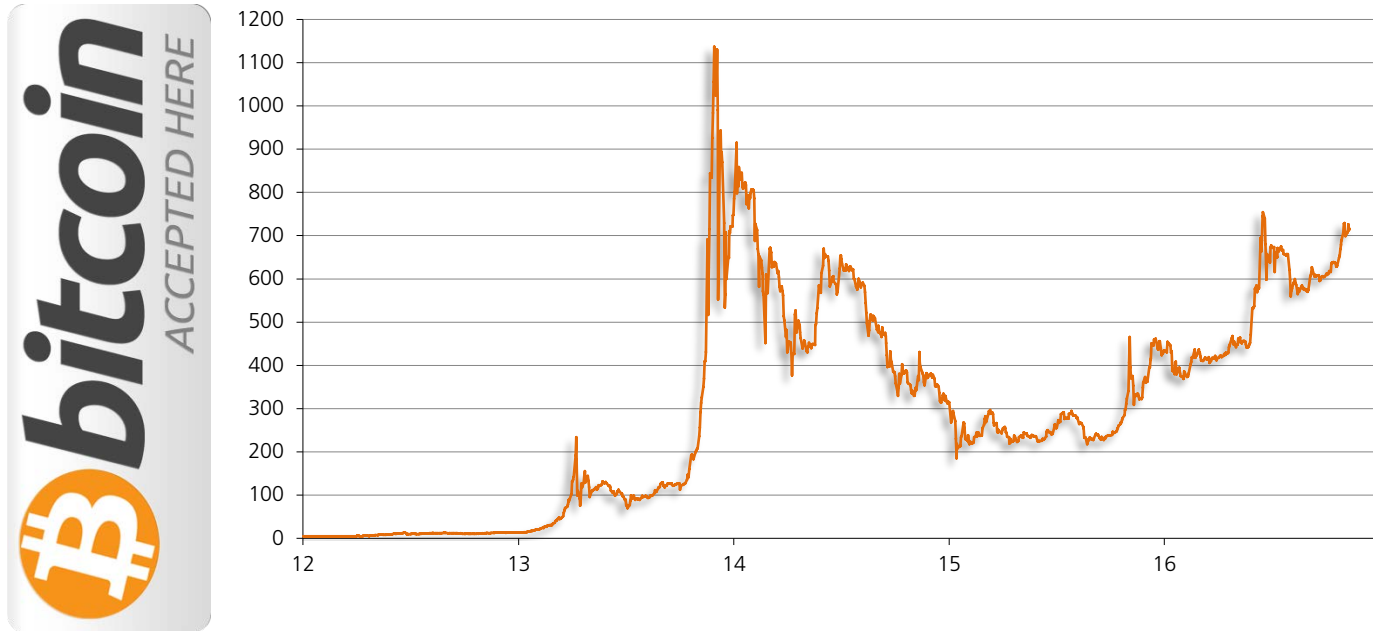
## S&P commodity prices (in US dollar terms)



Source: Bloomberg. Series are indexed (January 2007 = 100).

