

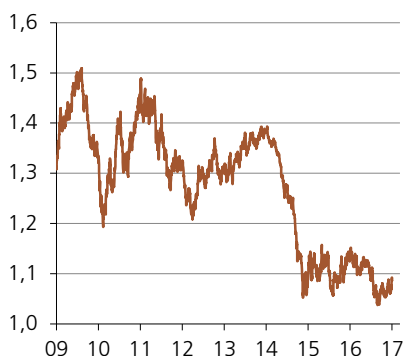
USD per ounce of gold



USD per ounce of silver



EURUSD



Source: Thomson Financial. Daily data.

Precious metals prices				
	Actual (spot)	Change against (in percent):		
		2 W	3 M	12 M
I. In US-dollar				
Gold	1,265.9	0.9	4.6	-2.1
Silver	17.4	-3.7	-0.7	-2.7
Platinum	948.5	-0.6	-4.4	-11.9
Palladium	817.1	1.7	8.3	31.2
II. In euro				
Gold	1,162.5	-1.9	3.5	2.9
Silver	16.0	-7.4	-1.7	2.4
Platinum	871.4	-4.1	-5.3	-7.3
Palladium	750.2	-1.2	7.2	36.7
III. Gold price in other currencies				
JPY	140,820.0	1.1	2.9	2.4
CNY	8,732.1	0.0	4.7	4.2
GBP	978.9	-3.4	1.6	10.6
INR	81,272.7	1.9	-0.6	-5.2
RUB	72,182.7	0.0	-0.8	-13.6

Source: Bloomberg; own calculations.

OUR TOP ISSUES

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

France's EUROphoria on the Retreat

Economic problems in France increasingly undermine the political support among the French for the euro project.

ECB is far From Being Trigger-Happy

The ECB is not yet ready to raise interest rates and end bond purchases. In fact, higher borrowing costs could cause tremendous pain for the euro area.

The Czech Abandon Their Euro-Link

The Czech National Bank has abandoned the policy of linking the koruna to the euro - as Switzerland did in early 2015. Other countries may follow.

No Return to 'Normal Interest Rates'

The US Central Bank's plans to shrink its balance sheet do not necessarily mean that interest rates have to go up.

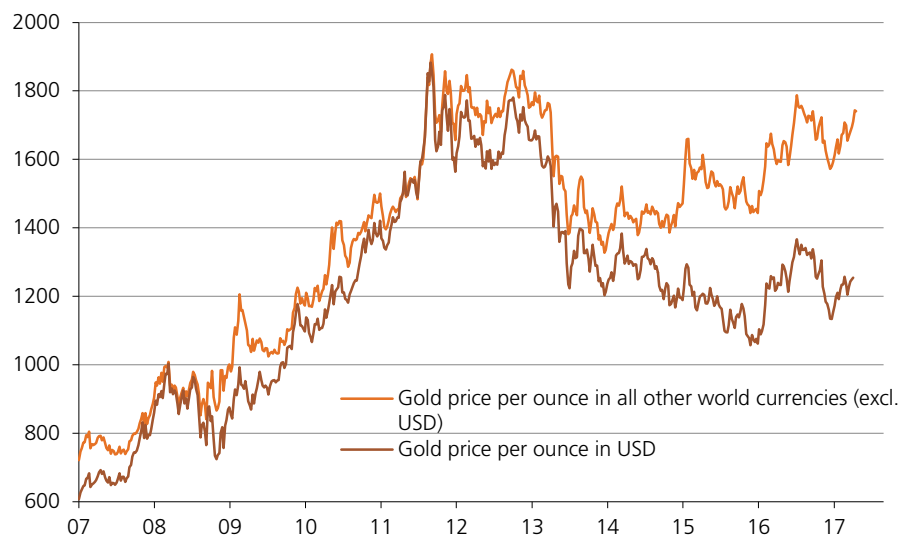
Precious Metals Market Report

The French election and the movements in the credit market pose headwinds for the precious metal markets.

Gold price per ounce

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

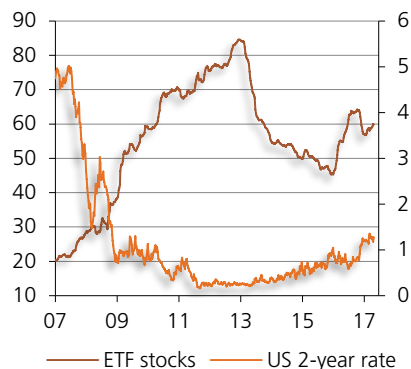
January 2007 to April 2017



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.

