Degussa Market Report

31 January 2019 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	1.314.1	2.1	10.6	-2.3
Silver	15.9	2.2	10.2	-7.9
Platinum	812.0	0.2	-1.2	-18.8
Palladium	1.342.3	1.8	27.1	30.6
II. In euro				
Gold	1.149.1	2.4	12.0	6.2
Silver	13.9	2.5	11.6	0.1
Platinum	710.0	0.5	0.3	-11.8
Palladium	1.174.0	2.2	28.7	41.8
III. Gold price in other currencies				
JPY	143.694.0	2.8	6.2	-2.1
CNY	8.823.7	1.4	8.2	4.4
GBP	1.001.8	0.0	10.0	5.8
INR	93.509.2	1.9	8.0	9.4
RUB	86.649.8	0.6	12.2	14.7

Source: Thomson Financial; own calculations.

OUR TOP ISSUES

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

Pay Attention, Gold Investor: 'This Time is not Different'

"The four most dangerous words in investing are 'this time is different'." This sentence is ascribed to entrepreneur and investment legend Sir John Marks Templeton Sr. (1912 – 2008). It ties in nicely with the widely held view that the "Big Crisis" in the world-wide credit and monetary system is over, and that central banks, in particular, can and will succeed in fending off any crash that may threaten to unfold. This is at least the message conveyed by the price action in the credit markets (see Fig. 1 on page 2).

The latest upward trend in credit spreads has been brought to a standstill by the most recent assurance the US Federal Reserve (Fed) issued on 4 January 2019, that the central bank will suspend hiking interest rates, and that it would even change course "significantly if necessary". In other words: The Fed will do its best to keep the economy going and prevent stress in the financial markets.

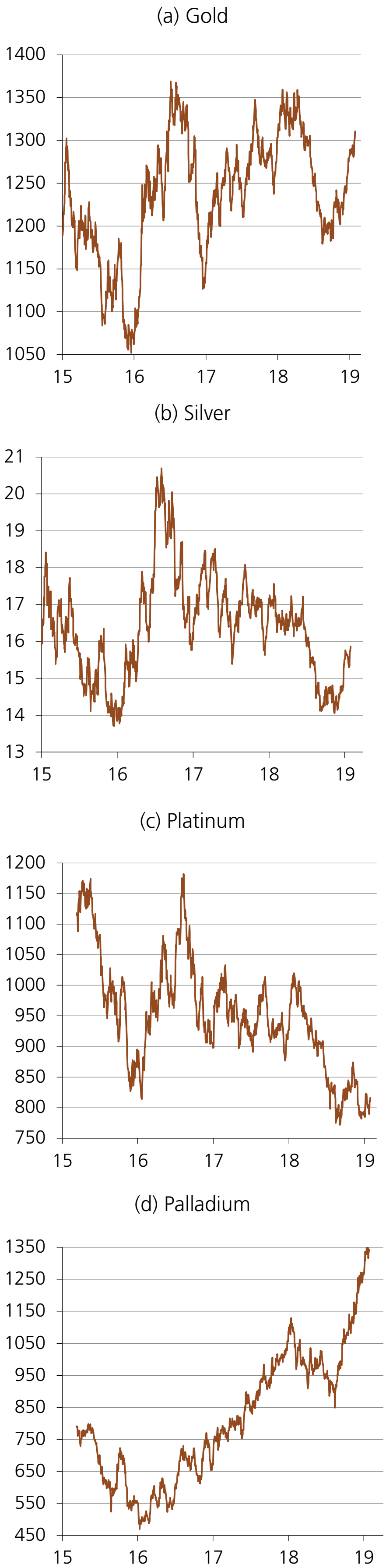
The uncomfortable truth is, however, that the Fed – and with it all major central banks around the world – are pursuing the very monetary policy that has sown the seeds of the financial and economic crisis 2008/2009. No doubt about that. In fact, today's monetary policy is *even more aggressive* as interest rates have been pushed even lower and – by no means less critical – investor risk awareness has been put to sleep.

For this is what the 'safety net' central banks have put under the economies and financial markets does: It distorts the price of risk and thus the cost of capital, inevitably causing problems. Firms, for instance, are encouraged to engage in overly risky investments, while consumers run into debt by increasingly living beyond their means, and governments heap up too much debt as credit costs are exceptionally low.

