Degussa Market Report

11 April 2019 | **Economics · Finance · Precious Metals**

USD per ounce of gold

USD per ounce of silver

EURUSD

Source: Thomson Financial; graphs by DEGUSSA.

Precious metals prices				
	Actual (spot)	Change against (in percent): 2 W	3 M	12 M
I. In US-dollar				
Gold	1.308.2	-0.4	2.0	-0.5
Silver	15.2	-1.1	-1.5	-6.5
Platinum	903.6	7.1	14.1	0.1
Palladium	1.388.5	-11.2	10.1	43.9
II. In euro				
Gold	1.161.2	0.1	3.9	6.7
Silver	13.5	-0.7	0.5	0.3
Platinum	802.1	7.5	15.8	7.3
Palladium	1.232.0	-10.8	11.6	54.2
III. Gold price in other currencies				
JPY	145.093.0	0.5	3.3	0.9
CNY	8.785.0	-0.4	-0.3	5.5
GBP	998.6	0.5	-0.6	4.6
INR	90.424.2	1.9	1.4	3.5
RUB	84.098.8	-0.9	-5.9	1.6

Source: Thomson Financial; calculations by DEGUSSA.

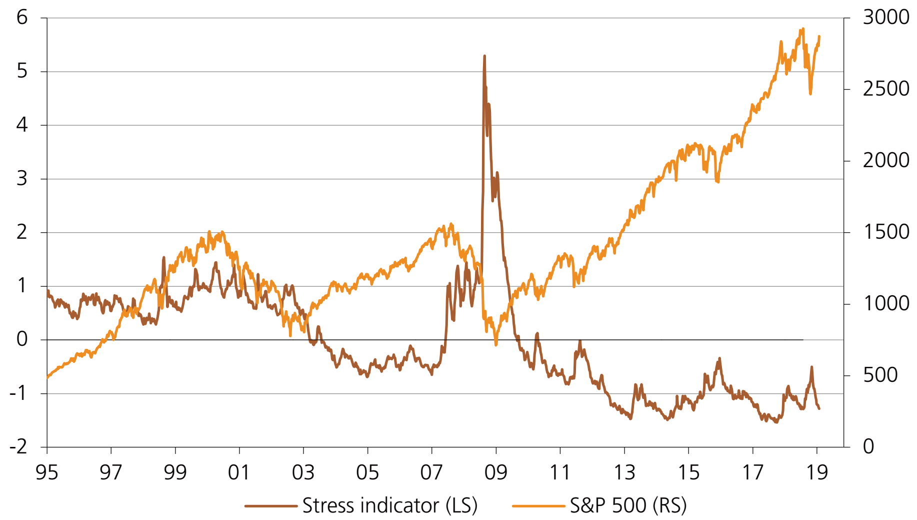
OUR TOP ISSUES

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

Be Prepared For All Possibilities. The Case For Gold

One rather astounding fact is that investor risk concerns have declined substantially in the wake of the international financial and economic crisis 2008/2009. Take, for instance, the "financial market stress indicator" published by the Federal Reserve Bank of St. Louis. As from around 2010 until the summer of 2014, the indicator fell to a hitherto unprecedented low. Since then it has basically moved sideways. At the same time, the decline of financial market stress levels to record lows has been accompanied by a tremendous bull stock market.

