Degussa Market Report

28 March 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	1.316.3	1.4	7.7	-1.8
Silver	15.4	0.4	8.5	-7.4
Platinum	862.8	5.9	8.2	-7.2
Palladium	1.514.8	0.0	28.6	62.0
II. In euro				
Gold	1.167.3	1.1	8.1	7.1
Silver	13.6	0.1	8.9	1.0
Platinum	765.2	5.6	8.6	1.2
Palladium	1.343.0	-0.3	29.0	76.5
III. Gold price in other currencies				
JPY	145.317.0	0.7	4.8	2.3
CNY	8.849.3	1.5	4.1	5.1
GBP	995.2	-0.2	3.9	4.3
INR	90.674.8	1.9	6.6	3.8
RUB	85.394.6	-0.8	4.2	10.8

Source: Thomson Financial; calculations by DEGUSSA.

OUR TOP ISSUES

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

Sword of Damocles Over Asset Prices

Financial markets seem to have a great deal of confidence in the effectiveness of central bank monetary policy that by bringing down interest rates, the economies will keep expanding and asset prices, in particular, will keep rising. There is, however, good reason for the savvy investor to think carefully about the truth value of such a proposition.

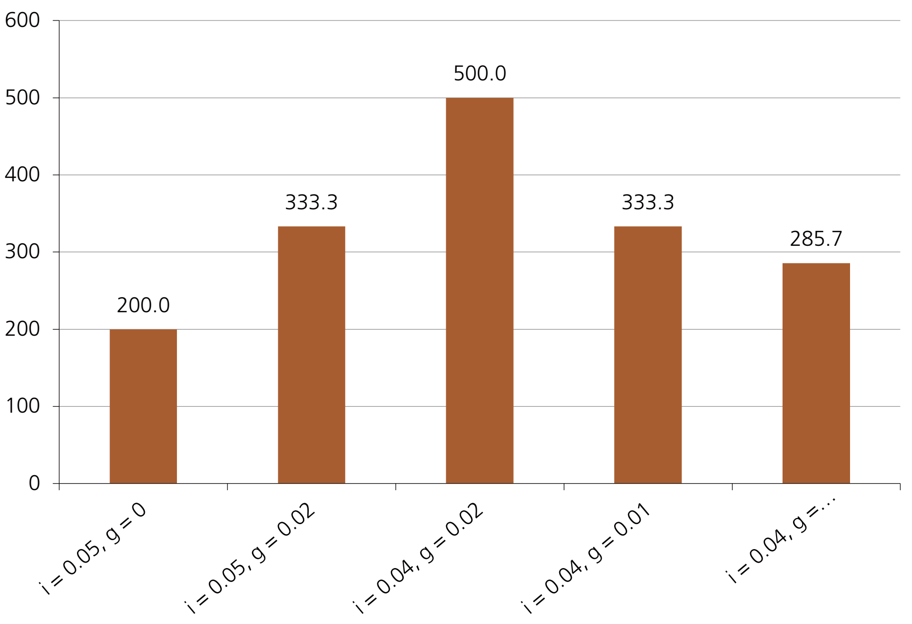
The key question is: What is the actual relation between the interest rate and asset prices, stock prices in particular? To answer this question, it may be helpful to take a brief look at the well-known Gordon Growth Model. It shows the functional relation between a firm's stock price and its profit level, the interest rate, and the firm's profit growth rate. The formula is:

Stock price = $D / (i - g)$,

whereas D = dividend, i = interest rate, and g = profit growth. If D = 10, i = 5% and g = 0%, the stock price is 200 US$ [10 / (0.05 – 0) = 200]. If then g = 2%, the stock price rises to 333.3 US$. If the central bank lowered the interest rate to 4%, the stock price goes up further to 500.0 US$. Should g then drop to 1%, the stock price would decline back to 333.3, and if g falls even lower to 0,005%, the stock price falls to 285.7.

