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	1.204.9	2.7	-3.8	-5.5
Silver	14.7	0.4	-8.8	-11.5
Platinum	793.8	2.1	-6.3	-13.0
Palladium	980.8	10.3	3.0	6.4
II. In euro				
Gold	1.030.7	-0.1	-3.8	-4.9
Silver	12.5	-2.2	-8.8	-11.0
Platinum	679.0	-0.8	-6.6	-12.4
Palladium	839.0	8.1	2.7	6.6
III. Gold price in other currencies				
JPY	134.244.0	3.2	-3.1	-6.6
CNY	8.229.4	1.9	-0.7	-2.9
GBP	925.2	0.3	-2.4	-3.8
INR	85.231.1	3.6	-0.6	2.9
RUB	81.746.1	4.2	4.0	11.2

Source: Thomson Reuters; own calculations.

OUR TOP ISSUE

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

Central Banks Enrich a Select Few at the Expense of Many

The message unanimously churned out by politicians, central bankers, and 'mainstream' economists is that central banks are there for the 'greater good'. They provide the economy with sufficient money and credit, and they fight inflation, thereby supporting output and employment growth. What is more, central banks, are supposedly in a position to effectively fend off or at least mitigate financial and economic crises. However, unfortunately, nothing could be further from the truth.

Throughout history, central banks have been created, first and foremost, to fill governments' coffers. To increase the king's or elected government's financial means through an inflationary scheme – usually too elaborate and too treacherous for most people to see through. Central banks are instrumental for putting the ruler — or the ruling class — into a position where they can plunder the people on a grand scale and, by way of redistributing the loot, making a growing number of people financially and socially dependent on it.

To that end, central banks have been assigned the monopoly of money production. This has made it possible to replace commodities, or "natural money" with unbacked paper or fiat money. Central banks provide commercial banks with fiat central bank money, and commercial banks are free to pyramid a multiple of fiat commercial bank money on top of it. This is what monetary experts typically call a "fractional reserve banking system," which is a genuinely inflationary scheme.

Murray N. Rothbard even speaks of a cartel between the central bank and commercial banks. In practice, the central bank acts as a cartelizing agent: "to cartelize the private commercial banks, and to help them inflate money and credit together, pumping in reserves to the banks, and bailing them out if they get into trouble."[1] The fiat money cartel, formed between the central bank and commercial banks, has far-reaching economic and social-political consequences.

For instance, fiat money is inflationary in the sense that it loses its purchasing power over time; it cannot, and does not, serve as a much-needed store of value for savers. Also, the issue of fiat money sets into motion an artificial upswing (boom), which, however, must sooner or later flip to a downswing (bust). What is more, fiat money makes consumers, firms, and governments run into ever higher amounts of debt, pushing them towards a situation of over-indebtedness.

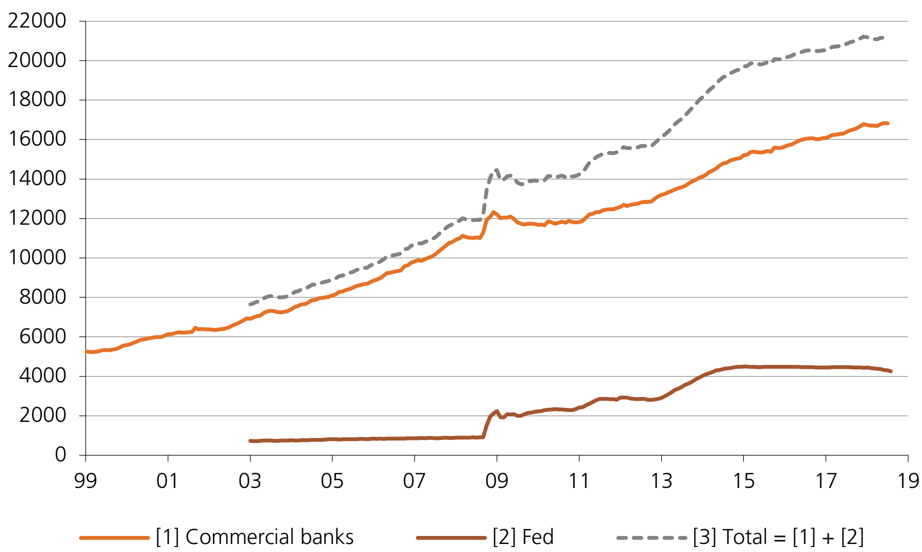
There is an additional severe problem with central banks' fiat money: It affects income and wealth distribution, and it does so in a non-merit-based, anti-free market way. To understand this, we have to consider that if and when the quantity of money increases in an economy, the prices of different goods will be affected at different points in time and to a different degree.[2] In other words: A rise in the quantity of money changes - and necessarily so - peoples' relative income and wealth position.

