

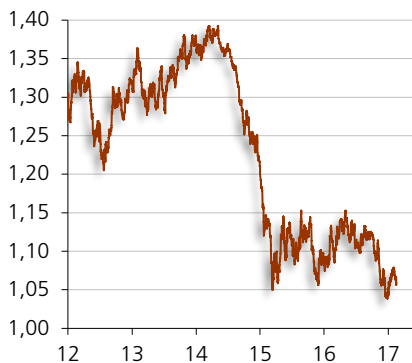
USD per ounce of gold



USD per ounce of silver



EURUSD



Source: Bloomberg. Daily data.

Precious metals prices

	Actual (spot)	Change against (in percent):		
		2 W	3 M	12 M
I. In US-dollar				
Gold	1,240.4	4.1	5.7	0.1
Silver	18.1	5.5	9.6	22.0
Platinum	1,015.0	3.0	11.5	8.8
Palladium	794.7	7.2	2.7	60.7
II. In euro				
Gold	1,163.2	4.5	4.9	2.6
Silver	17.0	6.2	8.9	24.4
Platinum	951.3	3.8	10.8	10.9
Palladium	745.0	7.6	2.5	63.9
III. Gold price in other currencies				
JPY	140,608.8	2.6	4.8	1.0
CNY	8,496.2	3.8	4.8	5.2
GBP	992.0	4.5	5.5	12.0
INR	83,077.3	1.9	3.1	-1.2
RUB	71,238.1	0.0	-5.4	-22.9

Source: Bloomberg; own calculations.

OUR TOP ISSUES

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

Gold Gains Ground vis-a-vis the US-Dollar

Looking at the data since 2014, a significant change in the gold-US-dollar-price-relation might be under way.

The Renaissance of the Russian Ruble

The external value of the Russian ruble has been increasing in value lately - and should US-Russian tensions abate, a further ruble appreciation seems likely.

Trump and the Central Bank Cartel

US President Donald J. Trump may change the course of Fed policy going forward - and this could have major consequences for the world financial system.

The Truth about the „Currency War“

The world "currency war" is misleading. FX markets are not the problem, government and central bank interventions are.

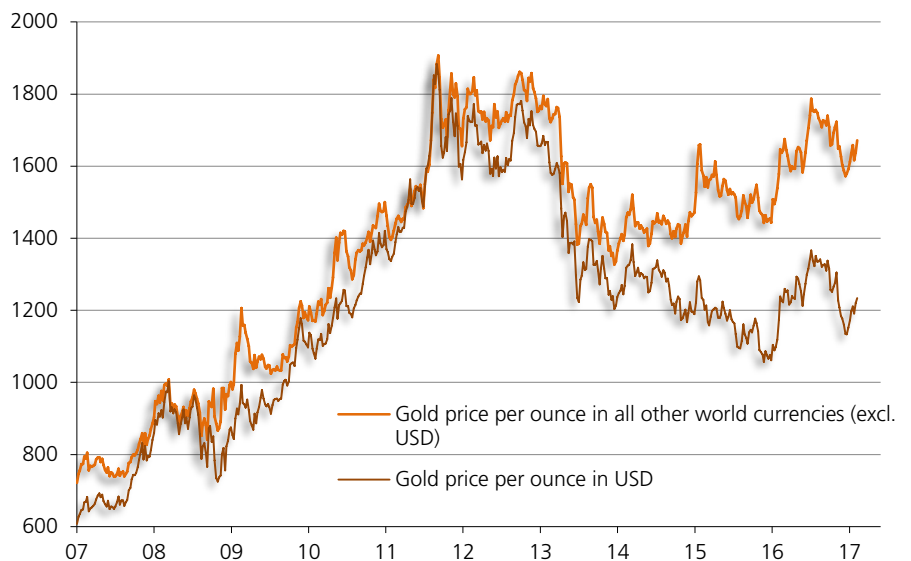
Precious Metal Markets

Commodity prices across the board keep edging higher - providing support for precious metal prices.

