

USD per ounce of 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 |
| I. In US-dollar | | | | |
| Gold | 1,293.6 | 1.0 | 8.9 | -3.8 |
| Silver | 15.6 | 1.6 | 7.8 | -9.9 |
| Platinum | 802.5 | 1.7 | -2.3 | -19.8 |
| Palladium | 1,356.5 | 8.2 | 28.4 | 31.9 |
| II. In euro | | | | |
| Gold | 1,134.7 | 1.4 | 10.6 | 4.8 |
| Silver | 13.7 | 2.0 | 9.5 | -1.8 |
| Platinum | 703.9 | 2.0 | -0.5 | -12.6 |
| Palladium | 1,190.0 | 8.7 | 30.5 | 43.7 |
| III. Gold price in other currencies | | | | |
| JPY | 140,800.0 | -0.3 | 4.1 | -4.1 |
| CNY | 8,742.0 | -0.7 | 7.2 | 3.5 |
| GBP | 1,004.7 | -0.3 | 10.3 | 6.1 |
| INR | 91,873.0 | 1.9 | 6.1 | 7.5 |
| RUB | 86,007.7 | -3.3 | 11.4 | 13.8 |

Source: Thomson Financial; own calculations.

OUR TOP ISSUES

Dear reader,

We wish you a happy and successful 2019!

The Degussa Market Report Team.

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

US Interest Rates Down, Price of Gold up

Of course, there are quite a few economic, financial, and political issues that seem to deserve mentioning and evaluating at the beginning of the new year. For they will have, in one way or the other, substantial effects on the future returns of equities, bonds, exchange rates, as well as commodities, and might therefore be relevant for investors' asset allocation decisions.

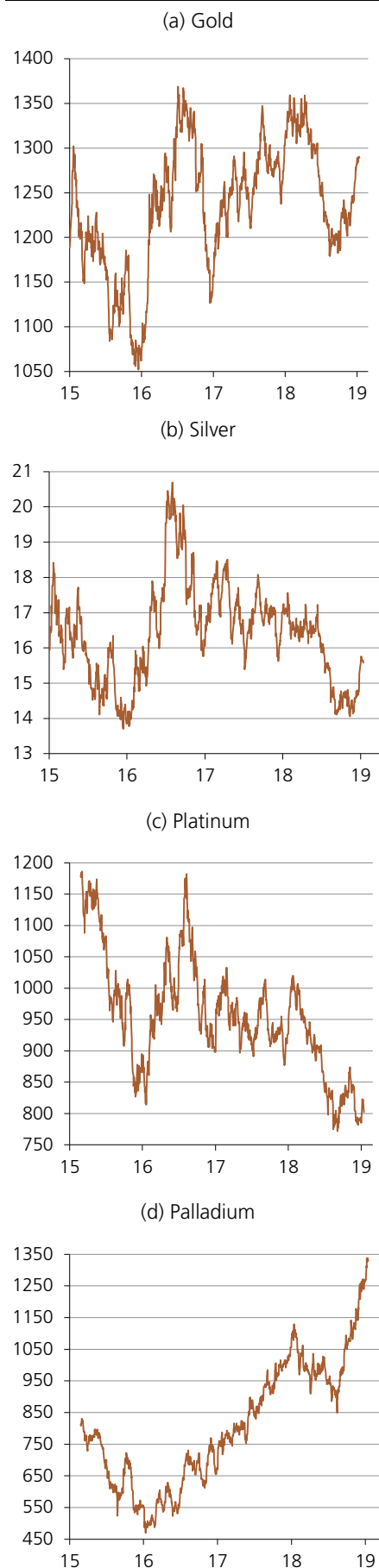
To put it straight: We think that one of the most critical issues in 2019 for the business cycle, financial, and commodity markets will be *interest rates* – in particular US interest rates, to be more precise, which are determined by the US Federal Reserve (Fed).

