

23 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
I. In US-dollar				
Gold	1,274.4	-0.8	-2.9	0.7
Silver	14.4	-3.1	-6.3	-11.4
Platinum	813.5	-6.3	-3.6	-5.9
Palladium	1,319.0	-0.6	-15.7	40.4
II. In euro				
Gold	1,141.6	-0.5	-1.6	5.6
Silver	12.9	-2.9	-5.0	-7.1
Platinum	728.7	-6.0	-2.3	-1.7
Palladium	1,181.0	-0.4	-14.5	46.9
III. Gold price in other currencies				
JPY	140,877.0	-0.5	-2.4	1.5
CNY	8,794.6	1.1	-0.3	6.4
GBP	1,003.3	2.2	1.0	5.3
INR	88,739.5	-0.8	-2.3	3.0
RUB	82,090.2	-2.2	-3.2	3.4

Source: Thomson Reuters; calculations by Degussa.

OUR TOP ISSUES

This is a short summary of our fortnightly Degussa Marktreport.

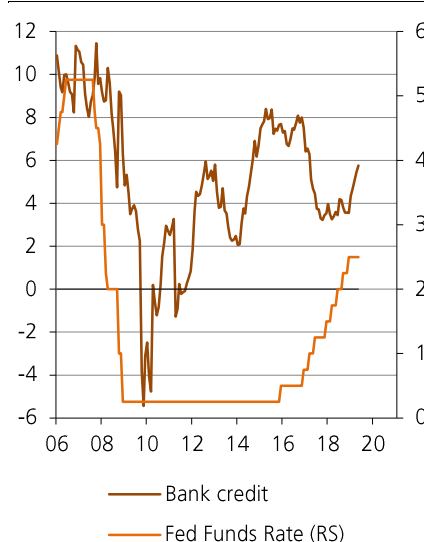
The Boom That Will Have It Coming

The current boom is built on credit. This is why: In today's fiat money regime, central banks, in close cooperation with commercial banks, increase the quantity of money by extending loans – loans that are not backed by 'real savings'. The artificial increase in the supply of credit pushes market interest rates downwards – that is below the levels that would prevail had there been no artificial bank credit supply increase.

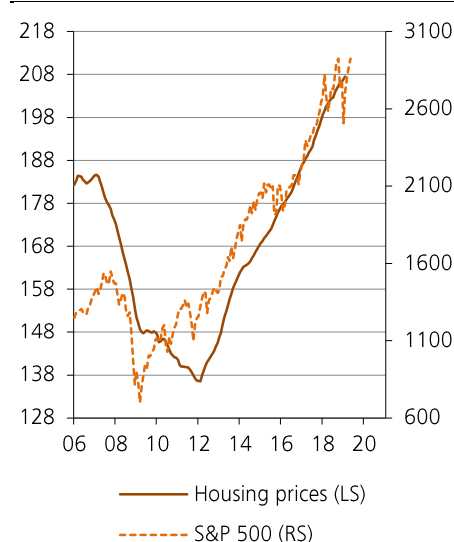
As a result, savings decline, consumption increases and, investment takes off. This "boom", however, can only last so long. Its continuation rests on more and more credit being fed into the system, provided at ever lower interest rates. The Fed's lowering of interest rates and monetary expansion in the course of the financial and economic crisis 2008/2009 has helped the banking industry to get back to its business of churning out more and more credit.

1 Low interest rates and credit expansion drive up asset prices

(a) US bank credit (y/y in %) and Fed Funds Rate (in %)



