Degussa Market Report

23 April 2020 Economics · Finance · Precious Metals

USD per ounce of gold

USD per ounce of silver

EURUSD

Source: Refinitiv; graphs by Degussa.

Precious metals prices	Actual (spot)	Change against (in percent): 2 W	3 M	12 M
I. In US-dollar				
Gold	1.703.8	5.4	12.3	32.8
Silver	15.0	4.2	-15.9	0.4
Platinum	755.0	4.8	-21.6	-14.8
Palladium	1.961.6	-10.4	1.0	41.3
II. In euro				
Gold	1.567.4	4.8	15.9	37.0
Silver	13.8	3.6	-13.3	3.6
Platinum	694.5	4.2	-19.1	-12.0
Palladium	1.805.0	-11.0	4.3	45.9
III. Gold price in other currencies				
JPY	183.614.0	4.7	11.4	28.4
CNY	12.065.3	5.2	14.2	39.6
GBP	1.378.3	4.5	20.6	40.0
INR	130.306.9	1.9	20.4	45.8
RUB	129.311.0	4.7	37.7	56.1

Source: Refinitiv; calculations by Degussa.

OUR TOP ISSUES

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

THE UNDESIRABLE EFFECTS OF THE CORONAVIRUS RELIEF PACKAGE

Governments and their central banks have put together "mega bail-out" packages. In the US, for instance, President Donald J. Trump has signed a 2 trillion US$ "virus relief package" – amounting to around 10 per cent of the US gross domestic product. It is meant to provide massive financial support – in the form of loans, tax breaks, and direct payments – to large and small businesses as well as individuals whose revenue and income have been destroyed by the politically dictated "lockdown".

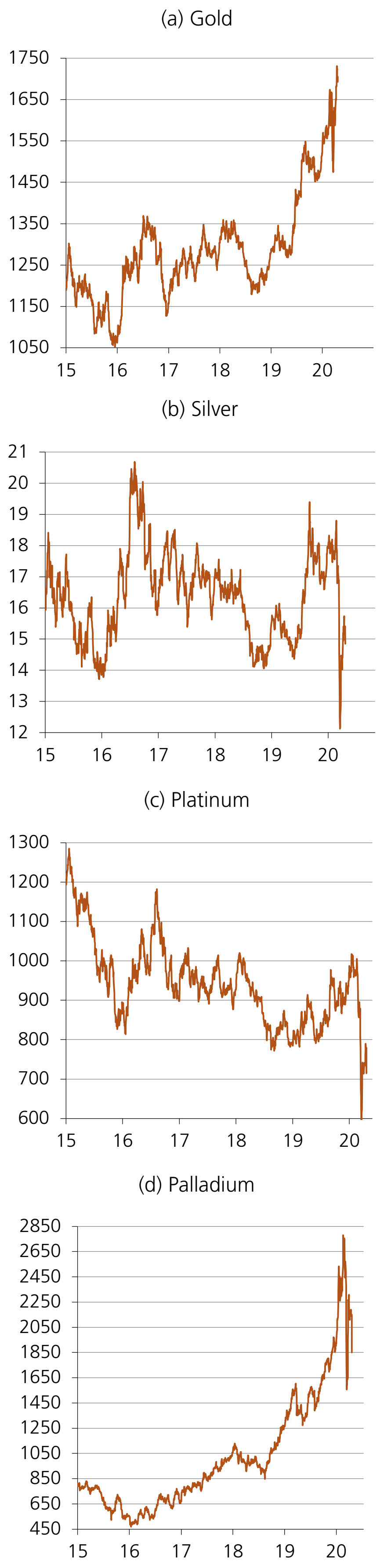
What is more, the US Federal Reserve (Fed) has provided a colossal "backstop" to the economy and financial markets. It injects ever higher amounts of central bank money into the banking system – by buying up all sorts of credit instruments – not only government bonds but also mortgage debt, corporate bonds, commercial papers, etc. The Fed thereby props up financial asset prices, keeping the cost of credit artificially low and, most importantly, avoids payment defaults on a grand scale.

