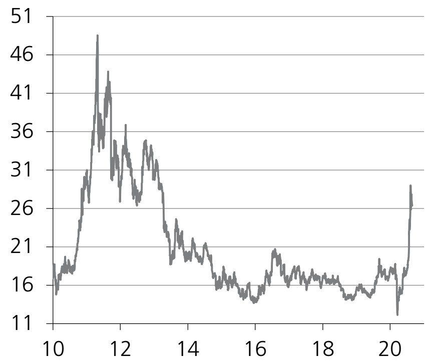
Degussa Market Report

10 September 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	1.946.1	0.3	11.8	32.2
Silver	27.0	1.3	48.0	59.1
Platinum	916.0	-0.3	8.1	3.9
Palladium	2.292.2	5.0	16.9	36.9
II. In euro				
Gold	1.646.3	0.2	5.4	21.9
Silver	22.9	1.1	39.4	46.9
Platinum	774.9	-0.4	1.7	-4.2
Palladium	1.939.0	4.8	9.6	26.2
III. Gold price in other currencies				
JPY	206.481.0	0.6	10.3	29.8
CNY	13.304.1	-0.8	7.4	26.4
GBP	1.497.7	1.1	7.6	25.1
INR	142.794.6	1.9	8.7	37.3
RUB	146.414.4	1.0	22.1	53.4

Source: Refinitiv; calculations by Degussa.

OUR TOP ISSUES

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

THE INFLATION THREAT AND THE CASE FOR GOLD

In his *The Economic Consequences of the Peace* (1919), John Maynard Keynes (1883–1946) noted:

"Lenin is said to have declared that the best way to destroy the Capitalist System was to debauch its currency … . Lenin was certainly right. There is no subtler, no surer way of overturning the existing basis of society than to debauch the currency. The process engages all the hidden forces of economic law on the side of destruction, and does it in a manner which not one man in a million is able to diagnose."[1]

Keynes does not provide a concrete source backing his words but deliberately used the phrase "is said to have declared". For a good reason. As Frank W. Fetter (1899–1991) pointed out, there is no evidence at hand that Lenin has actually said or written these words, and that anyone quoting Lenin on inflation would be indeed be referring to Keynes's opinion.[2]

Be that as it may, it is pretty obvious that Lenin had a good understanding of the evils of inflation caused by the issuance of large amounts of unbacked paper money. He writes:

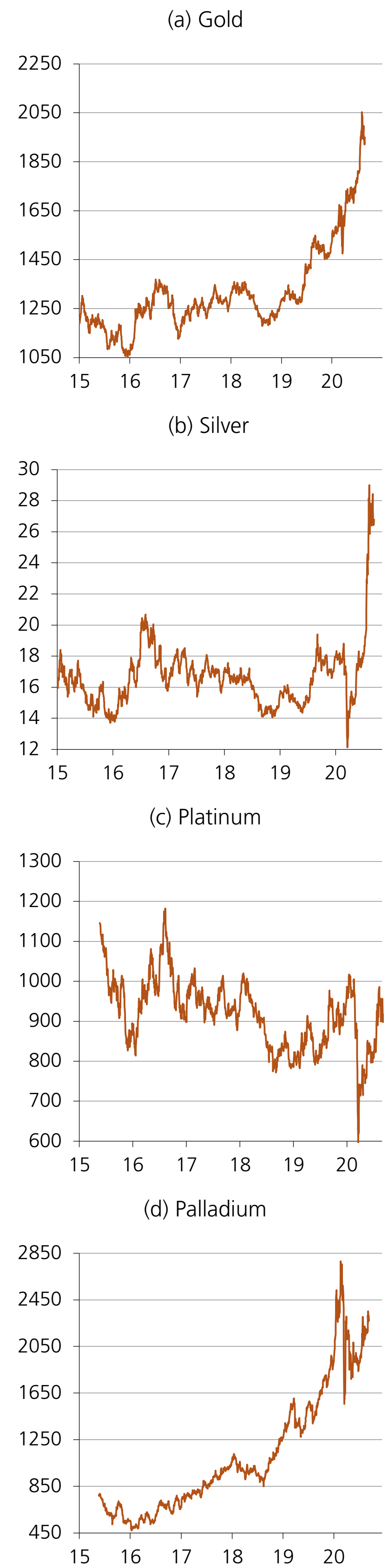
"There is another side to the problem of raising the fixed grain prices. This raising of prices involves a new chaotic increase in the issuing of paper money, a further increase in the cost of living, increased financial disorganisation and the approach of financial collapse. Everybody admits that the issuing of paper money constitutes the worst form of compulsory loan, that it most of all affects the conditions of the workers, of the poorest section of the population, and that it is the chief evil engendered by financial disorder."[3]

Indeed price inflation caused by the increase in the quantity of money does not only cause serious economic problems. It also brings severe social-political problems. For instance, inflation makes most people poorer, degrades their social status, destroys their dreams of a better life. People become desperate and open to radical political programs.