Gold price per ounce

*in US dollars and all world currencies (excl. the US dollar)**

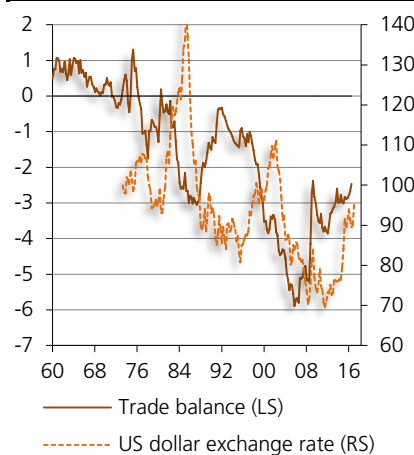
January 2007 to February 2017



Source: Bloomberg; own calculations. *Calculated from the gold price (USD/oz) and the nominal trade weighted exchange rate of the US dollar. The timeline was indexed at 5 September 2011 with a value of 1.900.

Rising US trade deficits, accompanied by a depreciating external value of the US dollar

External value of the US dollar¹⁾ and US trade deficit in percent of GDP

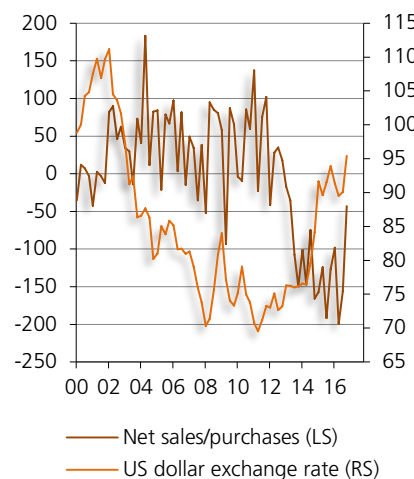


Source: Thomson Financial. ¹⁾ A rising (falling) line indicates an appreciation (depreciation) of the US dollar exchange rate. March 1973 = 100.

In the last decades, the US trade balance had a chronic trade deficit - that is, the US imported more than it exported. This development has been accompanied by a declining external value of the US dollar. If the Trump administration succeeds in luring foreign firms into the US, this should be positive for the US dollar exchange rate, as the trade deficit would presumably decline. The same effect can be expected to result from a stronger demand for US dollar denominated assets such as, for instance, US government debt.

Rising demand for US denominated assets can be expected to support the external value of the US dollar

External value of the US dollar¹⁾ and net purchases of US government debt



Source: Bloomberg.

Gold Gains Ground vis-a-vis the US-Dollar

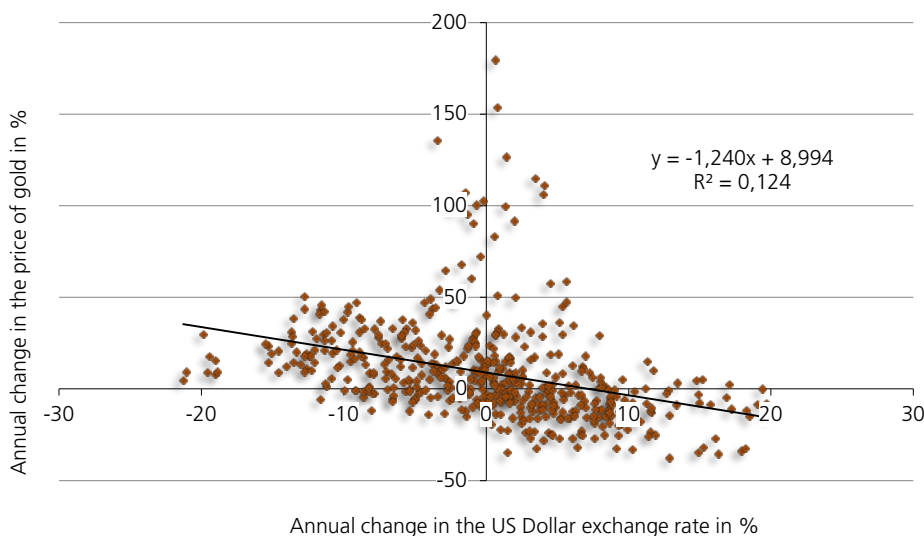
Since 2014, the appreciation of the US Dollar has been while the gold price has been trending sideways. This might indicate the beginning of a significant change in the gold-US-dollar-price-relation.

How will the „US dollar policy“ of President Trump look like? Will he deliberately work towards depreciating the external value of the greenback? Or will his economic policy force the exchange rate of the US dollar in FX markets up? By all means, these are important questions, and much depends on their answers. Especially as far as precious metal investors are concerned.

