

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	1.470.9	-2.8	4.1	20.4
Silver	17.1	-5.3	5.4	20.9
Platinum	917.4	-3.0	6.7	15.0
Palladium	1.764.2	-2.3	16.3	49.8
II. In euro				
Gold	1.328.3	-2.0	4.1	23.1
Silver	15.5	-4.4	5.4	23.6
Platinum	828.5	-2.6	6.4	17.6
Palladium	1.593.0	-1.5	16.3	53.0
III. Gold price in other currencies				
JPY	159.750.0	-2.5	3.9	15.2
CNY	10.346.6	-2.9	6.3	21.7
GBP	1.138.1	-2.8	-2.1	18.8
INR	105.523.9	1.9	8.4	24.0
RUB	93.894.1	-2.4	4.4	14.6

Source: Thomson Financial; calculations by Degussa.

OUR TOP ISSUES

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

ASSET PRICE INFLATION AND THE PRICE OF GOLD

Central banks around the world have been pushing market interest rates to ever lower levels. Even the Federal Reserve (Fed), the world's de facto central bank, has now returned to pursuing a policy of lower interest rates and monetary expansion. There should be little doubt that central banks have succeeded in pushing market interest rates below "natural interest rate levels" – as evidenced by the fact that most interest rates have become negative in real terms.

Initially, ultra-low market interest rates can be a boost to economic activity, encouraging consumption and investment spending. However, over time, an artificially lowered market interest rate causes over-consumption and malinvestment: As the market interest rate goes down, people save less and consume more out of their current income, and, at the same time, firms increase their investments. This makes the economy live beyond its means.

1 World stock prices at record highs

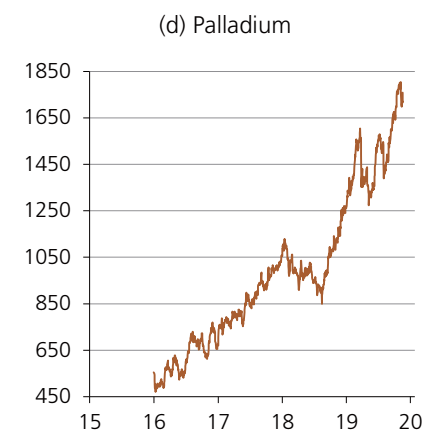
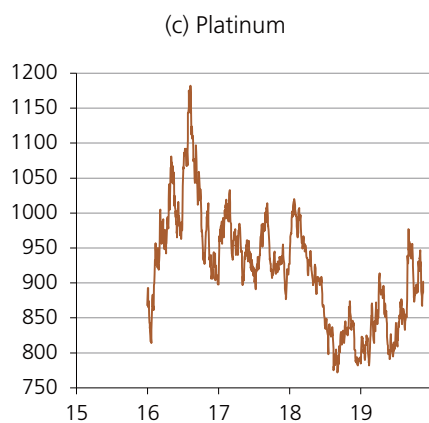
MSCI stock market index (in USD)



Source: Thomson Financial; graph by Degussa.

What is more, artificially suppressed market interest rates drive prices for assets such as, say, stocks and housing up. For instance, future earnings are discounted with a lower rate, and that increases present value and thus, market price. This effect may well explain a great deal of why the world stock market has been in an upswing in the last decade and is now trading at a record level. At the same time, stock valuation measures (such as for instance, the price-earnings ratio) have also grown in recent years.

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



Source: Thomson Financial; graphs by Degussa.

In addition to artificially lowered interest rates, there is another force at work: Central banks have put a “safety net” under the economies and the financial markets, essentially promising to take care of economic growth and financial stability. Investors expect central banks to stand ready to fend off any unfavourable development that could lead to a recession or crash. As a result, investors have put aside their risk aversion.

As long as central banks continue to pursue such an inflationary monetary policy – that is continuously expanding the quantity of credit and money at suppressed market interest rates –, chances are that asset prices will edge higher and with them the valuation measures. For as market interest rates go down, or even approach the zero line, it makes economic sense that stocks and real estate trade at higher valuation levels.