In times of high inflation, all too often political agitators succeed in making people believe that the free market, capitalism, is to be held responsible for

[1] Keynes, J. M., 1919, The Economic Consequence of the Peace, p. 285.
[2] See Frank W. Fetter, 1968, Lenin, Keynes, And Inflation.
[3] Lenin, 1917, The Impending Catastrophe and How to Combat it.

Precious metal prices (USD/oz) in the last 7 years



Source: Refinitiv; graphs by Degussa.

their plight. They promise that the collectivist-socialist program offers the solution – like, say, imposing price stops or price controls, raising corporate taxes and taxing the "rich", controlling capital flows, etc.

That said, it becomes clear that ramping up inflation is actually a proper tool for those political forces that wish to overthrow the existing economic and social order – to get rid of what little is left of the free market system, as desired especially by those inspired by Marxist or Neo-Marxist ideas.

In a nutshell, militant Marxism wants to topple capitalism by means of a bloody revolution. Neo-Marxism follows a different strategy. It wants its ideas to attain "cultural, moral and ideological hegemony", and once this is achieved, people will have no other choice than adopting Socialism.

The supporters of Neo-Marxism attack peoples' values – family, hard work, thriftiness –, stir conflicts among people, discredit Christianity, manipulate language (via calling for "political correctness") – to estrange people from their societal order, moving them away from the capitalist economy.

Neo-Marxists blame all evils in the world – economic crises, unemployment, income gaps, racism, ecological damage etc. – on capitalism. At the same time, Socialism is said to fix things, to put things straight, and that it will create a better world: more peaceful, just and living up to peoples' real needs.

Neo-Marxism is alive and kicking. It has increasingly found its way into the political mainstream. For instance, the so-called "political elite" in many countries advocates a "Great Reset", a "New World Order", to transform the economies, steering them away from the free market system.

Of course, inflation policy is already being used to finance the state and its expansion. However, in most advanced countries the rate of inflation has been kept relatively low, that is at a level that has not been stirring up outright public unrest. Inflation policy follows the motto: "Milk the cows, don't kill the cows".

What if Neo-Marxism makes it into central banks' monetary policymaking? Well, you could say that it has already succeeded in doing so, for the concept of central banking is essentially a Marxist one. In their *Communist Manifesto*, Marx and Friedrich Engels (1820–1878) set up a list of ten "means of entirely revolutionising the mode of production".

Among them is "5. Centralisation of credit in the hands of the state, by means of a national bank with State capital and an exclusive monopoly." At the same time, however, Neo-Marxism has not yet mustered sufficient supporters of outright monetary destruction, that is a policy of very high inflation, for triggering an economic and societal revolution.

This is no reason for relief, though. As noted earlier, Neo-Marxist ideas have been gaining ground in basically all kinds of policy – education, law and order, transportation, conservation, money and credit, you name it. And so it would be consistent if Neo-Marxism increasingly undermines the consensus that it relatively low goods price inflation is beneficial.

It is in this context that the US Federal Reserve's (Fed's) latest change to its inflation target deserves mentioning. In August 2020 the Fed announced it aims to achieve its 2 per cent inflation goal only *on average in the long-term*. This means that the Fed will allow for inflation in excess of 2 per cent if and when inflation was below 2 per cent in preceding periods.

The reason is obvious: The Fed is monetising debt on an epic scale, through which it increases the quantity of money heavily. By the end of August 2020, the US money stock M1 had grown 40 per cent compared to last year, M2 by 23 per cent. The increased quantity of money will, sooner or later, most likely to be reflected in higher prices: be it consumer and/or asset prices.

It may not be fueled by a deliberate Neo-Marxist creed, but the Fed – and this holds true for other central banks as well – is certainly working into the hands of the Neo-Marxist goal to shatter civic order, to drive people into the hands of Socialism, and this is achieved as Lenin allegedly suggested: through the debasement of the purchasing power of money.

As long as central banks continue with their inflationary scheme, the savvy investor has good reason to consider keeping gold as part of his/her liquid means because the purchasing power of gold cannot be debased by central banks printing up ever greater amounts of currency. And unlike bank deposits, gold does not carry a payment default risk. At current prices, we believe gold offers an attractive risk-reward profile, meaning a significant upward price potential that comes with a limited downside price risk.

