

17 December 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	1.871.8	4.7	-5.0	23.4
Silver	25.7	13.1	-9.1	43.9
Platinum	1.048.5	8.8	12.8	8.9
Palladium	2.343.2	-3.4	4.5	20.7
II. In euro				
Gold	1.530.0	2.4	-7.2	13.1
Silver	21.0	10.6	-11.0	31.9
Platinum	857.0	6.4	10.2	-0.2
Palladium	1.915.0	-5.5	2.2	10.6
III. Gold price in other currencies				
JPY	193.147.0	3.8	-7.3	17.2
CNY	12.229.9	4.0	-9.2	15.8
GBP	1.379.0	2.7	-6.3	20.6
INR	137.462.1	1.9	-4.6	27.0
RUB	136.683.4	0.8	-5.9	45.5

Source: Refinitiv; calculations by Degussa.

OUR TOP ISSUES

Dear reader,

We wish you a Merry Christmas and a Happy New Year!

The next Degussa Market Report will be published on 14 January 2020.

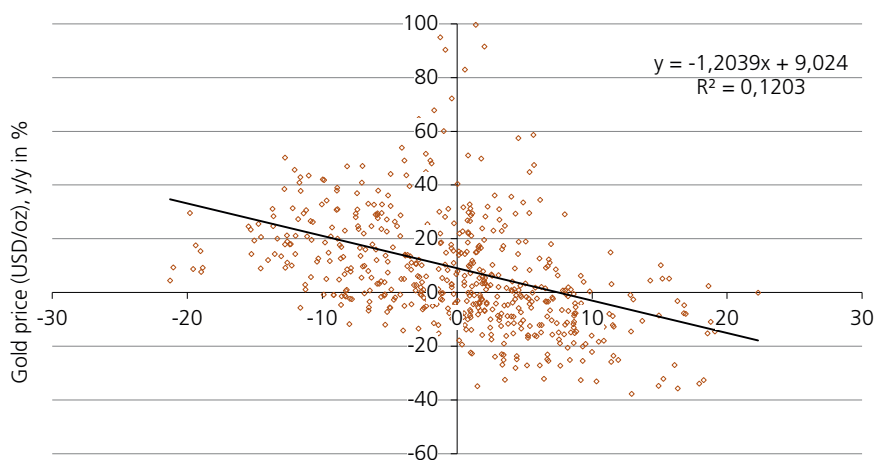
GOLD AGAINST US-DOLLAR RISK. A VALUE PROPOSITION

The US-dollar dominates global finance. It is the most important currency for transaction, financing and investment purposes. The market for US-dollar denominated securities is deep and very liquid by international comparison. The Greenback is highly attractive, especially to non-US investors, providing borrowers and lenders with access to a large set of opportunities.

However, from the end of March 2020 until the middle of December 2020, the external value of the US-dollar has declined by around 11 per cent. Presumably, heightened uncertainties related to the economic outlook for the US economy and world trade, as well as the Fed's expansionary monetary policy have played a role in investors lowering their demand for the Greenback.

1 The long-term relation between the gold price and the USD

Changes in USD exchange rate and gold price, y/y in %, 1973 to 2020



US-dollar exchange rate, y/y in % (+ = appreciation, - = depreciation)

Source: Refinitiv; calculations Degussa.

Quite a few investors hold the view that the price of gold benefits (suffers) if the external value of the US-Dollar declines (goes up). In a long-term perspec-

tive, available data supports this notion fairly well. For since 1973, the trend of the external value of the US-Dollar has indeed been pointing downwards, while the gold price has been trending upwards. However, there is more to it.

The scatter chart above depicts the monthly changes in the external value of the US-Dollar (as represented by a trade-weighted US dollar index) on the horizontal axis. The monthly changes in the price of gold are shown on the vertical axis. The dots represent for the period January 1973 to December 2020. The solid black line is a linear trend that fits the dots best. Three findings stand out.

