Degussa Market Report

4 July 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	1.425.0	6.2	10.7	16.5
Silver	15.3	2.7	1.1	-1.6
Platinum	831.7	4.1	-1.9	-0.3
Palladium	1.562.7	6.7	10.0	68.1
II. In euro				
Gold	1.262.4	5.5	10.0	20.6
Silver	13.5	2.0	0.4	1.9
Platinum	736.8	3.2	-2.2	2.8
Palladium	1.384.0	5.8	9.1	73.2
III. Gold price in other currencies				
JPY	153.429.0	5.4	7.0	12.1
CNY	9.803.3	5.5	13.5	17.8
GBP	1.133.3	6.4	15.3	21.6
INR	98.232.0	1.9	10.3	17.3
RUB	90.415.9	4.7	7.7	18.3

Source: Thomson Financial; calculations by Degussa.

OUR TOP ISSUE

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

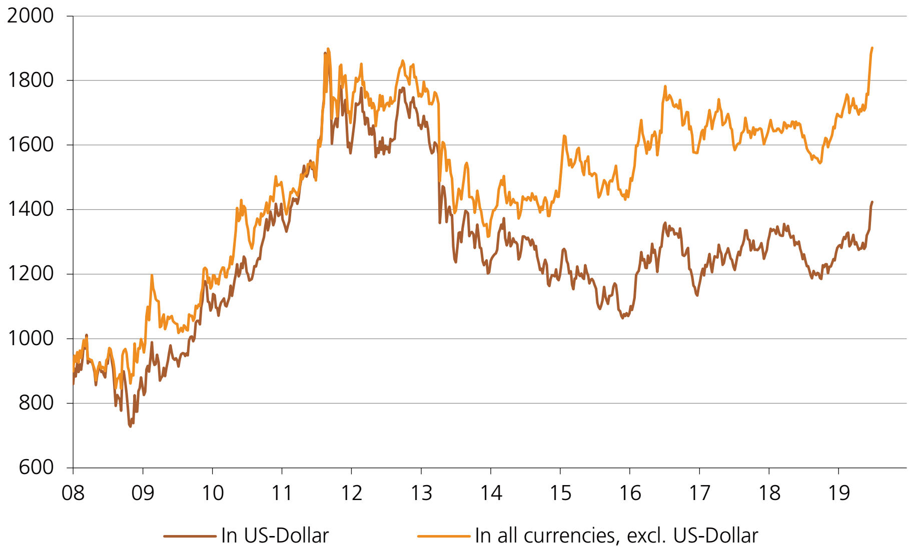
It Looks Like A Gold Bull Market, It Feels Like A Gold Bull Market – Maybe It Is A Gold Bull Market?

► ***Well, we are inclined to answer this question in the affirmative.***

Last week, the price of gold has climbed above the 1.400 USD/oz level, thereby giving rise to the expectation that the yellow metal has now returned to its decade-long upward trajectory. The increase in the price of gold is not only limited to US dollar; it is pretty much the same in virtually all major currencies in the world. There are quite a few reasons why the *gold bull market* might indeed have returned and that the latest price action is not just a flash in the pan.