The truth is that the Fed is at the heart of all these rescue measures. For the US administration does not have the money to finance all its promises. The US Treasury will issue new bonds that will be bought by the Fed. It thereby creates new US dollar deposits in the hands of the US government, which are then transferred to the bank accounts of entrepreneurs and consumers (and, of course, most of all to government beneficiaries: its employees, service providers, and contractors). And as the newly created money shows up in peoples' bank accounts, it increases the stock of money in the economy.

Beyond that, the Fed purchases credit instruments – bonds and bills (and perhaps even other assets at some stage). As the Fed does business with banks, it ramps up the central bank money supply to the interbank market: Banks hand over credit papers to the Fed in exchange for newly created central bank money deposits. As a result, the "excess reserves" of banks increase, and credit risk is taken off their balance sheet. Equity capital is freed up and can be used to increase lending to corporates, consumers, and, of course, government entities.

This also contributes to the increase in the outstanding money stock. And if and when the Fed is purchasing credit products from, say, hedge funds, mutual funds, and insurance companies, the quantity of money will also be increased: These market players would hand over unwanted credit products to the Fed in

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



Source: Refinitiv; graphs by Degussa.

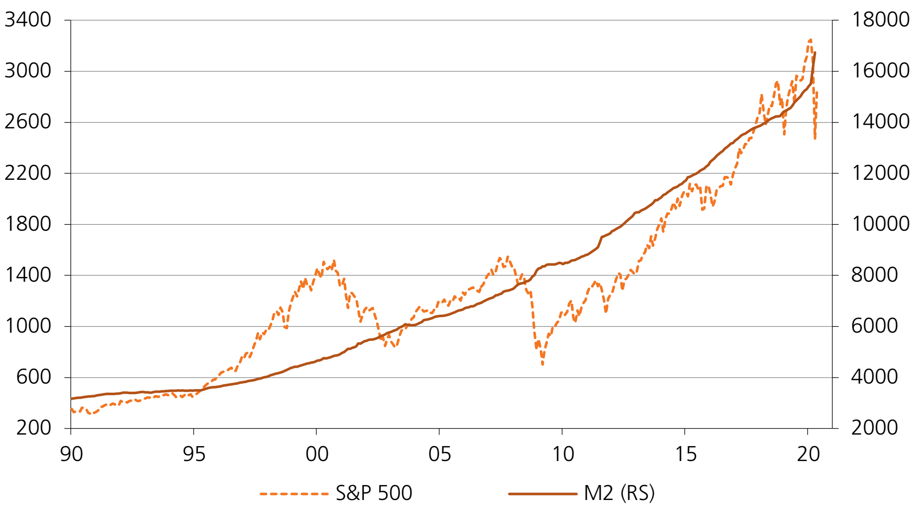
exchange for deposits held with commercial banks. These new money balances can, and most likely will, be used to purchase other assets (e.g. stocks, land, commodities, etc.).

It thus becomes obvious that the "mega bail-out" package will effectively result in an increase in the quantity of money in the economy. Sound economics tells us what the consequences are: The increase in the quantity of money will result in higher goods prices, thereby lowering the purchasing power of money. In other words: The "mega bail-out" package boils down to "money printing" – to an inflationary policy. And again, sound economic tells us that inflation is a policy redistributing income and wealth among people: It does not create a win-win situation, it creates winners and losers.

For instance, those holding money will lose; their wealth dwindles. And so will those holding onto bonds and bills denominated in the official currency. In contrast, those holding stocks, bonds, real estate, commodities, art, etc. may well benefit – if and when the prices of these assets increase as a result of the expansion of the outstanding money supply. Overstretched borrowers will also benefit – as their default is prevented and thus their careless creditors' deserved losses are warded off.

1 Higher money stock, higher stock prices

S&P 500 and US money stock M2, US$ bn



Source: Refinitv; graph by Degussa.

Most importantly, banks, financial institutions, "Big Business", "Wall Street", the "Establishment", and the "Deep State" will for sure rank among the beneficiaries of the Fed's backstop policy. In fact, it amounts to a repetition of what happened during the crisis of 2008/2009, when the Fed bailed out the economic and financial system. This time, however, the costs will be higher – for it is very likely that people will see and feel its consequences – namely conspicuously rising goods prices.

