

10 October 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	1.505.7	-0.7	8.8	24.0
Silver	17.7	-1.3	17.2	24.7
Platinum	885.3	-6.4	6.7	5.9
Palladium	1.649.2	0.5	6.6	52.9
II. In euro				
Gold	1.372.2	-0.3	11.9	27.9
Silver	16.2	-0.9	20.7	28.6
Platinum	806.8	-6.0	9.7	9.1
Palladium	1.503.0	0.8	9.6	57.4
III. Gold price in other currencies				
JPY	160.960.0	-1.3	7.3	17.4
CNY	10.756.0	0.0	13.5	27.1
GBP	1.233.0	1.5	12.6	29.7
INR	107.161.4	1.9	12.4	19.4
RUB	98.298.8	1.3	12.7	22.9

Source: Thomson Financial; calculations by Degussa.

OUR TOP ISSUES

This is a short summary of our fortnightly Degussa Marktreport.

LET'S GET PHYSICAL WITH GOLD AND SILVER

Lately, a 'price war' has erupted among major brokers in the US. For instance, Interactive Brokers has announced to offer stock transactions charging zero commission. Other brokers have also cut fees down to zero. In doing so, they want to gain or retain market share. From the viewpoint of investors, this is a rather pleasant development – as any fees bite into their performance figures. Overall, this is actually what one would expect in a competitive market for 'commoditised businesses' such as brokerage: transaction costs are getting ever closer to zero.

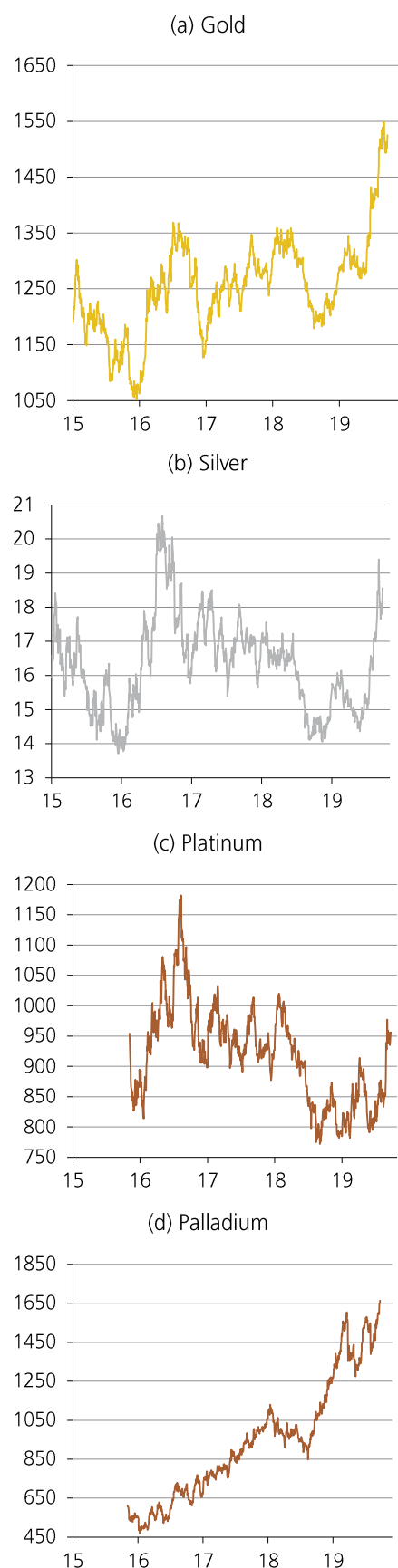
Meanwhile, the cost-cutting spree has reached the precious metal 'paper market'. The British bank Barclays PLC has announced to launch a zero-cost gold and silver investment product: the Barclays iPath Gold exchange-traded note (ETN) and iPath Silver ETN. They represent unsecured debt obligations issued by the bank. Both ETNs are meant to use derivatives to match the total return provided by three-month forward gold and silver prices. Competing products track the spot price and are backed by physical holdings of gold and silver that are stored in secure vaults.

