

## 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
<b>I. In US-dollar</b>				
Gold	1.287.5	-4.4	3.7	-2.1
Silver	16.9	-5.8	1.9	-11.8
Platinum	924.0	-8.0	0.3	-9.7
Palladium	930.8	-0.4	10.6	29.4
<b>II. In euro</b>				
Gold	1.091.7	-2.4	0.5	-6.7
Silver	14.3	-3.9	-1.5	-15.9
Platinum	783.4	-6.1	-2.9	-14.2
Palladium	789.0	1.7	7.3	23.3
<b>III. Gold price in other currencies</b>				
JPY	144.717.0	-0.3	3.8	8.5
CNY	8.573.7	-1.7	1.9	-2.3
GBP	957.3	-6.1	0.5	-5.6
INR	84.287.5	1.9	5.1	-3.7
RUB	74.581.5	-3.4	2.0	-9.8

Source: Thomson Financial; own calculations.

## OUR TOP ISSUES

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

## The German Election Outcome Might Turn Up The Heat On The Euro

The results of the German general election on 24 September 2017 are likely to have far-reaching consequences – for Germany, Europe, and the euro project in particular.

Chancellor Angela Merkel's conservative party merely got 32.9% of the votes, an 8.6 percentage point decline compared to the 2013 election outcome. The Social Democratic Party, Mrs Merkel's coalition partner, announced to go into parliamentary opposition after securing no more than 20.5% of the votes (a 5.2 percentage point loss compared to the last election).

Mrs Merkel is thus left with two options. She could enter into a "Jamaica-coalition", consisting of the conservative party (CDU-CSU), the Green party (8.9% of the votes) and the Liberal Party (FDP, 10.7% of the votes). Or Mrs Merkel could opt for a minority coalition, either with the Green party or the FDP. However, in both cases, the newly formed coalition government will face resistance.

As voters were dissatisfied with Mrs Merkel's policies – in particular with mass migration into Germany –, the national-conservative "Alternative für Deutschland" (AfD) was voted into the Lower House of Parliament, garnering 12.6% of the votes. The AfD can be expected to forcefully call for a policy much more oriented towards German national interest than favoured by the political mainstream.

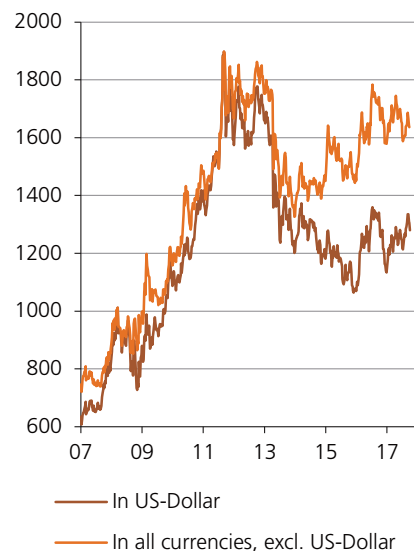
That said, it will become harder for the emerging government coalition to uphold the "Europe first" policy pursued by the former grand coalition government. This, in turn, could unnerve investors, as any expected decline in – let alone withdrawal of – German economic and financial support to safeguarding the euro project would most certainly bring forth considerable trouble.

It is fair to say that the euro project more or less rests on Germany's willingness and ability to shoulder the costs of bailing out overstretched governments and financial institutions in various euro area countries by, for instance, accepting a policy of ultra-low interest rates and the so-called "banking union", essentially providing a safety net for ailing banks in the form of a deposit insurance.

If financial markets were to start questioning the stability of the euro area again, it is most likely that the European Central Bank (ECB) would step in, providing additional credit and money at most favourable rates to fend off the potential re-emergence of a crisis. In other words: The consequence of increased political

### Gold price per ounce in US dollars and all world currencies (excl. the US dollar)\*

January 2007 to September 2017

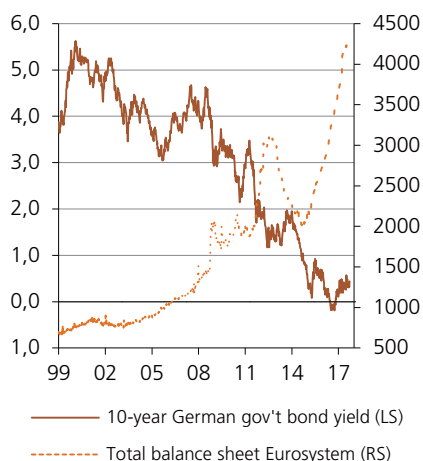


Source: Bloomberg; own calculations.