1 Decline in investor risk concern, rising stock prices
Financial market stress indicator[1] and S&P 500

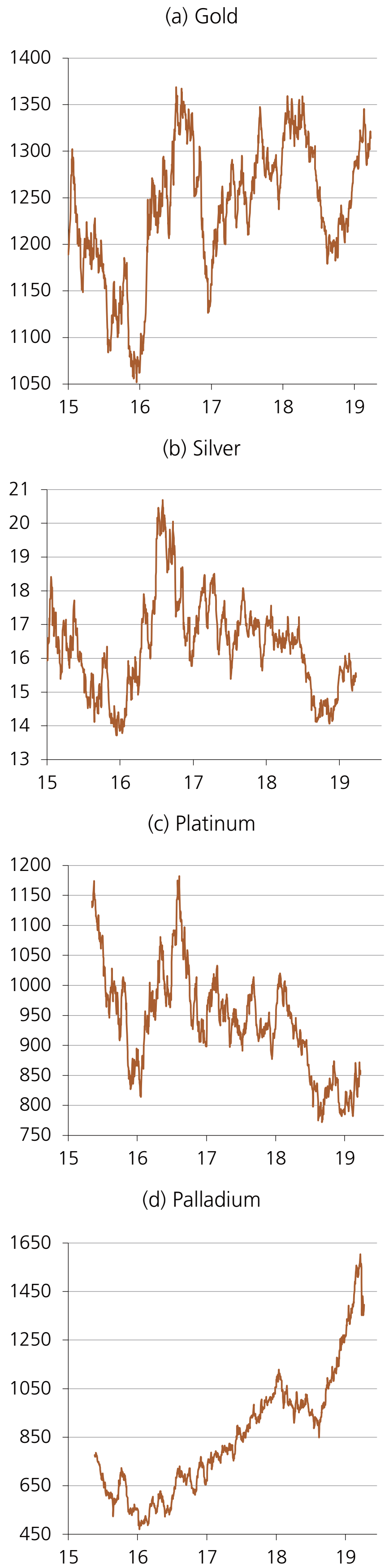


Source: Thomson Financial; graph by DEGUSSA. [1] A rise (fall) in the line indicators rising (falling) stress in financial markets.

How come? The explanation of these findings can most likely be found in monetary policymaking. Central banks have, as a reaction to the crisis 2008/2009, lowered interest rates dramatically and ramped up the quantity of money. Investors have realised that central banks are prepared to do everything in their power to fend off another crisis in the economic and financial system. This outlook has not been changed, even with the Federal Reserve (Fed) having increased borrowing rates to 2.25 – 2.50 per cent since the end of 2015.

Persisting low interest rates have been fuelling higher stock prices (and also housing prices, by the way). The reasons: Future corporate profits are now discounted at a lower interest rate, and corporate profits tend to increase as the cost of credit funding goes down. Both factors make the present values of

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



Source: Thomson Financial; graphs by DEGUSSA.

stocks rise, translating into higher stock prices. Furthermore, the low interest rate regime encourages consumers to contract debt, financing their lifestyle with even more easy credit.

The decline of the financial market stress indicator suggests that investors do not consider a significant setback in the asset market or the economies a high possibility. On the contrary. Markets are expected to stay liquid, credit is likely to remain in good shape and costs of capital low. Such an investor stance is quite understandable given the circumstances: Investors must assume that central banks stand ready to keep the economic boom and in particular the drive towards higher asset prices going.

While the current dynamics may continue for quite a while, there is, however, a downside. For a monetary policy of extremely low interest rates, accompanied by increases in the quantity of money created through bank credit expansion, sows the seed of crisis because artificially suppressed interest rates inevitably lead to malinvestment. Firms are encouraged to embark upon investment projects, not all of which can be successfully realised. Sooner or later it becomes clear that the expected investment return falls short of expectations.

Then the boom goes into reverse. Firms liquidate investment projects, cut employment, and banks become hesitant to extend new loans. It should be noted again that it is not possible (at least not with scientific means) to forecast the exact point in time when things will start to get sour, or when the boom turns into bust. However, it might be helpful for savvy investors to remind themselves that the current boom is fuelled by a monetary policy that will not, and cannot, forever prevent the "iron rule of economics" to do its job.

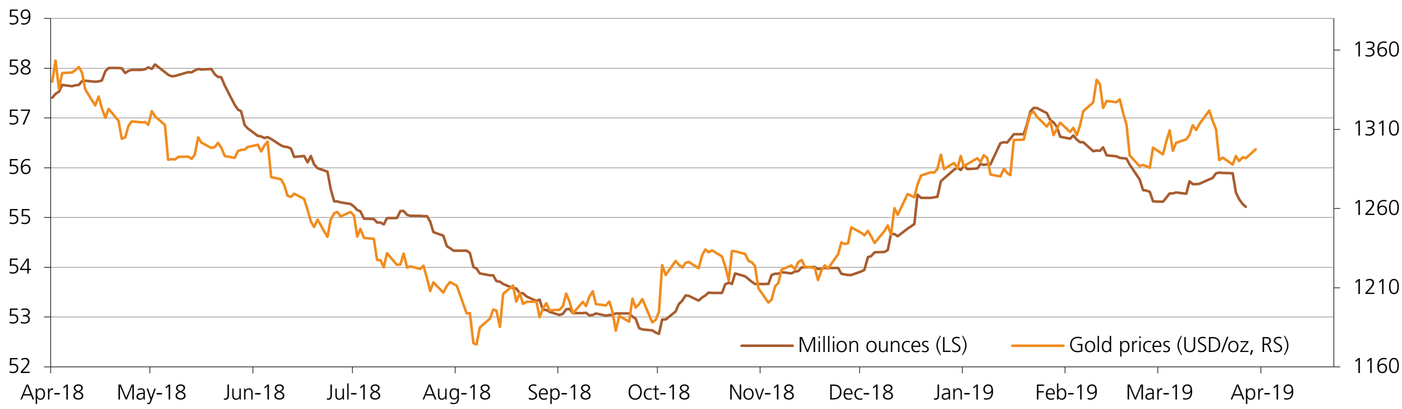
All a monetary policy of lowering the interest rate and expanding the quantity of money out of thin air does is to create a mirage of prosperity. Of course, new technologies emerge, gains in productivity are achieved, and this can indeed help to keep the boom going longer. However, the longer the boom goes on, the greater the amount of malinvestment, and the higher the risk for something unexpected to happen, eventually killing off the boom.

