Degussa Market Report

26 October 2018 | **Economics · Finance · Precious Metals**

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	1.229.1	2.2	-1.0	-3.3
Silver	14.6	0.2	-7.7	-12.4
Platinum	827.0	0.7	1.3	-9.6
Palladium	1.103.7	3.2	16.9	12.6
II. In euro				
Gold	1.081.0	3.6	1.3	-0.9
Silver	12.9	1.2	-5.5	-10.4
Platinum	727.4	1.9	3.5	-7.7
Palladium	971.0	4.4	19.4	15.3
III. Gold price in other currencies				
JPY	138.313.0	1.2	0.5	-4.2
CNY	8.539.6	3.4	3.2	1.3
GBP	959.1	4.7	1.5	0.2
INR	90.026.9	1.9	5.5	9.4
RUB	80.740.9	0.8	2.6	8.9

Source: Thomson Financial; own calculations.

OUR TOP ISSUE

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

President Trump is right: The Fed Is A Big Problem

President Donald J. Trump takes on the Federal Reserve (Fed), saying that Fed chairman Jerome H. Powell is threatening US economic growth by further raising interest rates. Mainstream economists, the financial press and even some politicians react with indignation: the president's comments undermine the Fed's political independence, potentially endangering the confidence in the US dollar. Such a public reaction is, at first glance, understandable – as mainstream economists have declared the political independence of the central bank a "golden calf" issue.

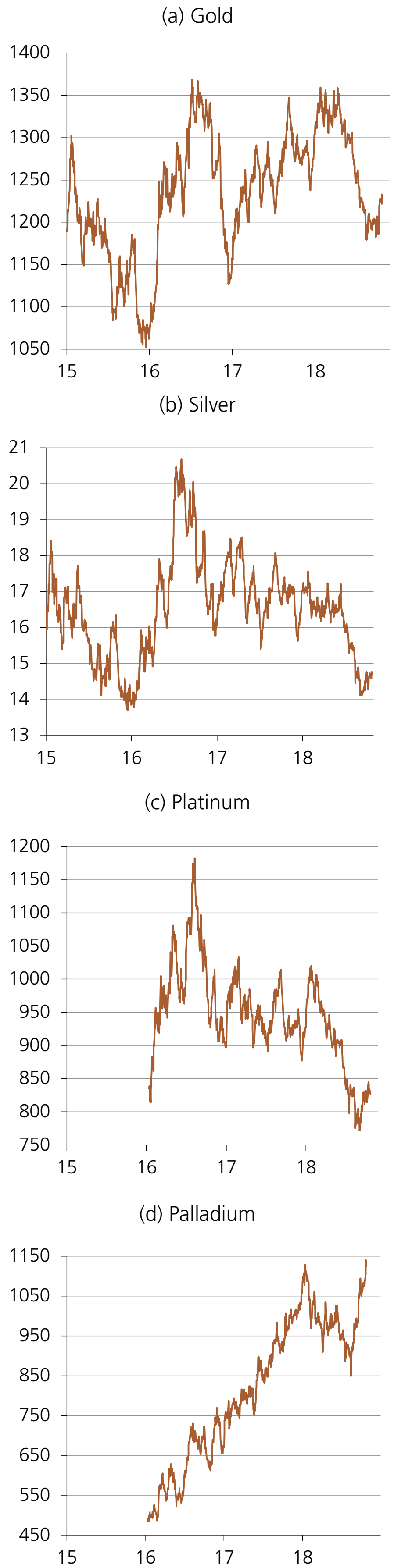
Monetary theorists argue that a politically independent central bank is best for the currency and the economy. As a result, most central banks around the world, including the Fed, have been made politically independent. But is this so? Well, if the economy thrives, politicians leave the Fed alone. If the economy stumbles, or if the Fed pursues unpopular measures, it runs the risk that Congress or the president may revise the Federal Reserve At of 1913, stripping it of its power. In fact, the Fed's monetary policy cannot deviate too much from the Congress' and the president's political agenda.

