

9 May 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
<b>I. In US-dollar</b>				
Gold	1.280.8	0.5	-1.3	-1.1
Silver	14.8	-0.5	-3.0	-11.9
Platinum	861.2	-2.0	5.7	-3.7
Palladium	1.313.0	-7.3	-13.3	28.9
<b>II. In euro</b>				
Gold	1.144.4	0.1	-0.9	3.8
Silver	13.3	-0.8	-2.6	-7.6
Platinum	769.5	-2.3	6.1	0.8
Palladium	1.173.0	-7.6	-12.9	35.3
<b>III. Gold price in other currencies</b>				
JPY	141.016.0	-1.4	-2.3	-1.4
CNY	8.686.1	1.3	-0.4	4.8
GBP	984.5	-0.4	-1.3	1.6
INR	89.271.4	0.1	-1.7	2.1
RUB	83.250.5	1.4	-3.3	1.9

Source: Thomson Financial; calculations by Degussa.

## OUR TOP ISSUES

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

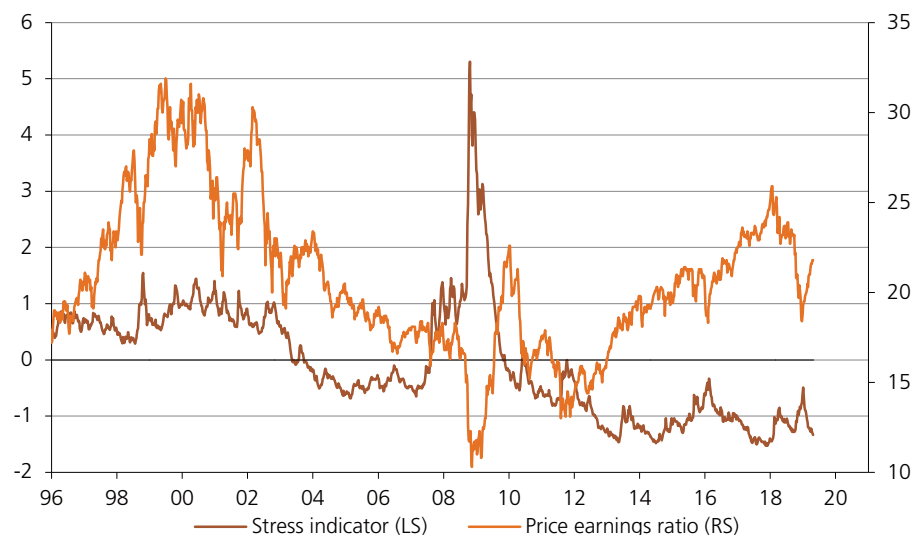
## The Crusade Against Risk

Since the latest the crisis in 2008/2009, central banks around the world have been doing their best to expel risks from financial markets. By lowering interest rates, fixing them at extremely low levels, or issuing more credit and money, monetary policymakers make sure that ailing borrowers are kept afloat. In fact, central banks have put a "safety net" under the economies and the financial markets in particular. As it seems, this measure has been working quite effectively over the last ten years or so.

Investors do no longer fear that big borrowers – be it governments, banks, or corporates – could default, as evidenced by the low credit spread environment. Liquidity in basically all important credit market segments is high, and borrowers experience no trouble rolling over their maturing debt. What is more, stock market valuations have continued to increase, significantly propped up by central banks' easy monetary policy. For low interest rates help drive stock prices and their valuation levels up.