Barclays' ETN further opens the door to institutional investors seeking exposure to precious metals. So far, ETFs have been providing the major inroad into gold and silver for big-money investors. This may explain why in the last years a fairly close and positive relationship between the price of gold and gold ETF holdings could be observed: A rise (decline) in gold ETF holdings was accompanied by an increase (fall) in the price of gold. This may be explained by the fact that fairly large amounts of money can be moved in and out of gold ETFs in a relatively short time. This, in turn, impacts the market price of the yellow metal substantially.

Similarly, an uptick (downswing) of the market price of gold may tempt investors to 'play the trend', that is putting money into gold ETFs when prices are rising, and moving money out of gold ETFs when the price of gold declines. In this sense, gold ETFs would not induce but aggravate swings in the gold market – and also explain the rather close and positive co-movements between gold ETF holdings and the market price of gold. In any case, it seems plausible to assume that ETFs have been playing a significant role in price action in the precious metals space.

Different investors typically have different objectives. Those who wish to trade the short-term ups and downs of the market are well-positioned when taking recourse to ETFs and other 'gold and silver paper' instruments. For with these,

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



they can quickly go in and out of the markets at reasonably low costs – costs that may well go down even further in the future. Those investors, however, who wish to keep gold and silver for the long-term, seeking insurance against the vagaries of the world-wide unbacked paper money system, have good reason to acquire gold and silver in physical form.

Contrary to ETFs and other related investment products, physical gold and silver, stored in secure vaults, do not carry any default or counterparty risk. This issue may not rank high on investor's mind in 'normal times'. But it indeed would become a major issue if financial markets were to enter the next major crisis. In such a disruption period, it is even possible that the prices of 'paper gold' and 'paper silver', which can be so conveniently traded in 'good times', start to deviate from their physical counterparts quite substantially when things turn sour.

Thinking carefully about how to seek exposure to the gold and silver markets should, therefore, pay off for the savvy investor. For central banks around the world have effectively embarked upon policies for debasing the purchasing power of money and outstanding debt instruments. Gold and silver have already become one of the very few liquid means whose values are effectively protected against the consequences of central banks' policies – which are most likely pushing the prices of gold and silver further up in the years to come.

Savvy investors may well rely on gold and silver ETFs or related products if and when they see their major risk in an upcoming inflationary regime. If, however, they consider payment or credit defaults as a likely scenario in the next crisis (and it will come, for sure), they might want to obtain gold and silver in physical form. In other words, one would recommend getting physical when it comes to gold and silver. For sure, the lure of buying gold and silver indirectly will undoubtedly increase for most investors when fees keep declining across the board. However, going the extra mile and 'getting physical' with gold and silver still holds value: It is and has always been the most effective insurance.

Precious metals prices

In US-dollar per ounce

	Gold		Silver		Platinum		Palladium	
I. Actual	1506.1		17.7		884.8		1650.1	
II. Gliding averages								
5 days	1500.1		17.5		882.2		1665.8	
10 days	1501.9		17.7		906.7		1662.8	
20 days	1503.2		17.8		925.3		1633.7	
50 days	1502.9		17.6		897.5		1540.3	
100 days	1435.8		16.4		858.9		1503.6	
200 days	1366.4		15.9		849.7		1455.6	
III. Estimate for end 2020	1690		22.9		930		1570	
Bandwidths	Low	High	Low	High	Low	High	Low	High
	1440	1840	16	26	780	990	1380	1650
(1)	-4	22	-8	48	-12	12	-16	0
IV. Annual averages								
2016	1242		17.0		985		617	
2017	1253		17.1		947		857	
2018	1268		15.8		880		1019	