Granted: In good times, the Fed is more or less protected from the demands of political parties. But what about the influence from 'special interest groups' such as the banking industry on Fed policymaking? There should hardly be any doubt that the Fed caters, first and foremost, to the needs of commercial and investment banks. As the monopoly producer of the US dollar, it creates – in close cooperation with the banking community – new Greenbacks mostly via credit expansion out of thin air. In this sense, the Fed and private banks represents a cartel.

This cartel produces inflation, leading to increases not only of consumer prices but also of the prices of assets such as stocks, housing and real estate. This, in turn, debases the purchasing power of the US dollar and benefits some at the expense of many. The Fed-banker cartel, which keeps issuing ever more quantities of US dollar, also causes economic disturbances, speculative bubbles, and boom-and-bust cycles; and it tempts consumers, firms, and the government to run into ever more debt. Especially so as the Fed sets the interest rate for bank credit, and in doing so basically controls all interest rates in credit markets.

As the Fed-banker cartel expands the money supply via credit extension, the market interest rate gets artificially suppressed: It is pushed to a level that is lower compared to a situation in which the Fed does not expand the credit and money supply out of thin air. As a result of the lowered market interest rate, savings decline, while consumption and investment go up – setting into motion

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



Source: Thomson Financial.

an economic boom. However, this boom will turn into bust if and when the market interest rate rises – which inevitably happens once no more new credit and money is pumped into the system; if the Fed raises interest rates after having lowered them beforehand.

It might be frightening to hear, but the Fed does not know where the "right" interest rate level is. In terms of interest rate policy, it purses a 'trial and error' approach. As history shows all too well, the Fed lowers interest rates sharply in times of financial and economic crisis. If incoming data suggests that the economy is returning to growth, the Fed starts raising the interest rate and keeps raising it until the interest rate becomes 'too high', turning the boom into yet another bust. It would not be surprising if the Fed's current interest hiking cycle were going to trigger yet another debacle.

Viewed from this perspective, president Trump certainly has a point in criticising the Fed's latest series of interest rate increases. However, forcing the Fed to keep interest rates at artificially lowered levels for longer does not solve the real problem. It would only lead to more distortions in the financial and economic system, foreseeably increasing the costs of the inevitable crisis even further. In other words: The truth is that Fed policy is not the solution to the problem, it is the most significant part of the problem. If shutting down the Fed right away is not an option, one path that is open to the president is to end the Fed's money monopoly.

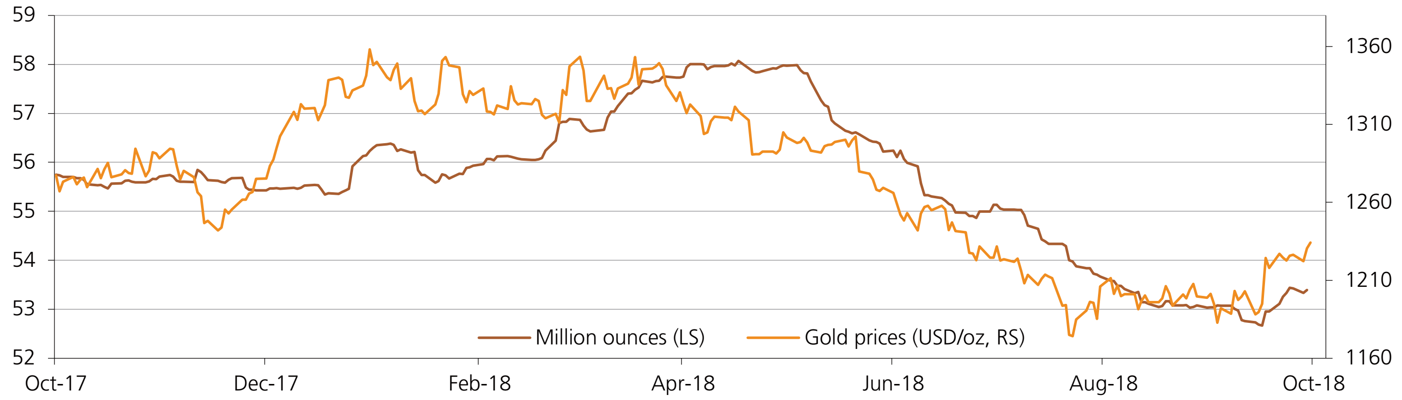
This could be done by, first and foremost, ending all taxes and regulatory requirements standing in the way of using means of exchange such as precious metals, gold and silver in particular, and cyber currencies for monetary purposes. In fact, it would open up a free market in money. People would be getting a greater choice and thus could easily diversify away from the US dollar if they wished without incurring undue costs. The Fed-banker cartel's scope of manoeuvring would be significantly reduced because they could no longer keep inflating the credit and money supply as before.

