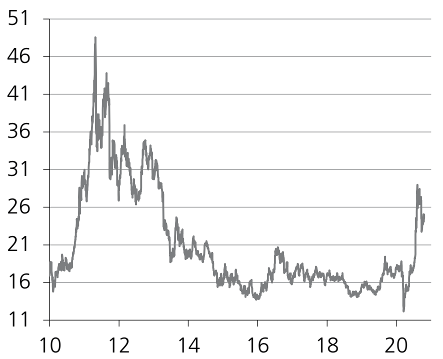
Degussa Market Report

22 October 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	1.928.4	1.6	8.3	27.4
Silver	25.2	6.1	38.7	38.8
Platinum	891.3	1.0	9.1	-4.4
Palladium	2.399.7	4.0	24.3	33.8
II. In euro				
Gold	1.623.5	0.2	2.5	19.7
Silver	21.2	4.8	30.8	30.5
Platinum	750.5	0.3	2.9	-10.2
Palladium	2.021.0	2.7	17.7	25.5
III. Gold price in other currencies				
JPY	201.284.0	0.7	4.8	23.2
CNY	12.820.5	-0.5	1.9	20.4
GBP	1.464.4	-0.2	2.0	25.3
INR	141.921.1	1.9	5.5	32.2
RUB	147.927.4	-0.2	16.9	52.4

Source: Refinitiv; calculations by Degussa.

OUR TOP ISSUES

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

THE POLICY OF INFLATING EVERYTHING, NOT ONLY THE PRICE OF GOLD

The politically dictated lockdown has made central banks adopt a war-time monetary policy all over the world. They have slashed market interest rates to zero, or even below zero, and pumped vast amounts of newly created credit and money into the financial system. The reason is self-evident: The lockdown crisis was about to cause the worldwide unbacked paper money system to collapse, causing a recession-depression on the grandest scale imaginable.

By providing a "safety net" to financial markets and keeping ailing debtors afloat, central banks are preventing a "credit event": namely that overextended borrowers go belly up as they are unable to service their debt. The monetary market manipulation worked. Investors regained their confidence and their willingness to extend credit. For it is essentially credit that makes the unbacked paper money system go round and round.

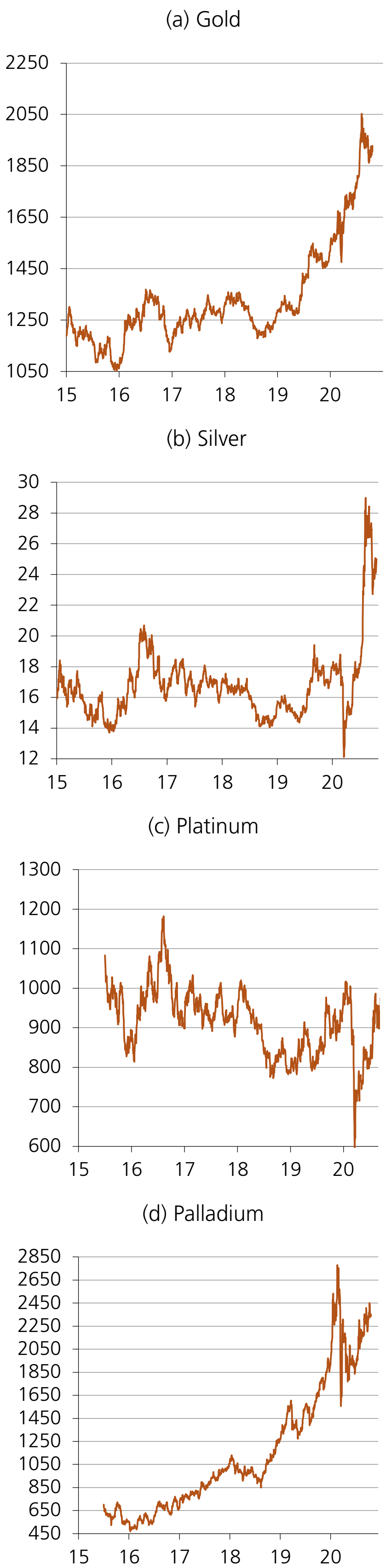
The consequence of flooding financial markets with unprecedented amounts of credit and money, coupled with artificially suppressed interest rates, is overconsumption and malinvestment, for the lowered market interest rates tempt people to value present consumption ever higher than future consumption, and therefore to reduce savings to the benefit of consumption. People start living beyond their means.