### 1 Decline in risk perception, rising stock valuation

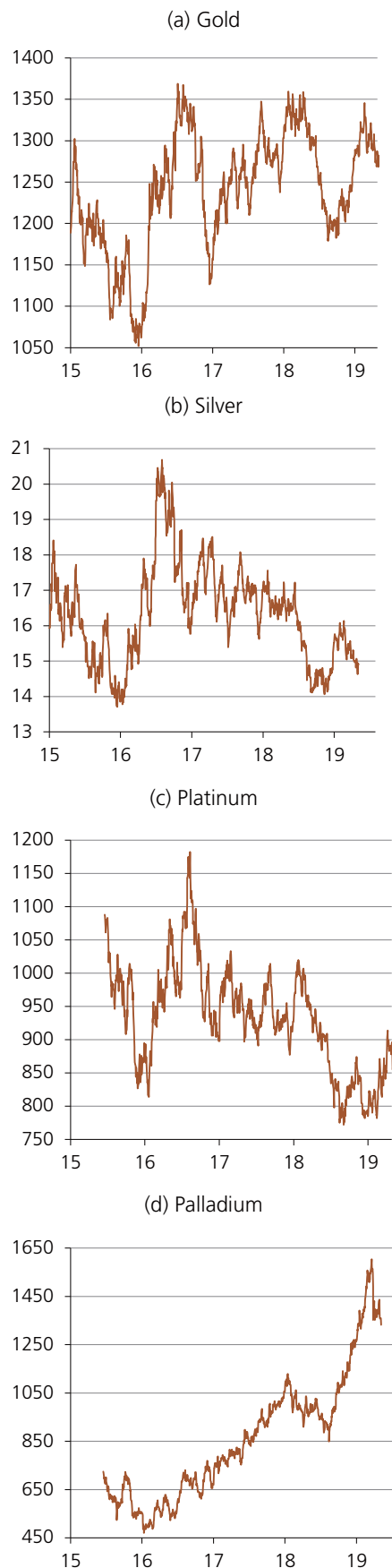
Financial market stress indicator and price-earnings ratio of US stock market<sup>1)</sup>



Source: Thomson Financial; graph by Degussa.

Artificially suppressed interest rates lead to higher present values of firms' discounted future profits. Furthermore, the decline in credit costs tends to increase corporate profits, thereby also boosting stock prices and their valuations. By no means less important, the low interest rate regime has caused firms' capital costs to go down, encouraging additional investment activity, which is stoking investor optimism and feeding a buoyant stock market.

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



Source: Thomson Financial; graphs by Degussa.

As a measure of risk perception, figure 1 shows a “financial market stress indicator”, together with the price-earnings (PE) ratio of the US stock market. From eyeballing the series, one can easily see that, since around 2009, the PE ratio has been rising considerably, while risk perception, as measured by the financial market stress indicator, has gone down substantially and has been hovering at relatively low levels since around the middle of 2014. The message of the chart is, therefore: Risk down, stock valuations up.

Of course, there is nothing wrong with this development per se, were it not for the fact that the decline in risk perception does not come naturally, but has been orchestrated by central banks’ many interventions in the credit and financial system. In particular, by artificially lowering market interest rates, central banks have triggered a “boom”, which produces pretty-to-look-at official data (on GDP, investment, employment, and such), but which is, and unfortunately so, built on quicksand.

The boom will only continue if and when market interest rates remain at suppressed levels, or are lowered even further. For if interest rates were to rise, many investment projects would turn out to be unprofitable; many loans would default; banks would run up losses and would have to rein in their credit supply; unemployment would rise; and so on. In other words: Higher interest rates would turn the boom into bust.

This is why central banks are most likely to continue with their “crusade against risk”. That is, they will most likely keep their interest rates at current low levels for a very long time, and investors have good reason to believe that the negative interest rates trend is not over yet. For if and when central banks want to live up to their ‘implicit promise’ to keep the boom going, they have to suppress interest rates to the lowest possible level. Such an outlook has significant consequences for the savvy investor.

As far as asset markets are concerned, prices may go up further, leading to more stretched valuation levels. However, this will presumably result in a heightened risk of price and valuation level set-backs. What is more, the outlook for returns in the fixed income markets dwindles, especially for less experienced investors who are by and large limited to ‘buy and hold’ strategies. Investors’ plight would, of course, become more severe should higher inflation cause negative returns in real terms.