In such a case, central banks, with interest rates close to rock bottom, would most likely embark on a broadly-based monetisation policy to keep the system from crashing down. The point is therefore: Even in view of the currently persisting boom, the savvy investor should not ignore the risk of the boom turning into bust at one point. One way of dealing with such a risk scenario is by adding gold to the portfolio.

For gold has two essential characteristics: It cannot be debased by monetary policymaking. Furthermore, gold does not carry a credit, or default, risk. Also, and by no means less important: The current price of gold does not seem to be unreasonable. All this is an excellent reason to consider gold as portfolio insurance: It offers the investor not only protection against the loss of purchasing power of "official" currencies, it also may go up in price once the crisis hits. Then, the investor could sell gold at a high price and use the proceeds to buy attractive assets at a depressed rate. This way, holding gold may even increase the portfolio's return on investment.

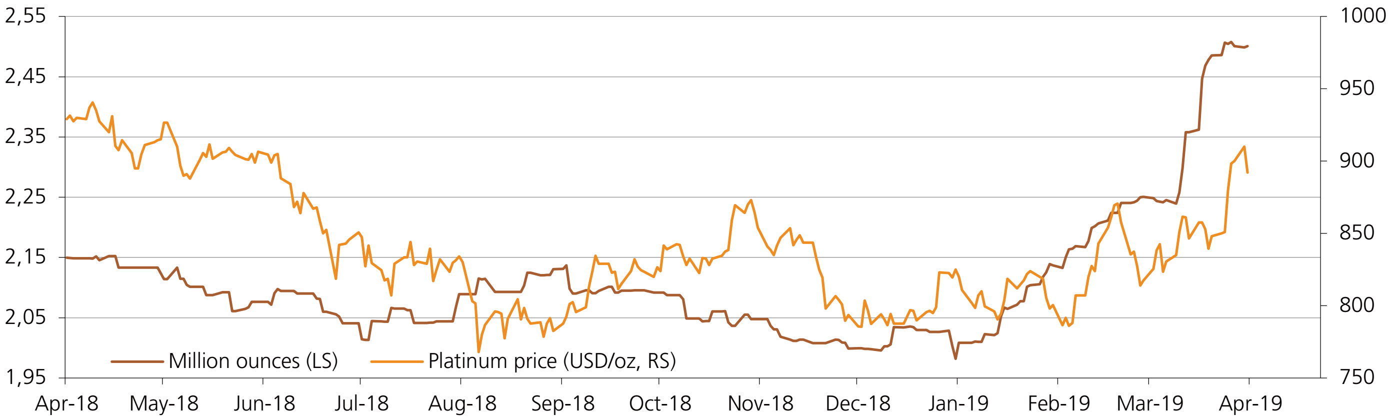
Precious metals prices and ETF holdings

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

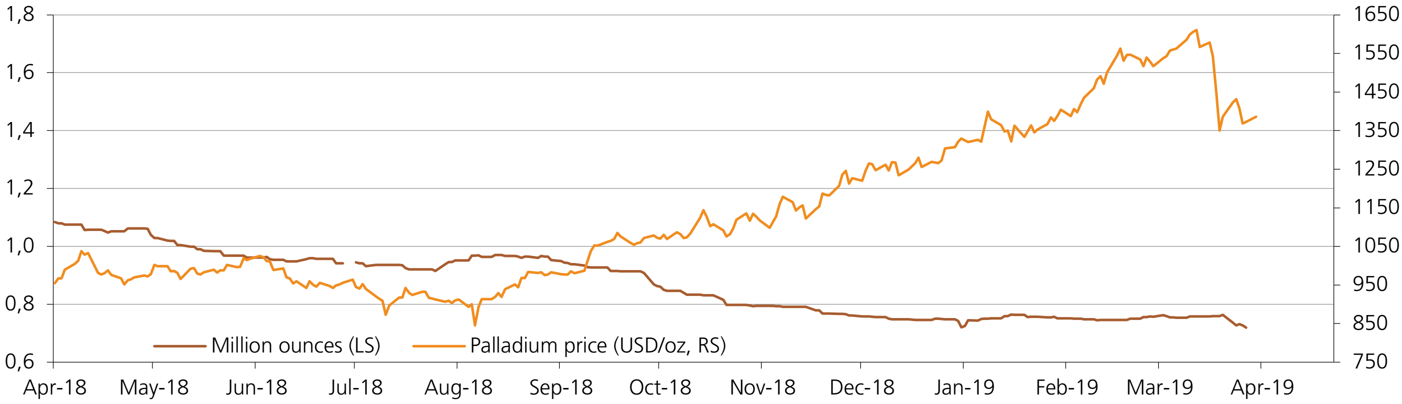


Silver ETFs (million ounces) and silver price (USD/oz)

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	1308.2		15.3		903.3		1389.3	
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*	*-5*	*25*	*-13*	*0*	*-13*	*-2*
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

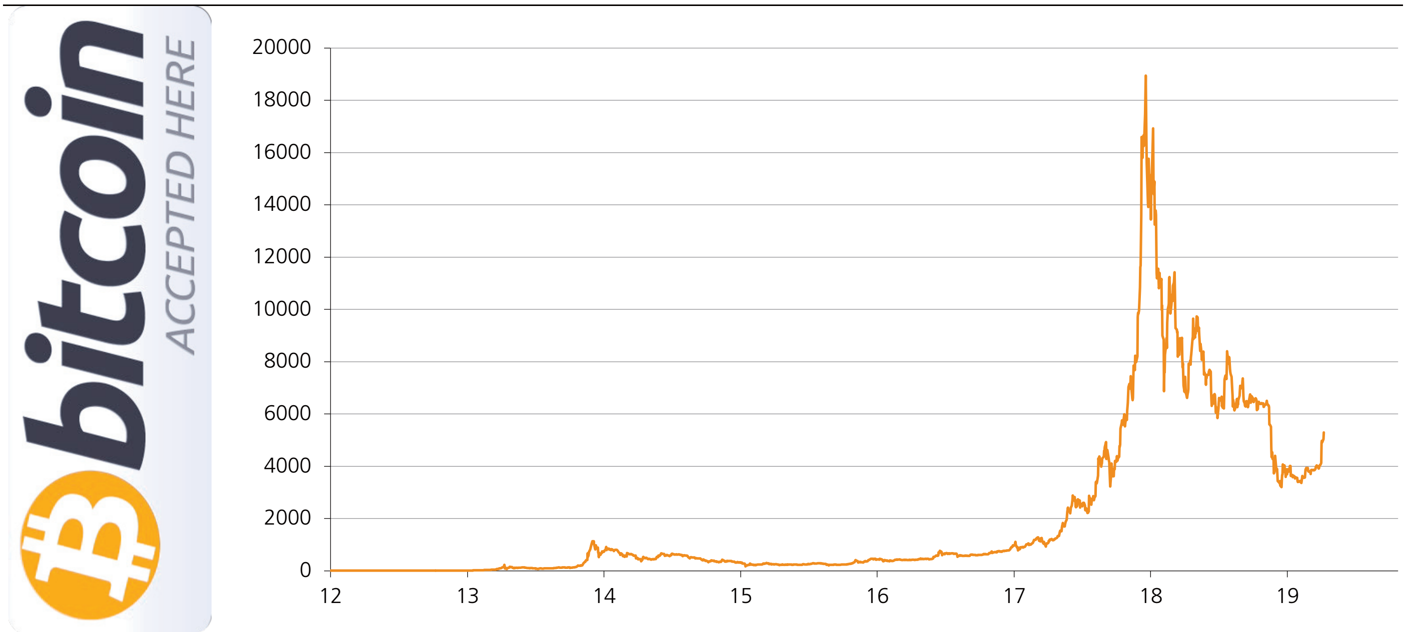
	Gold		Silver		Platinum		Palladium	
I. Actual	1161.3		13.5		801.9		1233.2	
II. Gliding averages								
5 days	1158.9		13.6		758.7		1391.0	
10 days	1154.9		13.6		749.1		1384.2	
20 days	1151.2		13.6		746.2		1370.5	
50 days	1152.4		13.7		725.8		1286.9	
100 days	1124.3		13.4		720.0		1180.7	
200 days	1087.8		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*	*-7*	*23*	*-15*	*-2*	*-15*	*-3*
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