We have seen it before. However, at the same time, it seems that markets are willing to believe that "this time is different". Admittedly, there have been some regulatory changes in recent years such as, for instance, making it more difficult for banks to over-leverage themselves. While that may be true, it is no reason for complacency: There are many avenues left through which the still exceptionally expansionary monetary policies can and will continue to do economic harm.

All the more so as not only the Fed has remained on a highly expansionary course. Note here that the Federal Fund Rate is still less than 1 per cent in real (that is inflation-adjusted) terms and that the European Central Bank as well as the Bank of Japan hold their key interest rates at zero per cent, while the Peoples Bank of China seems to be intent to bail out the country's troubled banking sector by printing new money.

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

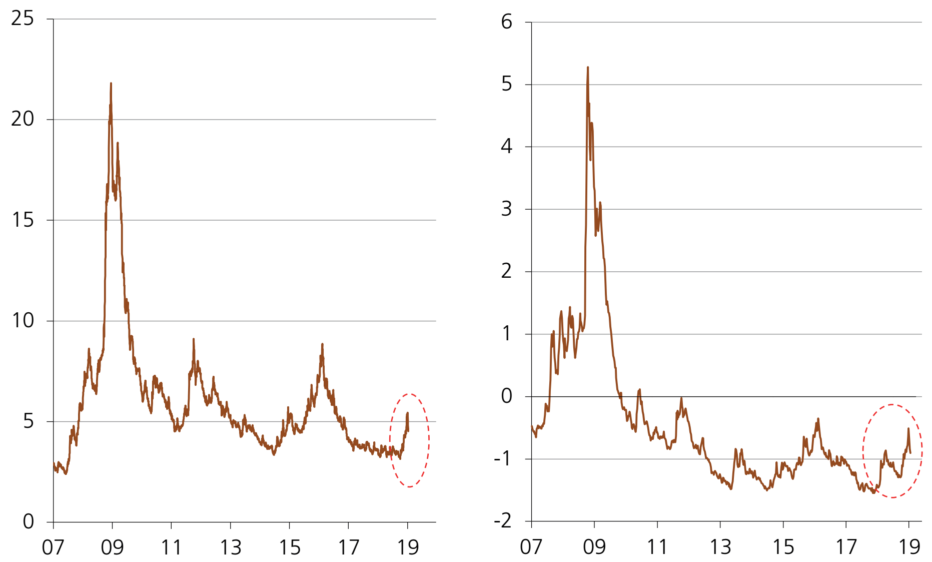


Source: Thomson Financial.

1 Putting an end to rising credit default concerns

(a) Credit spread on US corporate debt in percentage points [1]

(b) Financial market stress indicator for US markets [2]



Source: Thomson Financial, Federal Reserve of St. Louis, BoAML. [1] ICE BofAML US High Yield Master II Option-Adjusted Spread. Yield pick-up of US corporate debt over US treasuries (option adjusted). [2] A rise (fall) of the line signals rising (falling) financial market stress. The average of the series is normalized to zero.

Against this backdrop, it may not be all too surprising that the price of gold has edged up lately, going beyond the level of 1,300 USD/oz last seen in June 2018. Generally speaking, gold is insurance par excellence against the vagaries of central bank policies. The yellow metal's purchasing power cannot be debased by monetary policymakers running the printing press. What is more, gold – in contrast to bank deposits and short-term debt – does not carry a credit- or counterparty-risk. However, what is perhaps most important at the current juncture is that gold still seems to be trading at a relatively low price (from our viewpoint).