For if they do, the US dollar will depreciate against alternative monies for all eyes to see, making the Greenback less competitive, potentially driving the US dollar out of the market altogether. In the early stage of a free market in money, people would presumably divert part of their US dollar savings and time deposits into gold and silver as a store of value. Later, businesses that provide not only storage and safekeeping services but also offer payment and settlement services would emerge, finally opening up the possibility to make daily payments with 'digitised' gold and silver money.

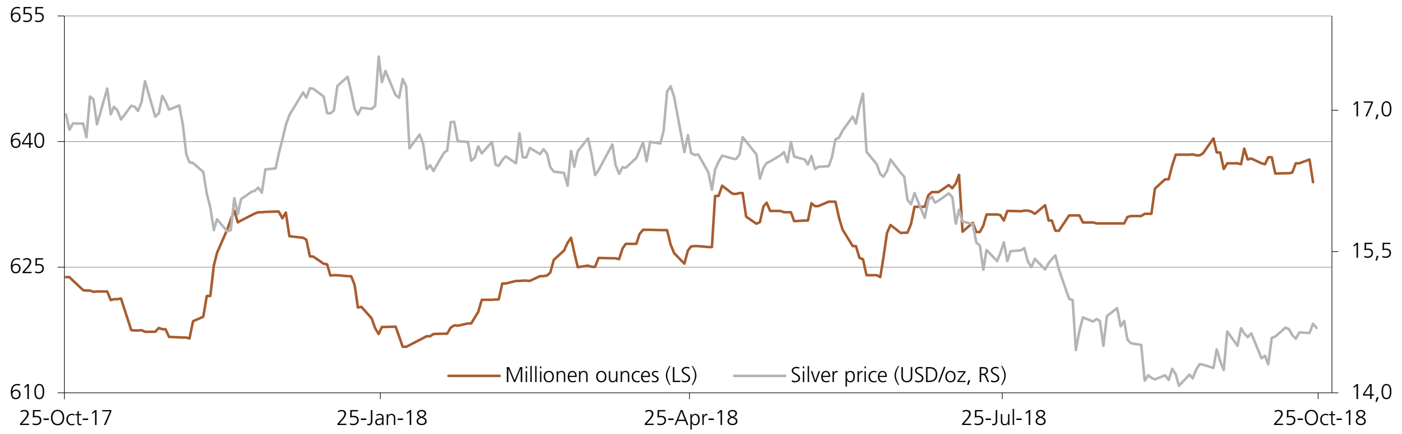
If the US administration truly wishes to "To Make America Great Again", there is no way around addressing the US dollar fiat currency problem at some point. The president's latest criticism of the Fed's interest rate policy no doubt points in the right direction. To underpin his criticism with the unquestionably right reasons, it should be accompanied by manifest efforts to set up a free market in money. Fortunately, a good number of US states has already been moving in this direction. President Trump would arguably have the best reasons to follow up – and push for a free market in money on a federal level.