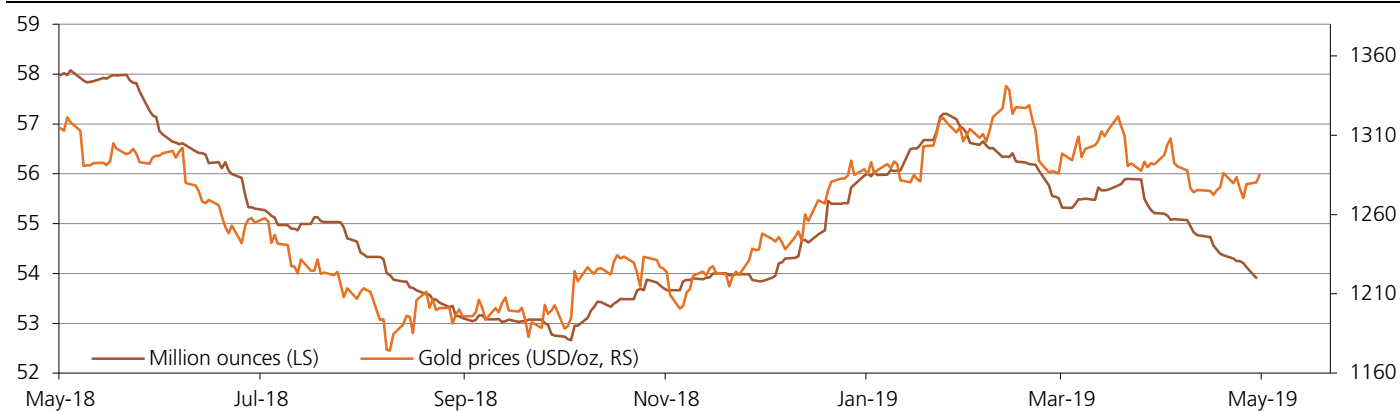
As long as central banks continue their crusade against risk, long-term oriented investing in stocks seems to remain a justifiable strategy for now – provided the stocks are bought at not too elevated valuation levels. Also, a case for gold can be made as part of a portfolio’s liquid means, because gold competes with the established (unbacked) currencies like US dollar, euro, Chinese renminbi and the like. However, the yellow metal has two significant advantages.

First, the purchasing power of gold cannot be debased by central banks’ monetary policies. Second, unlike bank deposits, gold does not carry default risk. Given current prices, we think that gold is relatively cheap, making it a fairly liquid portfolio insurance with (considerable) upside potential. In particular, in time there may be a good chance to sell gold at a high price and invest the proceeds in great assets trading at then-suppressed prices.<sup>1</sup> This way, gold may even add to the portfolio’s overall investment return.

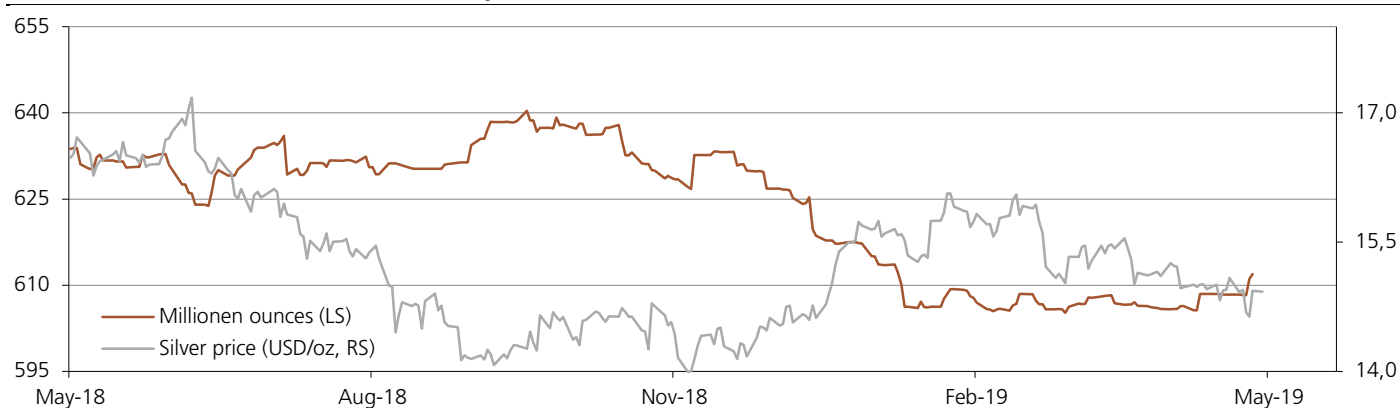
<sup>1</sup> See our article **A Sound Investment Rationale for Gold**, Degussa Market Report, 25 April 2019.