The Austrian economist Ludwig von Mises (1881–1973) did capture what governments would do if and when they have access to the printing press very well. In early 1923, shortly before the scary hyperinflation took off in Germany, he had finished the script for his essay "Stabilitsation of the Monetary Unit – from the viewpoint of Theory" (in German: "Die geldtheoretische Seite des Stabilisierungsproblems"). In it, Mises – clear-sighted and foresighted as he was as an economist – anticipated the monetary disaster resulting from a central bank catering to the needs of a bankrupt policy. He wrote:

"We have seen that if a government is not in a position to negotiate loans and does not dare levy additional taxation for fear that the financial and general economic effects will be revealed too clearly too soon so that it will lose support for its programme, it always considers it necessary to undertake inflationary measures. Thus inflation becomes one of the most important psychological aids to an economic policy that tries to camouflage its effects. In this sense, it may be described as a tool of anti-democratic policy. By deceiving public opinion, it permits a system of government to continue, which would have no hope of receiving the approval of the people if conditions were frankly explained to them."

Today, the policy of printing new money to hold up an economic and financial system that cannot last is being pursued again – as it has been in the past, on many occasions. The question is not whether money will lose its purchasing power. It is just a question of how much and how quickly the exchange value of money will dwindle. The "best-case scenario" would be that the economic slump will be overcome quickly and, as a result, central banks will not have to monetise too much debt and issue too much newly created money. But even then, the underlying problem is not solved; it is merely postponed.

Because the government-controlled unbacked paper money system will predictably lead to ever greater amounts of debt on the part of entrepreneurs, consumers, and, most importantly, governments. At some point debtors will no longer be in a position to service their debt. This is the point in time when the unbacked paper money system collapses altogether through payment defaults. Or when governments issue ever greater amounts of money in a last-ditch effort to fend off the inevitable. That said, economies that have become "addicted" to unbacked paper money will, at some point, be confronted with a "recession-depression" à la 1929 or a "German hyperinflation à la 1923".

Meanwhile, however, governments' and central banks' "mega bail-out" programmes may very well succeed in keeping the artificial boom going – that is, transposing the approaching economic and financial bust into yet another boom, thereby preventing the system from breaking down. One thing, however, is certain: The official currencies – be it the greenback, the euro, Chinese renminbi, or the Japanese yen – will most likely lose their purchasing power in that process. The truth is that they have never been a reliable means to store wealth – and unfortunately never will be.

To conclude, we want to remind you of our viewpoint from **23 January 2020**, namely that gold and silver are in a bull market, not a bubble market – which provides the savvy investor with an attractive option: By holding gold and silver, he or she may well increase the portfolio's return potential while reducing risk.

PRECIOUS METALS PRICES

In US-Dollar per ounce

	Gold		Silver		Platinum		Palladium	
I. Actual	**1703.4**		**15.0**		**754.6**		**1960.4**	
II. Gliding averages								
10 days	1693.5		15.3		754.9		2131.2	
20 days	1657.6		14.9		741.9		2160.5	
50 days	1621.3		15.7		806.3		2248.7	
100 days	1575.5		16.7		883.5		2183.1	
200 days	1531.0		17.0		889.4		1906.5	
III. Estimates, end 2020	**1695**		**25**		**1256**		**1536**	
(1)	*0*		*66*		*66*		*-22*	
Band width	*Low*	*High*	*Low*	*High*	*Low*	*High*	*Low*	*High*
	1459	1931	19.8	28.8	1020	1492	1300	1772
(1)	*-14*	*13*	*32*	*92*	*35*	*98*	*-34*	*-10*
V. Annual averages								
2017	1253		17.1		947		857	
2018	1268		15.8		880		1019	
2019	1382		16.1		862		1511	