Precious metals prices and ETF holdings

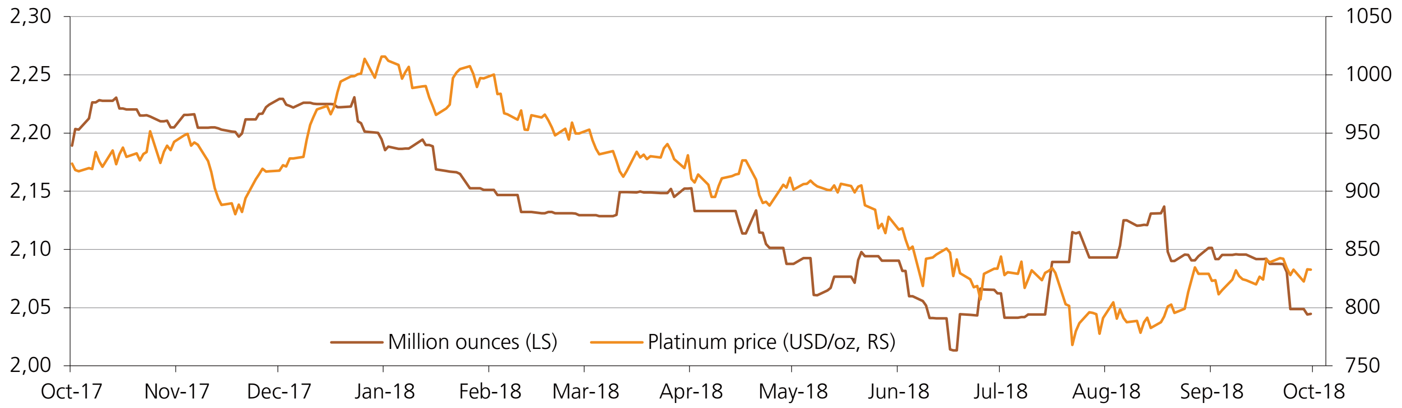
Gold ETFs (million ounces) und gold price (USD/oz)



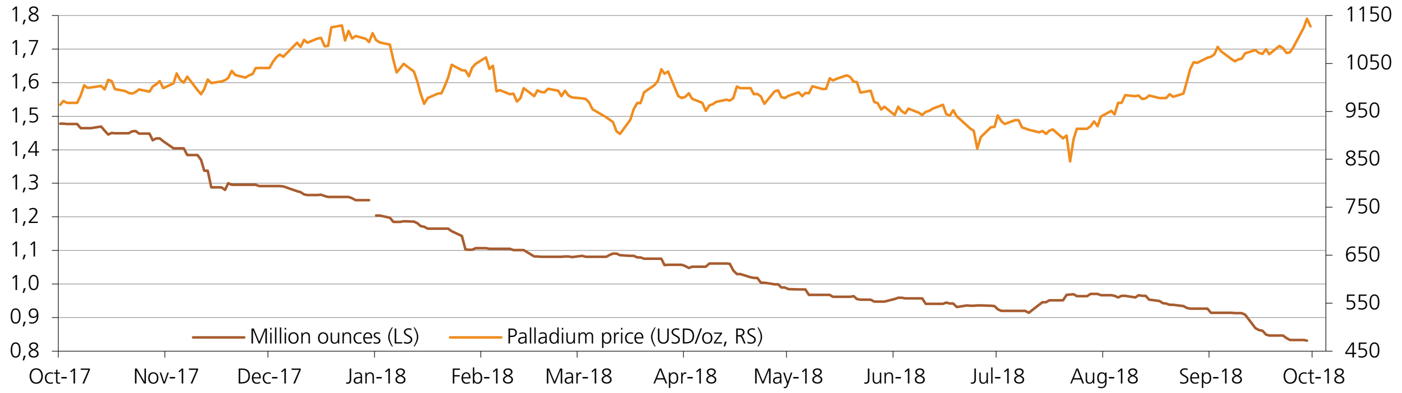
Silver ETFs (million ounces) and silver price (USD/oz)



