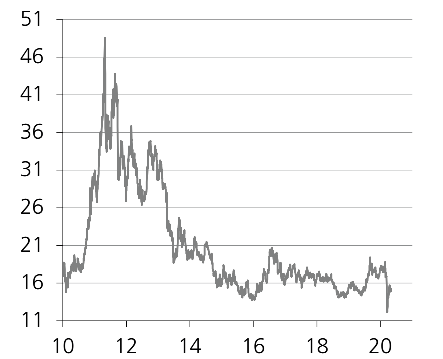
Degussa Market Report

7 May 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	1.699.1	0.9	6.9	30.2
Silver	15.0	-0.9	-16.9	2.9
Platinum	756.4	-2.4	-20.9	-4.4
Palladium	1.796.0	-16.7	-21.2	35.5
II. In euro				
Gold	1.572.0	1.5	9.7	34.7
Silver	13.9	-0.5	-14.7	6.5
Platinum	699.8	-1.3	-19.0	-0.8
Palladium	1.662.0	-16.2	-19.0	40.3
III. Gold price in other currencies				
JPY	180.398.0	-0.4	4.7	27.6
CNY	12.060.3	1.3	9.4	33.8
GBP	1.373.2	1.9	14.0	32.9
INR	128.915.5	1.9	13.3	42.0
RUB	127.261.3	2.3	25.2	48.7

Source: Refinitiv; calculations by Degussa.

OUR TOP ISSUES

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

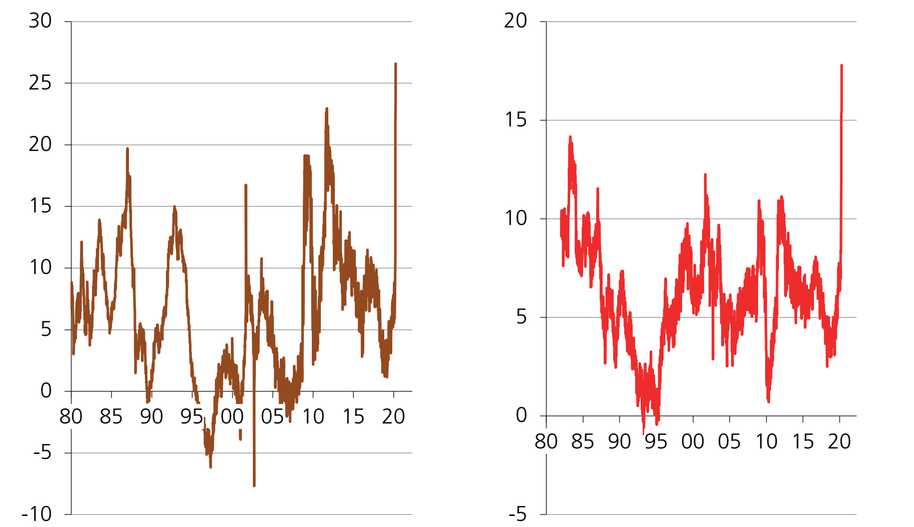
BE AWARE OF WHAT INFLATION REALLY IS

In an effort to "fight" the consequences of the politically orchestrated "lock-down", the Fed pumps vast amounts of money into the economy. It injects base money into the banking system, and it also monetises outstanding debt and finances the US administration's deficit spending policy by issuing new money. This does not only increase "excess reserves" in the banking system, but it also ramps up the money stock in the hands of firms and consumers.

The goal is to keep people liquid, to make up for lost profits and incomes. The Fed's money creation policy is already showing the first effects. In late April 2020, the money stock M1 grew 28.5 per cent year-on-year, while the money stock M2 was up 17.8 per cent against last year. The central bank heavily increasing the quantity of money, while economic output contracts – isn't that inflationary? It sure is, and it would be false to think otherwise.

1 US money aggregates rise strongly

(a) M1, y/y in per cent | *(b) M2, y/y in per cent*

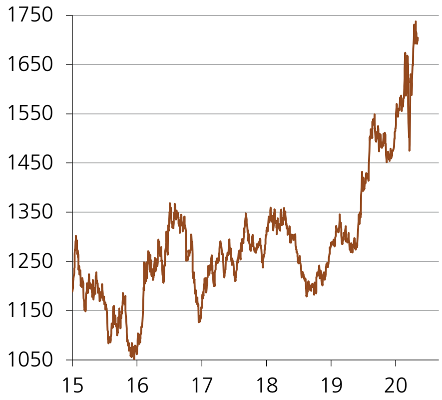


Source: Refinitiv, Fed St. Louis, calculation Degussa. Latest data point: 30 April 2020.