1 Gold price going up

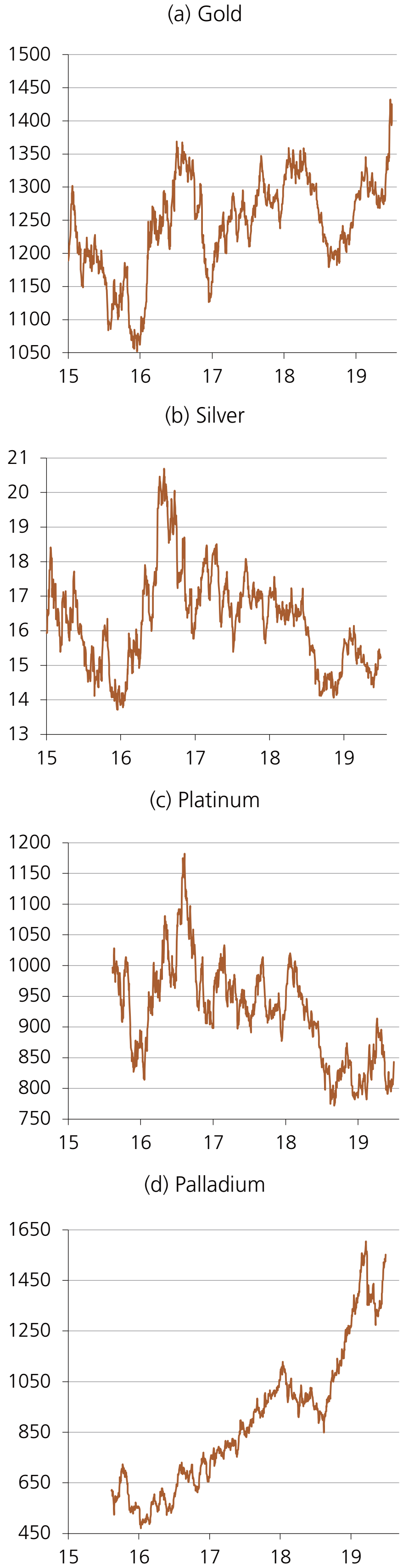
Gold price in USD/oz and in all other currencies excl. USD[1]



Source: Thomson Financial; calculations by Degussa. [1] Calculated from the gold price (USD/oz) and the nominal trade weighted exchange rate of the US dollar. The timeline was indexed at 5 September 2011 with a value of 1.900.

Interest rates in world markets keep trending downwards. The major central banks – the Federal Reserve (Fed) and the European Central Bank (EZB) – have already signalled the return to an extremely easy monetary policy. The Fed might lower its key interest rate as soon as July, we think; its lending rate should go down in September at the latest. From our viewpoint, the US Federal Funds Rate could reach 1.25 per cent in the first half year of 2020 – down from

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



Source: Thomson Financial; graphs by Degussa.

its current band of 2.25 – 2.50 per cent. The ECB may also reduce its deposit rate, which currently stands at minus 0.4 per cent, starting in July or August, bringing it down to minus 0.7 per cent until the first quarter of 2020.

That said, global interest rates will most likely remain very low or sink even lower. Especially short-term interest rates can be expected to become *negative* in real terms – that is after inflation is subtracted from nominal interest rates. This should be quite positive for the demand and thus the price of gold. In an environment of zero or negative real interest rates, the opportunity costs for holding gold collapse, and the bet on gold becomes even more rewarding as the holder of gold does not forego interest income, which, under normal circumstances, could be reaped by investing in bank deposits or short-term bonds.

Central banks' actions do not only improve the overall competitiveness of gold versus unbacked paper monies. They also raise the risk in the global economic and financial system because a monetary policy of artificially suppressed interest rates – which, in extreme cases, even leads to a policy of negative real interest rates – causes malinvestment on a grand scale. However, people don't see the problem right away as the economies expand nicely, consumption and investment increase, and new jobs are created. It is just a matter of time when things will start turning sour.

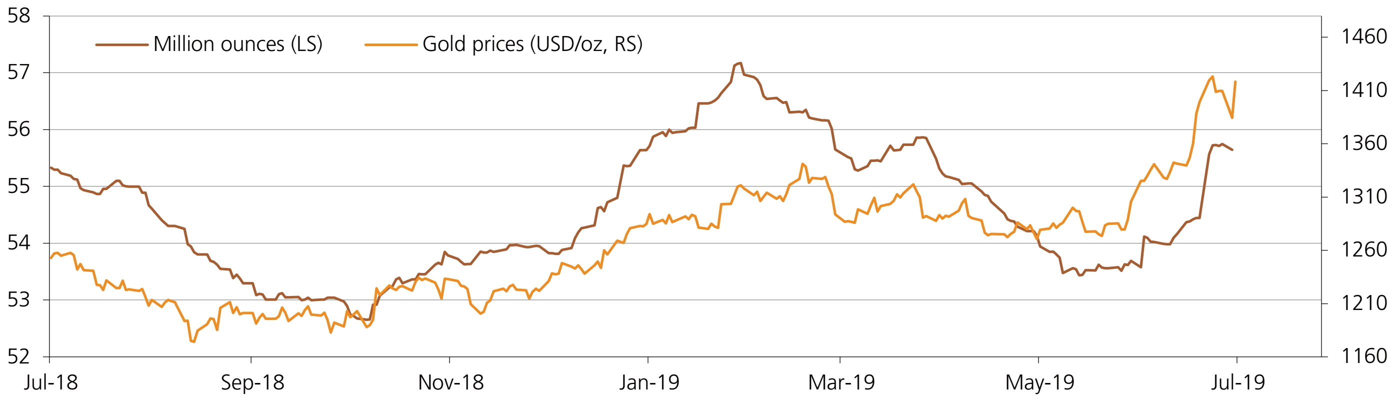
For a monetary policy of extremely low interest rates distorts the (I apologize for this 'economist 'speak') intertemporal coordination of savings and investments. Sooner or later, it will become evident that firms have embarked upon unprofitable projects, as the costs of production turn out higher than initially assumed, and the demand for products falls short of expectations. In other words, the "boom", set into motion by exceptionally low interest rates in the first place, turns into "bust".

