

TOP ISSUES

This is a short summary of our fortnightly Degussa Marktreport.

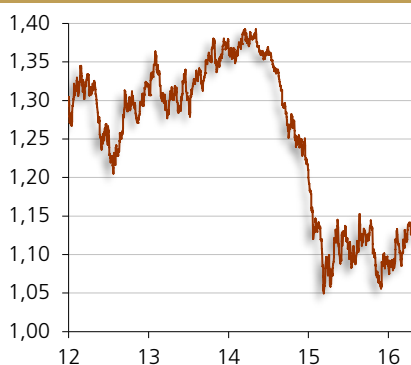
USD per ounce of gold



USD per ounce of silver



EUR USD



Source: Bloomberg

US Dollar's Dominance Challenged By Gold

Serious competitors for the US dollar as the world's reserve currency are nowhere in sight—with gold perhaps being the sole exception.

The Euro, a 'Carry Trade' Currency

The ECB is poised to puff up the euro money supply, which may well send the currency's buying power southward at home and abroad.

Too Big to Boss

The ECB has amassed too much power. Its lack of accountability bodes ill for the euro's stability.

Without Positive Interest Rates, Chaos

A zero rate policy undermines the very foundation of economic prosperity. Either interest rates go up or a monetary planned economy will emerge.

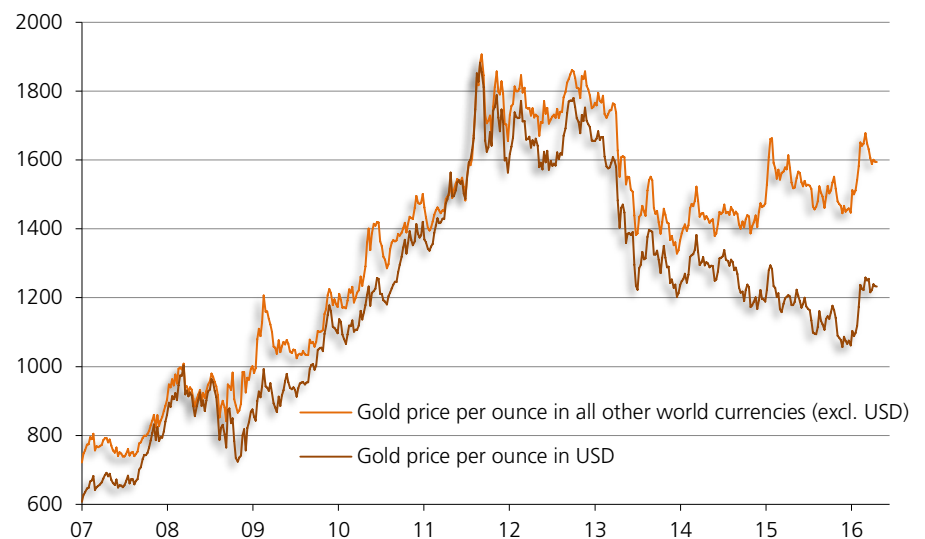
Precious Metals Market

Fed policy and precious metal prices; Silver is catching up; commodity prices on the road to recovery

Gold price per ounce

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

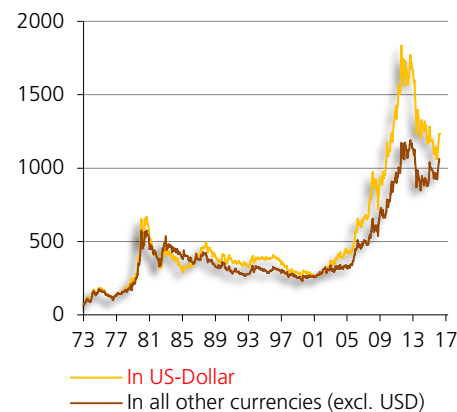
January 2007 to April 2016



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 prices have been going up in all world currencies

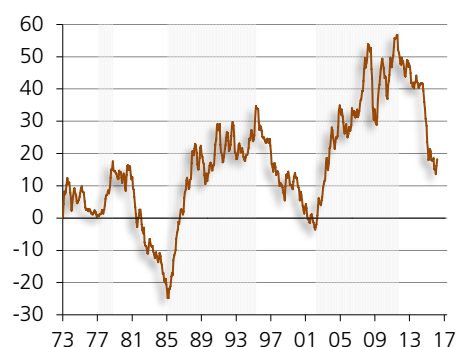
Gold prices (USD/oz) and gold price in other currencies (excl. the US-dollar)



Source: Bloomberg; own calculations.