However, the Fed does not only determine credit and liquidity conditions in the US market but has significant impact on credit and liquidity conditions in virtually every financial market the world over. A key question, therefore, is: *What is the Fed going to do this year?* We think that the remarks of Fed chairman Jerome H. Powell on 4 January 2019 have sent a rather important signal to the market. Mr Powell said: "With the muted inflation readings that we have seen coming in, we will be patient as we watch to see how the economy evolves." He also said that the Fed was ready to change course "significantly if necessary." In other words: The Fed wants to pause as far as its interest rate hiking spree is concerned, and it obviously wishes to cater to the economy and the financial market's needs.

The Fed certainly does not want to prick the economic boom and asset price bubble it has stoked over the last decade by pursuing a monetary policy of extremely low interest rates and monetary expansion. In fact, it is willingly holding up the 'safety net' it has put under the economy and financial markets. This means that the Fed can be expected to reverse its tightening policy if and when the business cycle goes down and/or financial markets – credit markets in particular – get into trouble.

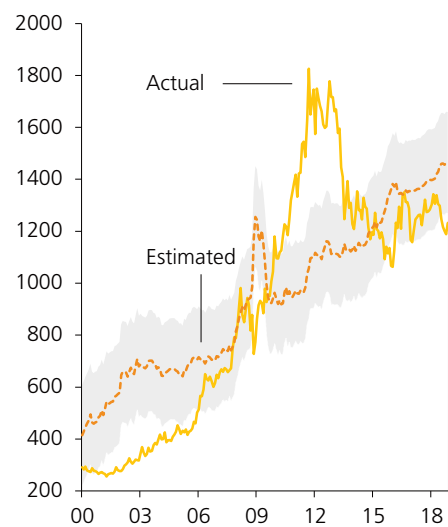
Should our interpretation of the Fed's monetary policy stance – which can be expected to be emulated by other major central banks around the world – prove to be correct, the price of gold will, in our opinion, benefit for two reasons. *First*, investors will realise that there will not be a return to positive real (that is: inflation-adjusted) US interest rates, making gold an attractive alternative to holding bank deposits denominated in US dollar or any other major currency. *Second*, we presume that the current price of gold is still relatively cheap.

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

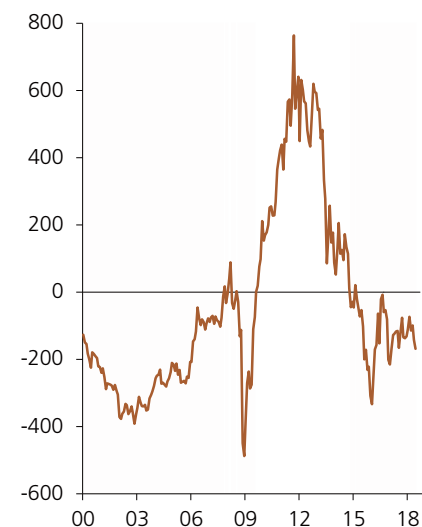


1 Gold price has remained relatively cheap

(a) Gold price (USD/oz), actual and estimated⁽¹⁾



(b) Deviation of gold price (USD/oz) from estimated price⁽²⁾



Source: Thomson Financial; own calculations. ⁽¹⁾ Estimated for the period January 1972 to November 2018 on the basis of the US money stock, the inflation-adjusted Federal Funds Rate and a corporate credit spread. ⁽²⁾ If the line is above (below) the zero line, the price of gold is expensive (cheap). Shaded area: standard error.

The purchasing power of gold cannot be debased by monetary policy. Furthermore, gold does not – in stark contrast to bank deposits – carry a credit- or default-risk. However, gold is only a truly effective ‘portfolio insurance’ if you can buy it at a *decent price*. According to our analyses, there is quite some evidence that the price of gold is, if anything, currently trading on the cheap side. In other words: Gold is making a tempting case for investors seeking protection against downside market risks.