The chart below shows the change in the price of gold (USD/oz.) in relation to the change in the external value of the US dollar. In the period from 1973 to the beginning of 2017, an appreciation of the US dollar by 10 percent was accompanied by a decline in the price of gold by around 12 percent, on average, and vice versa. This result is in line with the general wisdom that a "strong US dollar" affects the price of gold negatively. However, on average, the gold price increased by 9 percent per year, irrespective of changes in the external value of the US dollar. This finding suggests that other important factors influenced the price of gold as well. We consider the rising quantity of money particularly important in this context.¹

Gold price rises if US dollar depreciates - and vice versa

Gold price and external value of the US Dollar¹⁾, annual changes in percent



Source: Bloomberg; own calculations. ¹⁾ Trade weighted US dollar exchange rate. A positive (negative) change indicates an appreciation (depreciation) of the US dollar external value. Period under review: March 1973 to January 2017.

Something may have changed

The chart above indicates that the price of gold can indeed go up even if the US dollar appreciates in value - provided the dollar does not surge too much. In the last years, however, something happened that is certainly noteworthy. To point this out, we must take a look at the chart below. It simply shows the price of gold (USD/oz.) and the external value of the US dollar. As one would expect, there was a negative relation between the price of gold and the US dollar exchange rate. Since the end of 2015, however, the US dollar has been appreciating, while the

¹ See **Degussa Market Report, A Year of Change, 20 January 2017**, p. 4.

Rising short-term yields have suppressed the price of gold

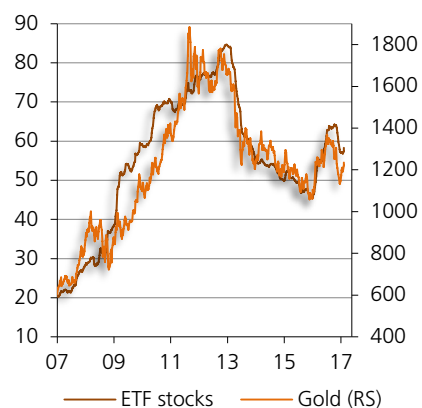
Gold ETF stock (million ounces) and US-2-year rate in percent



Source: Bloomberg.

Very close relation between gold price and gold ETF stock

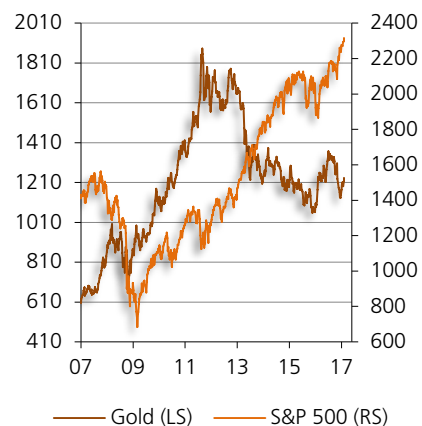
Gold ETFs (million ounces) and price of gold (USD/oz)



Source: Bloomberg.