The early receivers of the new money will be the beneficiaries, for they can purchase goods at still unchanged prices with their fresh money. As the new money is passed from hand to hand, prices are rising. The late receivers are put at a disadvantage: They can purchase only goods at elevated prices with their new money. In other words: The early receivers of the new money get rich(er), the late receivers get poor(er). Needless to say, those who do not receive any of the new money will be worst off.

In the crisis 2008/2009, for instance, it was the banking and finance industry (“Wall Street”) that was bailed out in the first place. Central banks printed up new money balances, injected them into banks’ balance sheets and offered them generously with extremely low refinancing costs. In the US, for instance, the balance sheet of the banking cartel is now way bigger than it was before the outbreak of the crisis. The banking cartel has weathered the crisis pretty well it has helped to bring about by issuing fiat money in the first place.

The US banking cartel keeps growing

US Fed and US commercial banks’ balance sheet, US$ bn

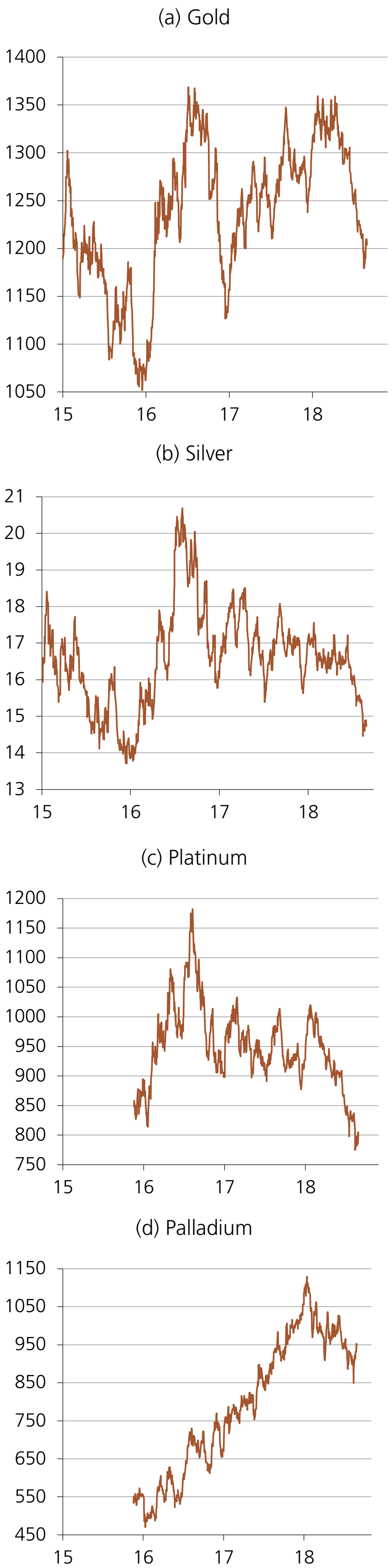


Quelle: Thomson Financial; own calculations.

It is misleading to think a rise in the quantity of money would be “neutral” in the sense that it would leave peoples’ income and wealth position unchanged. In today’s fiat money regime, the relentless increase in the fiat money supply provided by the banking cartel does not only drive up consumer goods prices. It also pushes up asset prices such as stock, real estate, and housing prices. The holders of assets whose value goes up due to inflation benefit, those holding money balances lose out: The latter’s purchasing power is diminished.