## Precious metals prices and ETF holdings

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



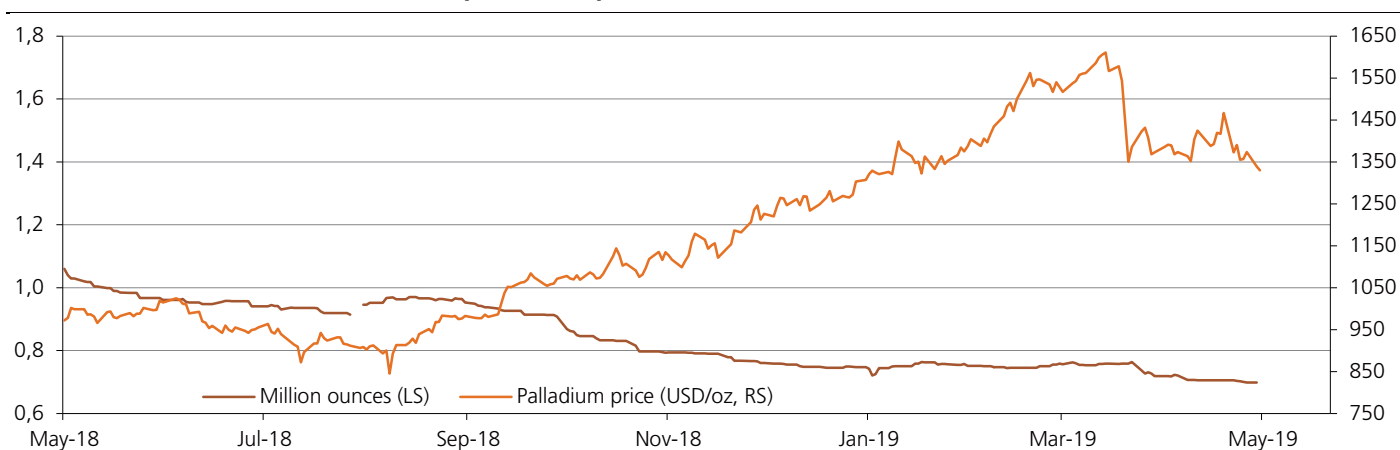
### Silver ETFs (million ounces) and silver price (USD/oz)



### Platinum ETFs (million ounces) and platinum price (USD/oz)



### Palladium ETFs (million ounces) and palladium price (USD/oz)



Source: Thomson Financial; graphs by Degussa.

## Precious metals prices

### In US-dollar

	Gold		Silver		Platinum		Palladium	
I. Actual		1280.6		14.8		860.0		1313.5
II. Gliding averages								
5 days		1278.9		14.8		864.0		1354.2
10 days		1279.9		14.9		875.7		1383.0
20 days		1281.3		15.0		882.9		1381.1
50 days		1292.6		15.2		865.3		1451.9
100 days		1295.2		15.4		835.5		1401.8
200 days		1254.2		15.0		826.6		1232.6
III. Bandwidths for 2019	<i>Low</i>	<i>High</i>	<i>Low</i>	<i>High</i>	<i>Low</i>	<i>High</i>	<i>Low</i>	<i>High</i>
	1223	1480	14.4	19.1	785	903	1204	1368
(1)	-5	16	-3	29	-9	5	-8	4
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