Beyond that, artificially lowered market interest rates encourage new investment spending, which is not backed by real savings. Scarce resources are channelled into projects that would not have been attempted had central banks not manipulated market interest rates downward; they would have been used for other purposes. It is against this backdrop that the economy runs up economic disequilibria, sowing the seeds of the next crisis.

What is more, the injection of huge amounts of new money will drive up goods prices, be it consumer, producer or asset prices such as, say, stocks, housing, real estate. If we assume that people will not permanently keep higher cash balances going forward, the new money balances will be put to use sooner or later, meaning, they will be increasingly exchanged against vendible items, pushing up goods prices.

This kind of "theoretical economics" holds true even in the lockdown crisis. For output has contracted sharply, while monetary supply has gone up massively,

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



Source: Refinitiv; graphs by Degussa.

causing a colossal "monetary overhang", which is most likely to translate into higher goods prices across the board. This, in turn, will erode the purchasing power of money. In other words: Central banks immensely expansionary monetary policy can be expected to cause price inflation for all kinds of goods and services.

The great victims of this monetary policy are official currencies: US dollar, Euro & Co. Especially so as market interest rates have been pushed to basically zero, implying negative real interest rates. In this environment – which is likely to remain in place for quite some time – holding gold and silver is one possibility to escape the losses resulting from monetary debasement. The purchasing power of gold and silver cannot be destroyed by central banks running the printing presses.

What is more, gold and silver do not carry a credit- or default risk as, say, time and savings deposits do. In that sense, gold and silver have a risk-return profile that is categorically different from the one that is associated with unbacked paper money. In other words: Gold and silver provide the savvy investor with insurance against the vagaries of the worldwide unbacked paper money regime that is increasingly getting out of control.

We have become witnesses of a monetary policy that is about to inflate everything, not only the price of gold. However, if monetary history is any guide, there is good reason to hold gold and silver. For these precious metals have, at least over the medium and long term, outperformed unbacked paper currencies in times of inflation again and again. There is no convincing argument why it should be different in the foreseeable future.

PRECIOUS METALS PRICES

In US-Dollar per ounce

	Gold		Silver		Platinum		Palladium	
I. Actual	**1928.5**		**25.2**		**890.1**		**2397.2**	
II. Gliding averages								
10 days	1904.2		24.4		871.0		2368.9	
20 days	1896.8		24.0		870.8		2329.4	
50 days	1926.2		25.7		906.0		2282.4	
100 days	1875.4		23.0		881.8		2145.1	
200 days	1757.4		19.6		859.8		2158.3	
III. Estimates, mid 2020	**2550**		**48**		**1059**		**2066**	
(1)	*32*		*91*		*19*		*-14*	
Band width	*Low*	*High*	*Low*	*High*	*Low*	*High*	*Low*	*High*
	2310	2780	43.0	53.0	823	1295	1899	2299
(1)	*20*	*44*	*71*	*111*	*-8*	*45*	*-21*	*-4*
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	**1624.0**		**21.2**		**749.5**		**2018.7**	
II. Gliding averages								
10 days	1618.2		20.7		740.2		2013.1	
20 days	1616.0		20.4		741.8		1984.4	
50 days	1632.6		21.8		767.8		1934.8	
100 days	1613.4		19.7		758.5		1844.5	
200 days	1555.1		17.3		761.5		1913.0	
III. Estimates, mid 2020	**2300**		**43**		**950**		**1860**	
(1)	*42*		*105*		*27*		*-8*	
Band width	*Low*	*High*	*Low*	*High*	*Low*	*High*	*Low*	*High*
	2080	2510	30.0	47.9	740	1170	1710	2070
(1)	*28*	*55*	*42*	*126*	*-1*	*56*	*-15*	*3*
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.