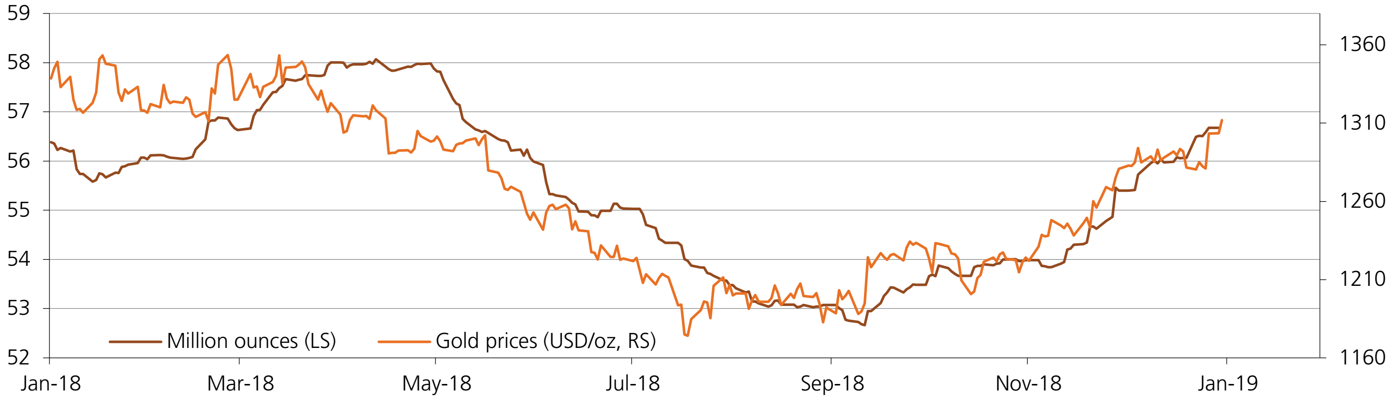
Of course, coming up with a reliable estimate of the fair value of gold is a somewhat challenging task (at least for this author), but what speaks for holding gold now is the likely scenario of interest rates remaining very depressed – as international indebtedness has gone up to a level where rising interest rates would most certainly make the credit pyramid come crashing down. Not only does this reduce the opportunity costs of holding gold, but it also shields the investor – big time! – against inflation and credit default risks.

Even if the investor remains upbeat about the financial architecture's future stability, gold commends itself as an excellent alternative for time- and savings deposits. Because in an environment of negative real short-term interest rates, the purchasing power of time- and savings deposits will melt like ice in the sunshine, while gold stands a good chance to not only retain its purchasing power but to even increase it – as it has done since the early 1970s, when the world was put on an unbacked paper money standard.

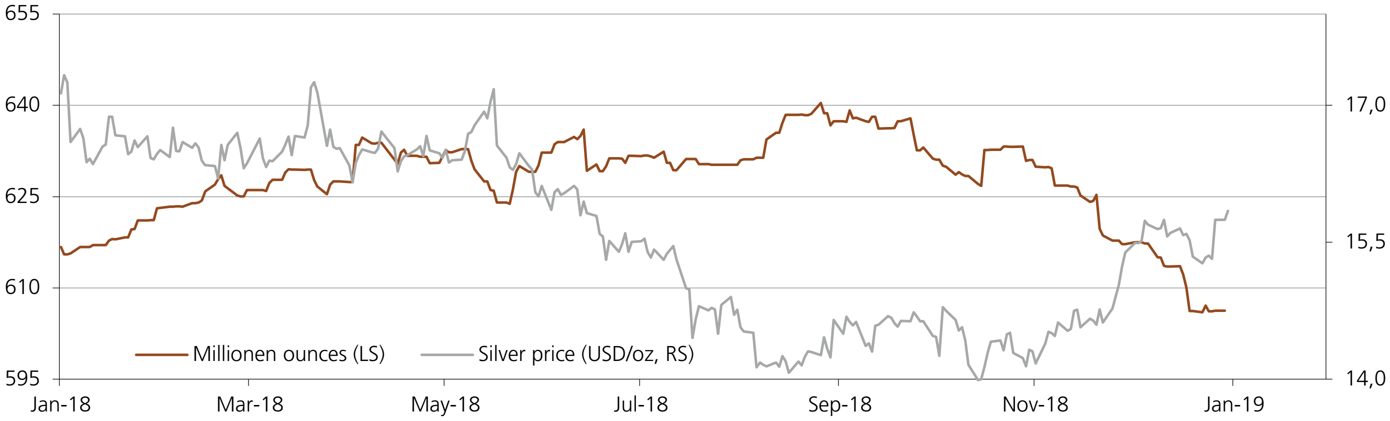
So we may conclude by saying: "Pay attention, gold investors: This time is not different". You better not indiscriminately buy into the mainstream story, which keeps churning out the message that 'this time is different' – especially not against the backdrop of major central banks' unprecedented monetary experimentation.