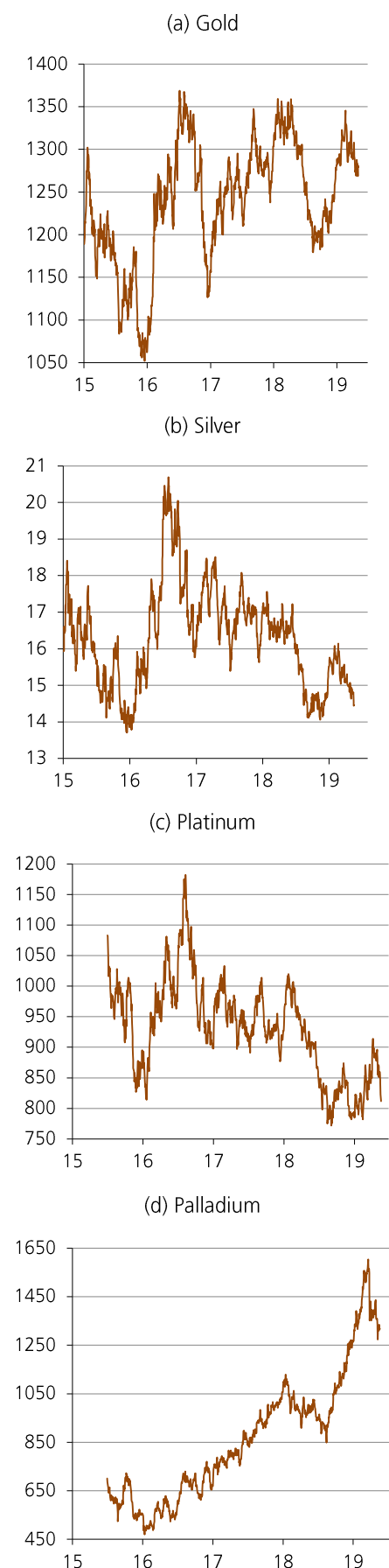
(b) US stock and housing prices



Source: Thomson Financial; calculations by Degussa.

As credit recovered, stock and housing prices started to rise again. (Note that from March 2009 to the May 2019, the S&P 500 gained 317 per cent, that is having compounded at a remarkable 15 per cent per year!) In December 2015, however, the Fed started taking away the punch bowl by beginning to raise interest rates. Until December 2018, it had brought back the Federal Funds Rate to a band of between 2.25 to 2.5 per cent. Where to go from here?

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



Source: Thomson Financial; graphs by Degussa.

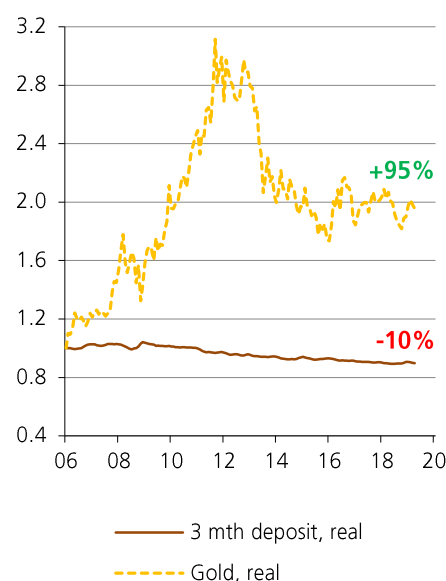
The Fed has signalled that it wants to take a break as far as any further interest rate decisions are concerned. Financial markets have their own view: They expect that the Fed's hiking cycle is already over and that the central bank will sooner or later lower interest rates. The likelihood that this expectation will turn out to be true is quite high: As the Fed wishes to keep the boom going, it has no choice but to return to the policy of suppressing interest rates.

Financial markets are optimistic that the Fed will succeed in preventing the boom from turning into yet another bust. Indeed, if the central bank keeps the lid on market interest rates, a fundamental correction mechanism that could potentially turn the boom into bust – the return of market interest rates to "normal levels" – is effectively disabled. That said, it might not be all too surprising that investors have become quite unconcerned regarding potential risks.