Gold has been getting more expensive again lately in non-US currencies

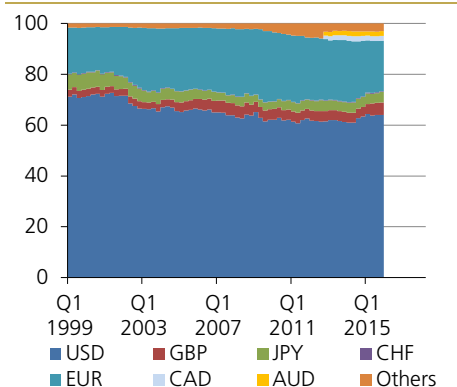
Gold price (USD/oz) relative to gold price in other currencies (excl. US-dollar) in percent



Source: Bloomberg; own calculations. Grey areas: Gold price in USD/oz rises stronger than in all other currencies (excl. the US-dollar).

The US dollar remains the most important reserve currency

Share of national currencies in percent of total foreign reserves



Source: Thomson Financial, IMF; own calculation.

US Dollar's Dominance Challenged By Gold

Serious competitors for the US dollar as the world's reserve currency are nowhere in sight—with gold perhaps being the sole exception.

The gold price in US dollars has risen sharply since the early 21st century, climbing far higher than the gold price in other currencies.

It is a tired but true trope that when the external value of the US dollar declines, the price of gold goes up. To put it differently, as confidence in the greenback slips, gold soars.

The external value of the US dollar has tended to rise since autumn of 2011 as the US dollar gold price tended to fall. However, the greenback's appreciation drove up the price of gold in many other currencies.

The numbers say it best: The gold price in US dollars remained virtually unchanged from January 2014 to April 2016, but it went up by around 17 percent when measured in all other currencies.

Investors' concerns about the future of the US dollar's dominance as the world's reserve currency waned after peaking during the 2008/2009 financial and economic crisis, but these numbers suggest that they are making an unwelcome comeback.

US dollar is key

The root cause of the latest crisis is unbacked paper money, a notoriously volatile system that triggers waves of boom and bust cycles, leaving financial and economic turbulence in its wake.

The problems of unbacked paper money have not only troubled the US economy; they are also surfacing in other unbacked paper money regimes in China, Europe and Japan.

Practically all currency areas around the world are groaning under the load of unsustainable debt accumulated over decades, with central banks churning out credit to amass a mountain of money.

Now central banks are trying to prop up the debt pyramid by slashing interest rates—and in some cases pushing them into negative territory—as the credit mill keeps grinding out more and more cheap money.

This is an economically and financially thorny situation, especially for savers and investors who are looking to the US dollar for solace, if not salvation.

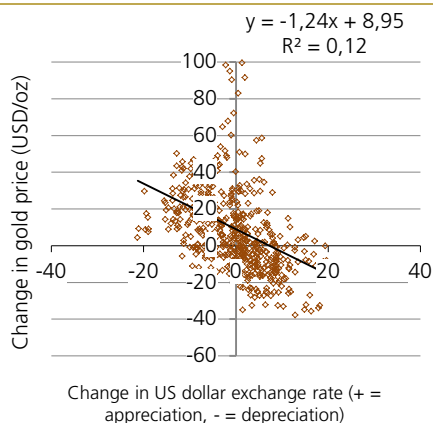
The US dollar is the currency of the world's biggest and most powerful economy, with no contender waiting in the wings to snatch its crown. No other country, not even China, can go toe to toe with the US economy and its heavyweight output, at least not any time soon.

What is more, the US dollar is the legal tender of the world's most liquid and most diversified financial equity, credit, bond and derivative markets.

On top of that, the US dollar is the world's most widely accepted medium of

The Gold price 'alpha' for the period of 1973 to 2016

Gold price (USD/oz) and US dollar exchange rate (y)

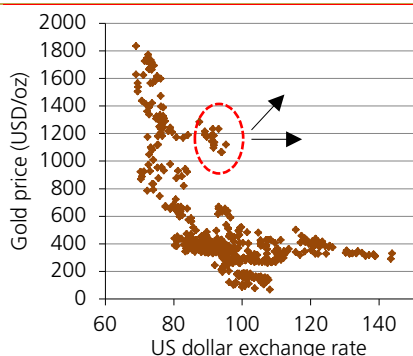


Source: Bloomberg; own calculation.

In finance theory, 'alpha' denotes the return of an asset which is independent of the general market trend. Two interesting aspects stand out when it is applied to the relationship between the gold price and the US dollar exchange rate. For one, a 10 percent appreciation of the greenback was accompanied by a 12 percent drop in the gold price on average, and vice versa, which goes to substantiate that the time-worn adage about "a strong dollar leads to a weaker gold price" and vice versa still holds true. For the other, the gold price increased by nearly 9 percent per year on average from 1973 to 2016, regardless of the ups and downs of the US dollar exchange rate. In other words, gold has had a positive alpha, indicating that gold's buying power has actually increased over time.