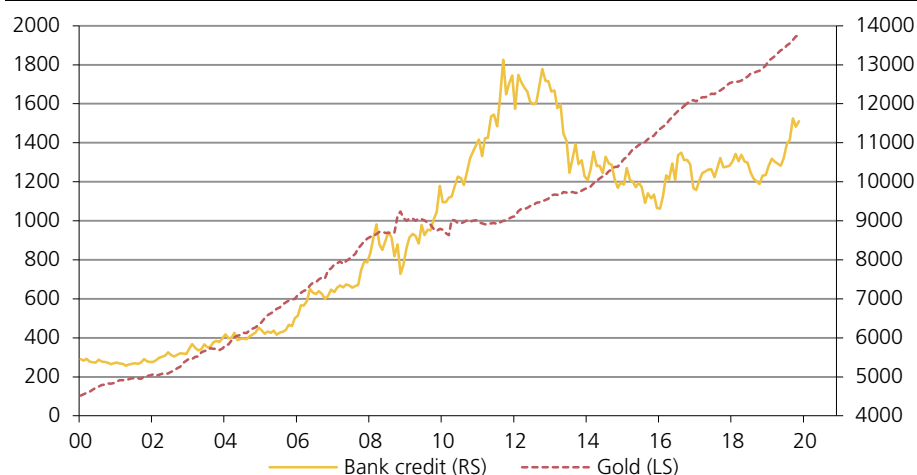
The critical point here is, however, that market interest rates have been artificially lowered, and so higher asset prices and higher asset valuations measures represent a distortion, a misalignment. This may well become even more problematic if and when investor confidence drives asset prices into a speculative bubble period – that is period in which prices and valuations become excessively overvalued in the face of artificially lowered market interest rates.

Against this backdrop, it should already have become evident that financial markets are becoming an increasingly dangerous place. While the asset price inflation may well continue for quite some time, the risk that economic disequilibria will become ever more severe and that there will be a “very hard landing” at some point increases. The savvy investor may well ask: What am I going to do about it? One option is to remain invested, but take some risk off the table by adding portfolio insurance in the form of gold.

The “gold currency” does not have a credit default risk (as for instance bank deposits do), and its purchasing power cannot be debased by monetary policy action. What is more, the historical correlation between the price of gold and stocks was close to zero. This suggests that gold may well help to reduce a portfolio’s price volatility without compromising a portfolio’s return – as the price of gold can be expected to keep trending upwards in the years to come. In this sense, Ray Dalio argued on 17 July 2019, when he said to Bloomberg: “I believe that it would be both risk-reducing and return-enhancing to consider adding gold to one’s portfolio.”

2 Monetary expansion drives gold price

US bank credit (USD bn) and gold price (USD/oz)



Source: Thomson Financial; graph by Degussa.

Precious metals prices

In US-dollar per ounce

	Gold		Silver		Platinum		Palladium	
I. Actual	1472.8		17.1		918.4		1767.1	
II. Gliding averages								
5 days	1469.8		17.0		882.2		1725.4	
10 days	1467.8		17.0		890.8		1740.1	
20 days	1483.7		17.4		908.1		1761.0	
50 days	1492.7		17.6		910.1		1706.1	
100 days	1480.9		17.2		888.0		1605.7	
200 days	1395.7		16.2		864.4		1518.5	
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⁾	-2	25	-5	54	-15	8	-22	-7
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