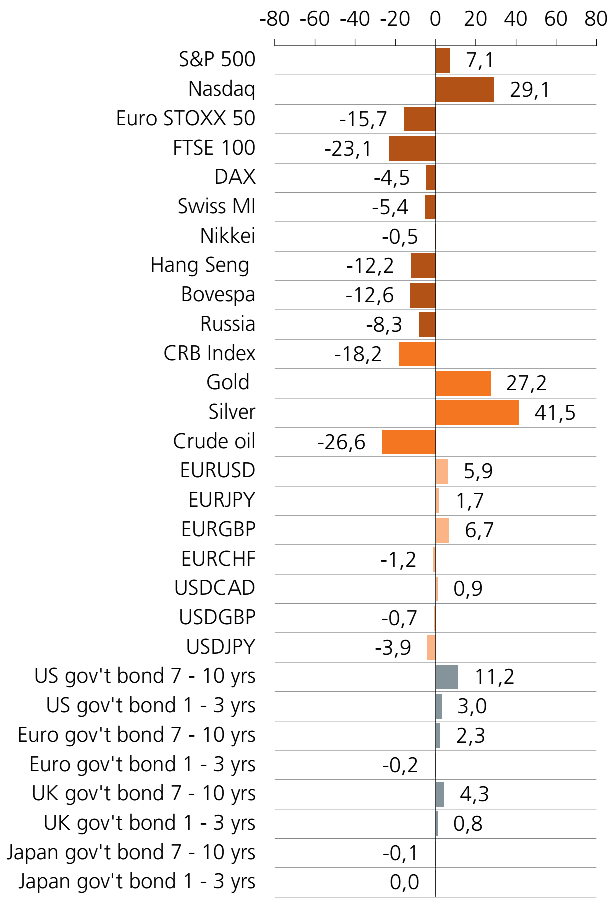
BITCOIN, PERFORMANCE OF VARIOUS ASSET CLASSES

Bitcoin in US dollars

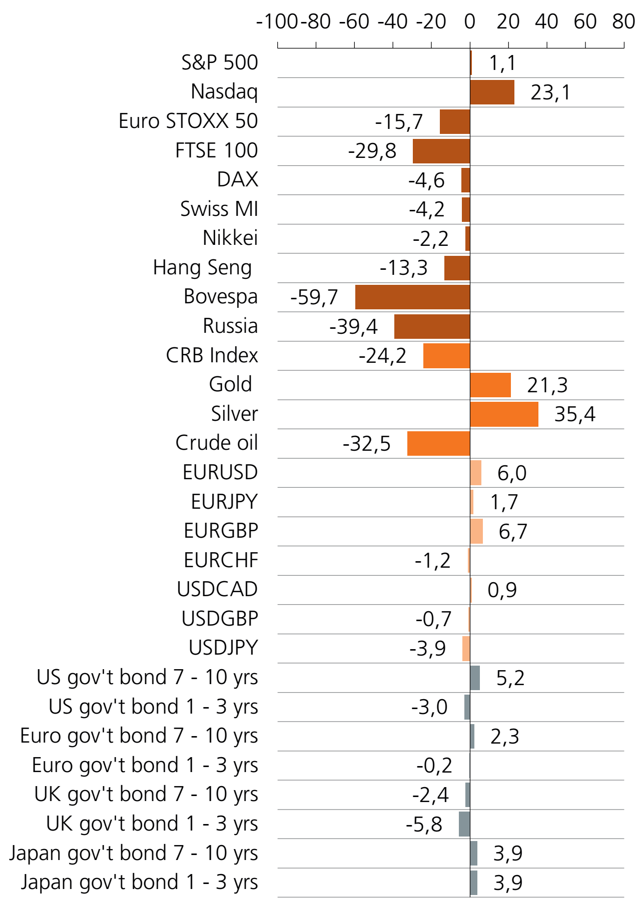
Source: Refinitiv; graph by Degussa.

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
22 October 2020	The Policy of Inflating Everything, Not Only The Price Of Gold
8 October 2020	President Trump Is Good For Gold, Or Isn't He?
24 September 2020	Get Physical With Gold
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
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6 June 2019	Gold Outshines The US Dollar
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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

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