It is difficult to pin down exactly who is a net-winner, and who is a net-loser of the banking cartel's inflationary scheme. As a rule, however, fiat money holders bear the brunt – especially if central banks push interest rates to negative levels in inflation-adjusted terms; the income of wage earners falls behind the income of those owning assets whose prices inflate. Those getting bank credit are among the first receivers of the newly created money and thus benefit while those who don't get bank credit are on the losing end.

Precious metal prices (USD/oz)



Source: Thomson Financial.

Those taking side with the "deep state", which is financed by vast amounts of credit provided by the banking cartel on favorable terms, enjoy secure employment and comfortable pension packages. Firms get profitable business from government orders. In particular, the commercial and investment banking industry, with its privileged access to central bank credit pockets enormous profits and pays downright obscene staff compensations.

It would be a mistake to argue that the banking cartel's fiat money scheme works for the greater good. It benefits some — typically the few — at the expense of others — typically the many. So it does not come as a surprise that a growing number of people have raised the question: Does the banking cartel make inequality worse? Of course, inequality of income and wealth has many reasons, and as long as people are unequal in terms of inventiveness, industriousness, talent, and perseverance, income and wealth will be unequally distributed.

However, sound economic reasoning reveals that the banking cartel contributes to income and wealth inequality, even to a growing gap between the net-winners and net-losers of the fiat money scheme. This kind of inequality cannot be convincingly justified by economic or ethical considerations — for it is the direct outcome of the state monopolizing the production of money, and special interest groups taking advantage of the state's money production monopoly to serve their purpose(s).

Public resistance against the wheelings and dealings of the banking cartel has been held in check so far, presumably because people have been enjoying a rise in real incomes over the past decades. What they do not see is the counterfactual: The banking cartel has kept most peoples' income and wealth below potential; they could be better off, but the banking cartel has been preventing it. This statement opens the door for a counter-argument: Without the banking cartel and its fiat money scheme, there would have been no economic growth at all.

This, however, represents one of the perhaps most noteworthy errors in 'mainstream' monetary theory. To explain, money — the ultimate means of payment — is useful only for its exchange value. A rise in its quantity does not confer any social benefit; the economy is not better off if the quantity of money increases. As pointed out earlier, an increase of the money supply only benefits some at the expense of others. It is a means to slyly strip the uninformed of their resources, shovelling them into the coffers of the informed.

One question remains: Does a rise in the quantity of money not induce additional economic activity? This question implies a proposition that has no basis in sound economic theory. It is a seductive promise at best. For it can be logically argued that there is, and can be, no constant relation between external factors (such as a change in the quantity of money) and human action (such as, for instance, inventing, investing, or producing); the hypothesis "increasing the quantity of money induces growth" is thus logically unsustainable. [3]

So, unfortunately, this article ends with a bitter insight: Sound economic reasoning will come to the conclusion that the fiat money scheme – represented and upheld by the banking cartel – contributes, and necessarily so, to income and wealth inequality within society.[4] It is one source of widening the gap between the rich and the poor. By all standards, fiat money must be considered socially unjust. The same applies to the collusion between central banks and private banks.

So what is to be done? The solution is straightforward: Establish a free market in money, shut down central banks, dismantle the banking cartel. As Murray Rothbard says: "[A]bolish the Federal Reserve System, and return to the gold standard, to a monetary system where a market-produced metal, such as gold, serves as the standard money, and not paper tickets printed by the Federal Reserve."[5] Perhaps the debate about growing inequality helps to rehabilitate our money system — something economic insights have failed to achieve so far.

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1. Rothbard, M. N. (1994), The Case Against The Fed, p. 145.