\*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.

### The ECB's bond purchases push down capital market yields

10-year Bund yield in percent and Eurosystem balance sheet in € bn<sup>(1)</sup>



Source: Thomson Financial. <sup>(1)</sup> ECB plus national central banks.

uncertainty in Germany and Europe would most likely be an even more expansionary monetary policy.

In truth, the euro project is being held together by the ECB's policy of keeping interest rates at zero (and even negative at the short-term end of the market), suppressing long-term yields by bond purchases and ramping up the quantity of base money. The latest political changes in Germany might, therefore, make it more difficult for the ECB to seek a policy exit.

### Gold as portfolio insurance

An increased probability of an extremely expansionary monetary policy on the part of the ECB for a longer period of time does not bode well for the purchasing power of the euro, domestically as well as internationally. As the euro is likely to remain the perhaps most vulnerable currency among its peers, investors in the euro area have good reason to seek diversification as far as their currency risks are concerned.

Gold comes to mind as a potential "natural candidate" for at least two reasons. First, gold is a sound currency in the sense that it cannot be debased by monetary policies. Second, the yellow metal can be considered an insurance against the vicissitudes of the international fiat currency regime that inevitably keep the economies and financial markets in a boom and bust cycle.

Of course, the price action in the gold market is an interplay of many international, actually global factors, and the ongoing events in Europe make up only a few of these factors. However, we should bear in mind that the euro area harbours the world's largest banking industry with a total balance sheet of a staggering 31 trillion euro or 300 times the euro area's GDP. If something goes wrong with euro banks, it will most likely have a world-wide ripple effect.

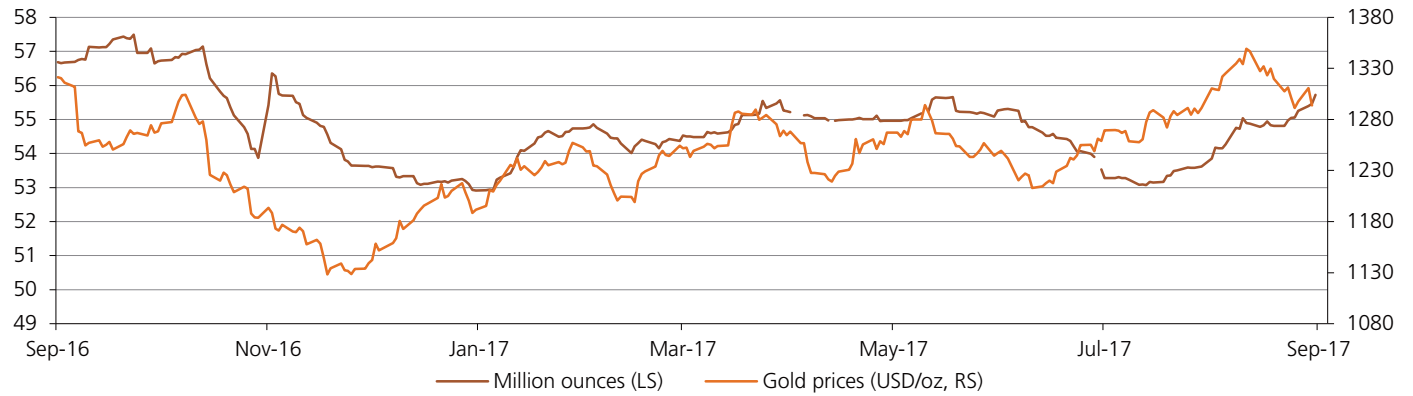
Given euro banks' poor performance and, in particular, the bad loans problem a number of them are grappling with, the ECB can be expected to continue to cater its monetary policies to the financial needs of the euro area's banking industry in the years to come, suggesting a rather loose monetary policy for the foreseeable future.