In euro per ounce

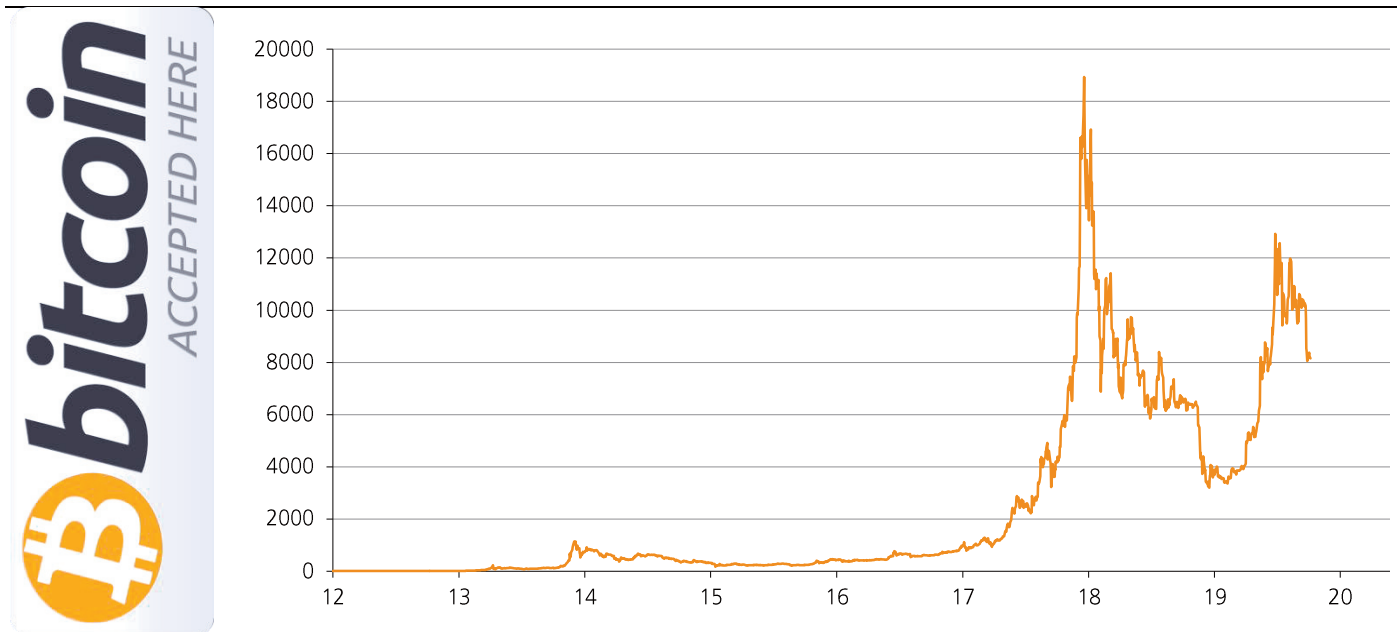
	Gold		Silver		Platinum		Palladium	
I. Actual	1372.7		16.2		806.4		1504.0	
II. Gliding averages								
5 days	1368.1		16.0		804.6		1519.3	
10 days	1370.8		16.1		827.5		1517.6	
20 days	1367.2		16.2		841.5		1486.1	
50 days	1358.9		15.9		811.7		1393.2	
100 days	1288.3		14.7		770.7		1349.0	
200 days	1217.6		14.2		757.1		1296.9	
III. Estimate for end 2020	1580		22		870		1470	
Bandwidths	Low	High	Low	High	Low	High	Low	High
	1350.0	1730.0	15.3	24.8	730.0	930.0	1290.0	1550.0
(1)	-2	26	-5	53	-9	15	-14	3
IV. Annual averages								
2016	1120		15		888		557	
2017	1116		15		844		760	
2018	1072		13		743		863	

Source: Thomson Financial; own calculations and estimates. Numbers are rounded.

(1) Estimated return against actual price in percent.