Gold ETF demand went up as US interest rates moved higher, ...

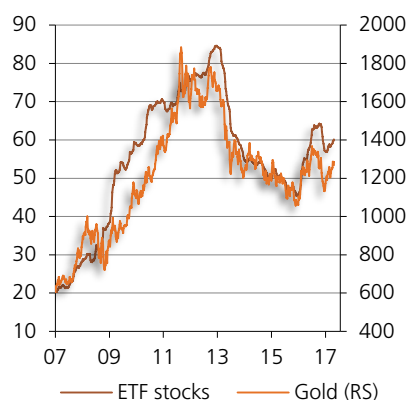
Gold ETFs (million ounces) and US 2-year gov't bond yield in percent



Source: Thomson Financial.

... and this has translated into a higher gold price

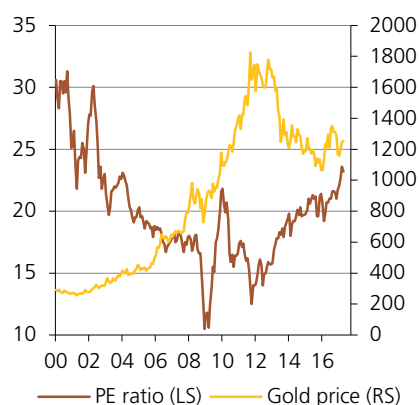
Gold ETFs (million ounces) and price of gold (USD/oz)



Source: Thomson Financial; own calculations.

Gold as a hedge against potential set-back in stock markets

Price earnings ratio of the S&P 500 and gold price (USD/oz)



Source: Thomson Financial.

Central Banks Will not Dare to Take Away the Punch Bowl

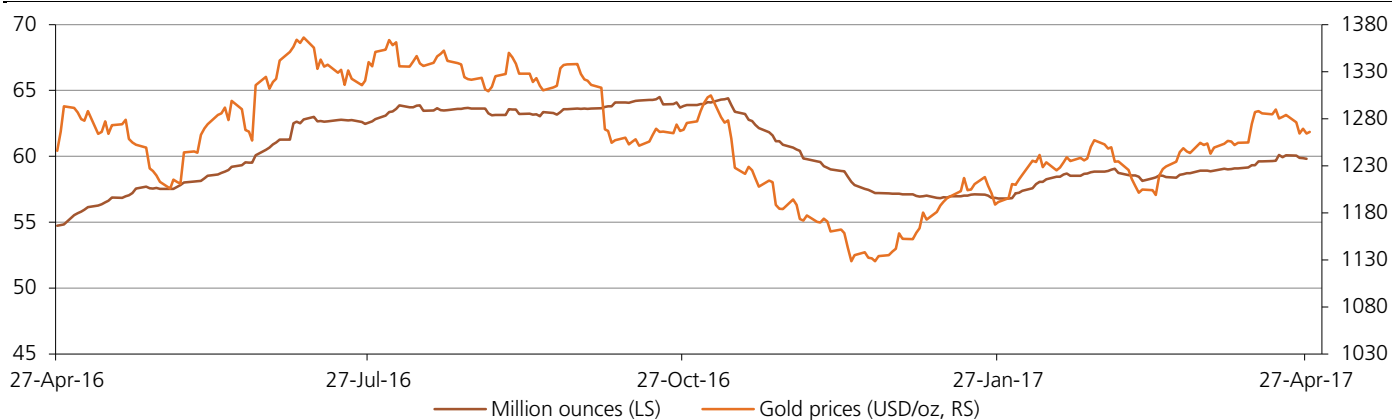
Precious metal prices have been experiencing headwind in recent days for a number of reasons. The outcome of the first round of the French presidential election has lowered investor risk aversion in the international financial system, and it has revived confidence in the euro in particular. What is more, optimism about growth seems to have broadened. For instance, the Chinese economy appears to continue to grow at a decent rate, supporting global demand and stock prices. Most importantly, interest rates are expected to edge up. This seems to have an adverse effect on the price of gold. The key question in this context, however, is: What are the chances for interest rates in the major economies around the world to go up further? There is reason to expect that interest rates in *nominal terms* might increase, that they will not remain at exceptionally low levels for much longer. At the same time, however, it seems to be unlikely that *real interest rates* (nominal interest rates minus inflation) will return to "normal" levels anytime soon. How can we reconcile these two developments?