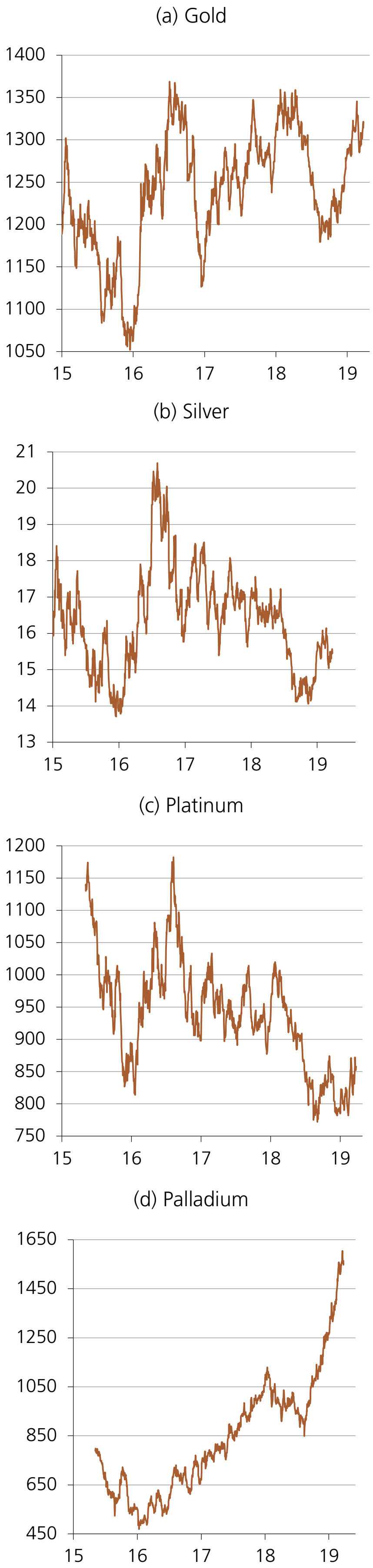
1 How central banks affect stock prices

Stock prices under different interest rate and profit growth scenarios



Source: Calculations DEGUSSA.

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



Source: Thomson Financial; graphs by DEGUSSA.

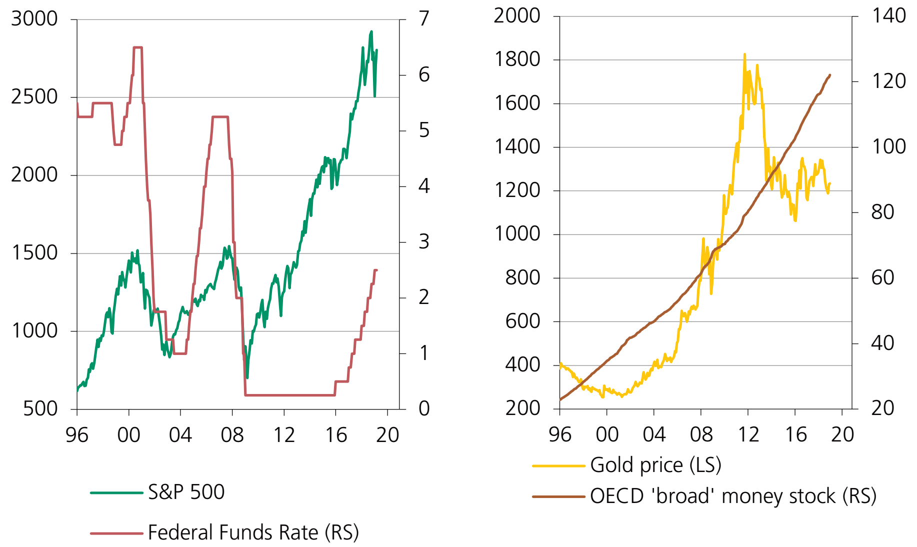
This little example shows that a central bank can drive up stock prices by lowering the interest rate. However, what about the effect the interest rate has on firms' profit growth? From a Keynesian viewpoint one may argue: Well, lower interest rates trigger new spending, and this should increase firms' profits. While that may well be so in the short run, one might expect additional effects emerging in the longer term: namely that a policy of extremely low interest rates could sap the strength out of an economy.