It's axiomatic: Strong dollar, weak gold price, and vice versa

Gold price (USD/oz) in relation to the US dollar exchange rate*



Source: Bloomberg. *The higher (lower) the number is, the higher (lower) is the exchange rate of the US dollar. *Trade weighted; indexed: March 1973 = 100.

transaction when it comes to buying and selling financial and real economic goods. That too, is unlikely to change soon.

And perhaps most important, many currencies around the world are actually built on the US dollar. In fact, there is some justification for calling the world's currency regime a *US dollar exchange standard*.

Many central banks around the world would second that notion: They hold vast stores of US dollars to back up their domestic currencies.

All this goes to show that the US dollar is still the uncontested no. 1 among the world's currencies. At the end of 2015, for instance, US dollar holdings accounted for 64 percent of total foreign reserves, compared to the euro's 20 percent and the Japanese yen's paltry 4 percent.

China's effort to position the yuan as a serious competitor to the greenback could pay off eventually, but 'eventually' could prove to be a long way off yet.

Gold as a reserve

The chances of interest rates returning to some semblance of normality are slim in a world plagued by the problems of an unbacked paper money system. And there are good reasons why this makes gold an even more attractive proposition:

The ills of unbacked paper money cannot be cured by monetary policy. On the contrary, pumping out more credit and money at ever lower interest rates is akin to giving an ailing patient the wrong medicine. It will make a bad situation worse.

It is merely a matter of time before the next bust hits. Speculative bubbles are a chronic symptom of unbacked paper money, and every bubble is bound to burst sooner or later.

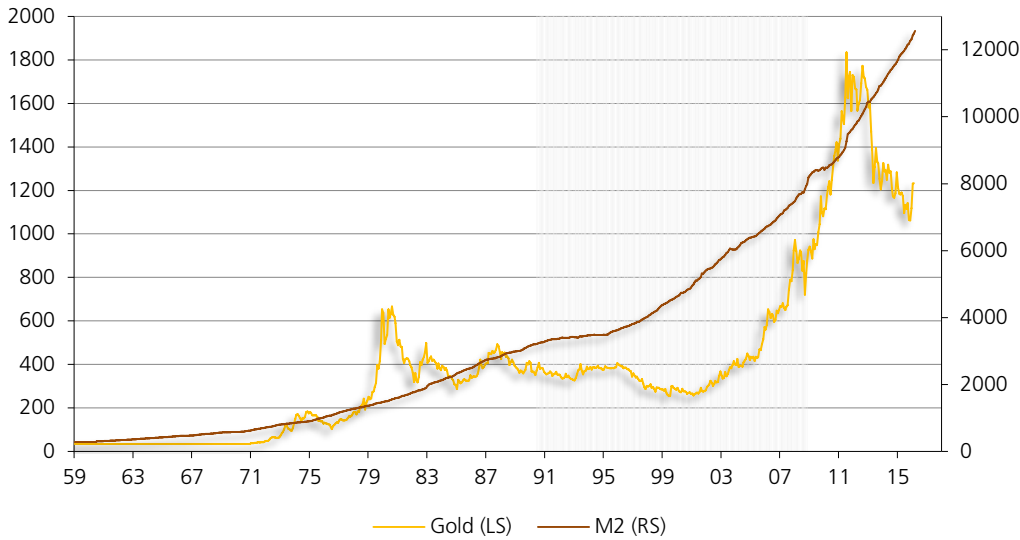
It's far more likely that many other currencies will start tumbling before the US dollar takes a fall, especially those that, like the euro and Japanese yen, are riding piggyback on the mighty greenback.

And once the situation starts to deteriorate, it wouldn't be a complete surprise for the US dollar to appreciate as it has done since mid-2011, with investors seeking a safe-haven currency flock to the greenback.

If things get as messy as this, gold will likely be very much in demand, especially when interest rates are dwindling towards or dipping below zero. Gold is known as the ultimate means of payment, and that is the kind of bedrock security people seek when all else seems shaky.

If push comes to shove, the US dollar may not hold up under the pressure of being the world's only safe-haven currency, so gold would in fact appear to be the only serious challenger to the US dollar's dominance of the world's monetary system. One indicator that gold is challenging the US dollar's supremacy would be a major *structural change* in the time-tested relationship between the greenback's exchange rate and the gold price in US dollars. This change could be illustrated in the chart on the left: Going forward, the dots would travel further east or even head in a northeasterly direction. We expect gold to flaunt its safe-haven status for all to see if and when the next crisis comes. And this could very well be a *currency crisis* as central banks around the world continue to pursue ruinous monetary policies.