2. For a detailed explanation see Mises, L. v. (1981), Theory of Money and Credit, esp. p. 160 – 168.

3. In this context see Mises, L. v. (1957), Theory and History, pp. 3 – 4, pp. 9 – 12.

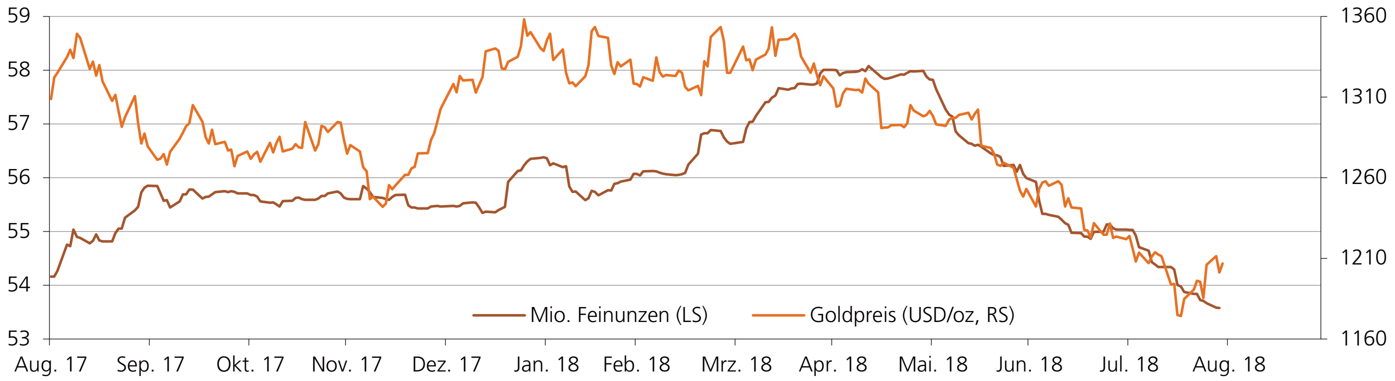
4. It should be noted that even in a commodity money regime (in which, for example, gold and silver serve as money) a rise in the quantity of money has distributive consequences. However, as the quantity of commodity money cannot be increased at political expedience and is subject to market-based production costs, the distributive consequences in a commodity money regime can be expected to be far less significant than those in a fiat money regime.

5. Rothbard (1994), The Case Against The Fed, p. 146.

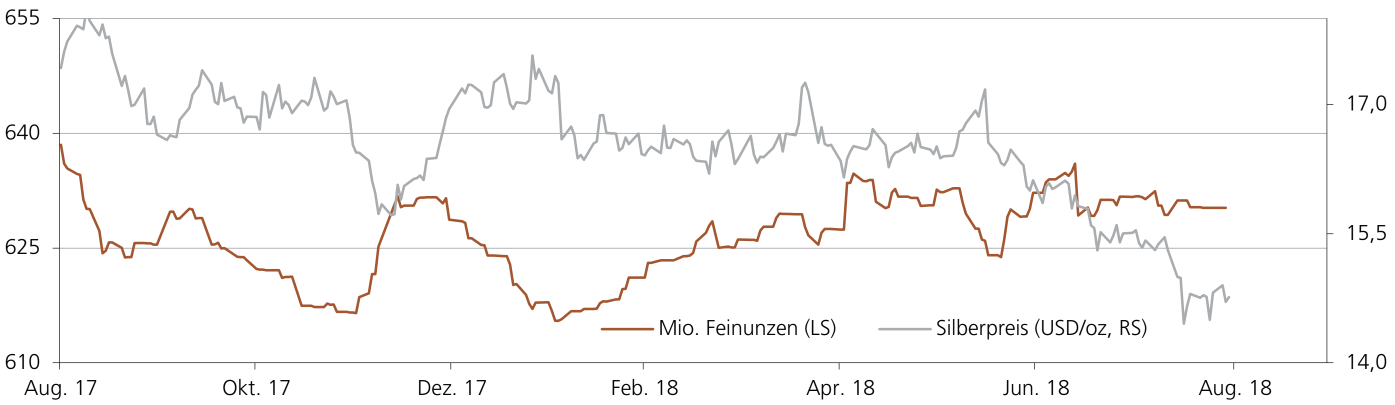
This article was published on 30 August 2018 by the Ludwig von Mises institute, Auburn, US Alabama.