For instance, artificially low interest rates keep unprofitable businesses alive, making it harder for better producers to gain market shares. This, in turn, slows down competitive pressure in factor and products markets, resulting in lower growth and employment, and ultimately deteriorating firms' profit situation. Positive short-run effects on firms' profits stemming from artificially lowered interest rates might, therefore, be followed by rather negative effects on firms' profit growth in the long-run.

2 Lower rates drive stock prices; more money drives the price of gold

(a) S&P 5000 and Federal Funds Rate in percent

(b) Gold price (USD/oz) and money stock in the OECD[(1)]



Source: Thomson Financial; graphs by DEGUSSA. [(1)] Indexed.

The above points towards a rather uncomfortable scenario in which central banks, via their policy of extremely low interest rates, have driven up stock prices significantly, and then expectations regarding firms' profit growth start declining. Once this begins, it would be fairly difficult to bring it to a stop. The ensuing broad-based decline in prices would be a heavy burden on today's unbacked paper money system, because declining prices would very well trigger a massive round of credit default.

In fact, cracks in the credit system could make the unbacked paper money system come crashing down, because if the credit market, due to default concerns, drives up borrowing costs and makes credit less accessible, a bust is inevitable. The only option left in such a case would be central banks falling back to outright money printing (via asset purchases and/or issuing 'helicopter money') in an attempt to raise goods' prices or asset prices in particular.

The point is that the monetary policy of extremely low interest rates is far from harmless – even though it seems to support the business cycle and props up asset markets in the short-run, suggesting that all is well. Unfortunately, there is economic reason to assume that central banks' artificially low interest rate policy is self-defeating – and the risk that something will go terribly wrong increases, the longer interest rates remain at suppressed levels. This is where gold comes into play.

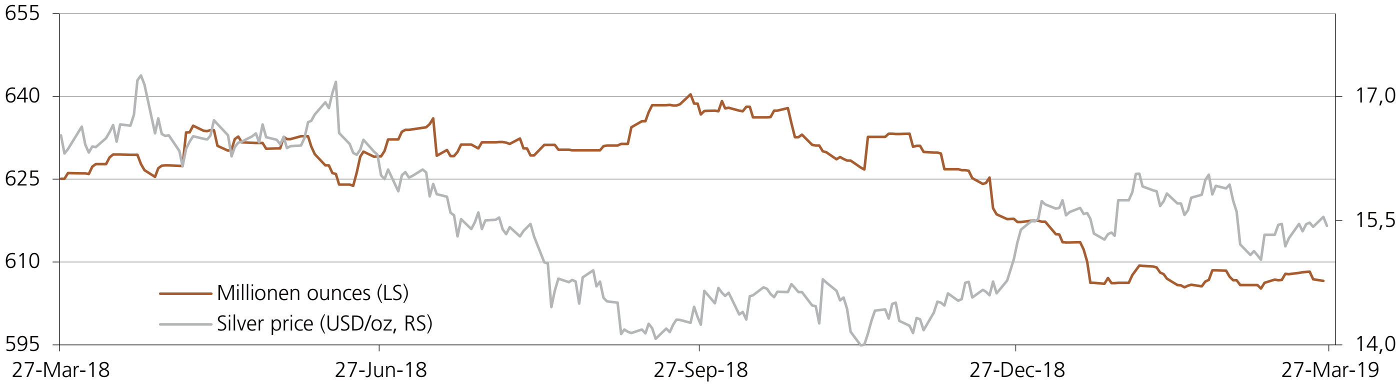
Gold is money – a rather rock-steady type of money, at that –, and it cannot be debased by central banks' money printing. Thus it stands in sharp contrast to bank deposits and short-term debt. Gold also does not carry any default or credit risk. It cannot go bankrupt, so to speak. For thousands of years, gold has already served as 'premium money'. It would be surprising if gold were not to withstand the 'Sword of Damocles' (in the form of unbacked paper money) that central banks have hung over the economies.