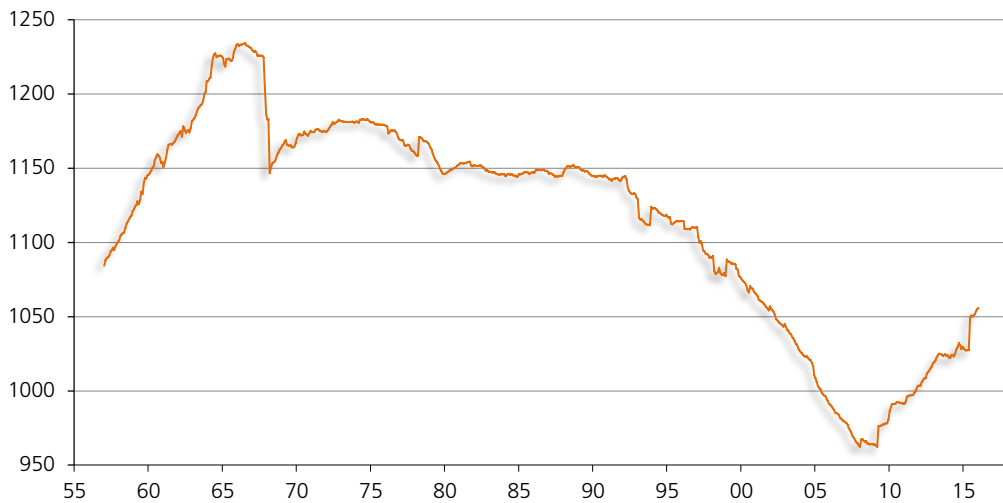
1 Gold price (USD/oz) and US money stock M2, in billion US dollars



► Worldwide monetary expansion (illustrated here by way of US monetary expansion) suggests a higher gold price going forward

Source: Bloomberg. Grey area: Period of central bank net-selling of gold.

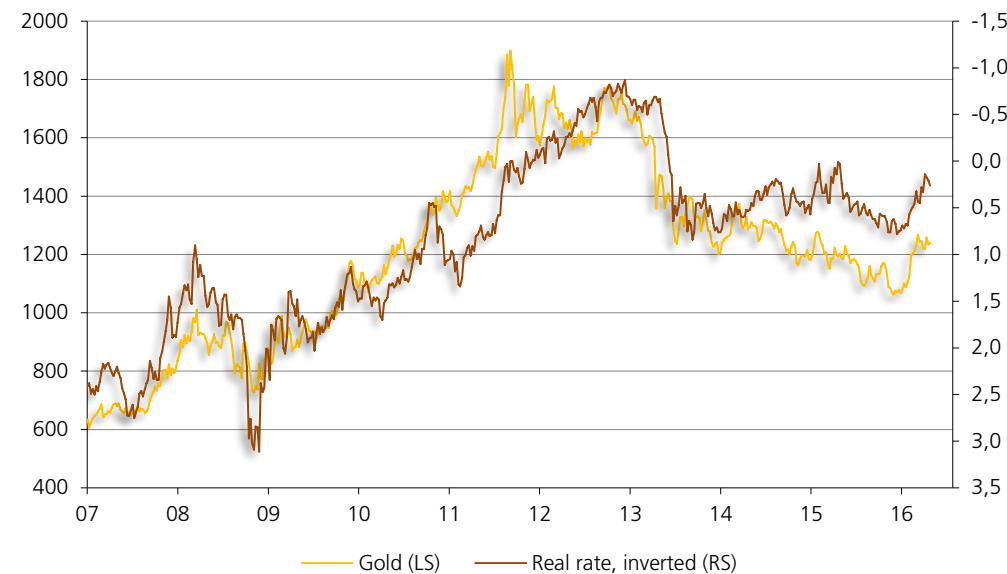
2 Official world gold reserves in million ounces



► Official gold reserves have been rising since late 2008

Source: IMF, Bloomberg.

3 Gold price (USD/oz) and the real interest rate* in percent

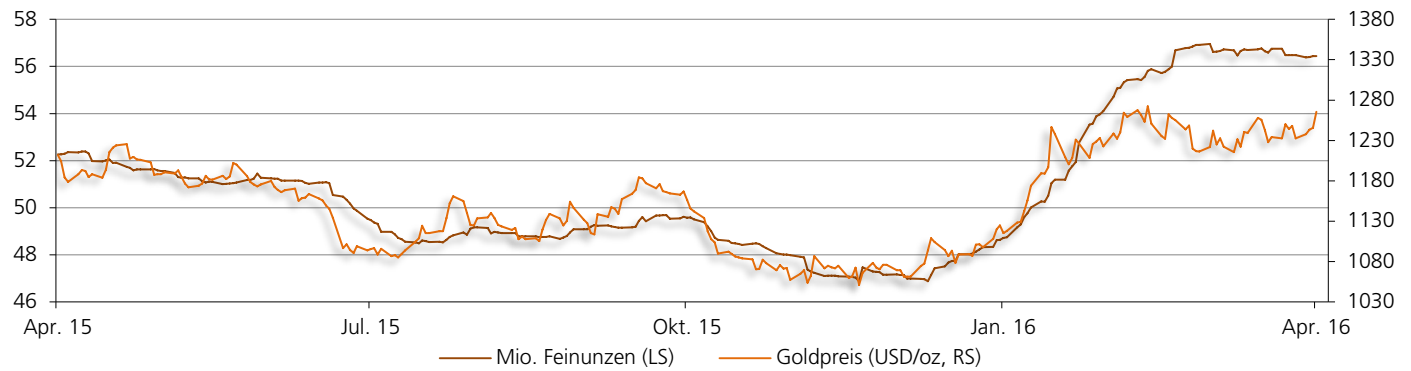


► Fairly low real rates suggest the need for a further upward adjustment of the gold price