In this context, it is key to understand what inflation really is. Most people these days think inflation is a rise in consumer goods prices of more than 2 per cent per year – a result of what mainstream economics has been teaching generations of students all around the world. However, equating inflation with

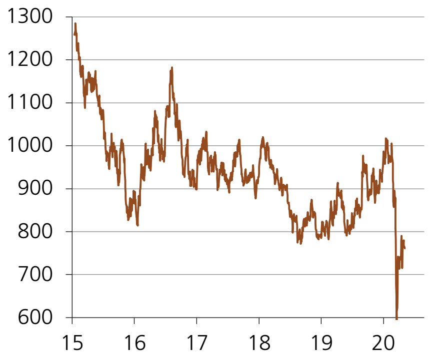
Precious metal prices (USD/oz) in the last 4 years

(a) Gold



(b) Silver

(c) Platinum



(d) Palladium

Source: Refinitiv; graphs by Degussa.

changes in consumer goods prices is inadequate and highly deceptive for various reasons.

Inflation of consumer goods prices ignores the price inflation of many other goods such as – most notably – assets. If and when the prices of, say, stocks, bonds, and real estate go up, and if and when these price increases are not accompanied by the decline of other goods prices, the purchasing power of money falls. This is what happened in the last decades: Consumer goods prices have remained relatively tame, while asset prices inflated.

Those holding assets were on the winning side when the prices rose, while those holding money and fixed claims denominated in money lost out. The former got richer at the expense of the latter. This became possible as central banks, in close cooperation with commercial banks, were allowed a monetary policy of churning out ever-greater amounts of credit and money, provided at ever-lower interest rates.

The economic truth is that it is the increase in the quantity of money that deserves to be termed inflation, while changes in goods prices are just a possible symptom of an increase in the quantity of money. What an increase in the quantity of money really does is to bring about a redistribution of income and wealth among people. Some will gain at the expense of others. And this does not even have to go hand in hand with goods price increases!

Consider the following case in which the economy contracts heavily. As demand falls, goods prices are under downward pressure. In an effort to prevent prices from falling, the central bank increases the quantity of money in the hands of firms and consumers. Let us assume it succeeds in returning demand towards its original level with goods prices remaining unchanged. At first glance, it appears that there is no inflationary impact – as prices have remained constant.

However, what has happened here is that the increase in the money supply kept the prices of goods from falling. As a result, it benefits the owners of goods who are protected from losses in the form of declining goods prices. This is detrimental for everyone who wishes to buy goods, the holders of money, as they are stripped off the opportunity to purchase goods at a lower price. But that's not all.

Not all people will, at the same time, obtain an equal share in the increased quantity of money. In fact, some will get more than others. The former are the beneficiaries; the latter miss out. Under the current circumstances, big banks and companies and other financial intermediaries (hedge funds, insurance companies etc.) receive big money, while at the same time, small businesses and employees are fobbed off with a much smaller amount of money.

What is more, some get the new money earlier than others. The first receivers of the new money are the winners: They can purchase goods at current prices. As the new money moves from hand to hand, thereby increasing goods prices, the late receivers are the losers of the game: They can only purchase goods at higher prices. That said, a policy of expanding the quantity of money undeniably causes income and wealth inequality.

In the current environment, there is mass unemployment in the US, which should put wages under downward pressure. What is more, commodity prices have fallen sharply, in particular oil prices, dampening measures of consumer goods price inflation. However, the quantity of money has increased sharply, largely due to the fact that the Fed is effectively sending newly created money to bank-held deposits.

This development is accompanied by all the effects outlined earlier – no doubt about that. An interesting question is, however, whether or not goods prices will increase. Of course, if we assume that firms and consumers will hold on to their new money balances rather than spending them (meaning a decline in the velocity of money), price inflation may not occur, and even goods price deflation might be the result.

However, for many people the new money compensates for lost wage income, and so the likelihood that the new money will be spent on food, clothes, etc. is relatively high. In other words, the new money is likely to find its way into the demand for goods and services. In view of a reduced goods supply, there is good reason to fear that consumer goods price inflation is about to accelerate – despite the latest oil price crash.

All the more so if and when the lockdown comes to an end sooner rather than later, letting the economy to return to "normal". In such an environment the "monetary overhang" created by the increase in the quantity of money can almost definitely be expected to drive up consumer and producer goods prices – if and when firms and consumers return towards their original spending behaviour.

2 US monetary policy drives up the price of gold

Fed balance sheet (US$ bn) and gold price (USD/oz)

Source: Refinitiv; graph by Degussa.

One thing, however, appears to the very likely: That the Fed's monetary expansion will drive up asset prices: the prices for stocks, real estate, etc. The latest co-movement of the Fed's balance sheet expansion and the S&P 500 stock market index suggests exactly that: The inflation policy is alive and kicking, as created by the Fed in the past. This time, however, to an unprecedented extent.