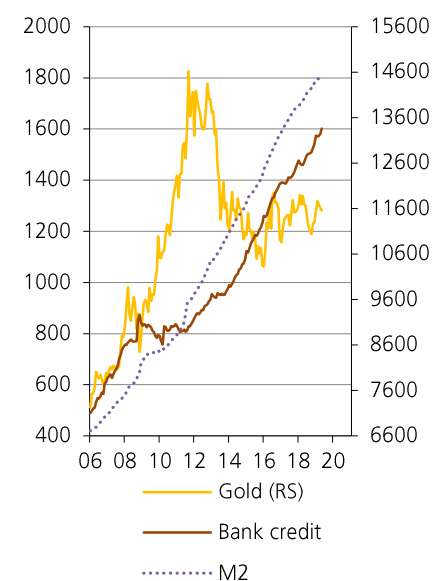
This, of course, has been a drag on the price of gold. At the same time, however, we should note that the price of the yellow metal has gained around 20 per cent since the beginning of 2016 – an appreciation well outperforming US dollar cash and short-term bank deposits (see Fig. 2 a). In this context it is important to note that the direct competitor of gold is not the stock or housing market, but all unbacked fiat currencies.

2 Upside price potential for gold

(a) Performance of gold price and 3 mth bank deposit, inflation-adjusted⁽¹⁾



(b) US bank credit and M2 (US\$bn) and the price of gold (USD/oz)



Source: Thomson Financial; calculations by Degussa. ⁽¹⁾ Adjusted for CPI inflation.

Seen from this perspective, gold deserves consideration if and whenever an investor makes portfolio decisions. The natural place for gold is in the liquid, the monetary portion of the investment portfolio, especially when the investor wishes to hold liquid assets in the medium to long term. Bought at a fair price, gold can be expected to keep its purchasing power over the years to come – in contrast to unbacked paper currencies.

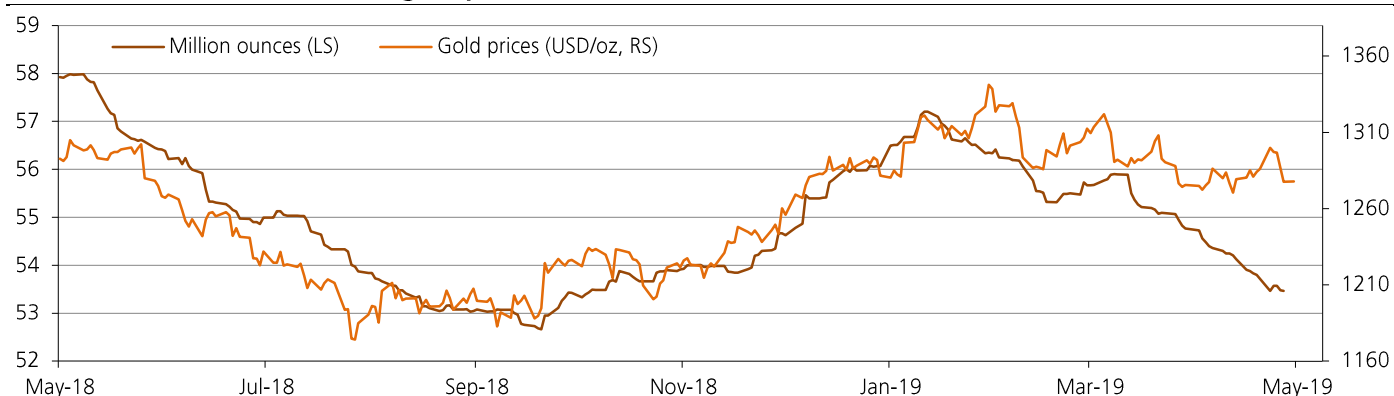
In times of crisis, there is a good chance that the price of gold goes up. This, in turn, allows the investor to exchange expensive gold against attractive assets trading at suppressed prices. Holding gold would, therefore, help to improve the overall return on investment. In other words: Gold promises to protect the portfolio against lasting losses in terms of a decline in the purchasing power of money as well as potential credit defaults.

As noted earlier, investors currently see little risk that the boom could turn into bust any time soon. On the one hand, this is quite understandable, given that central banks are willing, now more than ever, to keep market interest rates from rising. On the other hand, unlimited trust in the ability of central banking to fend off the inevitable appears to be misplaced because in the end “this time will not be different”. This is just another credit boom that will get what is coming for it.