In the past, central banks have tried numerous times to fend off the approaching bust by cutting interest rates even further and also ramping up the credit and money supply. In doing so, they have pushed interest rates to ever lower levels. In some currency regions, like the euro area and Japan, for instance, interest rates have already hit rock bottom, or interest rates have even been pushed below zero. It should be clear that things will most likely become pretty messy once the next crisis hits – and it surely will hit, as sound economic analysis suggests.

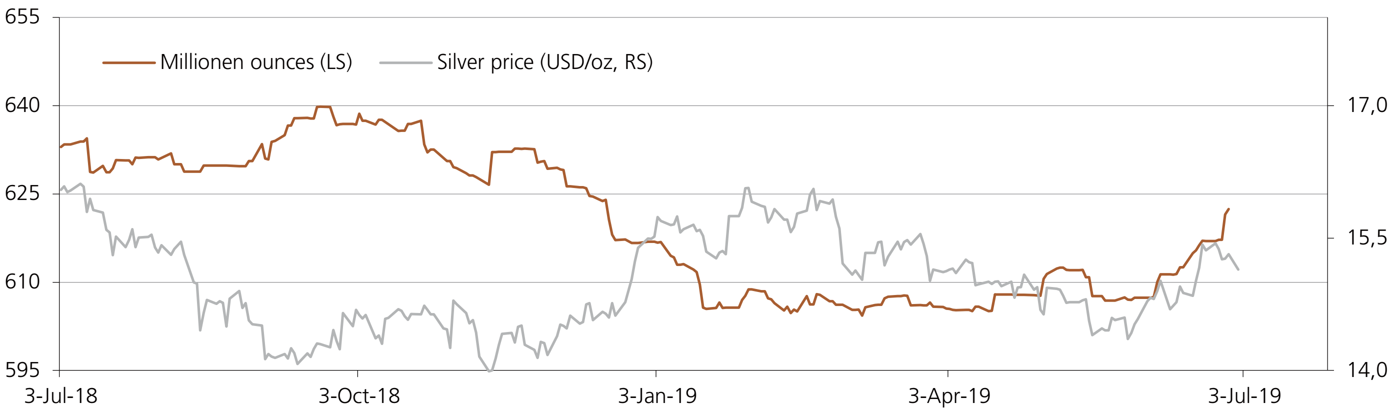
That said, there is undoubtedly an obvious case for holding gold as part of the liquid means of the investor's portfolio. Monetary policy actions cannot debase the purchasing power of gold as they do with time- and savings deposits or bonds, irretrievably depriving them of their value. Furthermore, gold protects against payment defaults, thus also shields the portfolio against the consequences of a full-blown credit crisis. Of course, timing remains an obscure factor in any investment decision. However, we are inclined to answer the question "It Looks Like A Gold Bull Market, It Feels Like A Gold Bull Market – Maybe It Is A Gold Bull Market?" in the affirmative.