The lesson to learn for any investor is this: It is very likely that the US-dollar as well as all other unbacked paper currencies around the world will continue to suffer: The currencies' purchasing power is the first victim of central banks' "rescue policies". The debasement will come either through asset price inflation and/or consumer price inflation or a combination of both. As things stand, it is difficult to imagine that this scenario will not occur.

PRECIOUS METALS PRICES

In US-Dollar per ounce

	Gold		Silver		Platinum		Palladium	
I. Actual	**1698.1**		**15.0**		**755.8**		**1791.1**	
II. Gliding averages								
10 days	1708.4		15.1		766.9		1929.8	
20 days	1702.0		15.2		760.9		2030.5	
50 days	1641.3		15.1		764.9		2119.5	
100 days	1599.6		16.5		868.5		2185.0	
200 days	1545.4		17.0		884.8		1926.6	
III. Estimates, end 2020	**1695**		**25**		**1256**		**1536**	
(1)	*0*		*65*		*66*		*-14*	
Band width	*Low*	*High*	*Low*	*High*	*Low*	*High*	*Low*	*High*
	1459	1931	19.8	28.8	1020	1492	1300	1772
(1)	*-14*	*14*	*32*	*92*	*35*	*97*	*-27*	*-1*
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

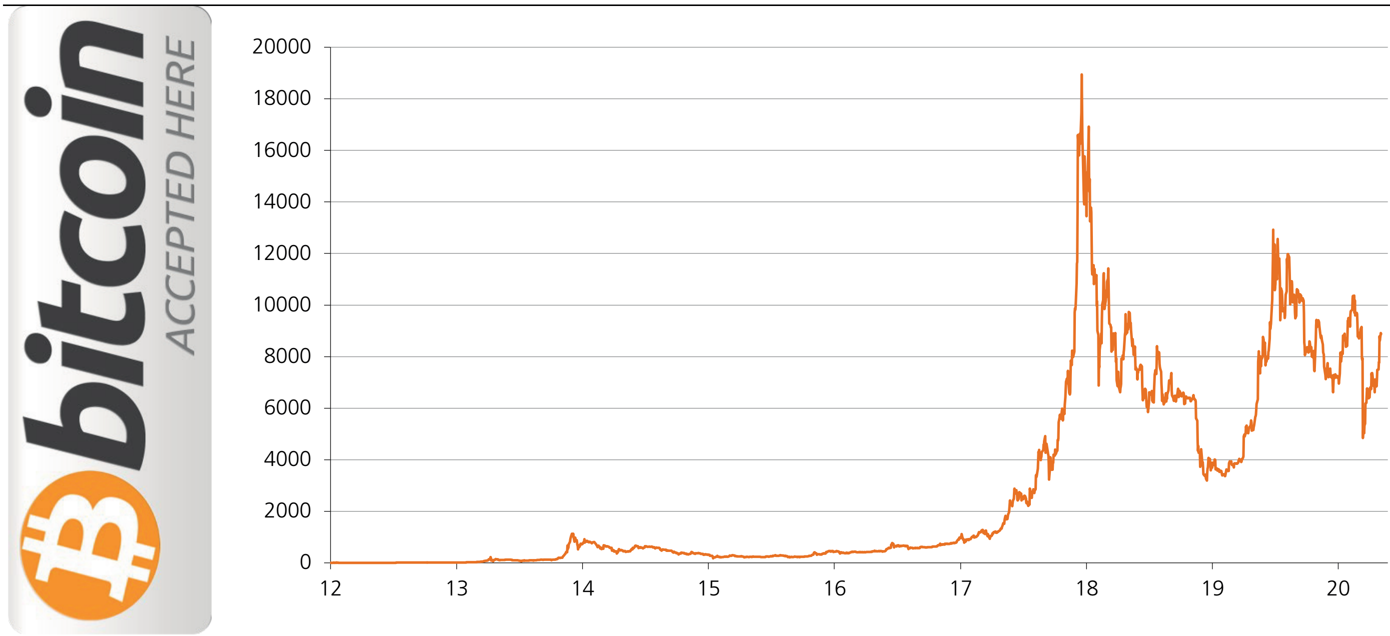
	Gold		Silver		Platinum		Palladium	
I. Actual	**1571.6**		**13.9**		**699.5**		**1657.7**	
II. Gliding averages								
10 days	1571.5		13.9		705.5		1775.2	
20 days	1563.6		14.0		699.0		1865.2	
50 days	1498.5		13.8		697.8		1933.1	
100 days	1455.1		15.0		789.2		1987.0	
200 days	1401.4		15.4		801.9		1747.4	
III. Estimates, end 2020	**1580**		**23**		**1170**		**1430**	
(1)	*1*		*67*		*67*		*-14*	
Band width	*Low*	*High*	*Low*	*High*	*Low*	*High*	*Low*	*High*
	1360	1800	18.6	27.0	950	1390	1210	1650
(1)	*-13*	*15*	*34*	*94*	*36*	*99*	*-27*	*0*
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