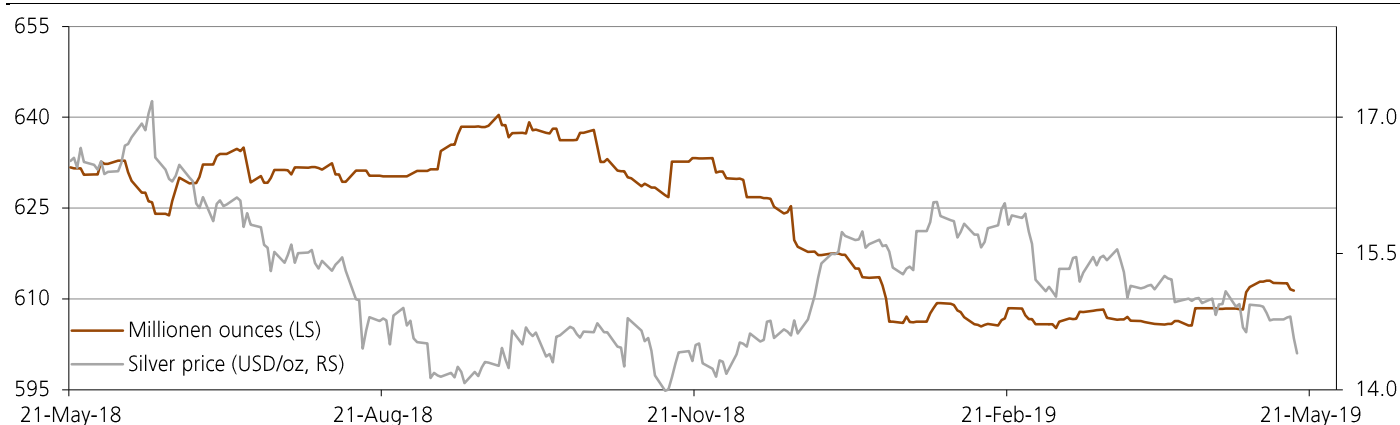
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Precious metals prices and ETF holdings

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



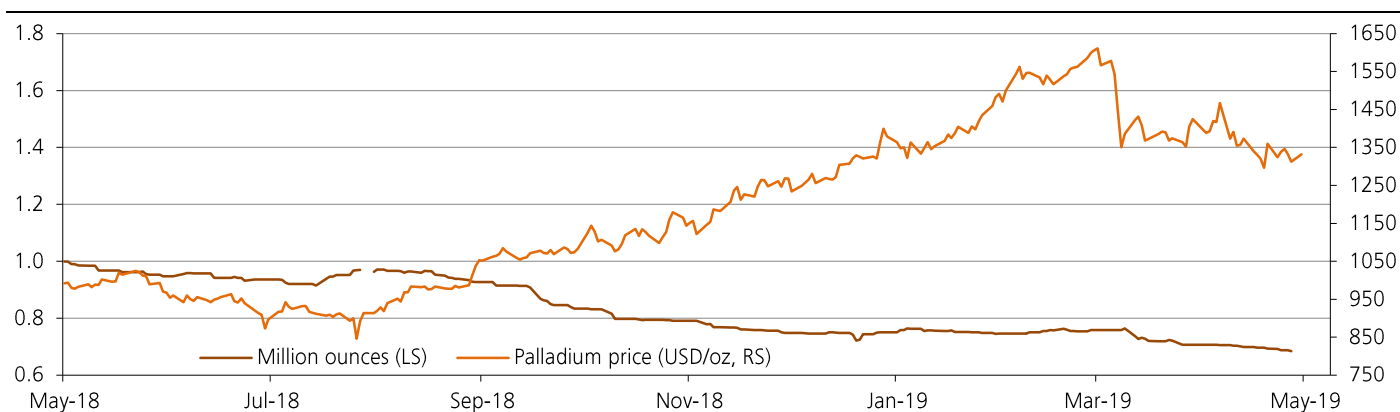
Silver ETFs (million ounces) and silver price (USD/oz)