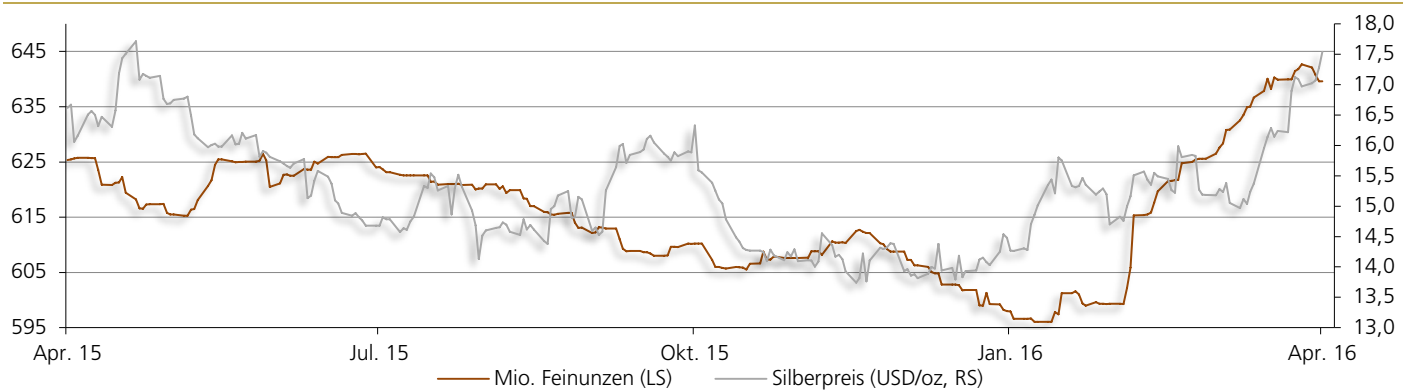
Source: Thomson Financial; own calculations. *Calculated from 10-year inflation indexed US government bonds

Precious metals prices and ETF holdings

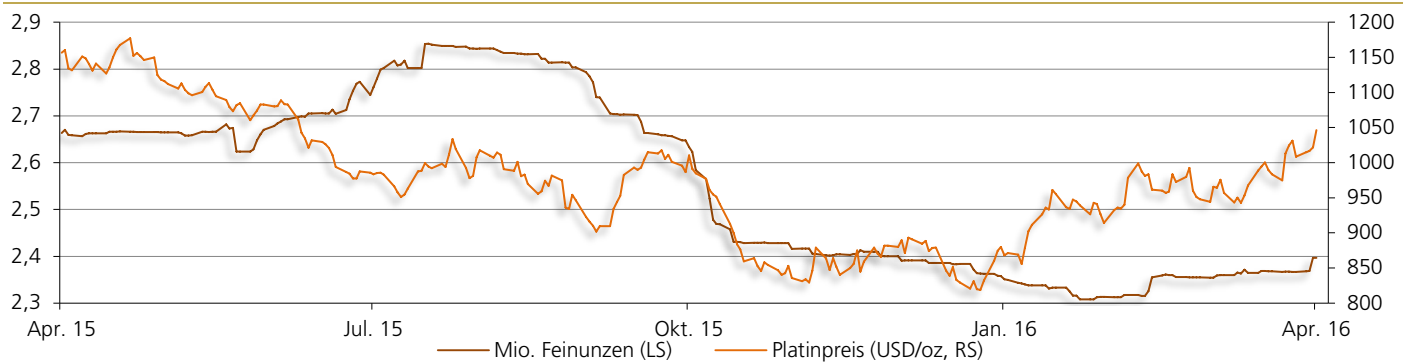
Gold ETFs (million ounces) and gold price (USD/oz)