Precious metals prices and ETF holdings

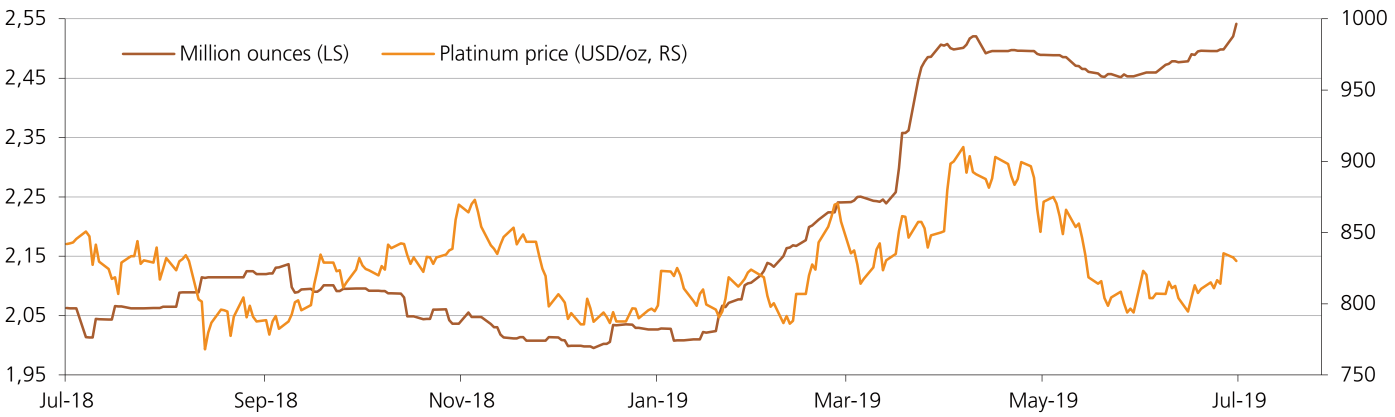
Gold ETFs (million ounces) und gold price (USD/oz)



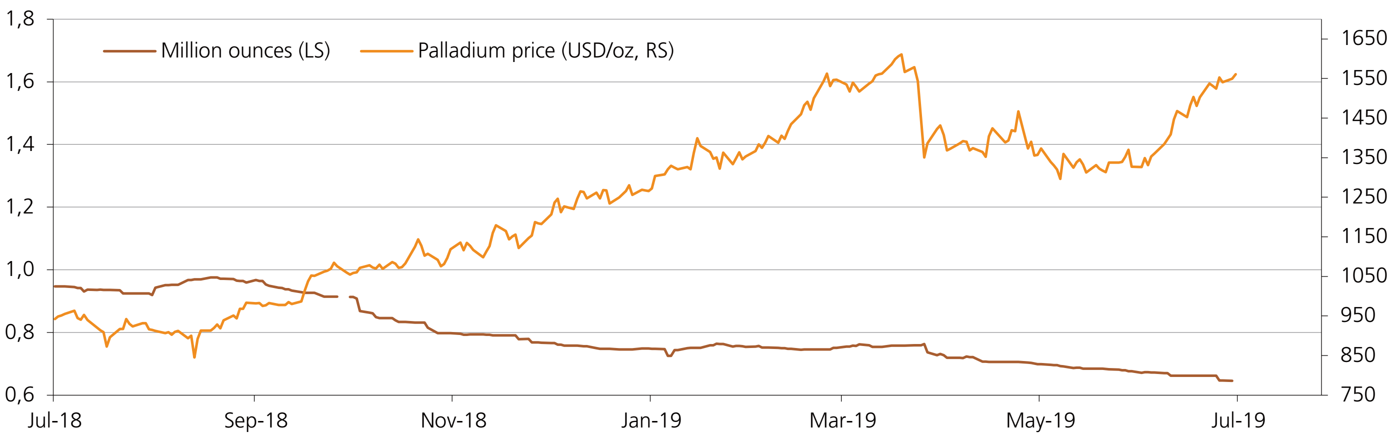
Silver ETFs (million ounces) and silver price (USD/oz)



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



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



Source: Thomson Financial; graphs by Degussa.