Debt-to-GDP ratios in most countries have gone up quite substantially in the past year, especially fueled by central banks' extremely low interest rate policies. The policy of cheap money has generated consumption and investment spending financed by additional credit. Ramping up borrowing costs, therefore, would put already overstretched borrowers under even more pressure. It would almost certainly result in a slowdown of economic expansion. In fact, raising interest rates would be tantamount to taking away the punch bowl mid-party, and would make the debt pyramid rather shaky. Why then would central banks want to increase nominal interest rates? Preventing inflation from running wild is one reason. The other reason is that the banking industry cannot survive if interest rates remain at rock bottom, accompanied by a flat yield curve. In other words: Central banks find themselves in a dilemma because higher interest rates would put borrowers under pressure, while low interest rates would threaten the capacity of the banking industry to churn out ever greater amounts of credit and money. However, there is an 'escape route'.

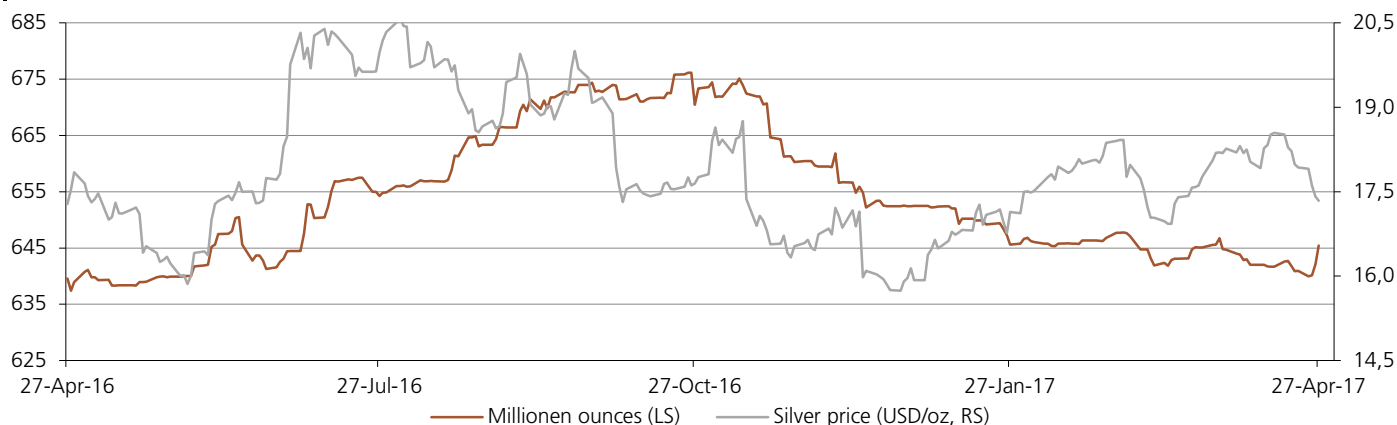
And that is raising nominal interest rates and, at the same time, making sure that inflation goes up as well so that real interest rates (nominal interest rates minus inflation) remain around zero or even in negative territory. This can be achieved in various ways. For instance, central banks can simply raise their official inflation target (from 2 percent to, let us say, 3 or 4 percent per year); or they keep monetizing government and bank debt, thereby increasing the quantity of money. If they keep controlling short- and long-term interest rates, central banks can push real interest rates to politically desired low levels. In other words, the outlook for real (inflation-adjusted) interest on bonds and savings accounts remains bleak. Furthermore, the ongoing meddling of central banks in credit markets causes far-reaching distortions in basically all factor markets and thus malinvestment of scarce resources. This, in turn, increases the probability of a new round of economic and financial disturbances going forward. Bottom line: There are reasons to cling to gold, particularly as portfolio insurance. In contrast to time and savings deposits or bonds with short maturities, gold cannot be debased by monetary policies; it does not lose its purchasing power in the context of negative real interest rates. What is more, gold does not carry a default risk as credit instruments do. In the current market environment, where investors have become increasingly optimistic about the sustainability of global growth and the health of the financial system, we think the current gold price seems to offer a reasonably good bargain for investors with a longer-term investment horizon.