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	1229.3		14.6		827.4		1106.0	
II. Gliding averages								
5 days	1196.3		14.4		820.4		1072.2	
10 days	1197.4		14.5		822.4		1067.8	
20 days	1198.1		14.4		820.5		1051.1	
50 days	1199.0		14.6		806.9		982.5	
100 days	1230.5		15.4		834.2		970.5	
200 days	1278.6		16.0		893.9		990.0	
III. Bandwidths for 2018	*Low*	*High*	*Low*	*High*	*Low*	*High*	*Low*	*High*
	1248	1472	16.0	21.0	936	1048	1033	1261
(1)	*2*	*20*	*10*	*44*	*13*	*27*	*-7*	*14*
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

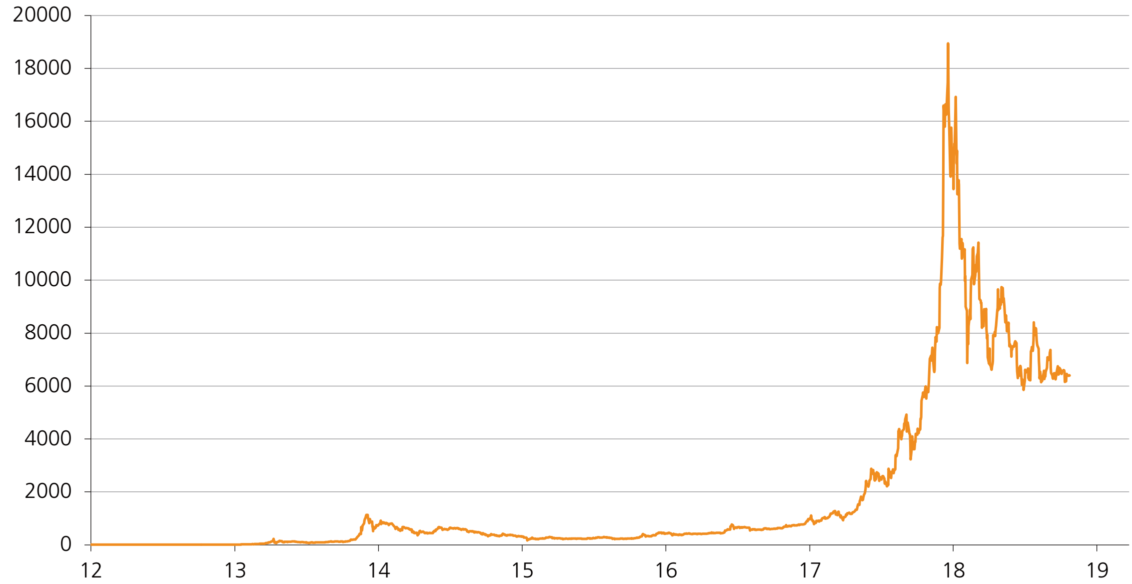
	Gold		Silver		Platinum		Palladium	
I. Actual	1081.3		12.8		727.8		972.8	
II. Gliding averages								
5 days	1039.5		12.6		712.8		931.6	
10 days	1038.0		12.6		712.9		925.6	
20 days	1030.3		12.4		705.5		903.9	
50 days	1034.6		12.6		696.3		847.6	
100 days	1057.8		13.2		717.1		834.3	
200 days	1071.9		13.4		748.8		830.4	
III. Bandwidths for 2018	*Low*	*High*	*Low*	*High*	*Low*	*High*	*Low*	*High*
	1080.8	1274.2	13.8	18.2	810.4	907.6	894.1	1091.7
(1)	*0*	*18*	*8*	*42*	*11*	*25*	*-8*	*12*
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 estiamtes.

