Gold Rather Than The Euro

The euro has increasingly come under pressure. For savers in the euro area gold remains the "better" currency.

Since the election of Donald J. Trump as the 45th President of the United States of America, something important has changed in financial markets: Interest rates have started to go up, especially in the US. This, in turn, has affected negatively precious metal prices. For higher interest rates increase the opportunity costs of holding onto precious metals. Two important questions remain: How far will the increase in US interest rates go? And: What consequences will this have on the external value of the euro?

Gold price in euros: Up 323 percent since introduction of the euro

It is likely that the increase in US interest rates will remain modest. Overall indebtedness has reached a precariously high level, making a return to ‘normal’ interest rates very unlikely. This is actually the view also held by financial markets: It is widely expected that the US central bank (Fed) will increase its Federal Funds Rate to around 1.5 percent by the end of 2017, and that the 10-year US Treasury yield will be around 2.5 to 3.0 percent. Interest rates might go somewhat higher still, but not that much higher.
1. **US interest rates in percent**

   ![US interest rates graph]

   **US interest rates have gone up.**
   Following the election of Donald J. Trump as the next President of the United States of America, interest rates have gone up. The 10 year yield on US Treasuries increased from 1.85 to 2.6 percent. In addition, the Fed raised bank borrowing costs to 0.75 percent on 14 December.

   Source: Thomson Financial.

2. **Gold price (USD/oz) and effective exchange rate of the US-Dollar**

   ![Gold price and exchange rate graph]

   **The US dollar has appreciated.**
   The increase in US interest rates, accompanied with a somewhat more positive growth expectation for the US, has been driven by the external value of the US dollar. The rise in the dollar exchange rate vis-à-vis other currencies has been accompanied by a lower gold price: Investors seem increasingly to value US dollar holdings, thereby lowering their demand for gold as a ‘safe haven’.

   Source: Bloomberg; own calculations.

   *Trade weighted.

3. **Gold stock of ETFs (in million ounces) and gold price (USD/oz)**

   ![Gold ETFs and price graph]

   **ETF gold demand has come down lately.**
   Rising short-term US rates, accompanied by an appreciating US dollar exchange rate have lowered institutional investor demand for gold ETFs. The outflows from gold ETFs in the last weeks have certainly contributed to a retreating gold price.

   Source: Bloomberg.
The external value of the euro has declined considerably in recent weeks. The reasons are obvious. On the one hand, US dollar assets have enjoyed a yield advantage, making investors exchange euros against the US dollar on the FX market. On the other hand, investors have also reduced their euro exposure in view of the single currency’s rather dismal future.

**The price of gold lags the expansion in money supply**

US money supply M2 (US dollar billions) and the price of gold (USD/oz)

If the euro area will be kept together at all costs, a monetization of euro area government and bank debt on a grand scale will be required. The ensuing increase in the euro money supply would most likely greatly diminish the euro’s internal and external purchasing power. If, however, the euro area falls apart, investors would also suffer income and wealth losses. The likelihood of such a scenario seems to be already weighing on the euro’s exchange rate.

---

1 See Degussa Marktreport „Die 4.760.000.000.000 Euro Lücke“, 11 September 2015.
In summary, there are good reasons for savers in the euro area to reduce their exposure towards the euro as far as their portfolio structure is concerned. This is possible by, for instance, exchanging liquid euro holdings (such as time and savings deposits) into US dollars, Swiss Francs and ‘currency gold’. Of course, it is rather difficult to come up with a ‘fair’ market price of gold. However, in view of the price decline since autumn 2011 and the ongoing problems in the international credit and money architecture, it seems to us that gold is currently relatively cheap.
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

<table>
<thead>
<tr>
<th>Issue</th>
<th>Content</th>
</tr>
</thead>
<tbody>
<tr>
<td>20 December 2016</td>
<td>Gold Rather Than Euro</td>
</tr>
<tr>
<td>25 November 2016</td>
<td>Mr Trump Loves Gold. Does Gold Love Him Back?</td>
</tr>
<tr>
<td>11 November 2016</td>
<td>Trump Election Puts Euro Under Pressure</td>
</tr>
<tr>
<td>14 October 2016</td>
<td>Amid Uncertainty, Opportunity Knocks</td>
</tr>
<tr>
<td>30 September 2016</td>
<td>On the Debt Ratio and the Price of Gold</td>
</tr>
<tr>
<td>16 September 2016</td>
<td>Central Banks May Choose Helicopter Money Over Negative Rates</td>
</tr>
<tr>
<td>2 September 2016</td>
<td>No return to “normal” interest rates</td>
</tr>
<tr>
<td>19 August 2016</td>
<td>Debt Monetized En Masse to Fend Off the Euro Crash?</td>
</tr>
<tr>
<td>5 August 2016</td>
<td>No English issue due to summer break</td>
</tr>
<tr>
<td>22 July 2016</td>
<td>The Demise of the Interest Rate – the Comeback of Gold Money</td>
</tr>
<tr>
<td>8 July 2016</td>
<td>Escaping the Euro Trap</td>
</tr>
<tr>
<td>24 June 2014</td>
<td>The Credit Cycle and the Price of Gold</td>
</tr>
<tr>
<td>10 June 2016</td>
<td>Savvy Investors Say Yes to Gold and Stocks Despite Prospective Fed Rate Hike</td>
</tr>
<tr>
<td>27 May 2016</td>
<td>Central Banks’ Illusory Independence and the Price of Gold</td>
</tr>
<tr>
<td>13 May 2016</td>
<td>The Fight Against “Secular Stagnation” and Its Consequences for Gold and Silver Prices</td>
</tr>
<tr>
<td>29 April 2016</td>
<td>US Dollar’s Dominance Challenged By Gold</td>
</tr>
<tr>
<td>15 April 2016</td>
<td>A World without Returns</td>
</tr>
<tr>
<td>1 April 2016</td>
<td>Helicopter Euros Hovering on the Horizon</td>
</tr>
<tr>
<td>18 March 2016</td>
<td>Gold and Stocks Protect Against ‘Helicopter-Euros’</td>
</tr>
</tbody>
</table>