Bitcoin, performance of various asset classes

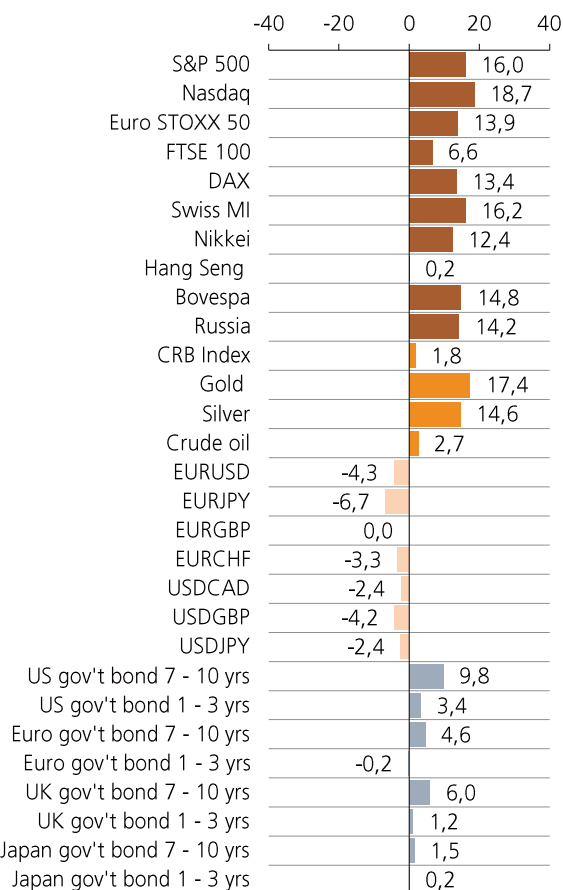
Bitcoin in US dollars



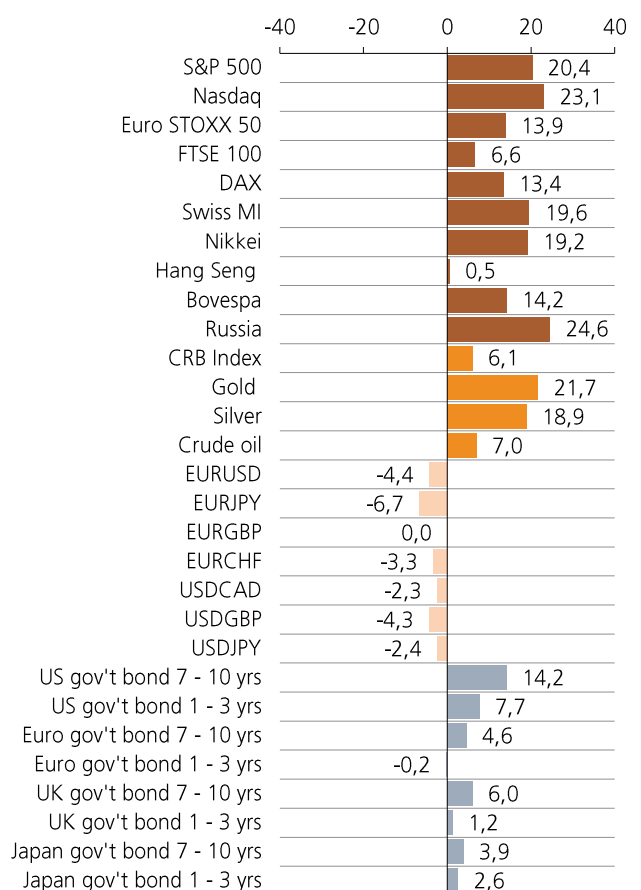
Source: Thomson Financial; graph by Degussa.

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
10 October 2019	Let's Get Physical With Gold And Silver
26 September 2019	The US Dollar Beast
12 September 2019	The Inflationary Tide That Lifts all Boats but One
29 August 2019	The Disaster of Negative Interest Rate Policy
15 August 2019	The Gold Bull Market Is Back
1 August 2019	Gold And Silver Prices – Get Going!
19 July 2019	Facebook's Fake Money
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 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

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www.degussa-goldhandel.de/de/marktreport.aspx.

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