Rising stock prices, while the gold price declined

Gold price (USD/oz) and S&P 500 stock market index

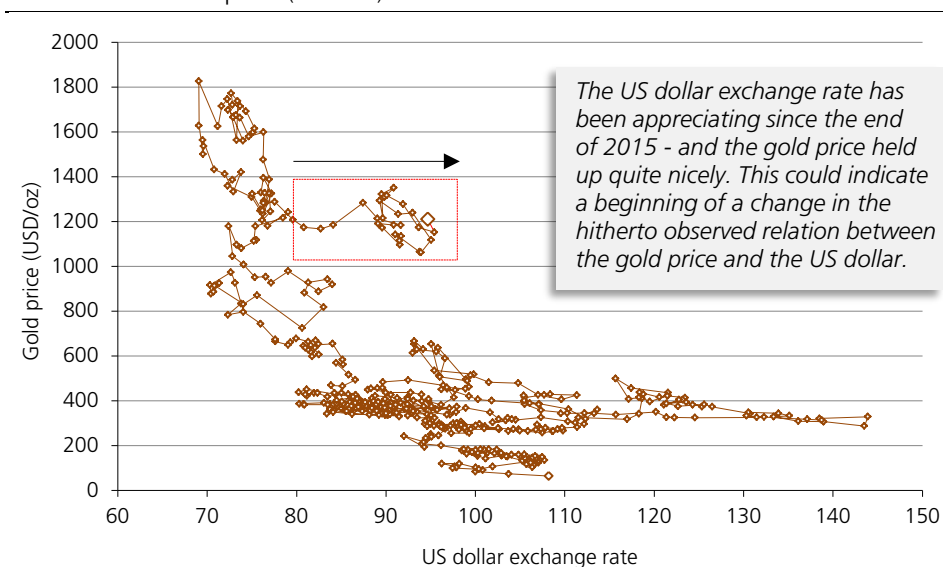


Source: Bloomberg.

gold price has been moving sideways. In other words: A stronger US dollar has not pushed the price of gold to lower levels. So what might be the reason for this development?

Shift in the relation between the price of gold and the US dollar

Gold price (USD/oz) and external value of the US dollar¹⁾



Source: Bloomberg; own calculations. ¹⁾ Trade weighted US dollar exchange rate. The higher (lower) the number, the stronger (weaker) is the external value of the US dollar. Period: March 1973 to January 2017.

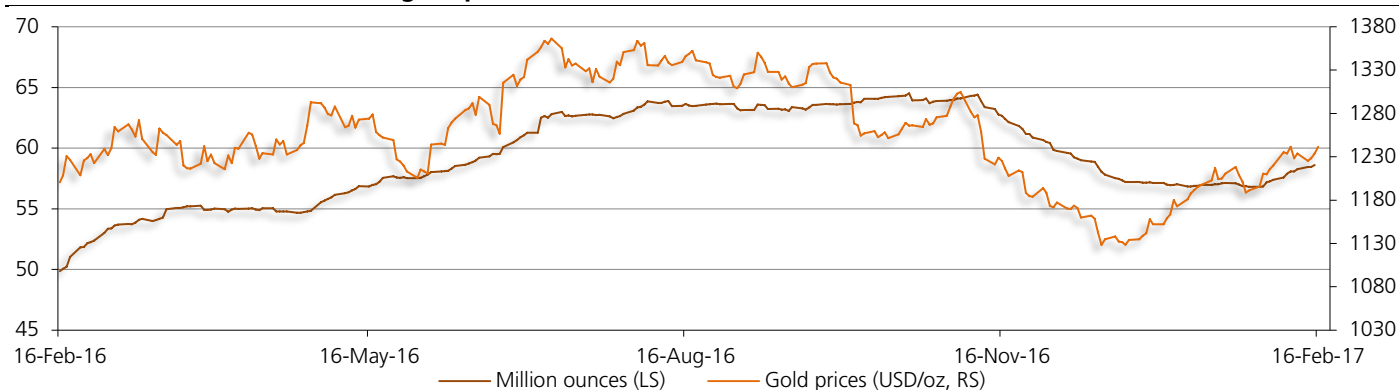
The latest change in the relation between the price of gold and the US dollar exchange rate may indicate that gold is gaining ground against the greenback. Of course, the US dollar is and will - at least for the foreseeable future - remain the world's premier reserve currency. Neither the euro nor the Chinese renminbi can match it. However, gold seems to have been in higher demand as the US dollar appreciated. This is all the more interesting as US short-term interest rates have been edging up since around the middle of 2013. Higher interest rates, in turn, should have dampened the demand for gold (and, as a result, the gold price as well).

Is it possible that we are dealing with an „anomaly" here that is going to disappear sooner or later - with the risk of the gold price declining sharply? We do not think so for at least two reasons. (1) After many years of ultra-low interest rates, the US central bank finds it increasingly difficult to bring interest rates back up; a scenario in which US interest rates will remain fairly low (in nominal and real terms) should be quite favourable for the gold price. (2) Growing financial problems in, e.g. the eurozone, Japan, and other parts of the world can be expected to translate into a higher demand for US dollar - as the greenback is a "safe haven". This, in turn, may increase the demand for gold - as gold in itself is a natural insurance against the imminent risks that come with an increasing US dollar exposure.