Precious metals prices and ETF holdings

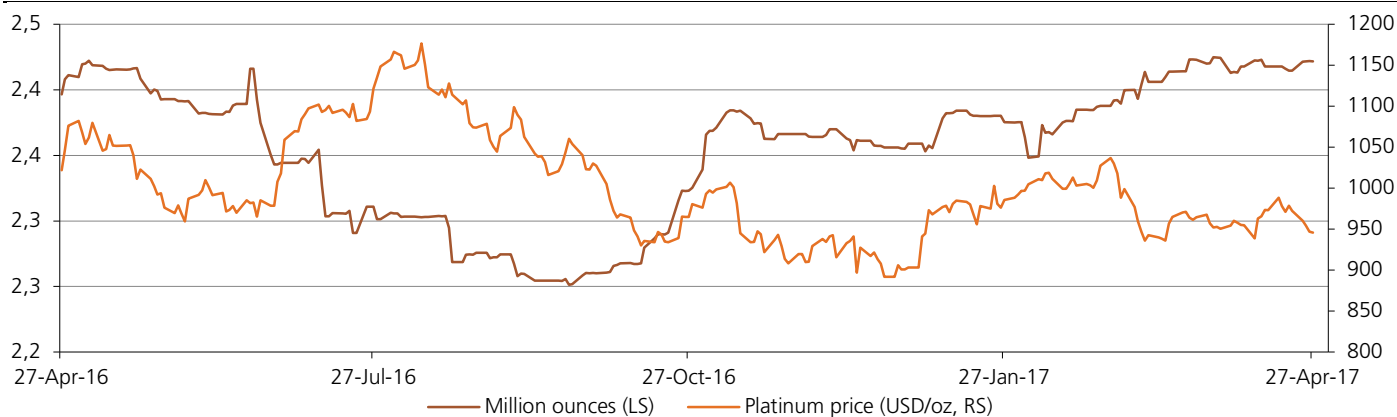
Gold ETFs (million ounces) und gold price (USD/oz)



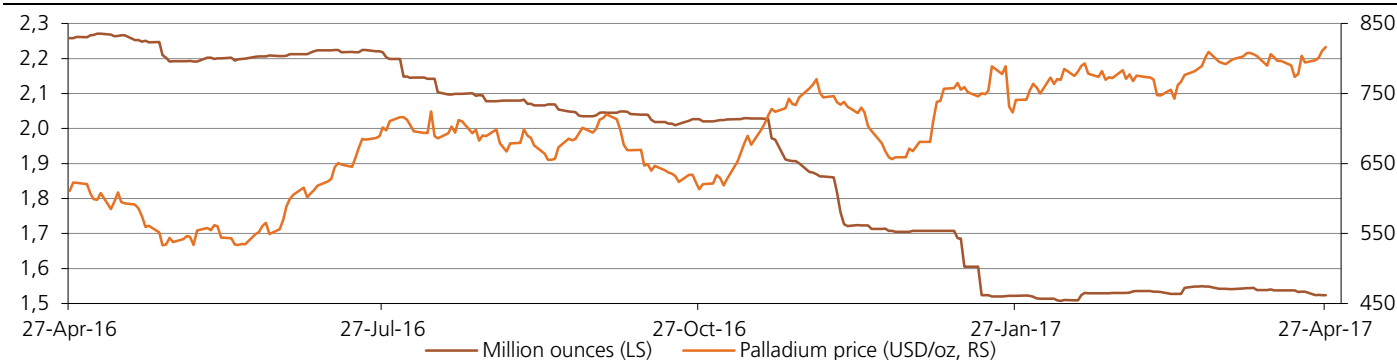
Silver ETFs (million ounces) and silver price (USD/oz)