## Bitcoin, performance of various asset classes

Bitcoin in US-Dollar

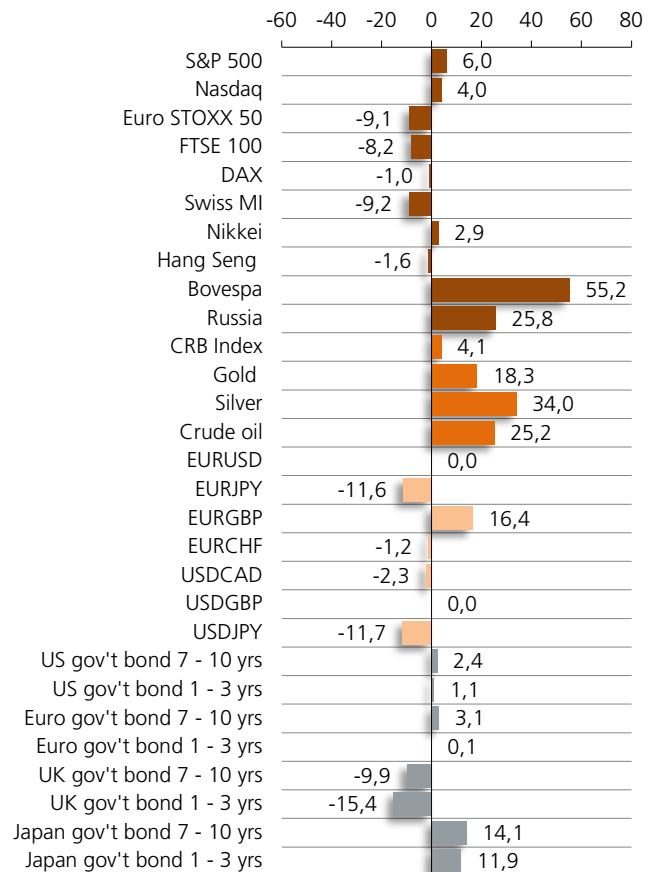
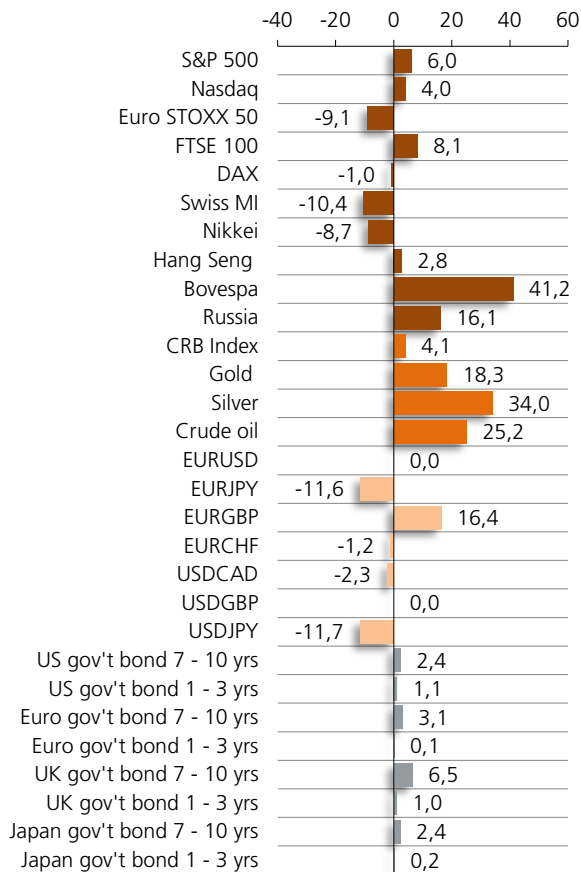


Source: Bloomberg.

### Performance of stocks, commodities, FX and bonds

(a) In national currencies

(b) In euro



Source: Bloomberg; own calculations.



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

Issue	Content
11 November 2016	Trump Election Puts Euro Under Pressure
28 October 2016	US Presidential Elections And The Price of Gold
14 October 2016	Amid Uncertainty, Opportunity Knocks
30 September 2016	On The Debt Ratio And The Price Of Gold
16 September 2016	Central Banks May Choose Helicopter Money Over Negative Rates
2 September 2016	No return to "normal" interest rates
19 August 2016	Debt Monetized End Masse to Fend Off the Euro Crash?
5 August 2016	<i>No English issue due to summer break</i>
22 July 2016	The Demise of the Interest Rate - the Comeback of Gold Money
8 July 2016	Escaping the Euro Trap
24 June 2016	The Credit Cycle and the Price of Gold
10 June 2016	US Fed wants to raise rates further - investors should cling to gold and stocks
27 May 2016	The Illusion of Central Bank Independence and the Consequence for the Gold Price
13 May 2016	The Fight Against "Secular Stagnation" and What It Means for Gold and Silver Prices
29 April 2016	US dollar dominance - challenged by gold
15 April 2016	A World without Returns
1 April 2016	Helicopter Euros Hovering on the Horizon
18 March 2016	Gold and stocks protect against 'helicopter-euros'

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