***

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	1314.6		15.4		865.4		1518.4	
II. Gliding averages								
5 days	1311.8		15.5		858.8		1574.6	
10 days	1307.6		15.4		848.2		1567.3	
20 days	1302.5		15.4		844.3		1550.7	
50 days	1307.2		15.6		823.3		1459.6	
100 days	1277.7		15.2		818.2		1341.6	
200 days	1248.0		15.1		820.8		1165.2	
III. Bandwidths for 2019	*Low*	*High*	*Low*	*High*	*Low*	*High*	*Low*	*High*
	1223	1480	14.4	19.1	785	903	1204	1368
(1)	*-7*	*13*	*-6*	*24*	*-9*	*4*	*-21*	*-10*
IV. Annual averages								
2015	1260		19.1		1382		800	
2016	1163		15.7		1065		706	
2017	1242		17.0		985		617	
2018	1253		17.1		947		857	

In Euro

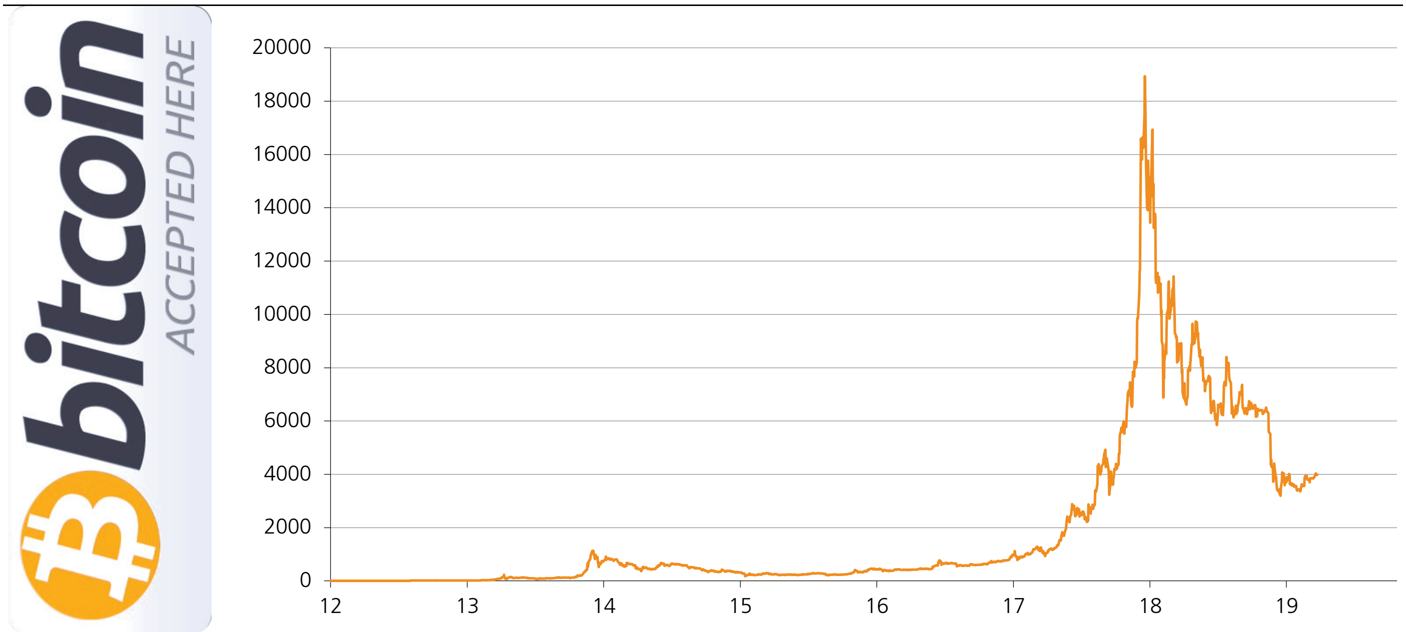
	Gold		Silver		Platinum		Palladium	
I. Actual	1166.6		13.6		767.9		1347.4	
II. Gliding averages								
5 days	1158.9		13.6		758.7		1391.0	
10 days	1154.9		13.6		749.1		1384.2	
20 days	1151.2		13.6		746.2		1370.5	
50 days	1152.4		13.7		725.8		1286.9	
100 days	1124.3		13.4		720.0		1180.7	
200 days	1087.8		13.2		715.2		1017.1	
III. Bandwidths for 2019	*Low*	*High*	*Low*	*High*	*Low*	*High*	*Low*	*High*
	1067.5	1292.2	12.6	16.7	685.4	788.2	1050.9	1194.7
(1)	*-8*	*11*	*-8*	*22*	*-11*	*3*	*-22*	*-11*
IV. Annual averages								
2015	945		14		1035		601	
2016	1044		14		955		633	
2017	1120		15		888		557	
2018	1116		15		844		760	