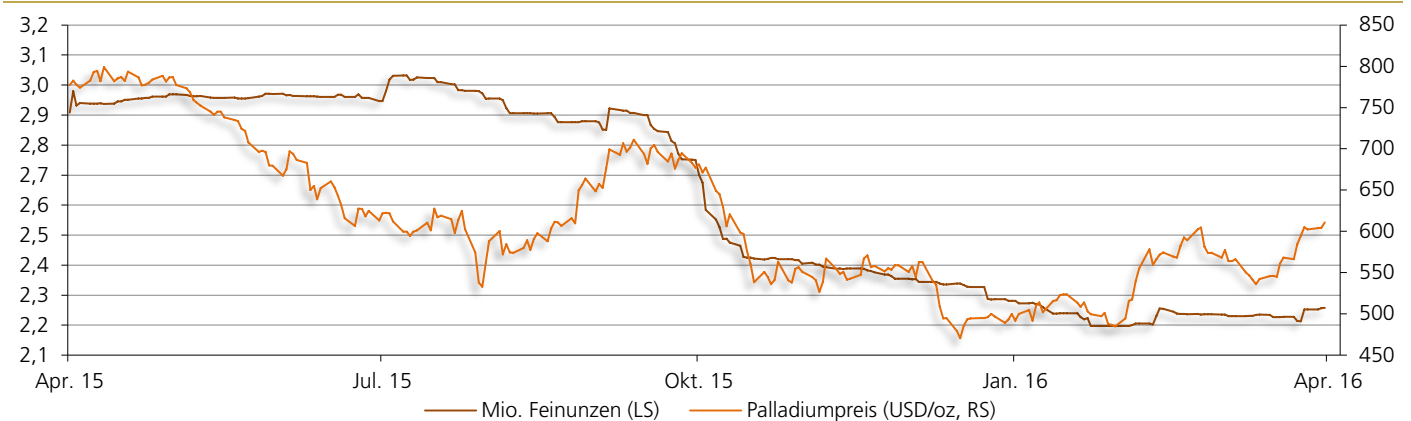
Silver ETFs (million ounces) and silver price (USD/oz)



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



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



Source: Bloomberg.

Precious metals prices, actual and projections (per ounce)

In US-Dollar

	Gold		Silber		Platin		Palladium	
I. Aktuell	1.264,0		17,5		1.048,3		623,9	
II. Gleitende Durchschnitte								
5 Tage	1.244,7		17,2		1.022,8		609,2	
10 Tage	1.243,3		16,9		1.013,3		596,5	
20 Tage	1.239,4		16,2		991,7		573,3	
50 Tage	1.239,7		15,7		971,9		559,0	
100 Tage	1.176,7		15,0		924,8		540,1	
200 Tage	1.146,6		15,0		936,9		576,7	
III. Einschätzungen								
	<i>Bandbreite</i>		<i>Bandbreite</i>		<i>Bandbreite</i>		<i>Bandbreite</i>	
	<i>Unten</i>	<i>Oben</i>	<i>Unten</i>	<i>Oben</i>	<i>Unten</i>	<i>Oben</i>	<i>Unten</i>	<i>Oben</i>
Q2 2016	1.050	1.180	14,1	15,1	680	900	500	540
Q3 2016	1.095	1.230	14,0	15,6	730	970	510	560
Q4 2016	1.196	1.300	13,9	16,3	720	1.050	530	580
Q1 2017	1.260	1.370	14,4	16,9	940	1.100	560	600
IV. Jahresdurchschnitte								
2013	1396		23,4		1473		725	
2014	1252		18,6		1370		805	
2015	1227		16,8		1191		775	
2016 (geschätzt)	1.145		14,6		830,0		520,0	

In Euro

	Gold		Silber		Platin		Palladium	
I. Aktuell	1.114,9		15,5		924,7		550,3	
II. Gleitende Durchschnitte								
5 Tage	1.102,6		15,2		906,0		539,6	
10 Tage	1.099,7		15,0		896,3		527,6	
20 Tage	1.093,2		14,3		874,7		505,7	
50 Tage	1.107,2		14,0		867,9		499,0	
100 Tage	1.061,5		13,6		834,2		487,3	
200 Tage	1.035,6		13,5		846,0		520,8	
III. Einschätzungen								
	<i>Bandbreite</i>		<i>Bandbreite</i>		<i>Bandbreite</i>		<i>Bandbreite</i>	
	<i>Unten</i>	<i>Oben</i>	<i>Unten</i>	<i>Oben</i>	<i>Unten</i>	<i>Oben</i>	<i>Unten</i>	<i>Oben</i>
Q2 2016	981	1.103	13,2	14,2	636	841	467	505
Q3 2016	1.043	1.171	13,4	14,9	695	924	486	533
Q4 2016	1.173	1.275	13,6	16,0	706	1.029	520	569
Q1 2017	1.260	1.370	14,4	16,9	940	1.100	560	600
IV. Jahresdurchschnitte								
2013	1.052		17,6		1.108		545	
2014	949		14,1		1.036		611	
2015	1.045		14,1		945		619	
2016 (geschätzt)	1.071		13,7		777		487	