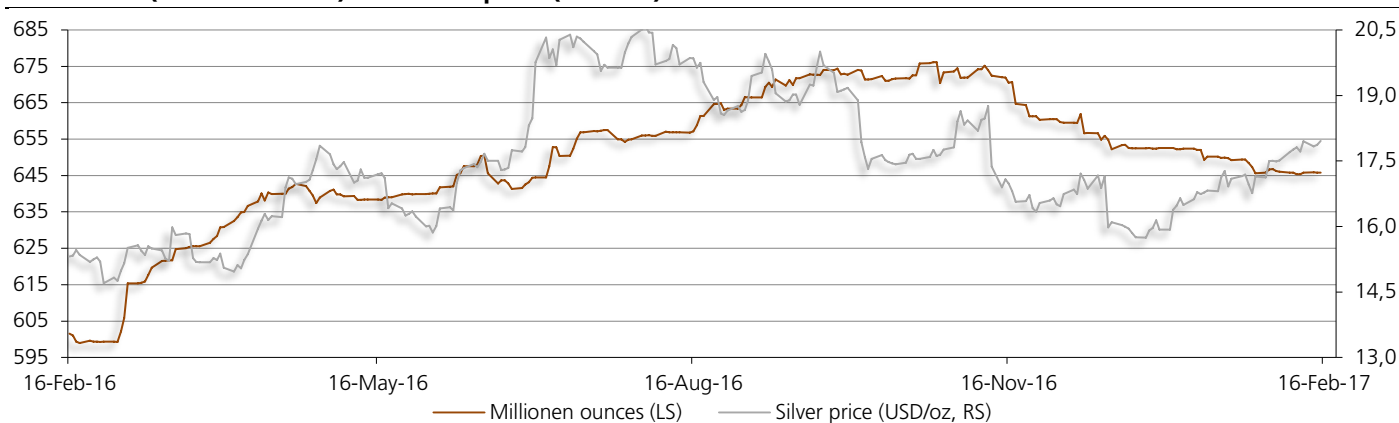
An appreciating US dollar exchange rate, accompanied by stable gold prices (in USD), could indeed indicate the beginning of a fundamental change in the global currency system. We may be moving towards a situation in which there is a parallel demand for US dollar as well as gold, with the US dollar being less of a substitute for gold but more of a complement. This, in turn, could manifest itself in a rising external value of the US dollar, accompanied by an increase in the price of gold in US-dollar. In other words: Gold investors may no longer fear that an appreciating US dollar would systematically depress the price of gold.

Precious metals prices and ETF holdings

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



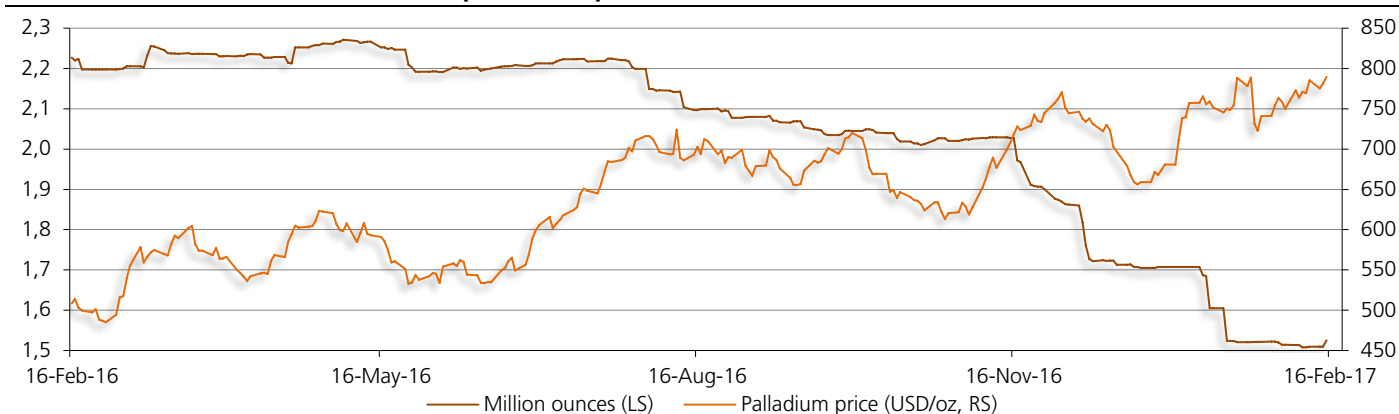
Silver ETFs (million ounces) and silver price (USD/oz)



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



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



Source: Bloomberg.