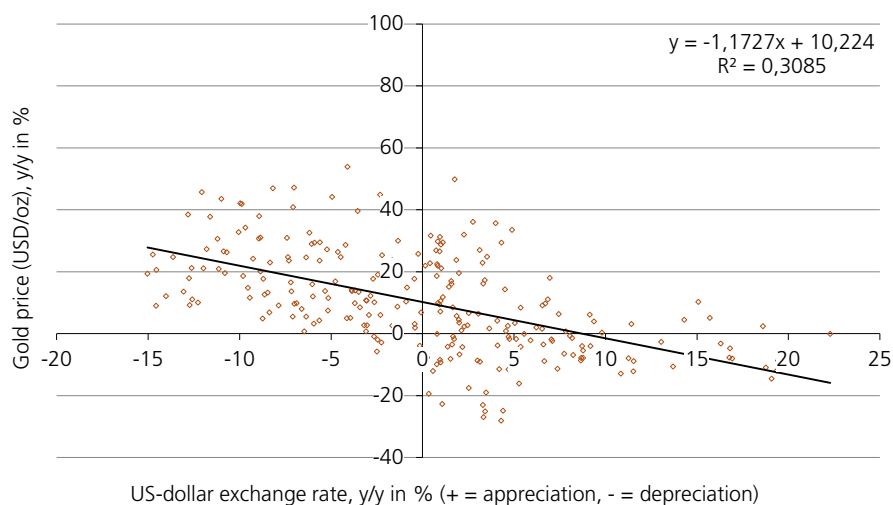
First, the price of gold in terms of US-dollar has increased by 9 per cent per annum on average in the period under review, irrespective of changes in the external value of the US-dollar. Second, the price of gold went down as the external value of the US-dollar increased and vice versa. In the period under review, a 10 per cent appreciation of the external value of the Greenback was accompanied by a 12 per cent fall in the price of gold on average.

Third: The explanatory power of the linear trend line is relatively low. It accounts for just 12 per cent of the variance in the dependent variable (changes in the price of gold) that is predictable from the independent variable (changes in the external value of the US dollar). This suggests that there are – and unsurprisingly so – other factors that also have a bearing on changes in the price of gold.

The scatter chart below shows the relationship between the changes in the external value of the US-dollar and changes in the price of gold for the period from January 2000 to December 2020. The relationship between the two series has become much closer. A linear regression explains nearly 31 per cent of the variation of changes in the gold price. The reaction of the price of gold to a change in the external value of the US-dollar has remained unchanged, though. At the same time, a price increase of gold that is independent of changes in the US-dollar grew to more than 10 per cent per annum, on average.

2 The 'latest relation' between the gold price and the USD

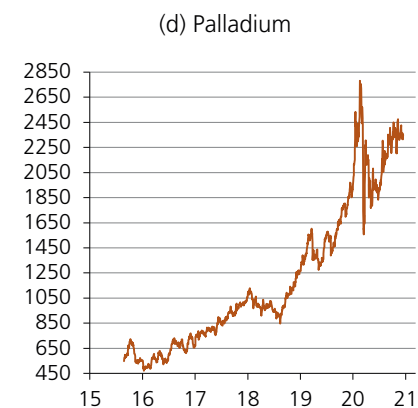
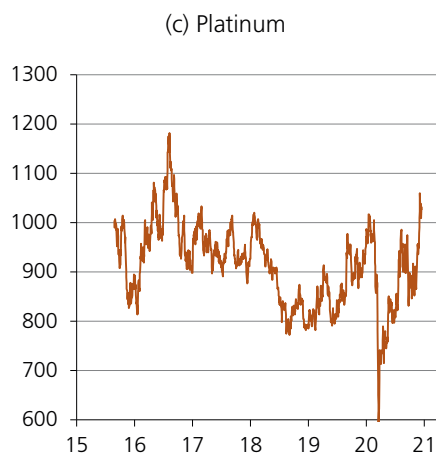
Changes in USD exchange rate and gold price, y/y in %, 2000 to 2020



Source: Refinitiv; calculations Degussa.

What lessons are to be learned? Gold – if and when considered as a form of money – was an effective hedge against the vagaries of the external value of the dollar, especially in the long-term. For international investors, in particular, holding gold proved to be more attractive than relying on (non-interest-bearing)

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



US dollars. Of course, this experience from the past cannot be simply extrapolated into the future.

However, there is quite some reason to assume that holding gold in the period that lies ahead will also pay off for the investor, as monetary policy around the world is about to debase the purchasing power of official currencies, be it the US dollar, euro, Japanese yen, and others. All the more so because a 'tacit consent' has emerged among people, that running the electronic printing press is considered the policy of the least evil.

In an environment of significant monetary expansion, artificially suppressed interest rates, and out-of-control public deficits, holding gold (and also silver for that matter) is one possibility to escape the debasement of the purchasing power of money. Bought at current prices, gold has a fairly good chance to be risk-reducing and return-enhancing for the long-term oriented investor in the years to come.