PRECIOUS METALS PRICES

In US-Dollar per ounce

	Gold		Silver		Platinum		Palladium	
I. Actual	**1943.8**		**27.0**		**923.0**		**2292.7**	
II. Gliding averages								
10 days	1942.8		27.2		918.2		2262.1	
20 days	1947.0		27.1		926.4		2220.3	
50 days	1912.5		24.2		902.9		2133.6	
100 days	1819.4		20.5		853.1		2024.6	
200 days	1698.7		18.6		867.6		2104.3	
III. Estimates, mid 2020	**2550**		**48**		**1059**		**2066**	
(1)	*31*		*78*		*15*		*-10*	
Band width	*Low*	*High*	*Low*	*High*	*Low*	*High*	*Low*	*High*
	2310	2780	43.0	53.0	823	1295	1899	2299
(1)	*19*	*43*	*59*	*97*	*-11*	*40*	*-17*	*0*
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

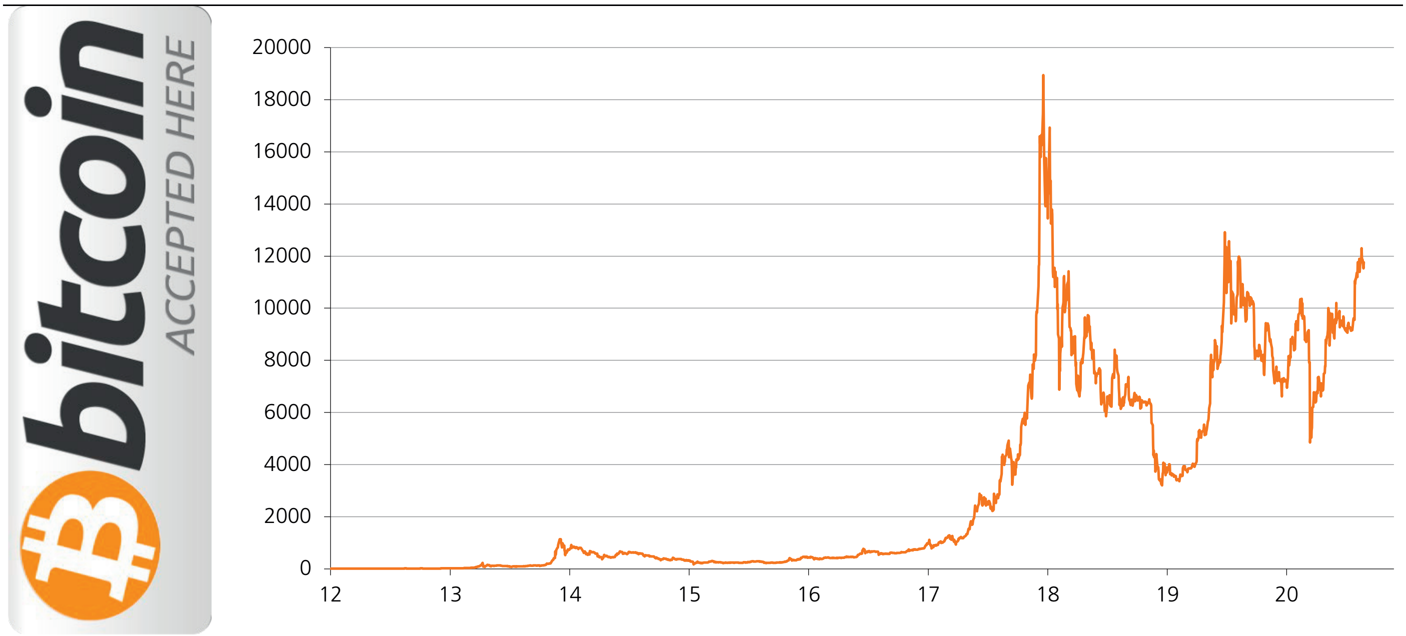
	Gold		Silver		Platinum		Palladium	
I. Actual	**1643.1**		**22.8**		**780.3**		**1938.1**	
II. Gliding averages								
10 days	1639.3		22.9		774.7		1908.8	
20 days	1643.4		22.9		781.9		1874.2	
50 days	1636.9		20.7		772.6		1825.8	
100 days	1598.8		17.9		749.3		1778.8	
200 days	1515.8		16.5		774.7		1880.8	
III. Estimates, mid 2020	**2300**		**43**		**950**		**1860**	
(1)	*40*		*90*		*22*		*-4*	
Band width	*Low*	*High*	*Low*	*High*	*Low*	*High*	*Low*	*High*
	2080	2510	30.0	47.9	740	1170	1710	2070
(1)	*27*	*53*	*32*	*110*	*-5*	*50*	*-12*	*7*
V. Annual averages								
2017	1116		15		844		760	
2018	1072		13		743		863	
2019	1235		14		770		1350	

Source: Refinitiv; calculations and estimates Degussa. Numbers are rounded.