(1) Estimated return against actual price in percent.

Bitcoin, performance of various asset classes

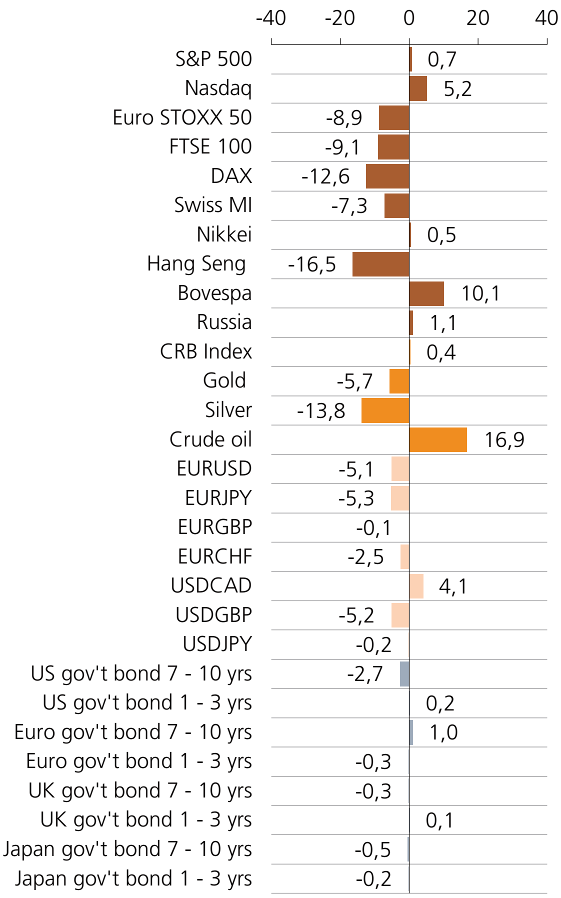
Bitcoin in US dollars



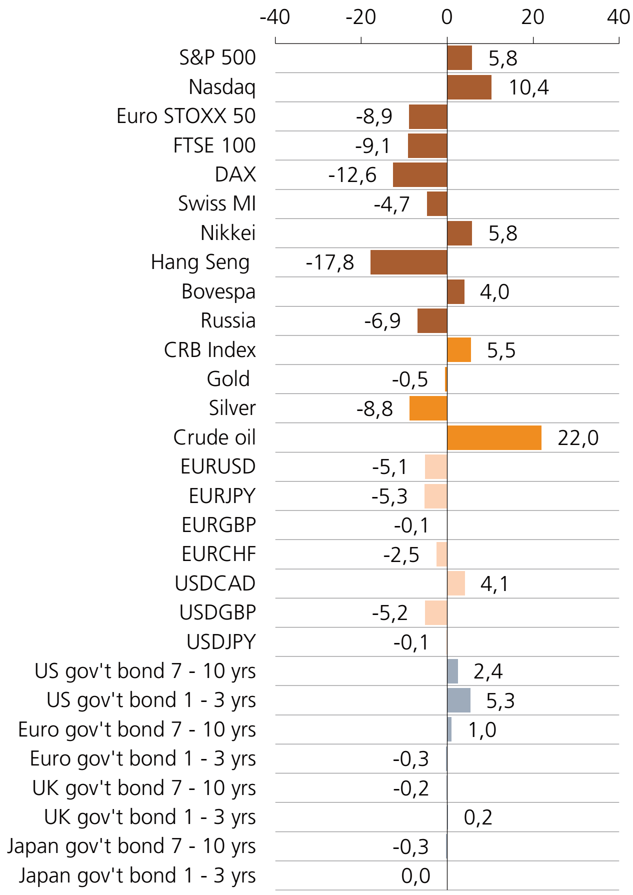
Source: Thomson Financial.

Performance of stocks, commodities, FX and bonds

(a) In national currencies



(b) In euro



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Articles in earlier issues of the *Degussa Market Report*

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