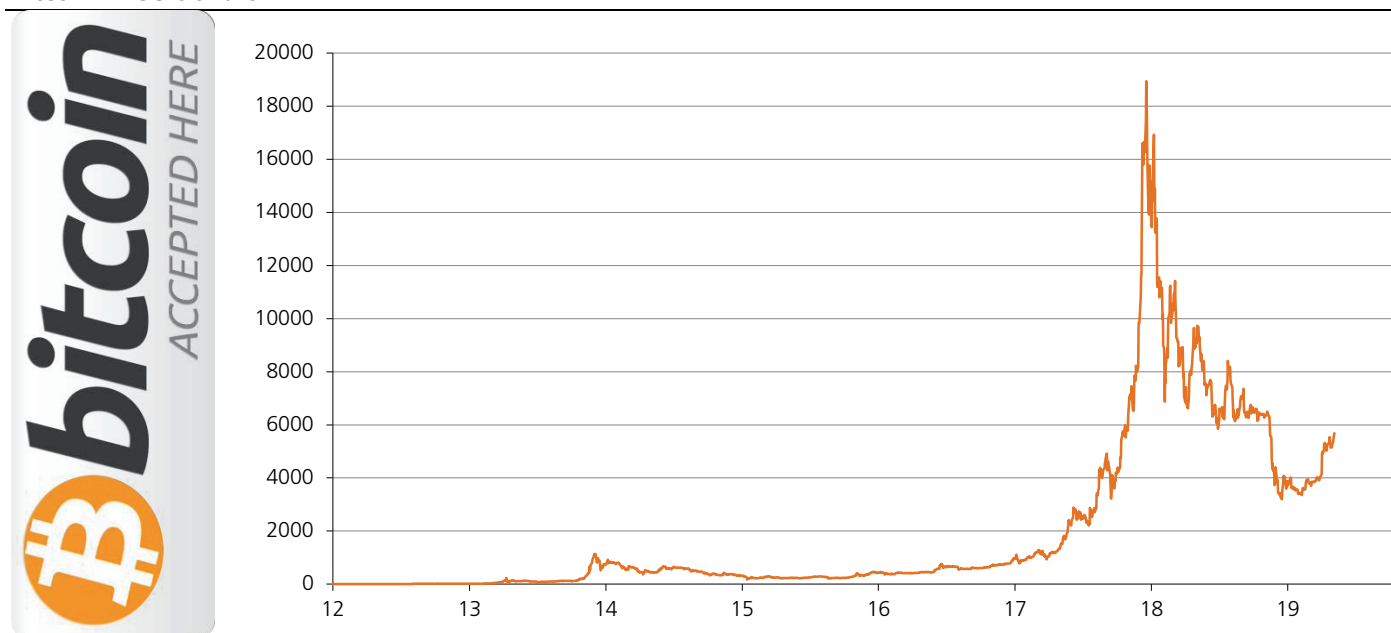
	Gold		Silver		Platinum		Palladium	
I. Actual		1144.8		13.3		768.8		1174.2
II. Gliding averages								
5 days		1141.9		13.2		771.5		1209.2
10 days		1144.1		13.3		782.7		1236.2
20 days		1141.1		13.3		786.3		1230.0
50 days		1147.6		13.5		768.2		1288.7
100 days		1143.5		13.6		737.8		1237.8
200 days		1099.6		13.1		724.7		1081.8
III. Bandwidths for 2019	<i>Low</i>	<i>High</i>	<i>Low</i>	<i>High</i>	<i>Low</i>	<i>High</i>	<i>Low</i>	<i>High</i>
	1067.5	1292.2	12.6	16.7	685.4	788.2	1050.9	1194.7
(1)	-7	13	-5	26	-11	3	-11	2
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