Precious metals prices and ETF holdings

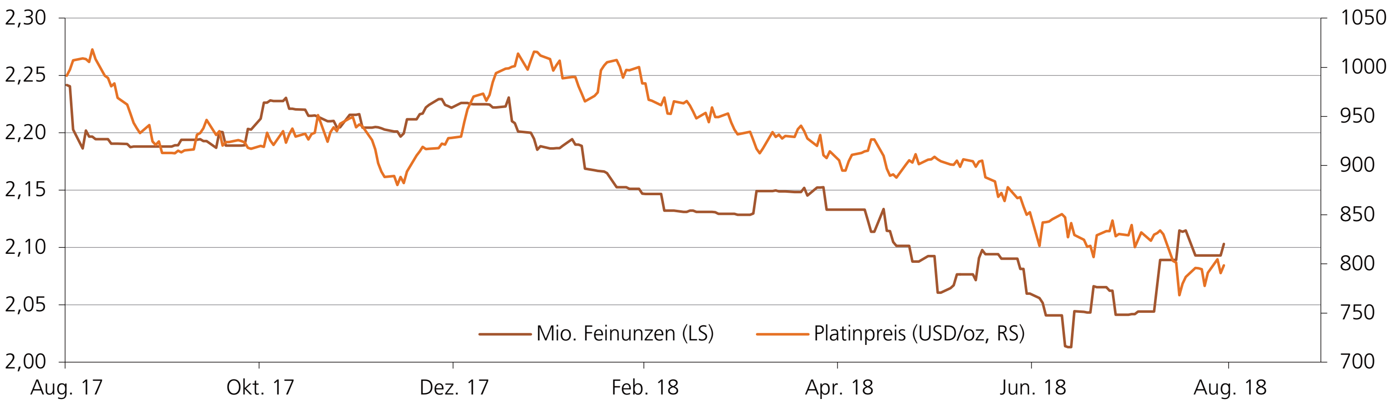
Gold ETFs (million ounces) und gold price (USD/oz)



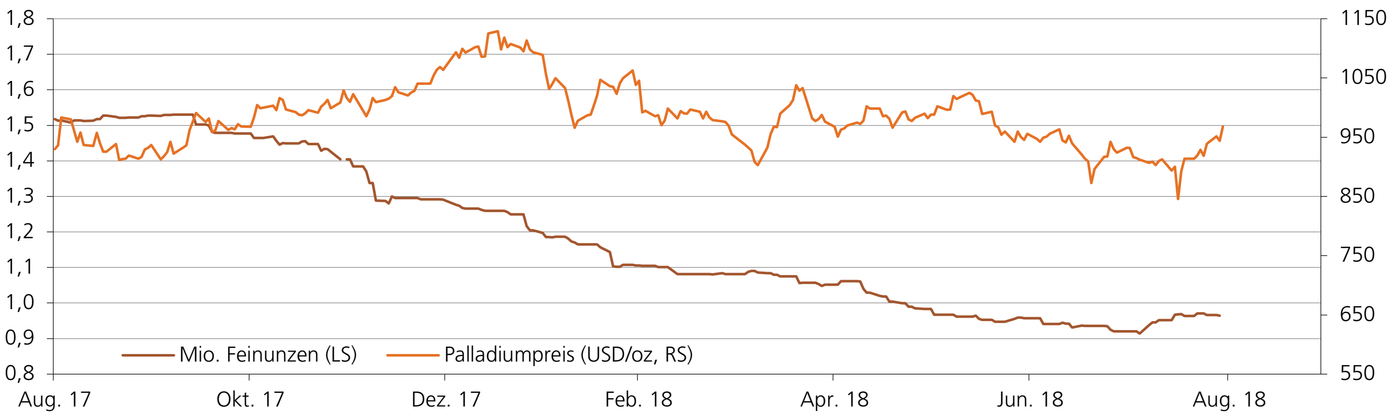
Silver ETFs (million ounces) and silver price (USD/oz)



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	1204.8		14.7		790.5		980.7	
II. Gliding averages								
5 days	1204.0		14.8		790.5		936.4	
10 days	1195.0		14.8		789.8		921.9	
20 days	1201.0		15.0		804.8		912.1	
50 days	1226.0		15.5		825.1		926.1	
100 days	1267.2		16.1		866.3		957.4	
200 days	1290.7		16.3		910.9		990.2	
III. Bandwidths for 2018	*Low*	*High*	*Low*	*High*	*Low*	*High*	*Low*	*High*
	1248	1472	16.0	21.0	936	1048	1033	1261
(1)	*4*	*22*	*9*	*43*	*18*	*33*	*5*	*29*
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