However, we all should be aware of the fact that forecasts for precious metals come with a great deal of uncertainty; and this uncertainty rises, as the forecast horizon shortens. The savvy investor should take a *medium- to long term-view* making investment decisions with a target investment period of at least five or more years. Viewed from this perspective, we think that gold, at current prices, is attractive as a *substitute* for bank deposits denominated in US dollar, euro, Chinese renminbi, British Pound or Swiss franc.

Gold does not only provide a hedge against investment losses stemming from a(-nother) crisis of the world’s monetary and credit architecture. It also offers the investor a *chance to increase their investment return*: If in times of crisis the price of gold (and thus its purchasing power) goes up, investors can sell their ‘expensive gold’ and use the proceeds to purchase attractive assets (say, stocks and real estate) at depressed prices.

If we are (at least) halfway right about the Fed’s policy this year, financial markets will, sooner rather than later, price in an end, or even a reversal, of the Fed’s interest rate hiking cycle. Such a market reaction might well be accompanied by a pretty good chance for the price of gold to edge higher (by a substantial margin). That said, the “headline 2019” we would empathically subscribe to reads as follows: “US Interest Rates Down, Price of Gold up.”

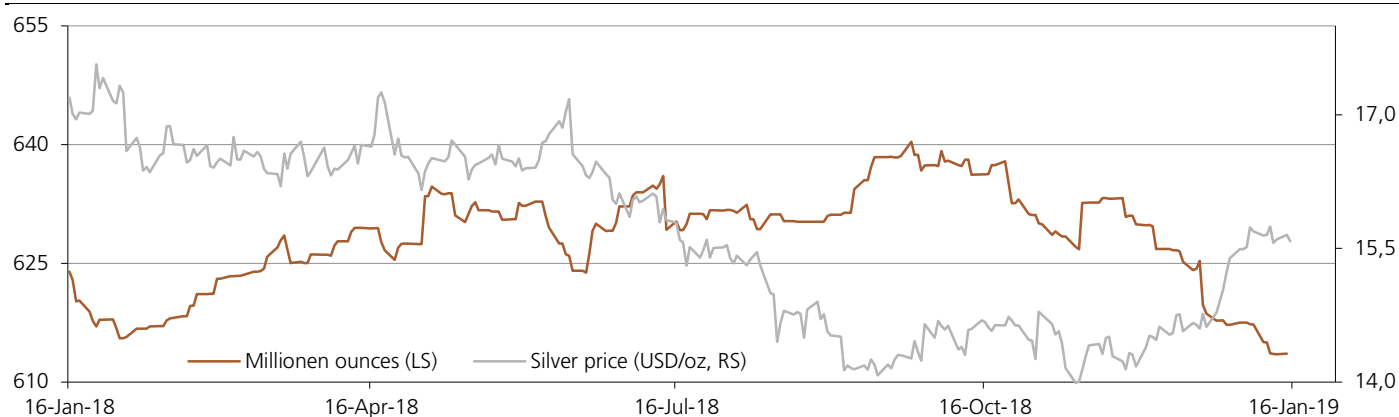
The reader finds our new precious metal price projections on page 4.