Precious metals prices

In US-dollar

	Gold		Silver		Platinum		Palladium	
I. Actual	1424.9		15.3		831.6		1558.0	
II. Gliding averages								
5 days	1403.5		15.3		821.6		1538.6	
10 days	1398.2		15.3		815.3		1526.3	
20 days	1368.0		15.1		811.1		1464.6	
50 days	1318.8		14.9		828.1		1393.2	
100 days	1310.4		15.1		840.7		1431.2	
200 days	1279.8		15.0		829.2		1320.9	
III. Bandwidths for 2019	*Low*	*High*	*Low*	*High*	*Low*	*High*	*Low*	*High*
	1223	1480	14.4	19.1	785	903	1204	1368
(1)	*-14*	*4*	*-6*	*25*	*-6*	*9*	*-23*	*-12*
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

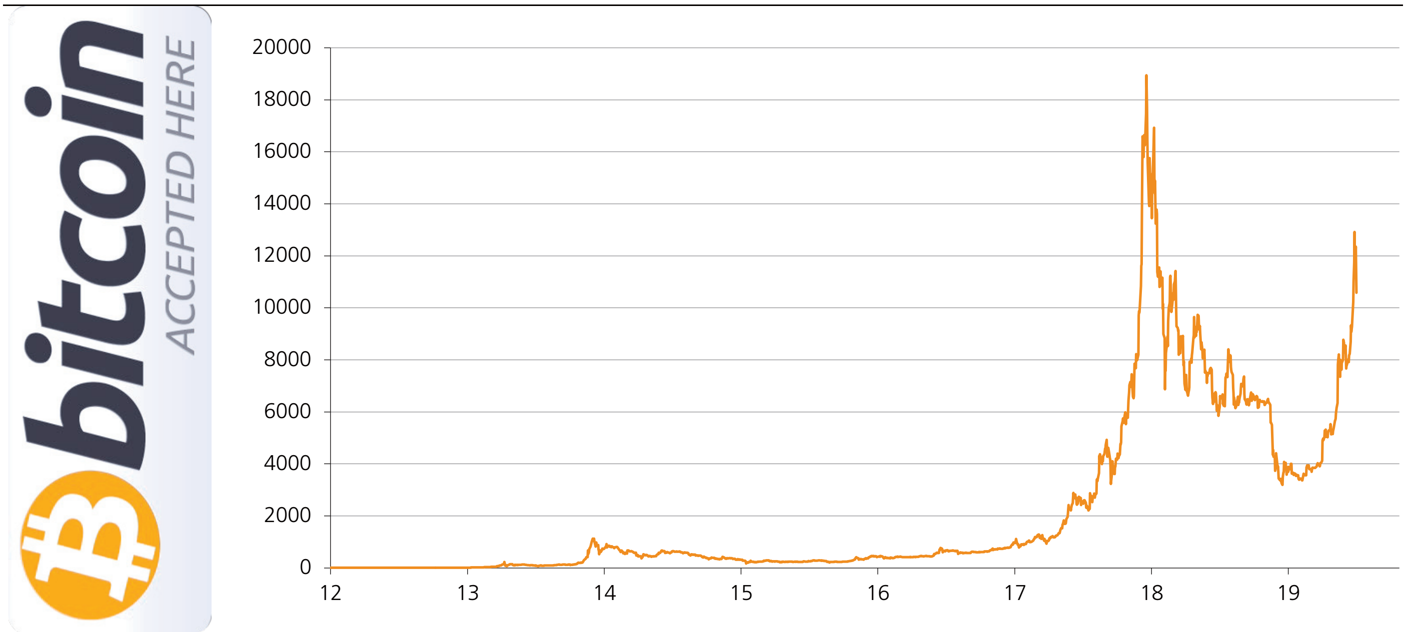
	Gold		Silver		Platinum		Palladium	
I. Actual	1262.8		13.6		736.9		1380.7	
II. Gliding averages								
5 days	1236.5		13.4		723.9		1355.6	
10 days	1233.5		13.5		719.3		1346.5	
20 days	1210.1		13.3		717.5		1295.5	
50 days	1173.8		13.2		737.2		1239.9	
100 days	1163.5		13.4		746.5		1270.5	
200 days	1128.8		13.2		731.3		1165.6	
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)	*-15*	*2*	*-7*	*23*	*-7*	*7*	*-24*	*-13*
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