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		1274.5		14.4		813.5		1319.0	
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		Low	High	Low	High	Low	High	Low	High
		1223	1480	14.4	19.1	785	903	1204	1368
(1)		-4	16	0	32	-4	11	-9	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

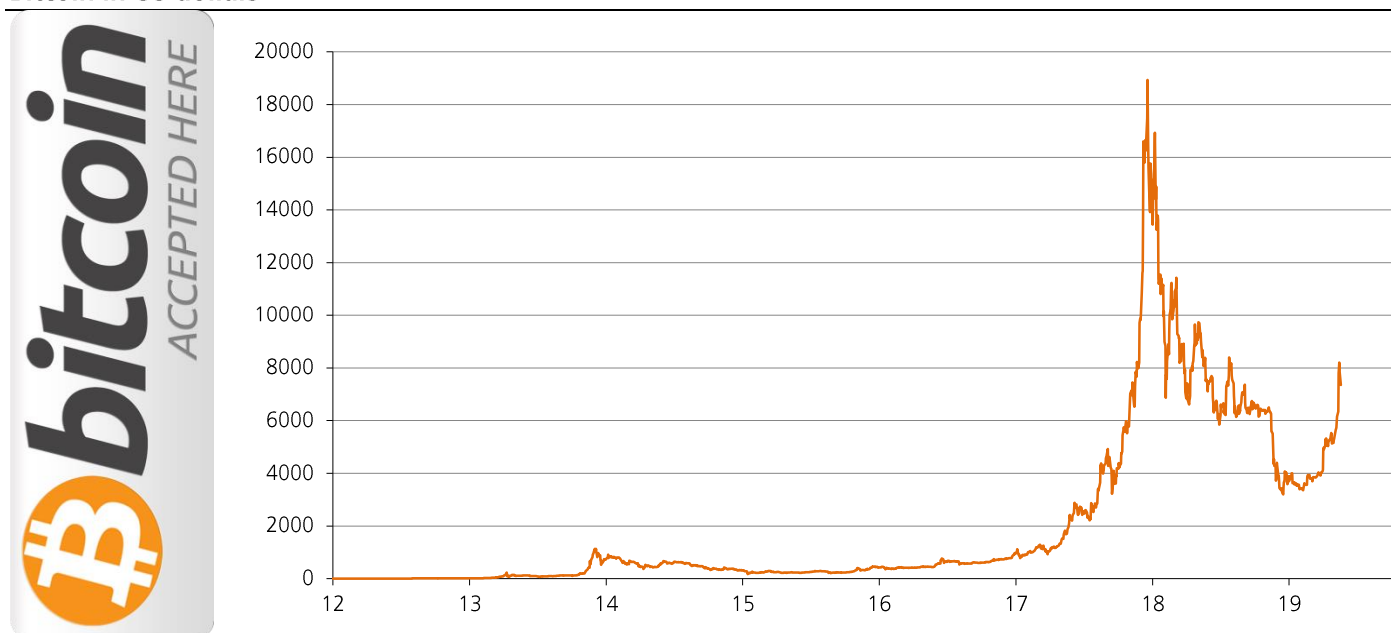
	Gold		Silver		Platinum		Palladium	
I. Actual	1142.1		12.9		729.0		1182.0	
II. Gliding averages								
5 days	1141.9		13.2		771.5		1209.2	
10 days	1144.1		13.3		782.7		1236.2	
20 days	1141.1		13.3		786.3		1230.0	
50 days	1147.6		13.5		768.2		1288.7	
100 days	1143.5		13.6		737.8		1237.8	
200 days	1099.6		13.1		724.7		1081.8	
III. Bandwidths for 2019	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)	-7	13	-3	29	-6	8	-11	1
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.