Precious metals prices and ETF holdings

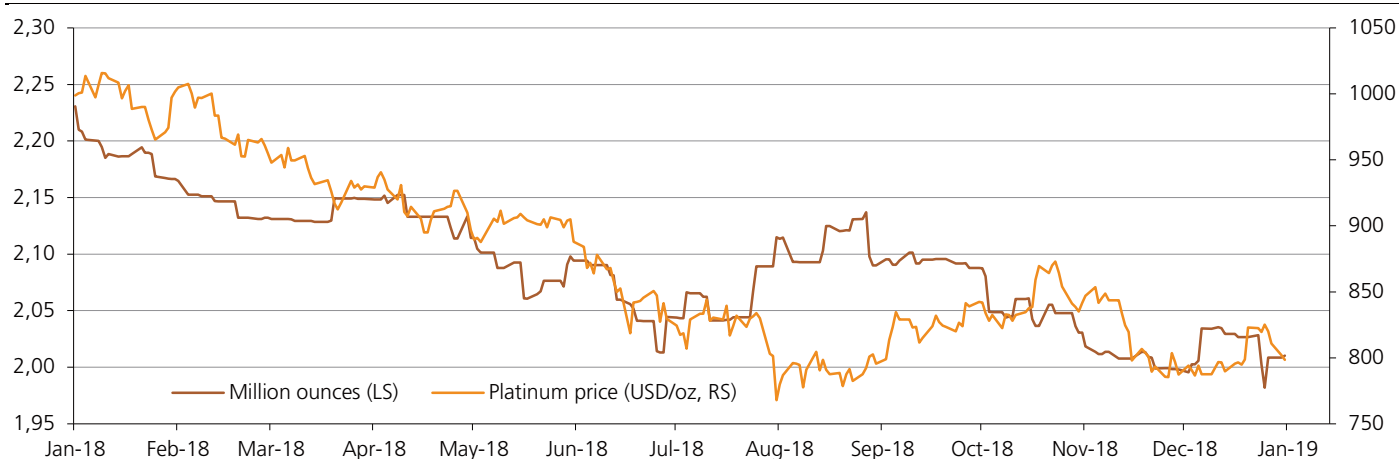
Gold ETFs (million ounces) und gold price (USD/oz)



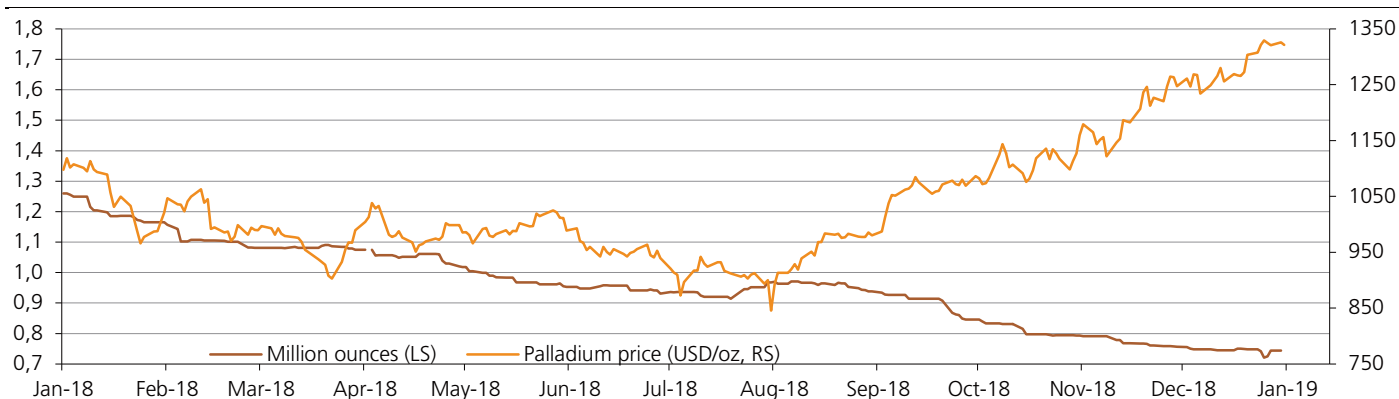
Silver ETFs (million ounces) and silver price (USD/oz)



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 | | 1290.3 | | 15.5 | | 797.0 | | 1331.5 |
| II. Gliding averages | | | | | | | | |
| 5 days | | 1289.7 | | 15.6 | | 814.6 | | 1331.4 |
| 10 days | | 1288.0 | | 15.7 | | 809.5 | | 1308.4 |
| 20 days | | 1279.0 | | 15.3 | | 800.6 | | 1281.1 |
| 50 days | | 1248.3 | | 14.8 | | 813.2 | | 1223.6 |
| 100 days | | 1228.6 | | 14.6 | | 816.6 | | 1137.3 |
| 200 days | | 1248.7 | | 15.4 | | 842.1 | | 1047.4 |
| 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> |
| | 1223 | 1480 | 14.4 | 19.1 | 785 | 903 | 1204 | 1368 |
| (1) | -5 | 15 | -7 | 23 | -2 | 13 | -10 | 3 |
| 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