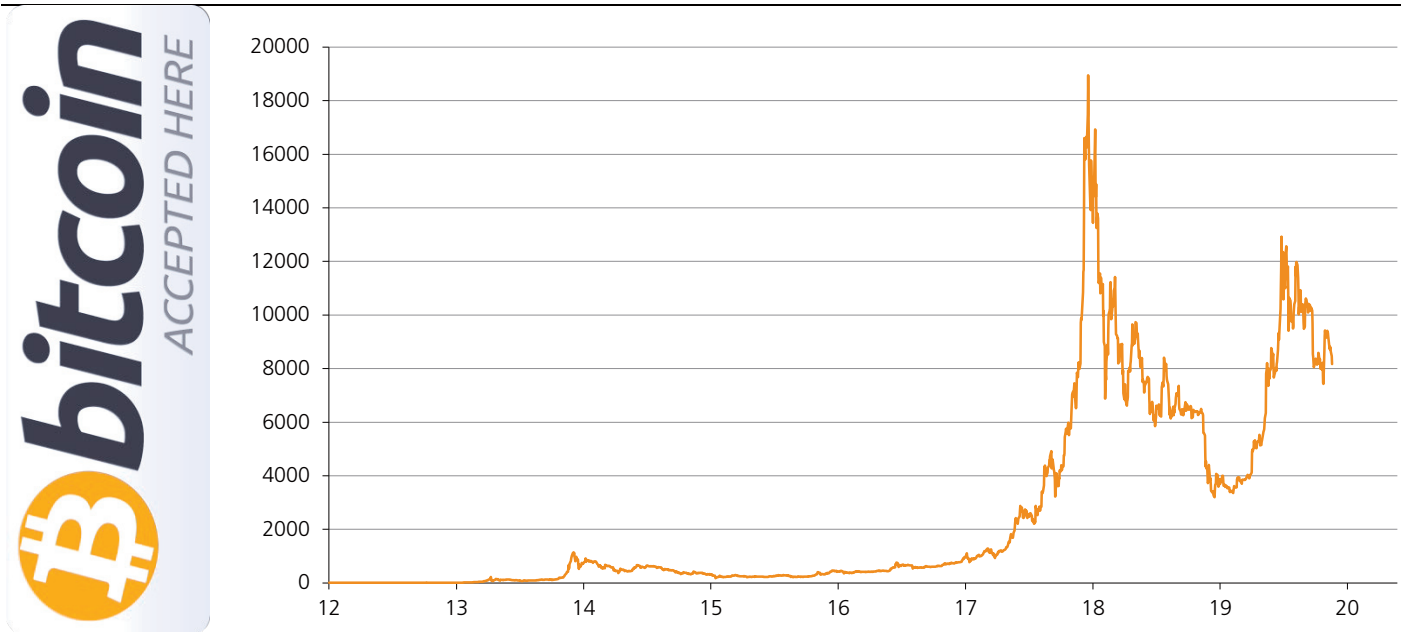
	Gold		Silver		Platinum		Palladium	
I. Actual	1330.1		15.5		829.4		1595.9	
II. Gliding averages								
5 days	1330.7		15.4		798.7		1562.2	
10 days	1329.4		15.4		806.8		1576.0	
20 days	1338.9		15.7		819.4		1589.2	
50 days	1351.9		16.0		824.3		1544.9	
100 days	1335.3		15.5		800.7		1447.9	
200 days	1249.4		14.5		773.6		1359.2	
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⁾	1	30	-1	60	-12	12	-19	-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

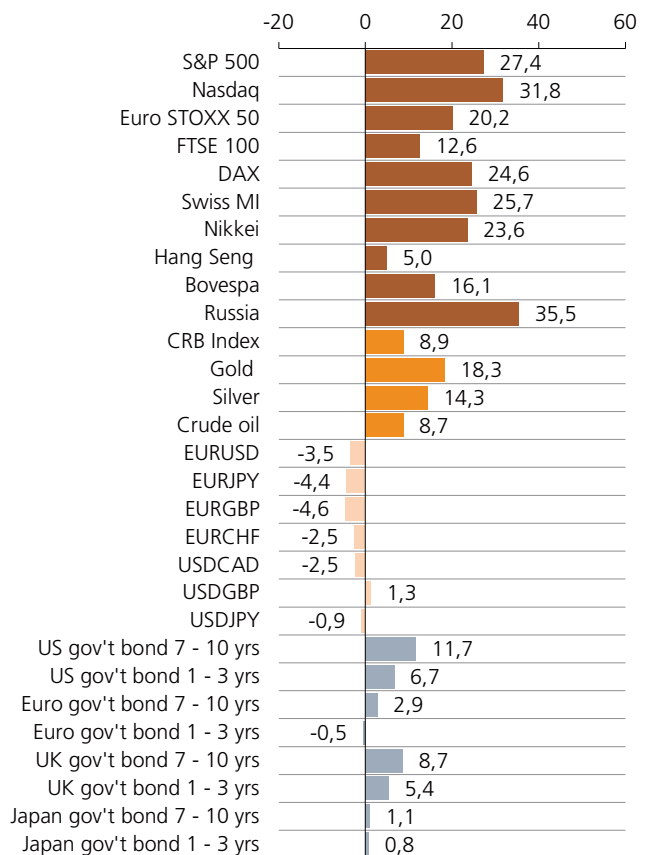
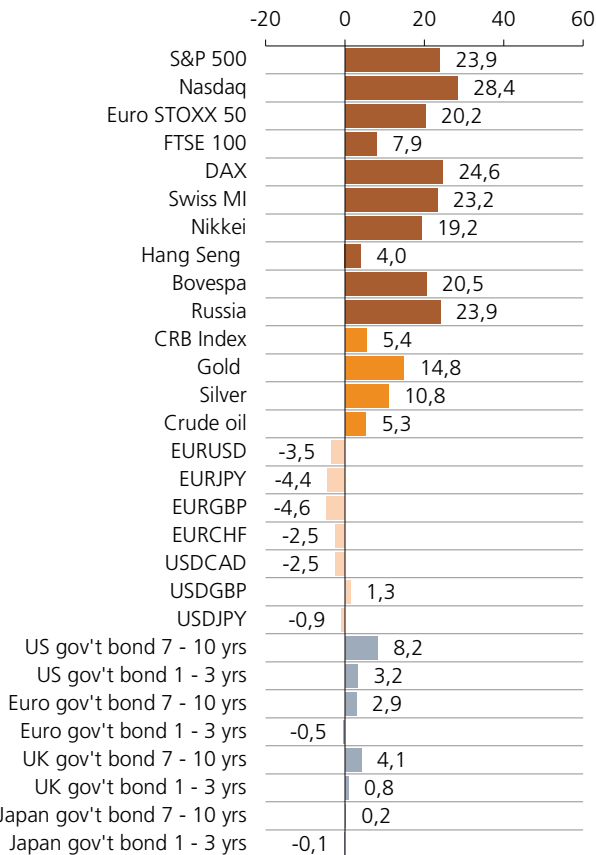