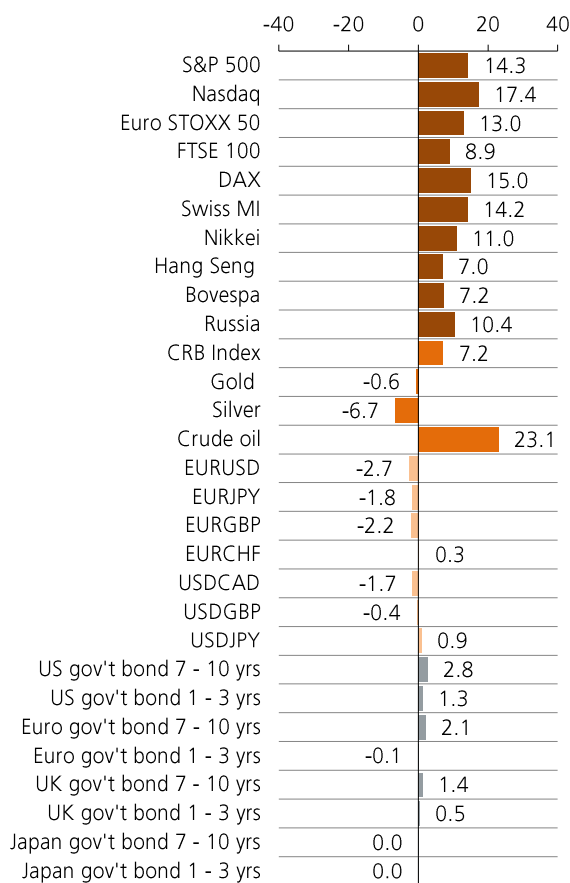
Bitcoin, performance of various asset classes

Bitcoin in US dollars

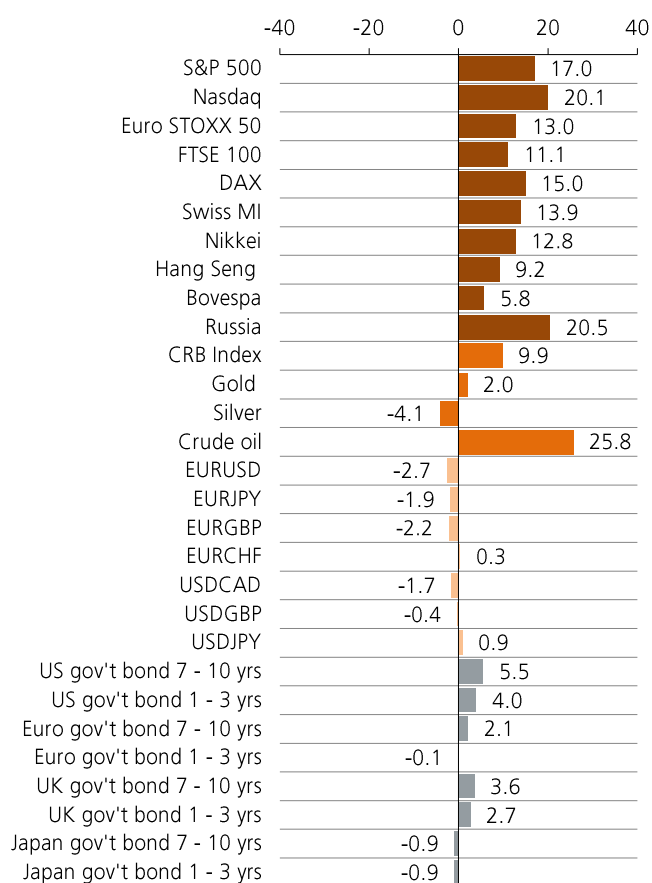


Performance of stocks, commodities, FX and bonds

(a) In national currencies



(b) In euro



Source: Thomson Financial; calculations by Degussa.

Articles in earlier issues of the *Degussa Market Report*

Issue	Content
23 May 2019	The Boom That Will Have It Coming
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
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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
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29 September 2017	The German Election Outcome Might Turn Up The Heat On The Euro

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