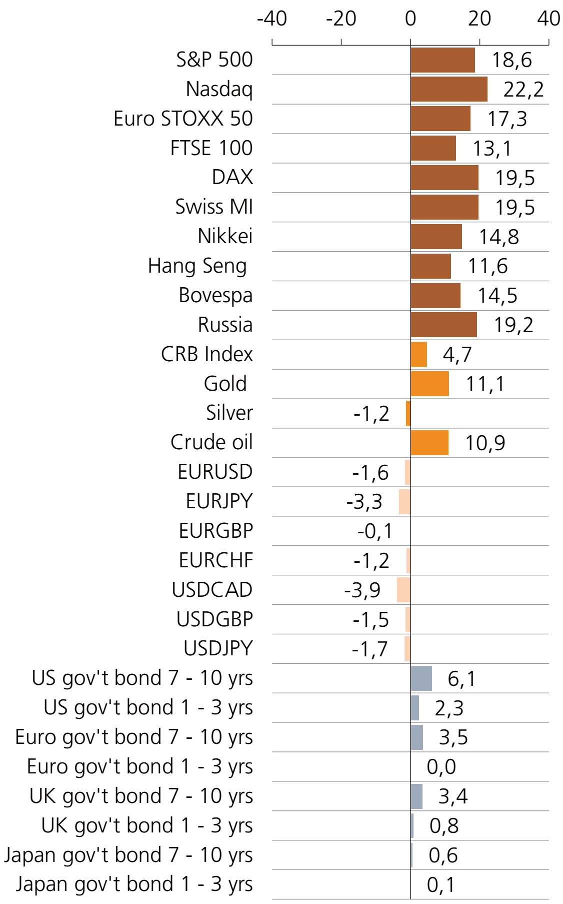
Bitcoin in US dollars



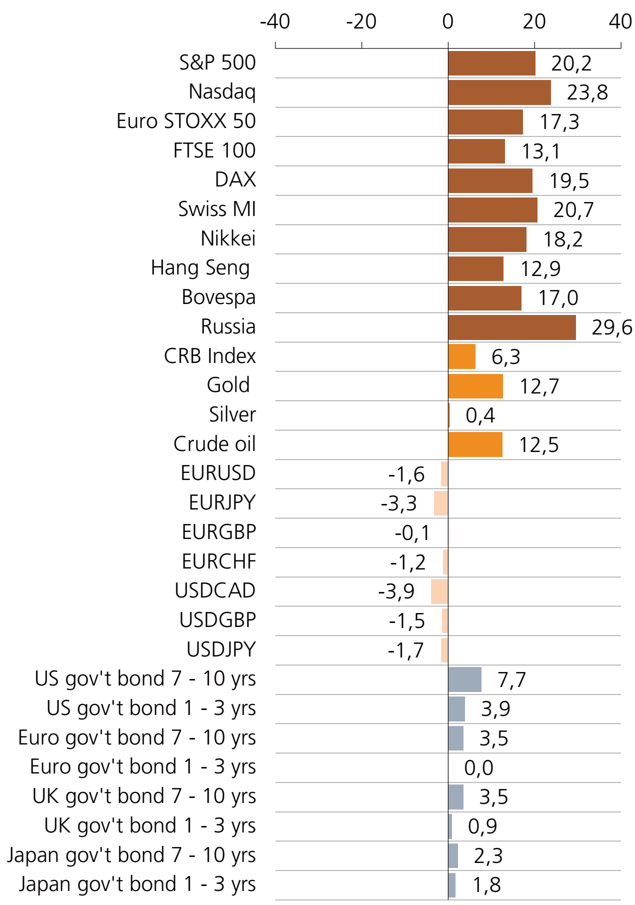
Source: Thomson Financial; graphic Degussa.

Performance of stocks, commodities, FX and bonds

(a) In national currencies



(b) In euro



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Articles in earlier issues of the *Degussa Market Report*

Issue	Content
4 July 2019	It Looks Like A Gold Bull Market, It Feels Like A Gold Bull Market – Maybe It Is A Gold Bull Market?
19 June 2019	Good Money, Bad Money—And How Bitcoin Fits In
6 June 2019	Gold Outshines The US Dollar
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 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
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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

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