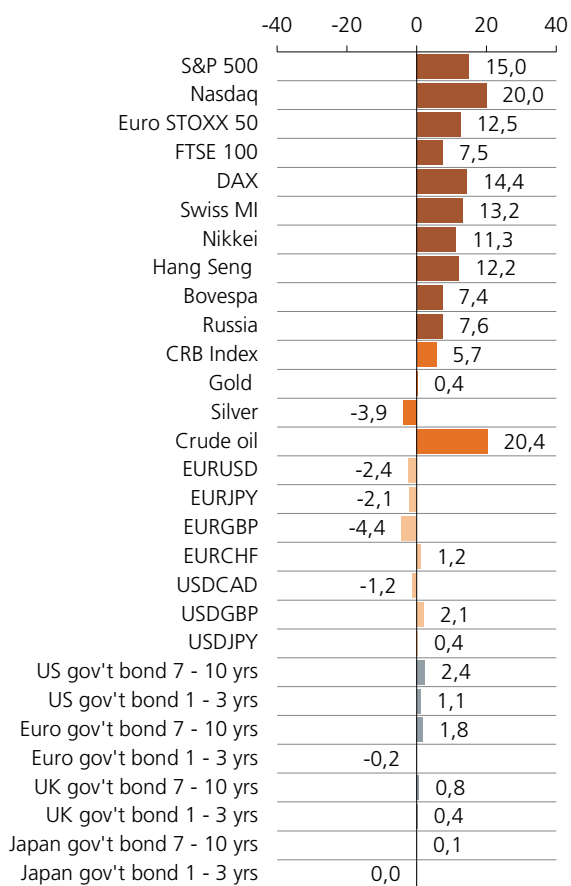
### Bitcoin in US dollars



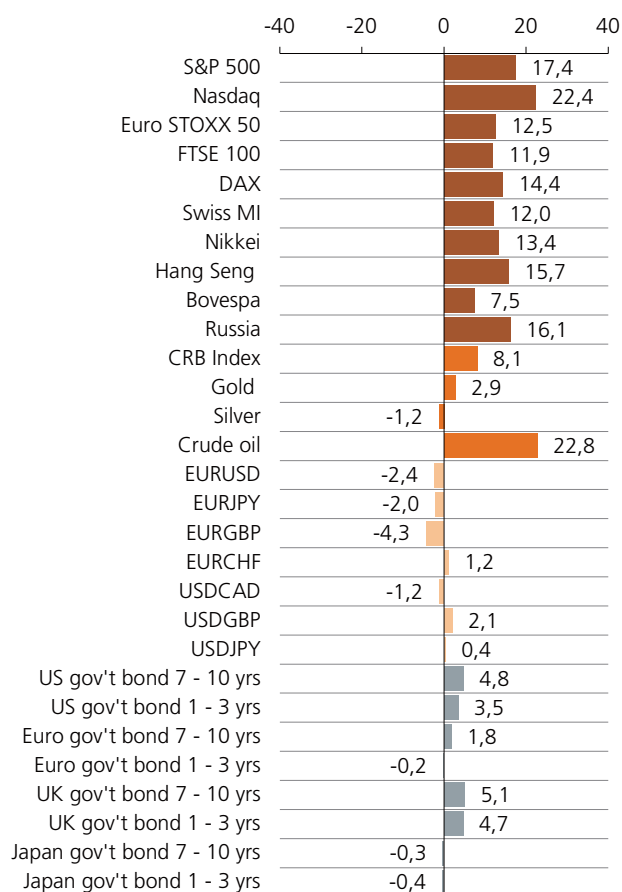
Source: Thomson Financial; graphic Degussa.

### Performance of stocks, commodities, FX and bonds

(a) In national currencies



(b) In euro



Source: Thomson Financial; calculations by Degussa.

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

Issue	Content
9 May 2019	The Crusade Against Risk
25 April 2019	A Sound Investment Rationale for Gold
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 2018	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
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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

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