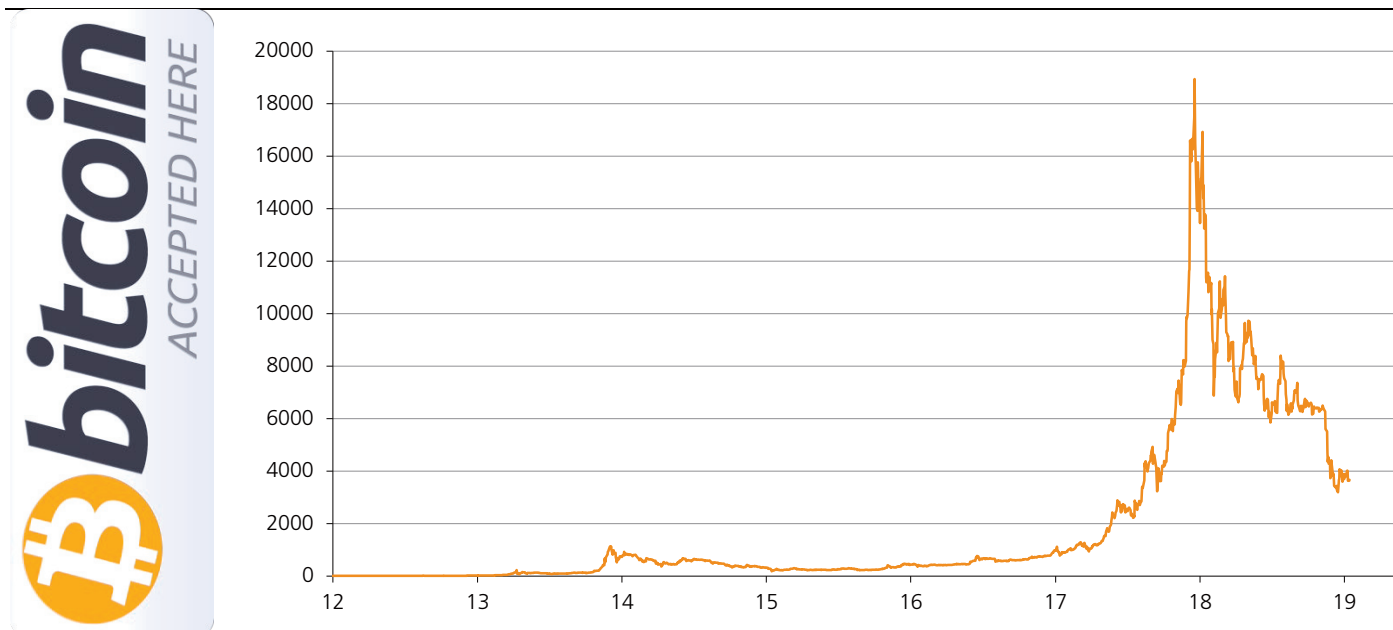
| | Gold | | Silver | | Platinum | | Palladium | |
|--------------------------|------------|-------------|------------|-------------|------------|-------------|------------|-------------|
| I. Actual | | 1133.0 | | 13.7 | | 699.9 | | 1169.2 |
| II. Gliding averages | | | | | | | | |
| 5 days | | 1123.2 | | 13.6 | | 709.4 | | 1159.6 |
| 10 days | | 1125.2 | | 13.7 | | 707.1 | | 1142.9 |
| 20 days | | 1118.7 | | 13.4 | | 700.2 | | 1120.5 |
| 50 days | | 1096.2 | | 13.0 | | 714.2 | | 1074.5 |
| 100 days | | 1071.1 | | 12.8 | | 711.8 | | 992.0 |
| 200 days | | 1074.8 | | 13.2 | | 724.6 | | 903.0 |
| 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> |
| | 1067.5 | 1292.2 | 12.6 | 16.7 | 685.4 | 788.2 | 1050.9 | 1194.7 |
| (1) | -6 | 14 | -8 | 22 | -2 | 13 | -10 | 2 |
| 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 in percent (since end of December 2018)