Precious metals prices and ETF holdings

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

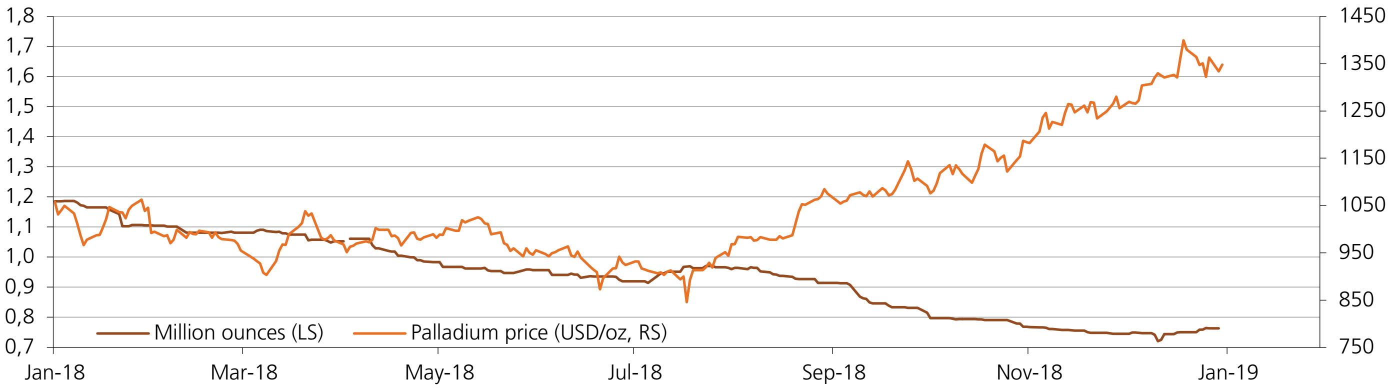


Silver ETFs (million ounces) and silver price (USD/oz)



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	1313.7		15.9		812.5		1342.4	
II. Gliding averages								
5 days	1295.4		15.6		804.8		1335.8	
10 days	1290.9		15.5		802.1		1348.1	
20 days	1289.5		15.6		805.8		1328.3	
50 days	1263.4		15.0		803.8		1266.0	
100 days	1237.9		14.8		818.2		1174.4	
200 days	1246.1		15.3		835.7		1065.1	
III. Bandwidths for 2018	*Low*	*High*	*Low*	*High*	*Low*	*High*	*Low*	*High*
	1223	1480	14.4	19.1	785	903	1204	1368
(1)	*-7*	*13*	*-9*	*20*	*-3*	*11*	*-10*	*2*
IV. Annual averages								
2015	1163		15.7		1065		706	
2016	1242		17.0		985		617	
2017	1253		17.1		947		857	
2018	1268		15.8		880		1019	