The Degussa Marktreport (German) and the Degussa Market Report (English) are available at: [www.degussa-goldhandel.de/de/marktreport.aspx](http://www.degussa-goldhandel.de/de/marktreport.aspx)
Disclaimers
Degussa Goldhandel GmbH, Frankfurt am Main, is responsible for creating this document. The authors of this document certify that the views expressed in it accurately reflect their personal views and that their compensation was not, is not, nor will be directly or indirectly related to the recommendations or views contained in this document. The analyst(s) named in this document are not registered / qualified as research analysts with FINRA and are therefore not subject to NASD Rule 2711.

This document serves for information purposes only and does not take into account the recipient’s particular circumstances. Its contents are not intended to be and should not be construed as an offer or solicitation to acquire or dispose of precious metals or securities mentioned in this document and shall not serve as the basis or a part of any contract.

The information contained in this document was obtained from sources that Degussa Goldhandel GmbH holds to be reliable and accurate. Degussa Goldhandel GmbH makes no guarantee or warranty with regard to correctness, accuracy, completeness or fitness for a particular purpose.

All opinions and views reflect the current view of the author or authors on the date of publication and are subject to change without notice. The opinions expressed herein do not necessarily reflect the opinions of Degussa Goldhandel GmbH.

Market volatility, sector volatility, corporate actions, the unavailability of complete and accurate information and/or the circumstances that underly the assumptions made by Degussa Goldhandel GmbH or by other sources relied upon in the document should prove inaccurate. Neither Degussa Goldhandel GmbH nor any of its directors, officers or employees shall be liable for any damages arising out of or in any way connected with the use of this document and its content.

Any inclusion of hyperlinks to the websites of organizations in this document in no way implies that Degussa Goldhandel GmbH endorses, recommends or approves of any material on or accessible from the linked page. Degussa Goldhandel GmbH assumes no responsibility for the content of and information accessible from these websites, nor for any consequences arising from the use of such content or information.

This document is intended only for use by the recipient. It may not be modified, reproduced, distributed, published or passed on to any other person, in whole or in part, without the prior, written consent of Degussa Goldhandel GmbH. The manner in which this document is distributed may be further restricted by law in certain countries, including the USA. It is incumbent upon every person who comes to possess this document to inform themselves about and observe such restrictions. By accepting this document, the recipient agrees to the foregoing provisions.

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

Deadline for this edition: 20 December 2016

Publisher: Degussa Goldhandel GmbH, Kettenhofweg 29, 60325 Frankfurt, Tel.: (069) 860068-0, Fax: (069) 860068-222
E-Mail: info@degussa-goldhandel.de, Internet: www.degussa-goldhandel.de

Editor in chief: Dr. Thorsten Pollet
Degussa Market Report is available on the Internet at: http://www.degussa-goldhandel.de/de/marktreport.aspx

Gold und Silber.

Frankfurt Headquarters
Kettenhofweg 29 · 60325 Frankfurt
Phone: 069-860 068 – 0 · info@degussa-goldhandel.de

Retail buying and selling outlets in Germany:

Frankfurt (shop & showroom): Kettenhofweg 29 · 60325 Frankfurt
Phone: 069-860 068 – 100 · frankfurt@degussa-goldhandel.de

Berlin (shop & showroom): Fasanenstraße 70 · 10719 Berlin
Phone: 030-8872338 – 0 · berlin@degussa-goldhandel.de

Hamburg (shop & showroom): Ballindamm 5 · 20095 Hamburg
Phone: 040-329 0872 – 0 · hamburg@degussa-goldhandel.de

Hanover (shop & showroom): Theaterstraße 7 · 30159 Hanover
Phone: 0511-897338 – 0 · hanover@degussa-goldhandel.de

Cologne (shop & showroom): Gereonstraße 18-32 · 50670 Cologne
Phone: 0221-120 620 – 0 · koeln@degussa-goldhandel.de

Retail buying and selling outlets around the world:

Zurich (shop & showroom): Bleicherweg 41 · 8002 Zurich
Phone: 0041-44-40341 10 · zuerich@degussa-goldhandel.ch

Geneva (shop & showroom): Quai du Mont-Blanc 5 · 1201 Genève
Phone: 0041-22 908 14 00 · geneve@degussa-goldhandel.ch

Madrid (shop & showroom): Calle de Velázquez 2 · 28001 Madrid
Phone: 0034-911 872 606 · info@degussa-goldhandel.ch

Singapore (shop & showroom): Degussa Precious Metals Asia Pte. Ltd.
22 Orchard Road, 01-01 · Singapore 238895 · info@degussa-goldhandel.ch

London (shop & showroom): Sharps Pixley Ltd. (member of the Degussa Group)
22 Orchard Road, 01-01 · Singapore 238895 · info@degussa-goldhandel.ch