In Euro per ounce

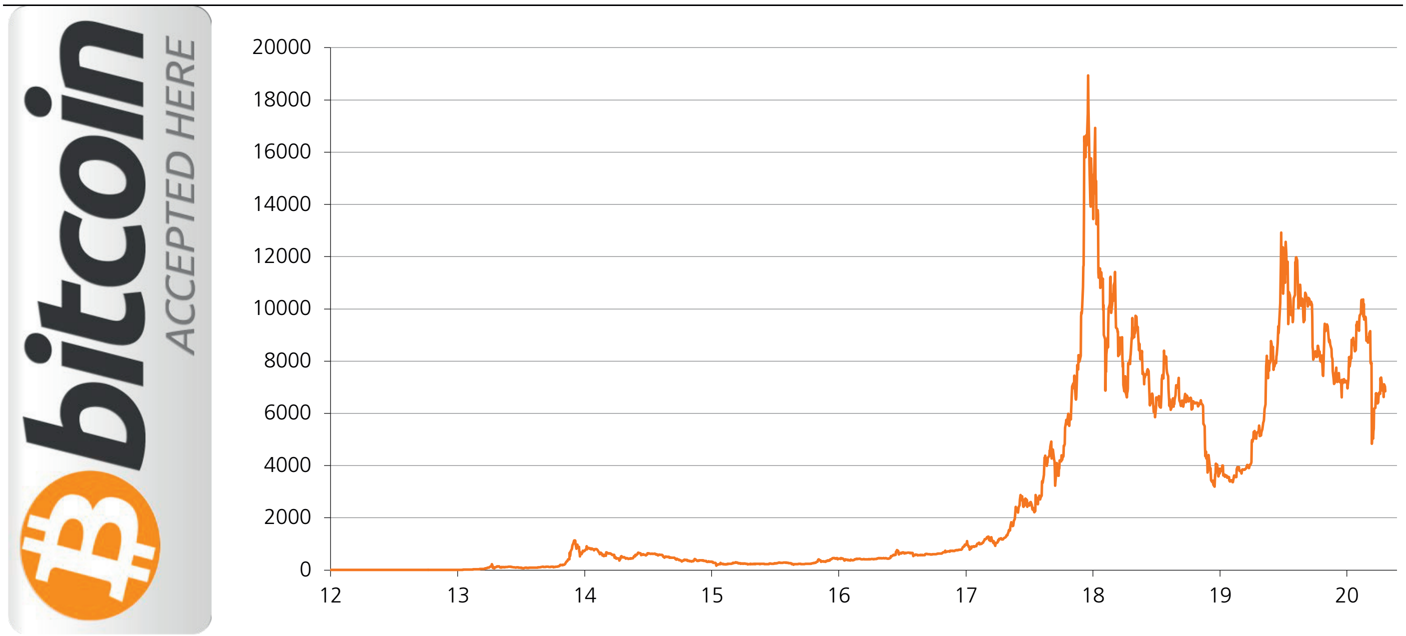
	Gold		Silver		Platinum		Palladium	
I. Actual	**1567.5**		**13.8**		**694.4**		**1804.0**	
II. Gliding averages								
10 days	1553.7		14.0		692.6		1955.2	
20 days	1519.7		13.6		680.1		1980.4	
50 days	1481.0		14.4		736.3		2053.2	
100 days	1430.1		15.1		801.3		1981.6	
200 days	1386.4		15.4		805.0		1727.0	
III. Estimates, end 2020	**1580**		**23**		**1170**		**1430**	
(1)	*1*		*69*		*68*		*-21*	
Band width	*Low*	*High*	*Low*	*High*	*Low*	*High*	*Low*	*High*
	1360	1800	18.6	27.0	950	1390	1210	1650
(1)	*-13*	*15*	*35*	*96*	*37*	*100*	*-33*	*-9*
V. Annual averages								
2017	1116		15		844		760	
2018	1072		13		743		863	
2019	1235		14		770		1350	

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

(1) On the basis of actual prices.