Specifically given zero or even negative real interest rates, gold is an attractive alternative to euro-denominated bank deposits: Long-term oriented investors have good reason to assume that gold, held as a part of their liquid assets, will retain its purchasing power (and even increase it over time), while the purchasing power of the euro will in all probability go down.

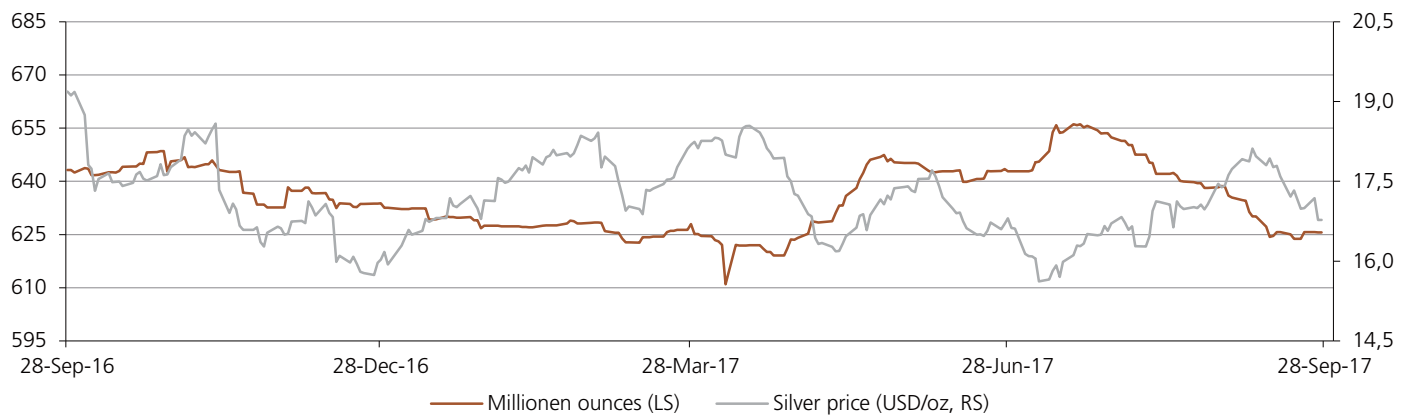
Finally, we want to reiterate our view that gold, at current prices, does not seem to be expensive (in this context see our **Degussa Market Report, On the Intrinsic Value of Gold, 1 September 2017**). While it is impossible (at least for us) to make a reliable prediction of the price of gold for the coming months, we would argue that for the long-term oriented investor, gold is a currently low-priced effective portfolio insurance.

## Precious metals prices and ETF holdings

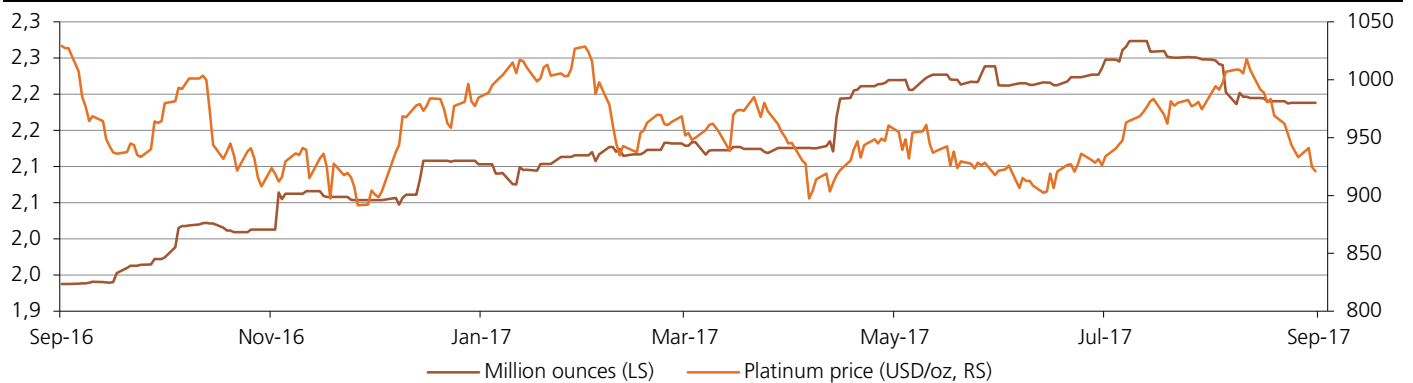
### Gold ETFs (million ounces) und gold price (USD/oz)