Precious metals prices

In US-dollar

	Gold		Silver		Platinum		Palladium	
I. Actual	1241,3		18.1		1,016.8		794.7	
II. Gliding averages								
5 days	1,228.6		17.9		1,001.4		780.2	
10 days	1,228.2		17.8		1,003.8		772.0	
20 days	1,215.0		17.4		990.9		762.5	
50 days	1,183.3		16.9		957.7		731.8	
100 days	1,214.2		17.2		956.9		707.1	
200 days	1,262.1		17.9		1,005.7		669.9	
III. Projections for 2017	<i>Low</i>	<i>High</i>	<i>Low</i>	<i>High</i>	<i>Low</i>	<i>High</i>	<i>Low</i>	<i>High</i>
	1,148	1,390	15.9	23.00	906	1,100	700	900
IV. Annual averages								
2013	1,429		24.1		1,487		724	
2014	1,260		19.1		1,382		800	
2015	1,163		15.7		1,065		706	
2016	1,242		17.0		985		617	

In euro

	Gold		Silver		Platinum		Palladium	
I. Actual	1,172.8		17.1		960.7		750.8	
II. Gliding averages								
5 days	1,158.4		16.9		944.2		735.6	
10 days	1,150.5		16.6		940.3		723.2	
20 days	1,135.9		16.3		926.4		712.9	
50 days	1,116.7		15.9		903.6		690.4	
100 days	1,129.8		16.0		890.7		658.8	
200 days	1,150.6		16.4		916.8		612.4	
III. Projections for 2017	<i>Low</i>	<i>High</i>	<i>Low</i>	<i>High</i>	<i>Low</i>	<i>High</i>	<i>Low</i>	<i>High</i>
	1,118	1,353	15.5	22.40	882	1,071	682	876
IV. Annual averages								
2013	1,079		18.2		1,123		547	
2014	945		14.3		1,035		601	
2015	1,044		14.1		955		633	
2016	1,120		15.4		888		557	

Source: Thomson Financial; own calculations and estimates.

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
I. Energy								
WTI crude oil	52.81	-1.9	3.1	8.6	11.1	17.4	24.8	31.2
Brent crude oil	55.27	-2.7	4.1	9.5	13.1	18.7	25.5	30.6
Gasoline	151.36	-2.6	0.0	4.1	11.7	16.7	32.2	30.5
Heating oil	161.78	-2.8	1.3	4.7	8.1	15.9	25.3	27.9
Gas oil	490.00	-2.2	6.8	8.4	12.0	...	21.0	27.4
Natural gas	2.88	-6.1	-13.6	-10.1	-12.3	1.7	43.1	44.5
II. Agriculture								
Corn	386.00	3.6	8.5	4.5	15.7	-3.3	14.3	18.7
Wheat	472.00	6.5	13.6	5.3	11.3	-9.5	21.1	21.5
Soy beans	1069.00	3.1	1.9	4.4	12.4	19.3	18.0	17.0
Coffee	148.05	-0.4	-3.2	-12.8	-2.7	6.6	18.3	24.8
Sugar	20.20	-3.4	4.8	-4.3	0.8	35.8	18.8	23.2
Cotton	77.12	0.1	7.0	10.4	16.7	18.6	13.6	15.2
III. Industrial metals								
Aluminum	1913.00	4.3	10.5	10.3	18.5	26.9	13.9	15.2
Copper	6067.00	5.1	4.2	25.0	31.4	28.9	26.0	24.2
Zinc	2870.00	2.6	6.2	16.6	24.2	78.4	22.8	32.2
Lead	2329.00	0.2	-1.5	12.8	22.3	29.9	32.2	33.9
Iron ore	92.17	0.2	16.5	47.8	60.9	112.4
IV. Precious metals								
Gold	1239.40	1.6	5.5	-2.7	-5.3	16.7	10.6	13.2
Silver	18.09	3.3	9.6	1.5	-3.1	30.3	15.6	25.4
Platinum	1015.04	1.0	11.6	4.0	-3.4	13.6	16.7	22.7
Palladium	794.69	5.9	2.7	29.0	18.5	41.5	35.9	31.4
V. Ratios								
Gold-silver	68.52	-1.7	-3.7	-4.2	-2.2	-10.5	10.3	17.1
Gold-platinum	1.22	0.5	-5.4	-6.4	-1.9	2.7	14.0	17.2
Gold-palladium	1.56	-4.2	2.3	-24.5	-20.1	-17.6	32.7	29.7
Palladium-platinum	0.78	4.9	-7.5	24.1	22.7	24.6	28.1	30.1

Source: Bloomberg; own calculations.