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	1,265.8	17.4	948.3	817.5
II. Gliding averages				
5 days	1,271.4	17.6	956.2	800.4
10 days	1,278.4	17.9	967.1	797.8
20 days	1,269.6	18.1	961.1	799.3
50 days	1,248.6	17.9	970.3	785.7
100 days	1,216.7	17.4	964.7	759.4
200 days	1,252.3	17.9	993.1	723.1
III. Projections for 2017	<i>Low</i> <i>High</i> 1,148 1,390	<i>Low</i> <i>High</i> 15.9 23.00	<i>Low</i> <i>High</i> 906 1,100	<i>Low</i> <i>High</i> 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	1,163.4	15.9	872.5	750.7
II. Gliding averages				
5 days	1,172.6	16.3	881.9	738.2
10 days	1,187.3	16.7	898.2	740.9
20 days	1,186.1	16.9	897.9	746.7
50 days	1,169.0	16.8	908.6	735.6
100 days	1,143.4	16.3	906.7	713.6
200 days	1,155.1	16.5	915.9	668.2
III. Projections for 2017	<i>Low</i> <i>High</i> 1,118 1,353	<i>Low</i> <i>High</i> 15.5 22.40	<i>Low</i> <i>High</i> 882 1,071	<i>Low</i> <i>High</i> 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

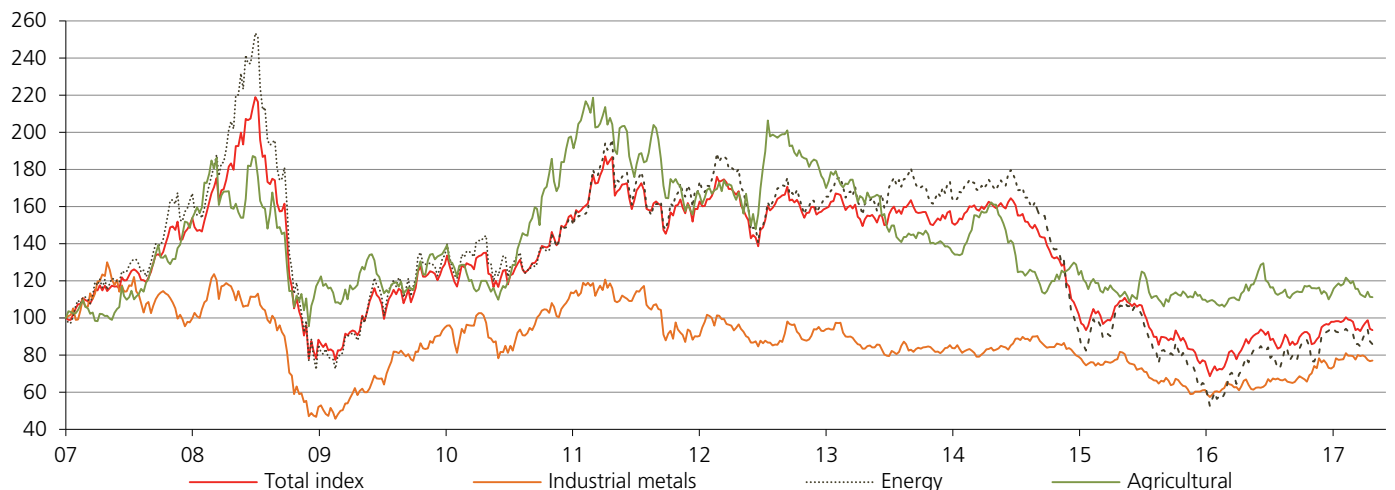
Source: Thomson Financial; own calculations and estimates.