PRECIOUS METALS PRICES

In US-Dollar per ounce

	Gold		Silver		Platinum		Palladium	
I. Actual	1873.9		25.7		1047.0		2344.2	
II. Gliding averages								
10 days	1846.0		24.3		1028.5		2340.1	
20 days	1832.5		23.9		995.4		2350.1	
50 days	1872.3		24.2		926.6		2350.3	
100 days	1907.8		25.1		922.5		2295.3	
200 days	1812.3		20.9		856.4		2134.2	
III. Estimates 2021	2550		48		1149		2214	
⁽¹⁾	36		87		10		-6	
<i>Band width</i>	<i>Low</i>	<i>High</i>	<i>Low</i>	<i>High</i>	<i>Low</i>	<i>High</i>	<i>Low</i>	<i>High</i>
	2310	2780	43.0	53.0	913	1385	1949	2349
⁽¹⁾	23	48	68	106	-13	32	-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

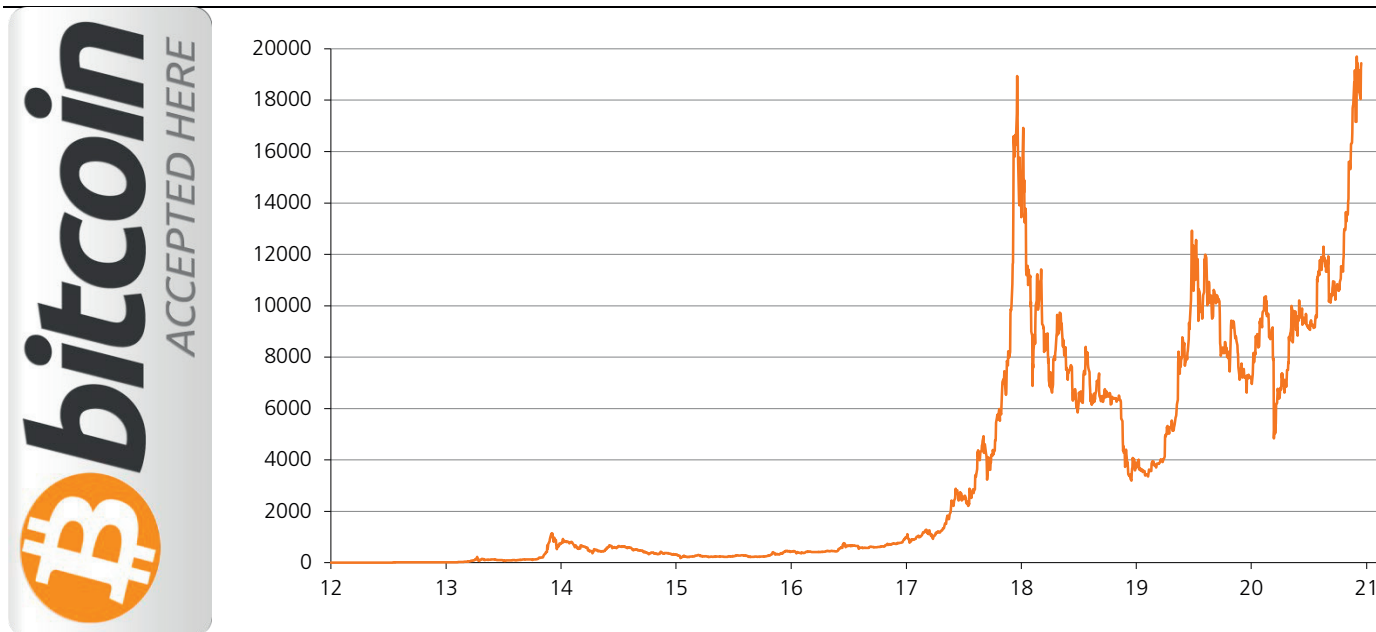
	Gold		Silver		Platinum		Palladium	
I. Actual	1531.7		21.0		855.8		1916.2	
II. Gliding averages								
10 days	1521.4		20.0		847.7		1928.7	
20 days	1523.8		19.9		827.4		1954.2	
50 days	1576.3		20.3		779.3		1978.2	
100 days	1611.3		21.2		778.7		1938.2	
200 days	1579.3		18.2		745.3		1858.6	
III. Estimates 2021	2129		40		959		1848	
⁽¹⁾	39		91		12		-4	
<i>Band width</i>	<i>Low</i>	<i>High</i>	<i>Low</i>	<i>High</i>	<i>Low</i>	<i>High</i>	<i>Low</i>	<i>High</i>
	1950	2340	30.0	44.8	770	1170	1640	1980
⁽¹⁾	27	53	43	113	-10	37	-14	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