Source: Thomson Financial; calculations and estimates by DEGUSSA.

(1) Estimated return against actual price in percent.

Bitcoin, performance of various asset classes

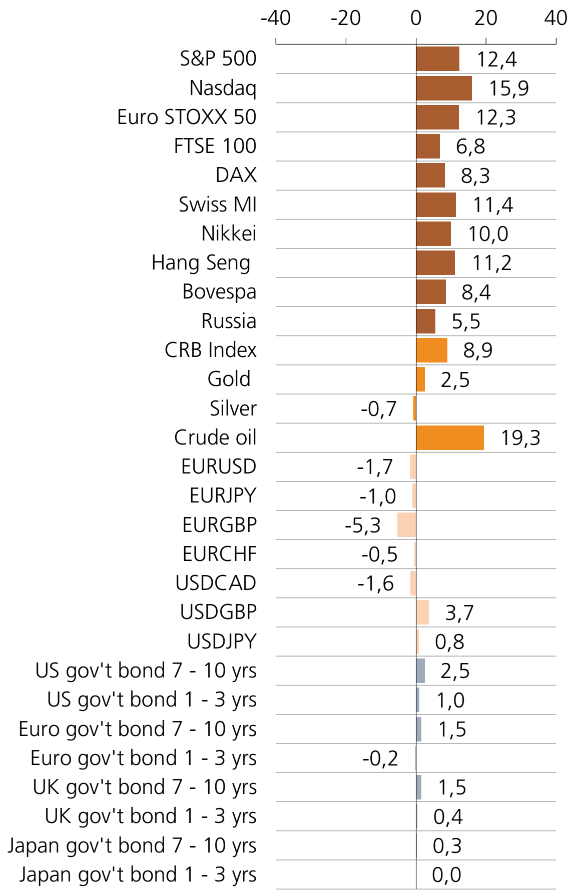
Bitcoin in US dollars



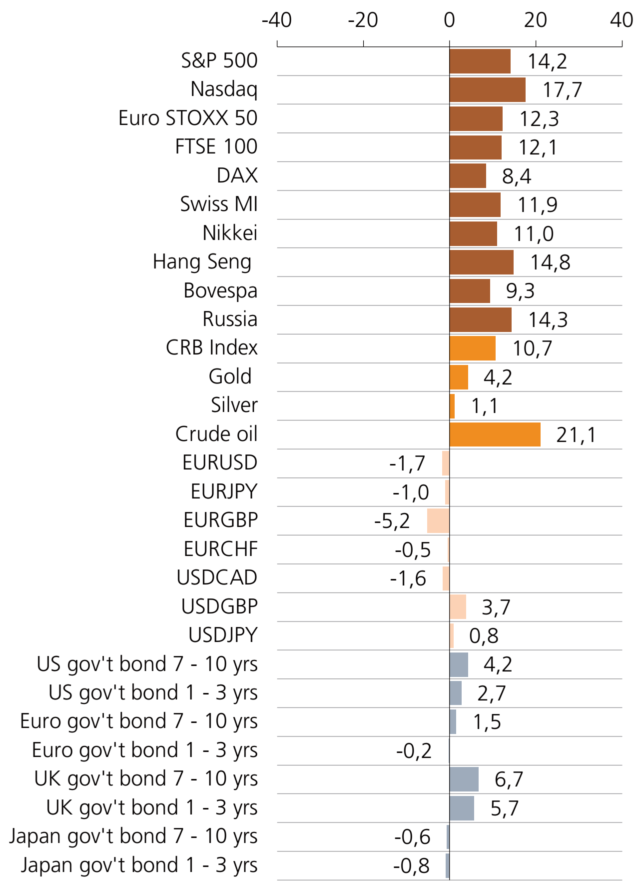
Source: Thomson Financial.