Source: Thomson Financial; graph by Degussa.

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
21 November 2019	Asset Price Inflation and the Price of Gold
7 November 2019	ETFs Drive Gold Demand
24 October 2019	The Inflationary Supply Of Unbacked US Dollars And The Price Of Gold
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

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www.degussa-goldhandel.de/marktreport

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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/infoteh/marktreport/>



Frankfurt Headquarters

Kettenhofweg 29 · 60325 Frankfurt

Phone: 069-860 068 – 0 · info@degussa-goldhandel.de

Retail buying and selling outlets in Germany:

Augsburg (shop & showroom): Maximiliansstraße 53 · 86150 Augsburg
Phone: 0821-508667 – 0 · augsburg@degussa-goldhandel.de

Berlin (shop & showroom): Fasanenstraße 70 · 10719 Berlin
Phone: 030-8872838 – 0 · berlin@degussa-goldhandel.de

Frankfurt (shop & showroom): Kettenhofweg 25 · 60325 Frankfurt
Phone: 069-860 068 – 100 · frankfurt@degussa-goldhandel.de

Hamburg (shop & showroom): Ballindamm 5 · 20095 Hamburg
Phone: 040-329 0872 – 0 · hamburg@degussa-goldhandel.de

Hanover (shop & showroom): Theaterstraße 7 · 30159 Hanover
Phone: 0511-897338 – 0 · hannover@degussa-goldhandel.de

Cologne (shop & showroom): Gereonstraße 18-32 · 50670 Cologne
Phone: 0221-120 620 – 0 · koeln@degussa-goldhandel.de

Munich (shop & showroom): Promenadeplatz 12 · 80333 Munich
Phone: 089-13 92613 – 18 · muenchen@degussa-goldhandel.de

Munich (Old Gold Centre): Promenadeplatz 10 · 80333 Munich
Phone: 089-1392613 – 10 · muenchen-altgold@degussa-goldhandel.de

Nuremberg (shop & showroom): Prinzregentenauer 7 · 90489 Nuremberg
Phone: 0911-669 488 – 0 · nuernberg@degussa-goldhandel.de

Pforzheim (refinery): Freiburger Straße 12 · 75179 Pforzheim
Phone: 07231-58795 – 0 · pforzheim@degussa-goldhandel.de

Stuttgart (shop & showroom): Kronprinzstraße 6 · 70173 Stuttgart
Phone: 0711-305893 – 6 · stuttgart@degussa-goldhandel.de

Retail buying and selling outlets around the world:

Zurich (shop & showroom): Bleicherweg 41 · 8002 Zurich
Phone: 0041-44-40341 10 · zuerich@degussa-goldhandel.ch

Geneva (shop & showroom): Quai du Mont-Blanc 5 · 1201 Genève
Phone: 0041-22 908 14 00 · geneve@degussa-goldhandel.ch

Madrid (shop & showroom): Calle de Velázquez 2 · 28001 Madrid
Phone: 0034-911 982 900 · info@degussa-mp.es

London Sharps Pixley Ltd. (member of the Degussa Group)
Phone: 0044-207 871 0532 · info@sharpspixley.com