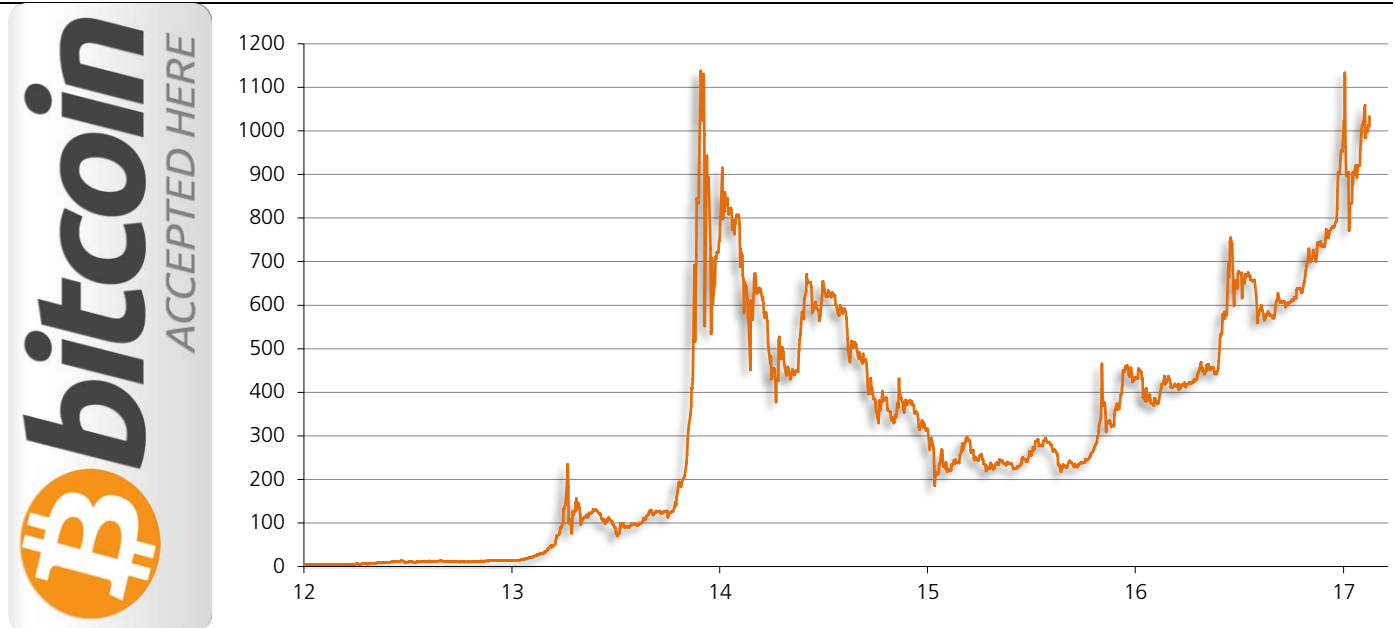
S&P commodity prices (in US dollar terms)