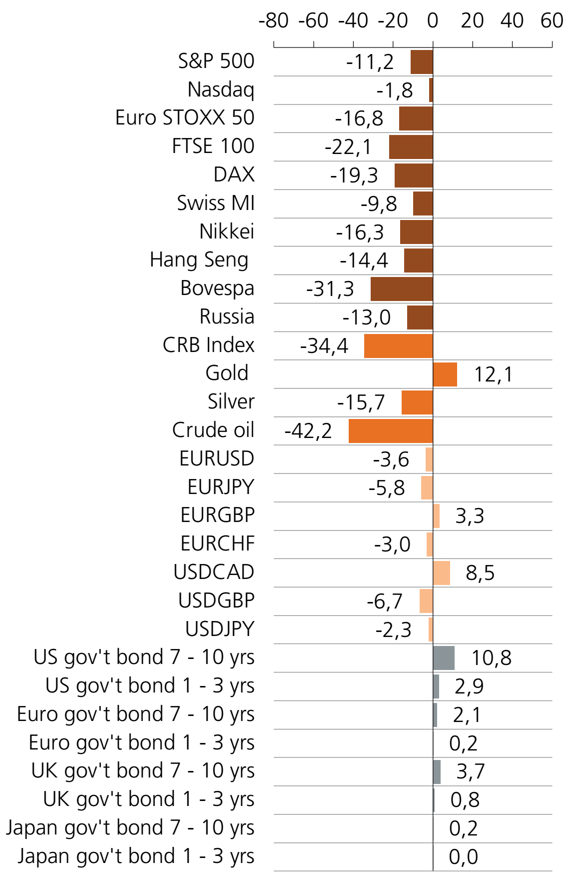
Bitcoin in US dollars



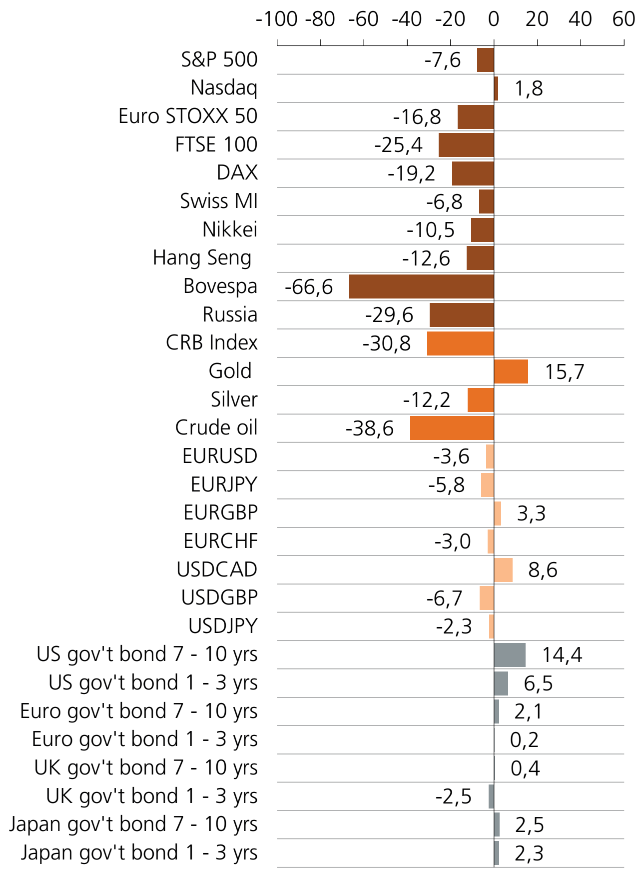
Source: Refinitiv; graph by Degussa.

Performance of stocks, commodities, FX and bonds

(a) In national currencies



(b) In euro



Source: Refinitiv; calculations by Degussa.

Articles in earlier issues of the *Degussa Market Report*

Issue	Content
7 May 2020	Be Aware of What Inflation Really Is
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
19 December 2019	The Inflation Sham
5 December 2019	Why the Feared Crash Keeps Us Waiting
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

The Degussa Marktreport (German) and the Degussa Market Report (English) are available at:
www.degussa-goldhandel.de/marktreport

Disclaimer

Imprint
Marktreport is published every 14 days on Thursdays and is a free service provided by Degussa Goldhandel GmbH. **Deadline for this edition:** 7 May 2020
Publisher: Degussa Goldhandel GmbH, Kettenhofweg 29, 60325 Frankfurt, Tel.: (069) 860068-0, Fax: (069) 860068-222
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/marktreport/