(1) On the basis of actual prices.

BITCOIN, PERFORMANCE OF VARIOUS ASSET CLASSES

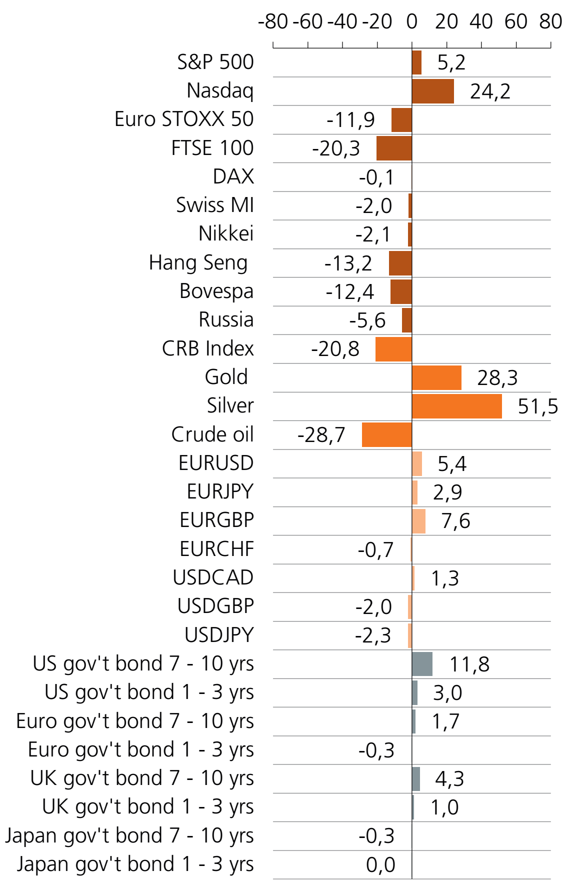
Bitcoin in US dollars



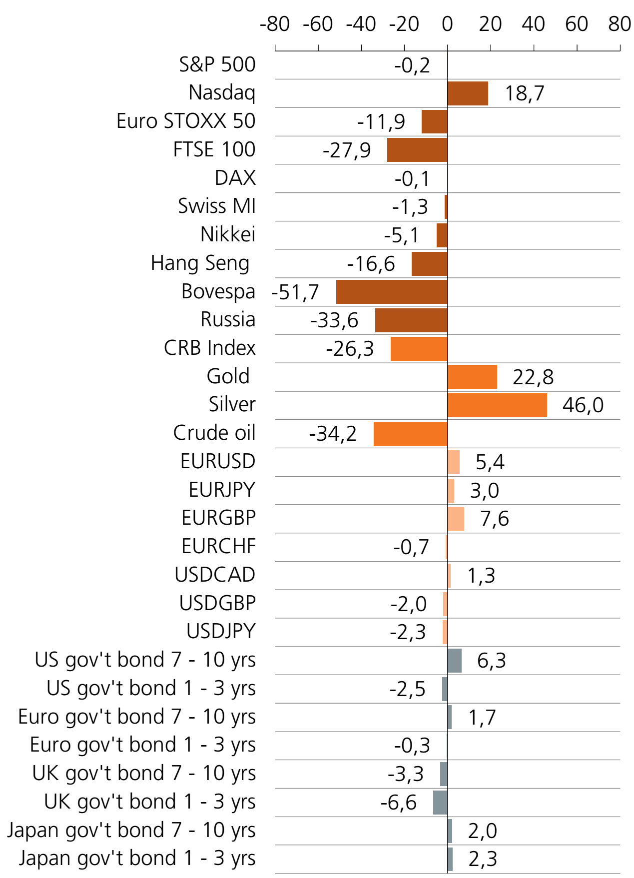
Source: Refinitiv; graph by Degussa.

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
10 September 2020	The Inflation Threat And The Case For Gold
27 August 2020	We Need Sound Money To Regain and Defend Our Liberties
13 August 2020	Gold And Silver Prices Are Set To Trend Even Higher
30 July 2020	The Big Short In Official Currencies
16 July 2020	"World Gold Price" Hits A New Record
2 July 2020	Some Things You Need To Know About Money
4 June 2020	Gold in Times of Economic Crisis and Social Revolution
20 May 2020	First the Money Supply Shock, Then the Inflation Shock
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

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

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Imprint
Marktreport is published every 14 days on Thursdays and is a free service provided by Degussa Goldhandel GmbH.
Deadline for this edition: 10 September 2020
Publisher: Degussa Goldhandel GmbH, Kettenhofweg 29, 60325 Frankfurt, Tel.: (069) 860068-0, Fax: (069) 860068-222
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