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	49.29	-0.7	-9.4	-12.7	-1.2	16.0	20.3	22.1
Brent crude oil	51.63	-0.6	-8.1	-11.7	0.6	19.7	19.1	21.8
Gasoline	156.41	-4.9	-12.4	-16.4	-5.3	10.9	19.8	19.8
Heating oil	150.72	-3.0	-8.4	-13.6	-2.7	14.6	16.3	20.2
Gas oil	459.50	-2.0	-8.8	-10.5	-0.2	...	19.4	21.0
Natural gas	3.25	1.9	-0.2	-8.7	5.1	32.5	29.3	37.5
II. Agriculture								
Corn	368.50	1.3	-1.4	1.2	-2.1	-6.0	15.0	15.3
Wheat	433.00	2.9	-3.2	-0.3	-6.2	-15.7	17.0	19.6
Soy beans	956.75	-0.4	-8.2	-6.1	-7.0	7.6	10.6	14.8
Coffee	129.50	-2.6	-16.1	-8.6	-24.5	3.0	23.6	22.0
Sugar	15.43	-6.5	-23.6	-18.1	-25.0	8.1	22.6	21.8
Cotton	77.69	-2.1	2.0	8.8	11.1	33.0	14.8	14.2
III. Industrial metals								
Aluminum	1924.00	-0.5	5.8	13.6	11.0	22.3	14.5	14.4
Copper	5692.00	1.2	-5.0	2.8	17.3	21.2	18.8	21.7
Zinc	2597.00	0.5	-9.2	0.8	5.5	47.2	29.3	27.4
Lead	2205.00	2.9	-7.0	9.3	6.8	25.8	29.3	29.8
Iron ore	62.90	0.2	...	-19.4	0.8	35.6
IV. Precious metals								
Gold	1265.96	-1.4	4.6	10.3	-0.6	2.8	8.7	10.6
Silver	17.37	-3.1	-0.7	9.1	-2.5	17.2	13.8	16.5
Platinum	948.45	-2.5	-4.4	5.0	-2.8	1.7	13.8	18.7
Palladium	817.13	2.9	8.3	20.0	32.6	65.3	18.1	27.5
V. Ratios								
Gold-silver	72.88	1.5	5.3	0.4	1.9	-12.3	11.0	11.2
Gold-platinum	1.33	1.2	9.3	4.4	2.2	1.0	11.9	14.0
Gold-palladium	1.55	-4.4	-3.3	-7.9	-25.0	-37.8	20.7	26.4
Palladium-platinum	0.86	5.8	13.2	13.5	36.3	62.5	19.1	24.1

Source: Bloomberg; own calculations.

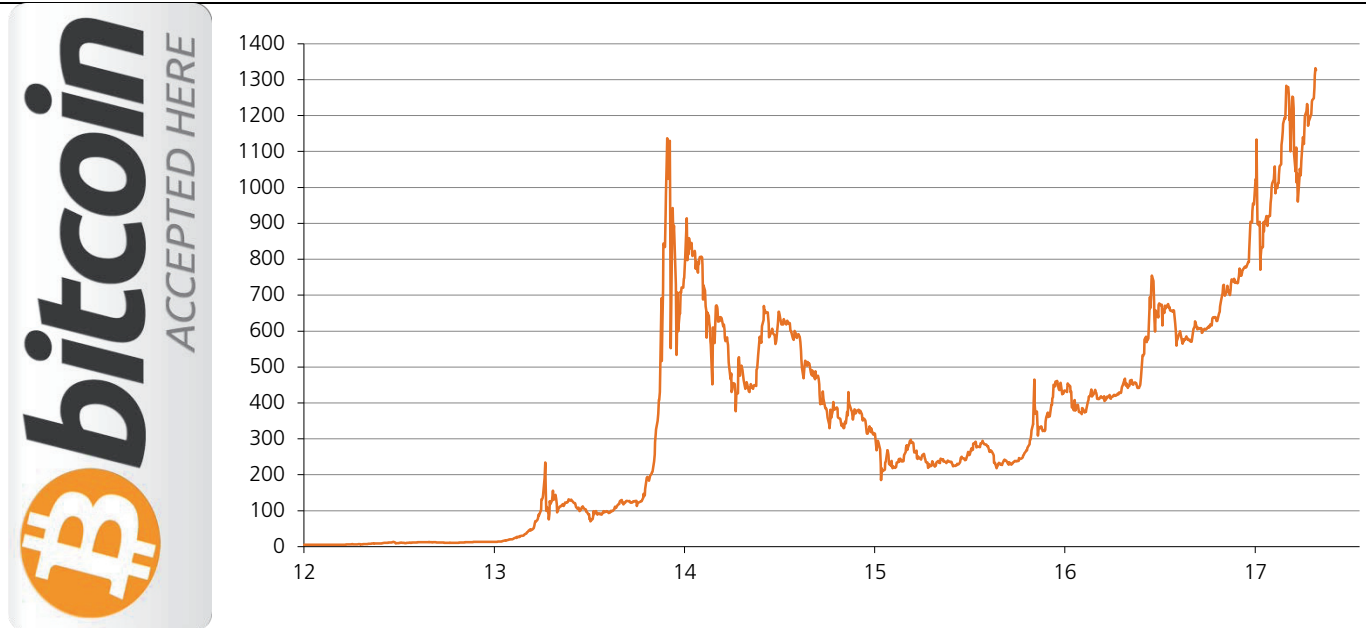
S&P commodity prices (in US dollar terms)