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
28 March 2019	Sword of Damocles Over Asset Prices
14 March 2019	The Big Central Banks Increase the Case for Gold
28 February 2019	The Fed Takes Full Control of the Bond Market – And Raises The Value of Gold
14 February 2019	Everything You Always Wanted to Know About Karl Marx and Central Banking (*But Were Afraid To Ask)
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

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: 28 March 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/

Degussa
GOLD UND SILBER.

Frankfurt Headquarters
Kettenhofweg 29 · 60325 Frankfurt
Phone: 069-860 068 – 0 · 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

Berlin (shop & showroom)**:** Fasanenstraße 70 · 10719 Berlin
Phone: 030-8872838 – 0 · berlin@degussa-goldhandel.de

Frankfurt (shop & showroom)**:** Kettenhofweg 25 · 60325 Frankfurt
Phone: 069-860 068 – 100 · frankfurt@degussa-goldhandel.de

Hamburg (shop & showroom)**:** Ballindamm 5 · 20095 Hamburg
Phone: 040-329 0872 – 0 · hamburg@degussa-goldhandel.de

Hanover (shop & showroom)**:** Theaterstraße 7 · 30159 Hanover
Phone: 0511-897338 – 0 · hannover@degussa-goldhandel.de

Cologne (shop & showroom)**:** Gereonstraße 18-32 · 50670 Cologne
Phone: 0221-120 620 – 0 · koeln@degussa-goldhandel.de

Munich (shop & showroom)**:** Promenadeplatz 12 · 80333 Munich
Phone: 089-13 92613 – 18 · muenchen@degussa-goldhandel.de

Munich (Old Gold Centre): Promenadeplatz 10 · 80333 Munich
Phone: 089-1392613 – 10 · muenchen-altgold@degussa-goldhandel.de

Nuremberg (shop & showroom)**:** Prinzregentenufer 7 · 90489 Nuremberg
Phone: 0911-669 488 – 0 · nuernberg@degussa-goldhandel.de

Pforzheim (refinery)**:** Freiburger Straße 12 · 75179 Pforzheim
Phone: 07231-58795 – 0 · pforzheim@degussa-goldhandel.de

Stuttgart (shop & showroom)**:** Kronprinzstraße 6 · 70173 Stuttgart
Phone: 0711-305893 – 6 · stuttgart@degussa-goldhandel.de

Retail buying and selling outlets around the world:

Zurich (shop & showroom)**:** Bleicherweg 41 · 8002 Zurich
Phone: 0041-44-40341 10 · zuerich@degussa-goldhandel.ch

Geneva (shop & showroom)**:** Quai du Mont-Blanc 5 · 1201 Genève
Phone: 0041-22 908 14 00 · geneve@degussa-goldhandel.ch

Madrid (shop & showroom)**:** Calle de Velázquez 2 · 28001 Madrid
Phone: 0034-911 982 900 · info@degussa-mp.es

London Sharps Pixley Ltd. (member of the Degussa Group)
Phone: 0044-207 871 0532 · info@sharpspixley.com