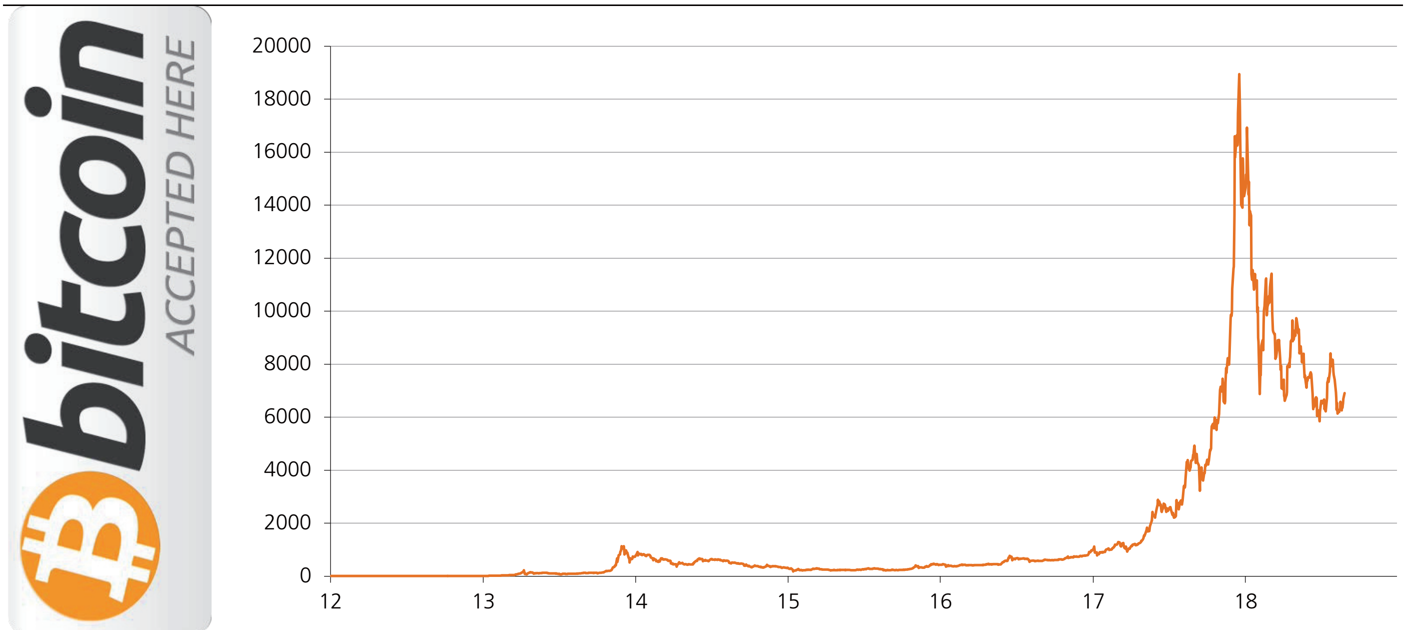
	Gold		Silver		Platinum		Palladium	
I. Actual	1030.6		12.5		676.1		838.8	
II. Gliding averages								
5 days	1033.0		12.7		678.2		803.3	
10 days	1033.5		12.8		683.0		797.2	
20 days	1041.2		13.0		697.8		790.7	
50 days	1055.2		13.3		710.2		797.1	
100 days	1077.8		13.7		736.7		814.4	
200 days	1078.9		13.7		760.9		827.7	
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)	*5*	*24*	*10*	*45*	*20*	*34*	*7*	*30*
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