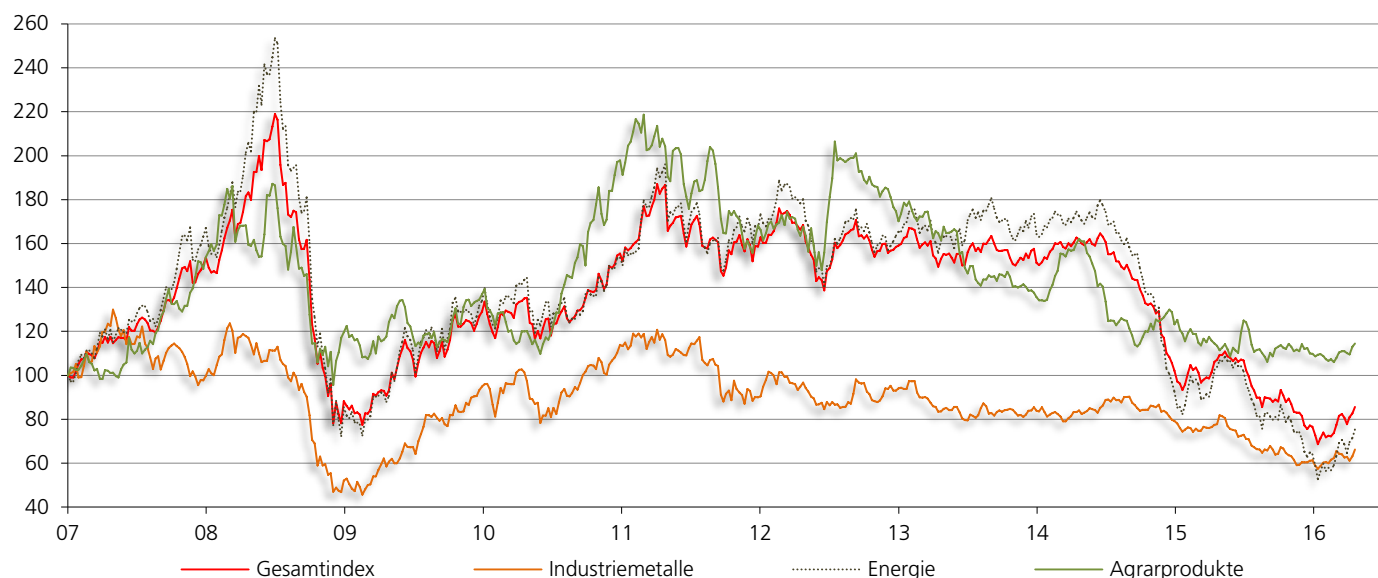
Quelle: Bloomberg, eigene Berechnungen. Prognosen der Degussa Goldhandel GmbH (jeweils für das Quartalsende). Schätzungen 'gerundet'.

Commodity prices

	Aktueller Preis in USD	Veränderungen gegenüber (in Prozent):					Volatilität (in Prozent):	
		1 Woche	1 Monat	3 Monate	6 Monate	12 Monate	30 Tage	90 Tage
I. Energie								
NYMEX WTI Rohöl	46,03	10,4	21,1	13,1	-8,6	-20,2	43,0	51,9
ICE Brent Rohöl	48,09	11,6	27,7	19,4	-10,8	-24,5	41,6	55,1
NYMEX Benzin	159,72	9,3	16,9	4,9	-3,0	-11,2	34,0	42,3
NYMEX Heizöl	140,56	14,1	26,3	18,1	-11,2	-23,9	46,8	51,3
ICE Gasoil	420,25	14,1	26,7	15,7	-14,0	...	45,1	47,2
NYMEX Erdgas	2,08	4,1	-13,6	-15,8	-17,7	-31,5	46,0	38,2
II. Agrarprodukte								
Mais	391,25	2,4	2,6	5,6	-2,6	-7,3	26,5	18,1
Weizen	485,50	3,9	-1,0	0,5	-8,4	-12,8	31,6	23,2
Soja	1027,50	6,6	15,4	17,2	14,1	6,0	19,4	14,6
Kaffee	120,95	-3,1	0,6	-7,5	-5,7	-19,2	27,9	26,7
Zucker	15,71	3,4	20,4	7,3	12,8	12,6	33,6	29,9
Baumwolle	63,69	6,1	2,8	-1,7	-0,4	-1,4	18,3	15,6
III. Industriemetalle								
Aluminium, Future (3M)	1642,00	5,6	8,1	9,0	11,1	-8,0	15,5	17,3
Kupfer (Future, 3M)	4903,00	2,0	7,5	4,2	-4,1	-18,8	19,6	21,2
Zink	1886,00	0,7	16,2	17,2	10,3	-9,4	30,2	30,0
Blei	1734,00	1,2	0,9	-3,3	2,3	-4,7	22,8	25,8
Eisenerz	65,70	0,2	58,7	51,4	29,8	19,9
IV. Edelmetalle								
Gold	1266,74	2,7	13,3	19,3	10,9	7,0	15,1	17,3
Silber	17,58	8,3	23,3	26,7	13,1	6,1	23,5	24,9
Platin	1051,20	6,8	20,6	17,6	6,7	-7,8	24,5	24,9
Palladium	623,83	9,7	24,9	11,1	-7,8	-15,2	25,9	31,8
V. Edelmetalle, rel. Preise								
Gold-Silber	72,03	-4,8	-7,9	-5,9	-1,7	0,9	15,2	15,7
Gold-Platin	1,20	-3,6	-5,7	1,3	4,2	16,0	15,1	20,2
Gold-Palladium	2,03	-6,7	-9,5	7,3	20,3	26,1	25,5	34,5
Palladium-Platin	0,59	3,2	4,2	-5,6	-13,4	-8,0	22,8	27,9

Quelle: Bloomberg, eigene Berechnungen.