In Euro

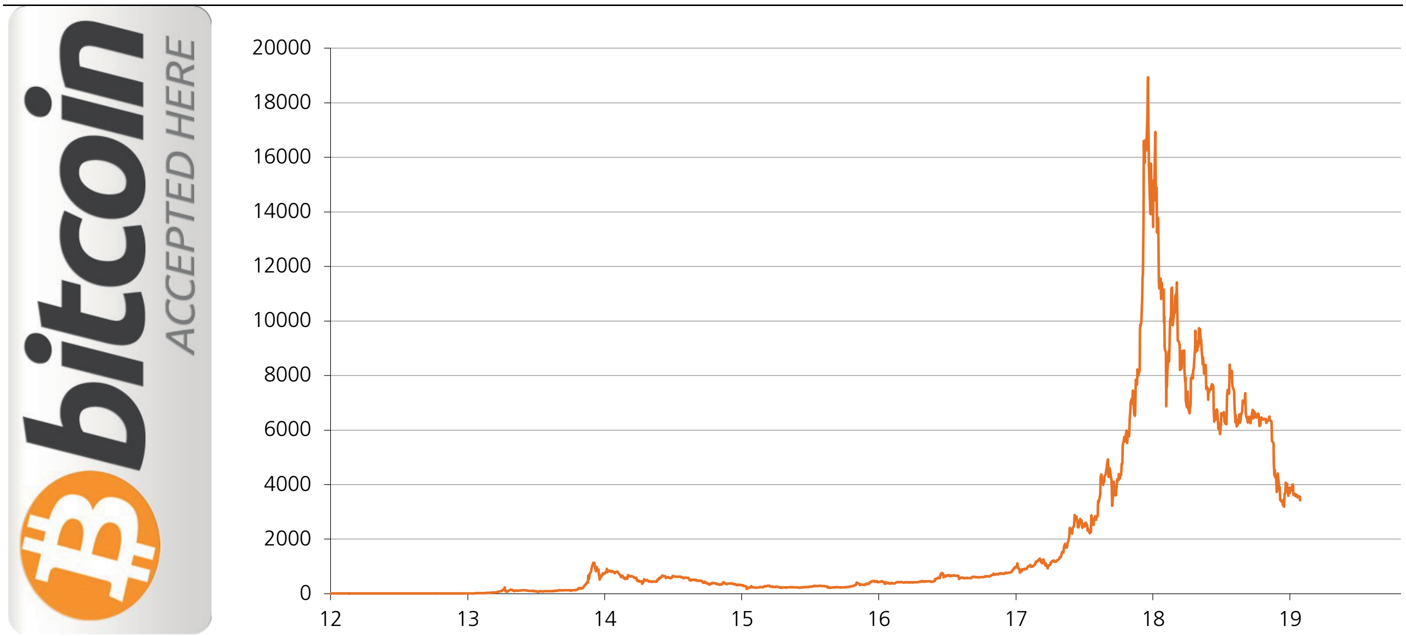
	Gold		Silver		Platinum		Palladium	
I. Actual	1149.4		13.9		710.9		1174.5	
II. Gliding averages								
5 days	1136.7		13.7		706.2		1172.1	
10 days	1133.9		13.6		704.6		1184.2	
20 days	1129.6		13.7		705.9		1163.6	
50 days	1109.2		13.2		705.7		1111.5	
100 days	1081.3		12.9		714.6		1026.3	
200 days	1077.0		13.2		722.1		921.8	
III. Bandwidths for 2018	*Low*	*High*	*Low*	*High*	*Low*	*High*	*Low*	*High*
	1098.8	1330.2	13.0	17.2	705.5	811.3	1081.7	1229.7
(1)	*-4*	*16*	*-7*	*23*	*-1*	*14*	*-8*	*5*
IV. Annual averages								
2015	1044		14		955		633	
2016	1120		15		888		557	
2017	1116		15		844		760	
2018	1072		13		743		863	

Source: Thomson Financial; own calculations and estiamtes.

(1) Estimated return against actual price in percent.