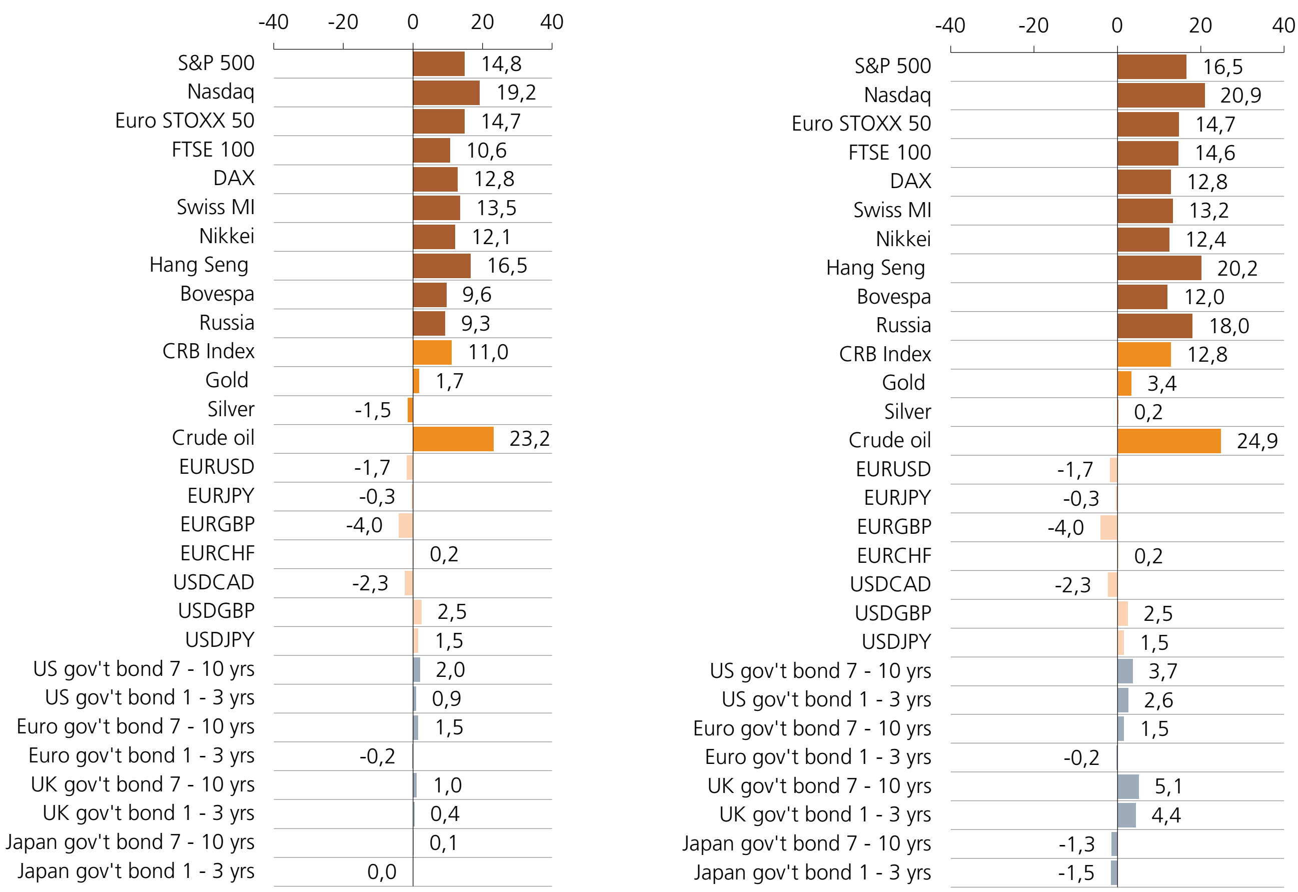
Bitcoin in US dollars



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
11 April 2019	Be Prepared For All Possibilities. The Case For Gold
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

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: 11 April 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/