S&P commodity prices (in US dollar terms)



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

Bitcoin, performance of various asset classes

Bitcoin per US dollar

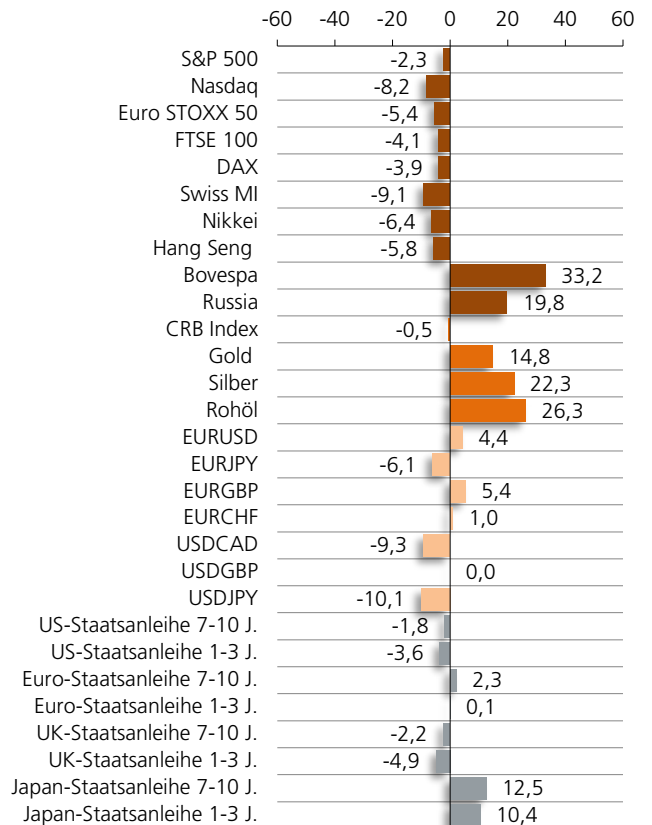
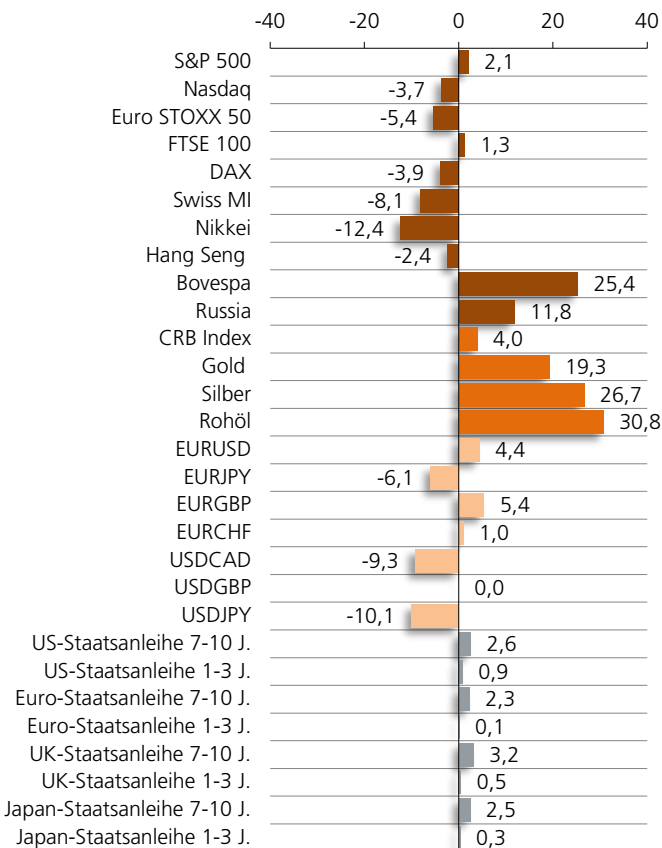


Source: Bloomberg

Performance of various asset classes since the start of the year in percent

(a) In national currencies

(b) In euros



Source: Bloomberg, own calculations

Articles in earlier issues of the *Degussa Marktreport*

Issue	Content
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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www.degussa-goldhandel.de/de/marktreport.aspx

All previous Degussa Marktreport issues may also be downloaded there.