Bitcoin, performance of various asset classes

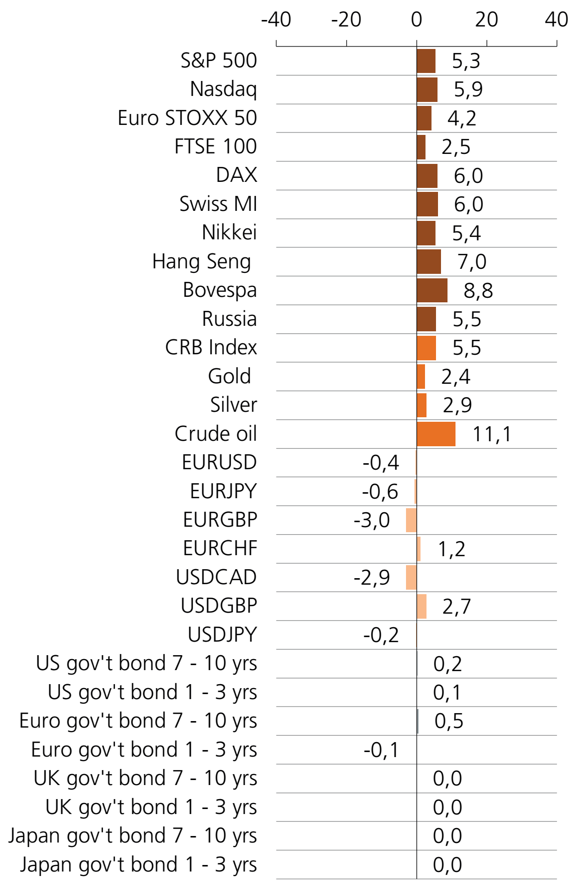
Bitcoin in US dollars



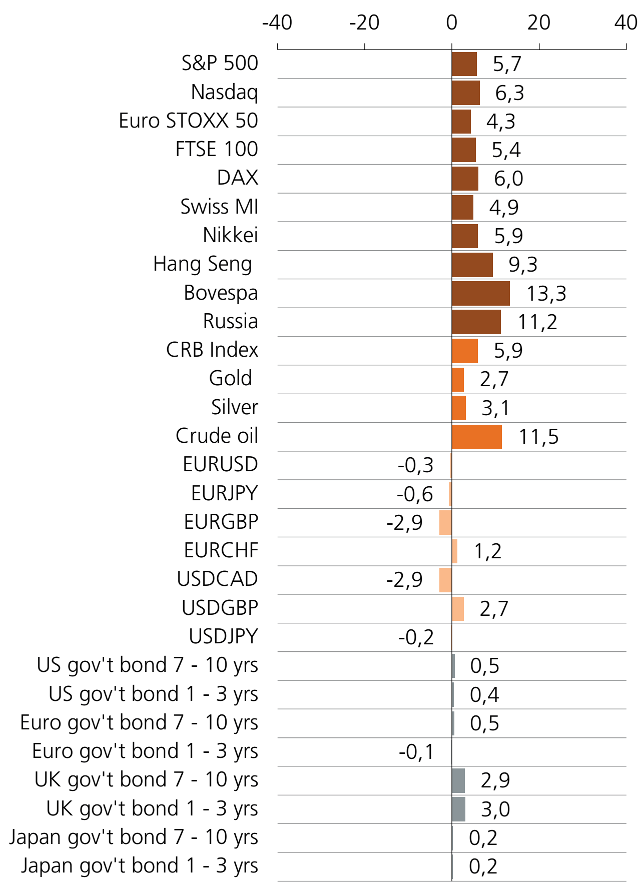
Source: Thomson Financial.

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*

Issue	Content
1 February 2019	Pay Attention, Gold Investor: 'This Time is not Different'
17 January 2019	US Interest Rate Down, Price of Gold up
20 December 2018	Gold Money in a Digitalised World Economy
10 December 2018	The Fed Supports Gold
23 November 2018	The Fed Is Not Our Saviour
9 November 2018	The Missing Fear – And The Case For Gold
26 October 2018	President Trump is right: The Fed Is A Big Problem
12 October 2018	Here Goes The Punch Bowl
28 September 218	The Fed's Blind Flight
14 September 2018	How Fed Policy Relates to the Price of Gold
31 August 2018	Central Banks Enrich a Select Few at the Expense of Many
17 August 2018	The US dollar And Gold – Is this Time Different?
20 July 2018	Not All Is Well In Financial Markets
22 June 2018	Euro-Banks In Trouble. A Case for Gold
8 June 2018	Demand for Gold ETFs up Despite Higher Interest Rates
25 May 2018	Mind The Interest Rate
11 May 2018	Mr Buffett on Gold – Viewed Differently
27 April 2018	Moving Towards Higher Gold Prices
13 April 2018	The Risk of a Currency Crisis
29 March 2018	Walking the Tightrope
16 March 2018	Gold, Interest Rates, And Money
2 March 2018	Gold in Times of Boom and Bust
16 February 2018	The Fed Makes The Stock Market A Risky Place
2 February 2018	Central Banks Put a Safety Net Under Financial Markets
19 January 2018	Chances And Risks For Investors in 2018
21 December 2017	New Competition: Gold and Crypto Currencies Against Fiat-Monies
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
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

The Degussa Marktreport (German) and the Degussa Market Report (English) are available at:
www.degussa-goldhandel.de/de/marktreport.aspx.

Disclaimer

Imprint
Marktreport is published every 14 days on Thursdays and is a free service provided by Degussa Goldhandel GmbH.
Deadline for this edition: 31 January 2019
Publisher: Degussa Goldhandel GmbH, Kettenhofweg 29, 60325 Frankfurt, Tel.: (069) 860068-0, Fax: (069) 860068-222
E-Mail: info@degussa-goldhandel.de, Internet: www.degussa-goldhandel.de
Editor in chief: Dr. Thorsten Polleit
Degussa Market Report is available on the Internet at: http://www.degussa-goldhandel.de/infothek/marktreport/