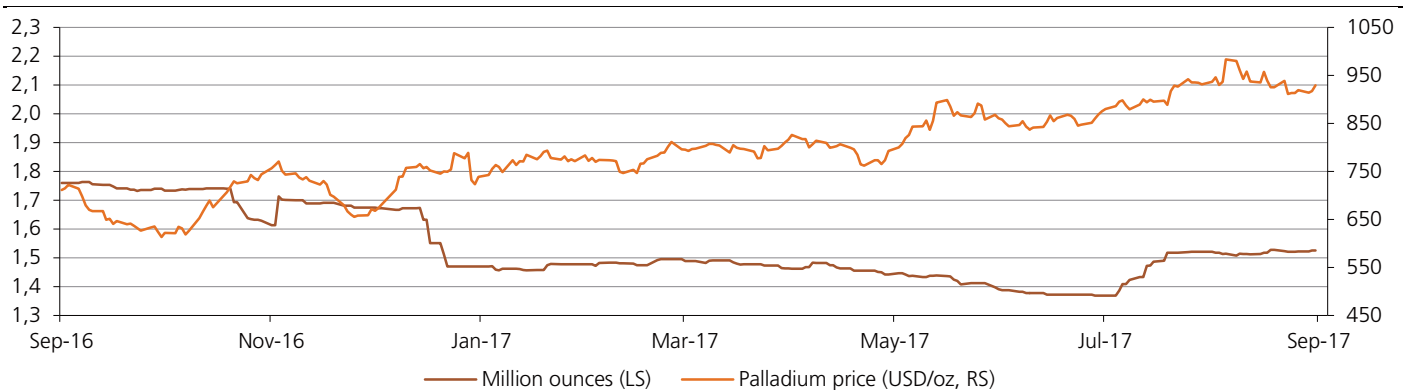
### Silver ETFs (million ounces) and silver price (USD/oz)



### 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	1287.8	16.9	920.7	930.8
II. Gliding averages				
5 days	1296.4	16.9	927.8	916.2
10 days	1306.0	17.2	945.0	919.1
20 days	1319.4	17.5	971.9	935.3
50 days	1293.1	17.1	965.0	913.7
100 days	1271.0	16.9	947.0	875.5
200 days	1248.1	17.1	955.7	822.1
III. Projections for 2017	Low   High 1148.0   1390.0	Low   High 15.9   23.0	Low   High 906.0   1100.0	Low   High 700.0   900.0
IV. Annual averages				
2013	1429	24	1487	724
2014	1260	19	1382	800
2015	1163	16	1065	706
2016	1242	17	985	617