(a) In national currencies

(b) In euro

| | -40 | -20 | 0 | 20 | 40 |
|-----------------------------|-----|-----|---|----|------|
| S&P 500 | | | | | 4,1 |
| Nasdaq | | | | | 5,9 |
| Euro STOXX 50 | | | | | 2,5 |
| FTSE 100 | | | | | 1,9 |
| DAX | | | | | 3,1 |
| Swiss MI | | | | | 5,0 |
| Nikkei | | | | | 3,2 |
| Hang Seng | | | | | 4,1 |
| Bovespa | | | | | 7,0 |
| Russia | | | | | 5,5 |
| CRB Index | | | | | 5,7 |
| Gold | | | | | 0,6 |
| Silver | | | | | 0,3 |
| Crude oil | | | | | 11,0 |
| EURUSD | | | | | -0,7 |
| EURJPY | | | | | -1,4 |
| EURGBP | | | | | -1,4 |
| EURCHF | | | | | 0,1 |
| USDCAD | | | | | -2,8 |
| USDGBP | | | | | 0,7 |
| USDJPY | | | | | -0,7 |
| US gov't bond 7 - 10 yrs | | | | | 0,1 |
| US gov't bond 1 - 3 yrs | | | | | 0,1 |
| Euro gov't bond 7 - 10 yrs | | | | | 0,6 |
| Euro gov't bond 1 - 3 yrs | | | | | 0,0 |
| UK gov't bond 7 - 10 yrs | | | | | 0,0 |
| UK gov't bond 1 - 3 yrs | | | | | 0,0 |
| Japan gov't bond 7 - 10 yrs | | | | | 0,0 |
| Japan gov't bond 1 - 3 yrs | | | | | 0,0 |

| | -40 | -20 | 0 | 20 | 40 |
|-----------------------------|-----|-----|---|----|------|
| S&P 500 | | | | | 4,8 |
| Nasdaq | | | | | 6,5 |
| Euro STOXX 50 | | | | | 2,5 |
| FTSE 100 | | | | | 3,3 |
| DAX | | | | | 3,1 |
| Swiss MI | | | | | 4,9 |
| Nikkei | | | | | 4,6 |
| Hang Seng | | | | | 6,1 |
| Bovespa | | | | | 11,9 |
| Russia | | | | | 10,5 |
| CRB Index | | | | | 6,4 |
| Gold | | | | | 1,3 |
| Silver | | | | | 1,2 |
| Crude oil | | | | | 11,7 |
| EURUSD | | | | | -0,7 |
| EURJPY | | | | | -1,4 |
| EURGBP | | | | | -1,4 |
| EURCHF | | | | | 0,1 |
| USDCAD | | | | | -2,8 |
| USDGBP | | | | | 0,7 |
| USDJPY | | | | | -0,7 |
| US gov't bond 7 - 10 yrs | | | | | 0,8 |
| US gov't bond 1 - 3 yrs | | | | | 0,7 |
| Euro gov't bond 7 - 10 yrs | | | | | 0,6 |
| Euro gov't bond 1 - 3 yrs | | | | | 0,0 |
| UK gov't bond 7 - 10 yrs | | | | | 1,4 |
| UK gov't bond 1 - 3 yrs | | | | | 1,3 |
| Japan gov't bond 7 - 10 yrs | | | | | 0,7 |
| Japan gov't bond 1 - 3 yrs | | | | | 0,7 |

Source: Thomson Financial; own calculations

Articles in earlier issues of the *Degussa Market Report*

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