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

Bitcoin, performance of various asset classes

Bitcoin in US dollars

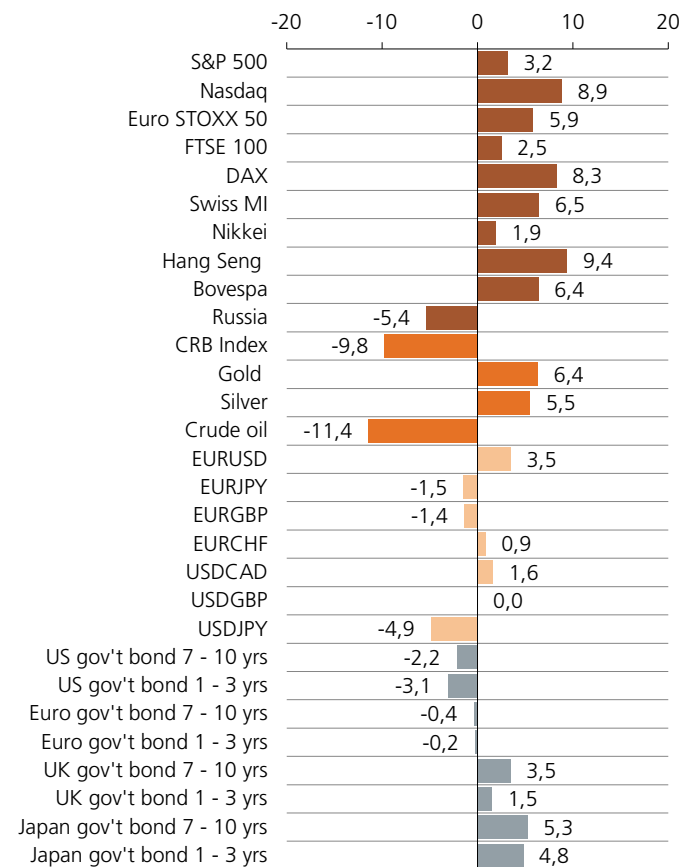
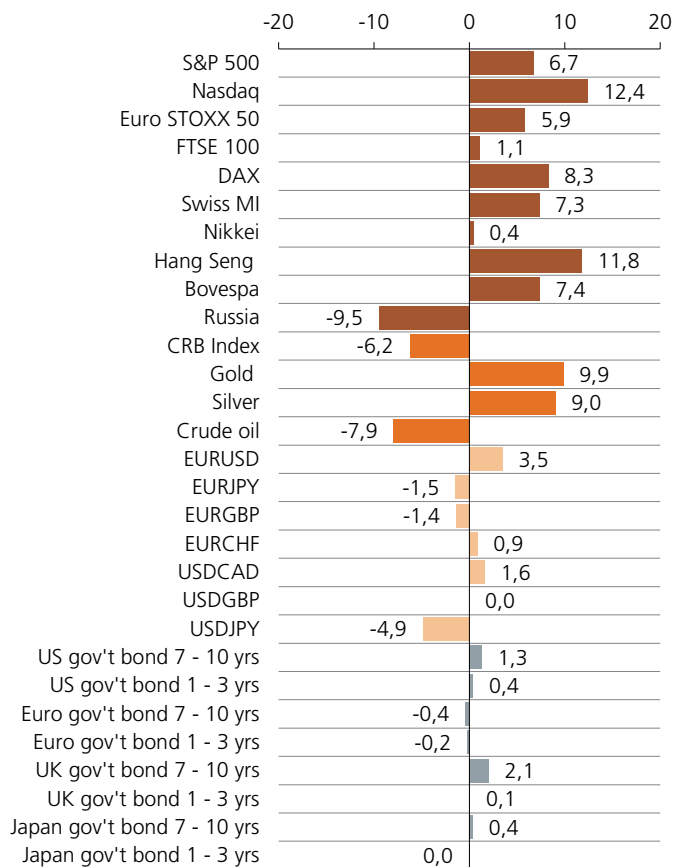


Source: Bloomberg

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
28 April 2017	Central Banks Will not Dare to Take Away the Punch Bowl
13 April 2017	The Gold Price Rise Tells Us: The Crisis Isn't Over Yet
31 March 2017	ECB Negative Interest Rate Policy Will Come to an End
17 March 2017	The Fed's Half-Hearted Attempt of Monetary Tightening
3 March 2017	ECB Flirts With Higher Inflation. The Case For Gold
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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