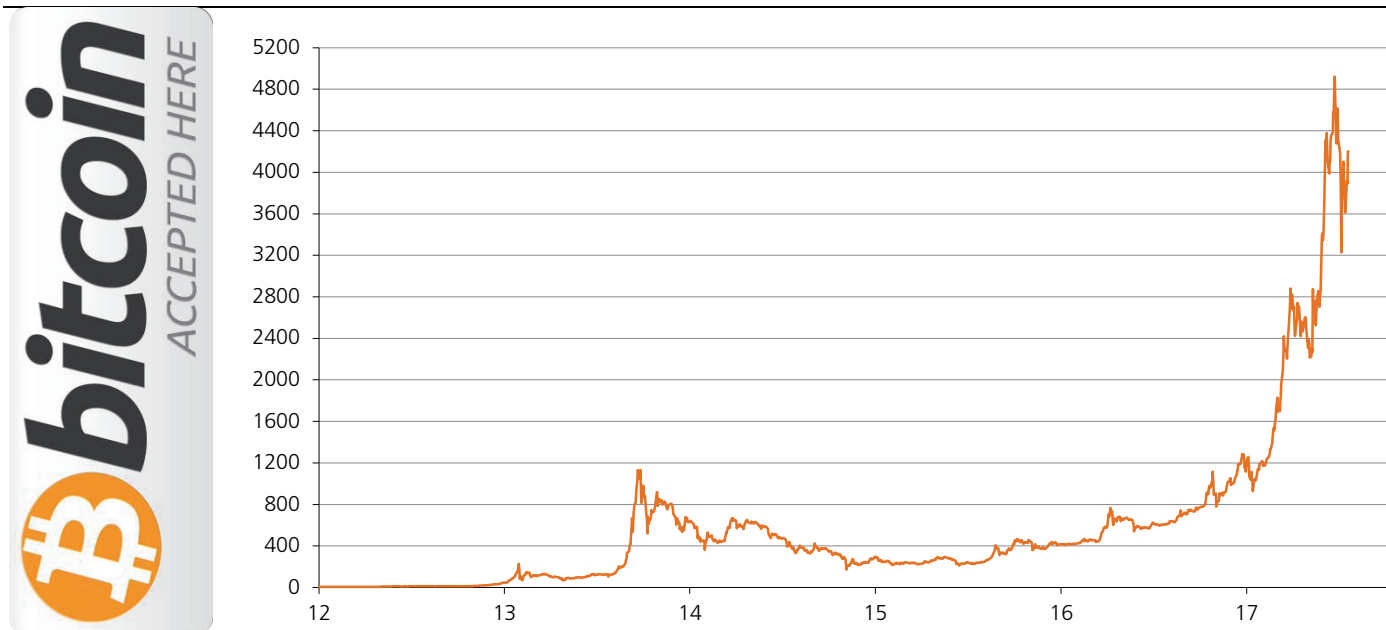
### In euro

	Gold	Silver	Platinum	Palladium
I. Actual	1092.3	14.3	780.9	789.4
II. Gliding averages				
5 days	1093.9	14.3	782.9	773.1
10 days	1097.3	14.4	793.9	772.2
20 days	1106.7	14.7	815.1	784.5
50 days	1092.7	14.4	815.5	772.0
100 days	1101.4	14.6	820.6	758.0
200 days	1124.5	15.5	862.0	738.9
III. Projections for 2017	Low   High 1000.4   1211.3	Low   High 13.8   20.0	Low   High 789.5   958.6	Low   High 610.0   784.3
IV. Annual averages				
2013	1079	18	1123	547
2014	945	14	1035	601
2015	1044	14	955	633
2016	1120	15	888	557

Source: Thomson Financial; own calculations and estimates.