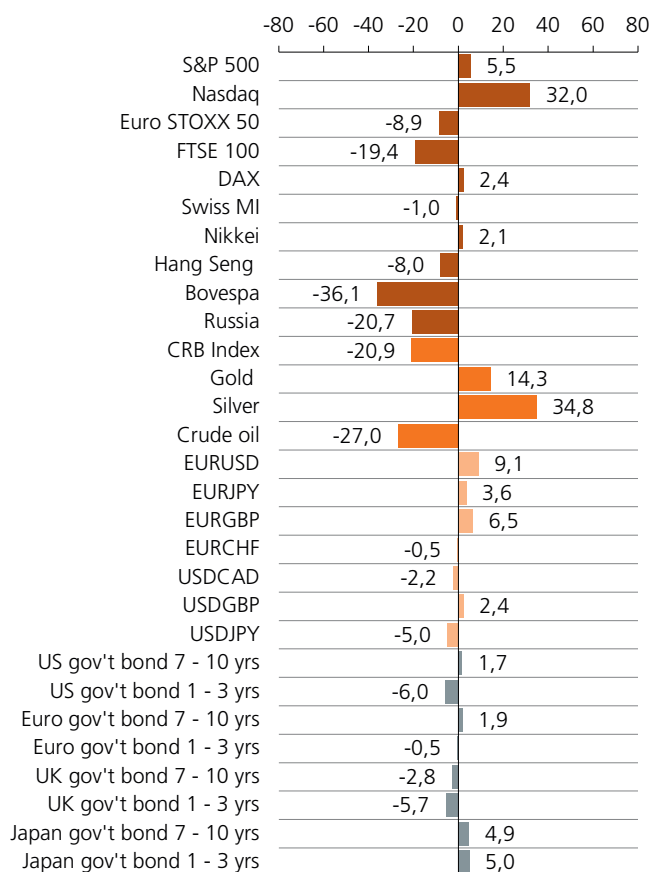
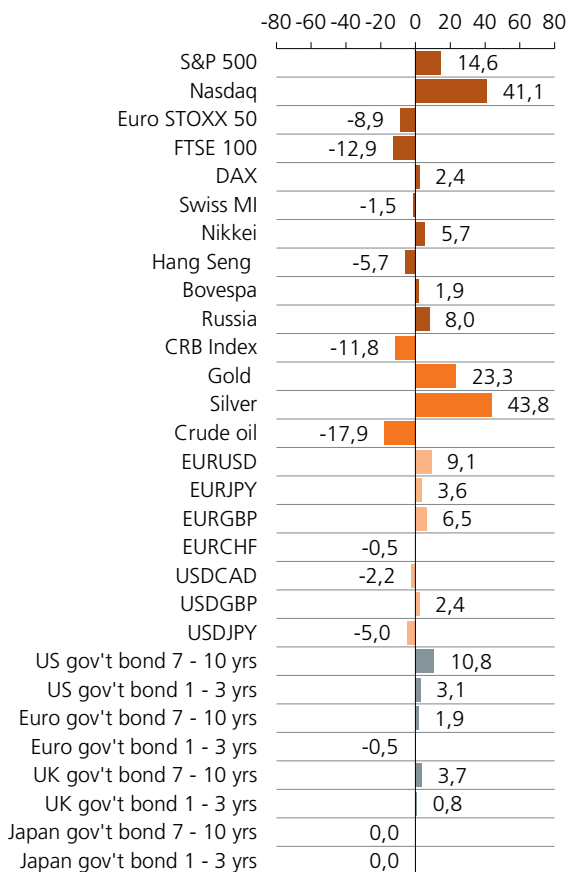


Source: Refinitiv; graph by Degussa.

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
17 December 2020	Gold Against US Dollar Risk. A Value Proposition
3 December 2020	Keep Your Cool – And Physical Gold And Silver
19 November 2020	It is Going to be Wild. Hold on to Physical Gold
5 November 2020	For In Fire Gold Is Tested
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
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

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

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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/marktreport/>

Degussa 
GOLD UND SILBER.

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

Dusseldorf (Old Gold Centre): In der KÖ Galerie
Königsallee 60 / Eingang Steinstraße · 40212 Dusseldorf
Phone: 0211-13 06 858 – 0 · duesseldorf@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): Prinzregentenufer 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