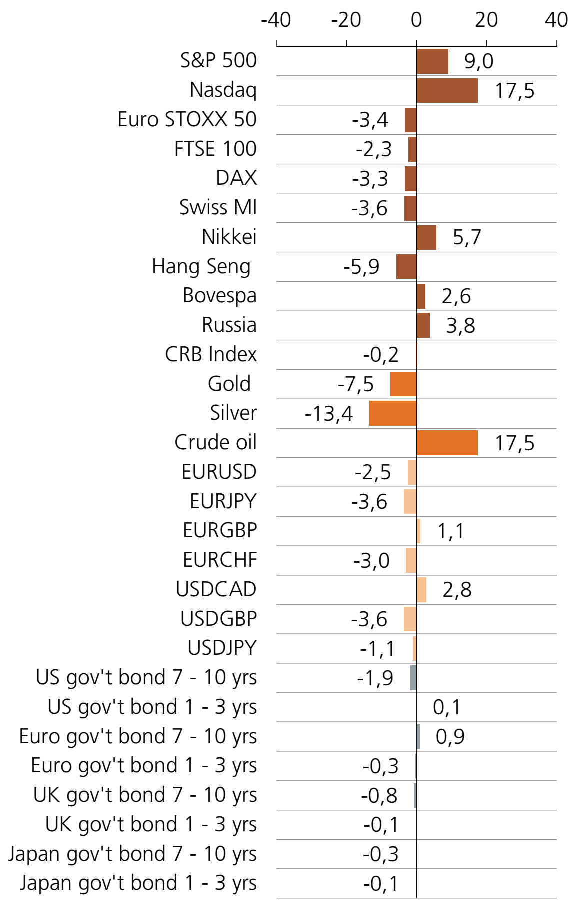
Bitcoin in US dollars



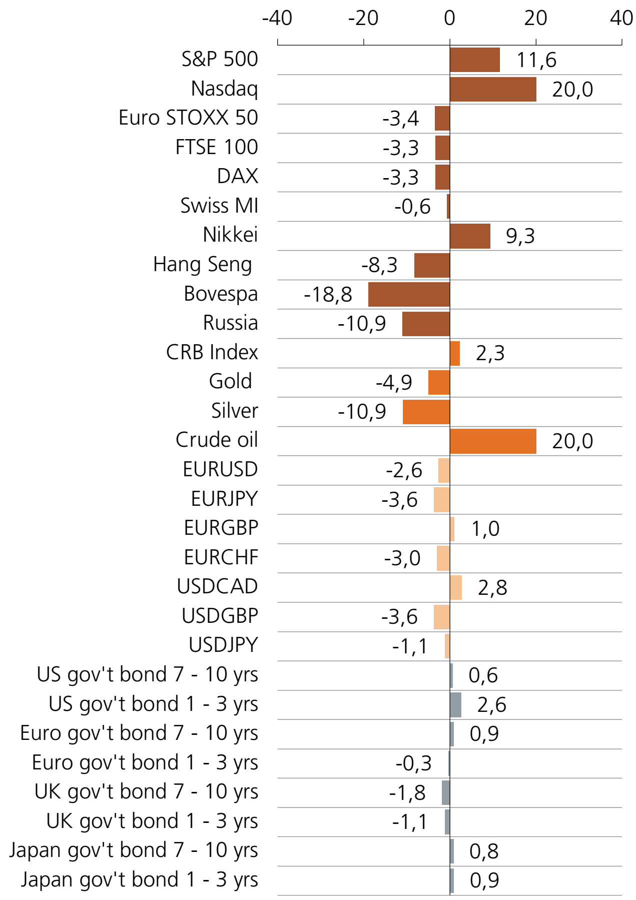
Source: Thomson Financial.

Performance of stocks, commodities, FX and bonds

(a) In national currencies



(b) In euro



Source: Thomson Financial; own calculations

Articles in earlier issues of the *Degussa Market Report*

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20 July 2018	Not All Is Well In Financial Markets
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8 June 2018	Demand for Gold ETFs up Despite Higher Interest Rates
25 May 2018	Mind The Interest Rate
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27 April 2018	Moving Towards Higher Gold Prices
13 April 2018	The Risk of a Currency Crisis
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2 February 2018	Central Banks Put a Safety Net Under Financial Markets
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8 December 2017	It Is Just Another Inflationary Boom
24 November 2017	There Is, And Will Be More, Inflation
10 November 2017	Calm Markets: The Great Mystery
27 October 2017	The Interest Rate Becomes A "Crash Factor"
13 October 2017	The Great Complacency
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7 July 2017	Gold And The Blockchain
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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
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

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

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