# Bitcoin, performance of various asset classes

## Bitcoin in US dollars

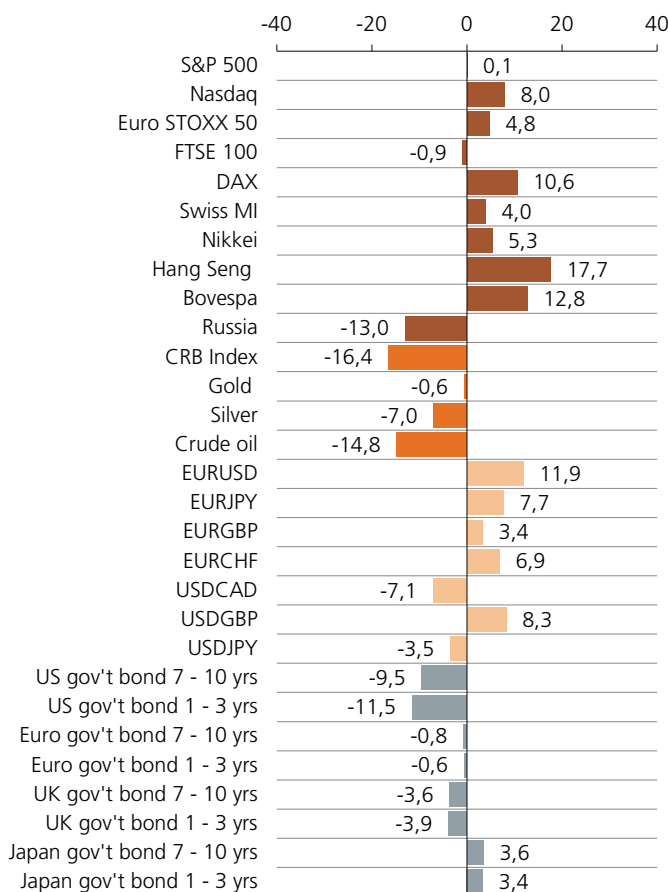
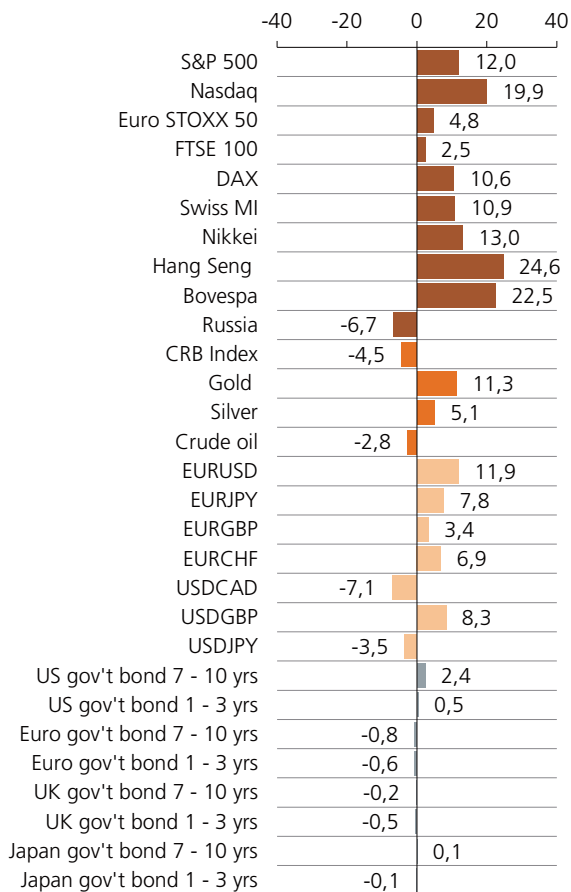


Source: Thomson Financial.

## Performance of stocks, commodities, FX and bonds

(a) In national currencies

(b) In euro



Source: Thomson Financial; own calculations

### Articles in earlier issues of the *Degussa Market Report*

Issue	Content
29 September 2017	The German Election Outcome Might Turn Up The Heat On The Euro
15 September 2017	A Case for Gold in the Investment Portfolio
1 September 2017	On the Intrinsic Price of Gold
18 August 2017	Gold in Times of Boom and Bust
4 August 2017	The Underpriced Risk
21 July 2017	The Fed Remains on Course – to Trouble
7 July 2017	Gold And The Blockchain
23 June 2017	The Super-Bubble in Danger
9 June 2017	Trapped in Boom-and-Bust
26 May 2017	The Make-Believe World of Fiat Money
12 May 2017	The Fed Will Likely Chicken Out on Planned Rate Hikes
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
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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
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20 December 2016	Gold Rather Than Euro
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11 November 2016	Trump Election Puts Euro Under Pressure
28. October 2016	US Presidential Elections and the Price of Gold
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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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E-Mail: [info@degussa-goldhandel.de](mailto:info@degussa-goldhandel.de), Internet: [www.degussa-goldhandel.de](http://www.degussa-goldhandel.de)

**Editor in chief:** Dr. Thorsten Polleit

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### Frankfurt Headquarters

Kettenhofweg 29 · 60325 Frankfurt  
Phone: 069-860 068 – 0 · [info@degussa-goldhandel.de](mailto:info@degussa-goldhandel.de)

### Retail buying and selling outlets in Germany:

**Augsburg** (shop & showroom): Maximiliansstraße 53 · 86150 Augsburg  
Phone: 0821-508667 – 0 · [augsburg@degussa-goldhandel.de](mailto:augsburg@degussa-goldhandel.de)

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