BITCOIN, PERFORMANCE OF VARIOUS ASSET CLASSES

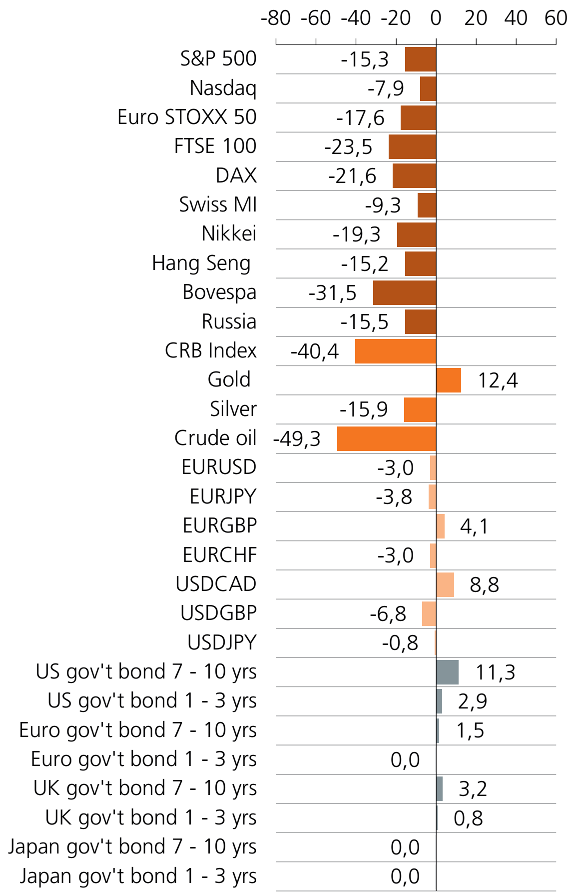
Bitcoin in US dollars



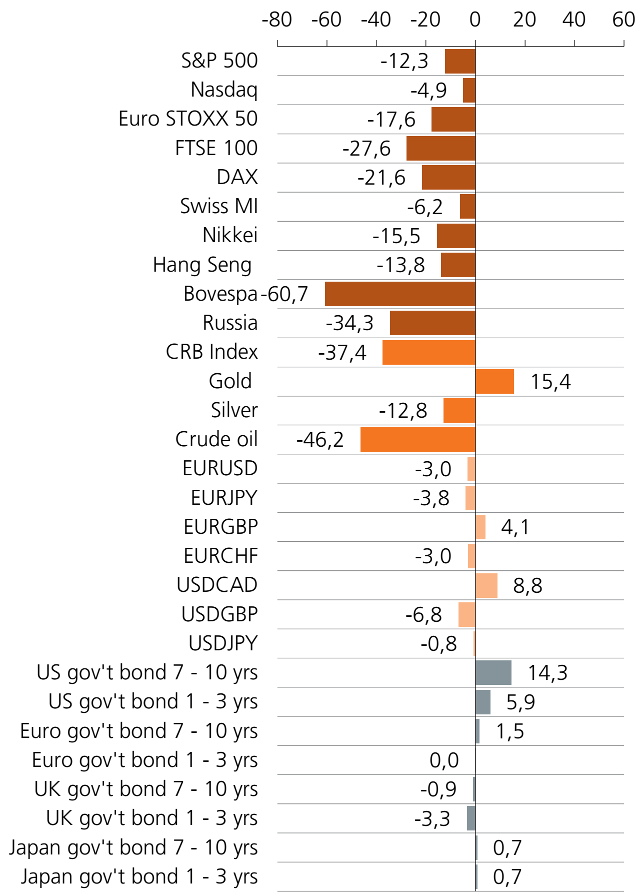
Source: Refinitiv; graph by Degussa.

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
23 April 2020	The Undesirable Effects of the Corona-Virus Relief Package
9 April 2020	The Boom And Bust Theory That Does Not Crash
26 March 2020	With Mega Bail Outs, Governments Are The Big Winners
12 March 2020	The Truth About Money – Past, Present, Future
27 February 2020	Inflation Policy And Its Supporters
13 February 2020	Gold-ETFs Versus Physical Gold: Difference Matters
30 January 2020	Do Not Think The Era Of Boom And Bust Has Ended
23 January 2020	Bull Markets, No Bubble Markets: Gold And Silver In 2020
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5 December 2019	Why the Feared Crash Keeps Us Waiting
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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
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15 August 2019	The Gold Bull Market Is Back
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19 July 2019	Facebook's Fake Money
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14 March 2019	The Big Central Banks Increase the Case for Gold
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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

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