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

Bitcoin, performance of various asset classes

Bitcoin in US dollars

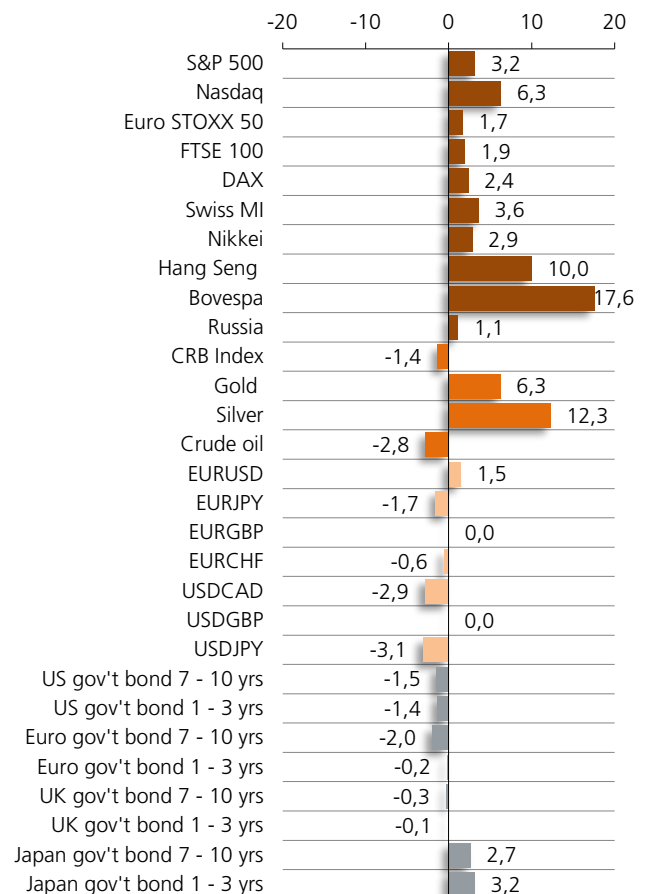
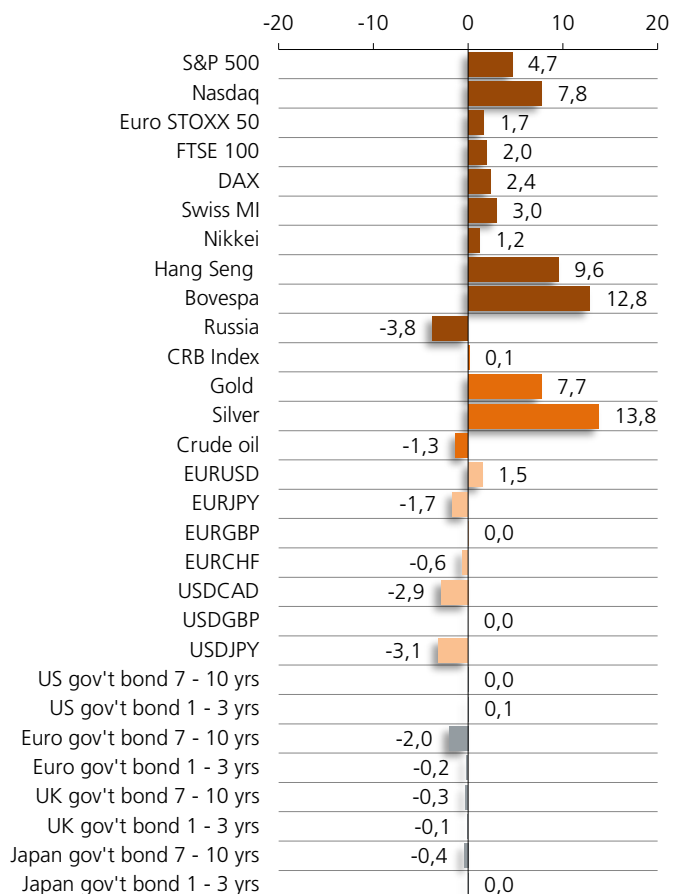


Source: Bloomberg

Performance of stocks, commodities, FX and bonds

(a) In national currencies

(b) In euros



Source: Bloomberg; own calculations

Articles in earlier issues of the *Degussa Market Report*

Issue	Content
17 February 2017	Gold Gains Ground vis-a-vis the US-Dollar
3 February 2017	Gold Insures Against Risks Lurking in the Financial System
20 January 2017	The Year of Change
20 December 2016	Gold Rather Than Euro
25 November 2016	Mr Trump Loves Gold. Does Gold Love Him Back?
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 En 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 2014	The Credit Cycle and the Price of Gold
10 June 2016	Savvy Investors Say Yes to Gold and Stocks Despite Prospective Fed Rate Hike
27 May 2016	Central Banks' Illusory Independence and the Price of Gold
13 May 2016	The Fight Against "Secular Stagnation" and Its Consequences for Gold and Silver Prices
29 April 2016	US Dollar's 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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