Degussa Market Report

11 February 2021 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	1.842.4	-0.5	-2.8	15.8
Silver	27.2	7.0	13.0	62.4
Platinum	1.255.1	14.3	46.2	45.9
Palladium	2.350.1	-0.1	6.3	-6.8
II. In euro				
Gold	1.519.3	-0.2	-6.7	6.5
Silver	22.4	7.3	8.3	49.2
Platinum	1.035.0	14.7	40.3	33.7
Palladium	1.938.0	0.2	2.0	-14.5
III. Gold price in other currencies				
JPY	192.660.0	0.2	-2.9	11.9
CNY	11.894.0	-0.9	-6.2	7.5
GBP	1.330.4	-1.7	-9.3	6.8
INR	134.071.5	1.9	-5.0	15.8
RUB	135.840.2	-2.4	-10.8	29.2

Source: Refinitiv; calculations by Degussa.

OUR TOP ISSUES

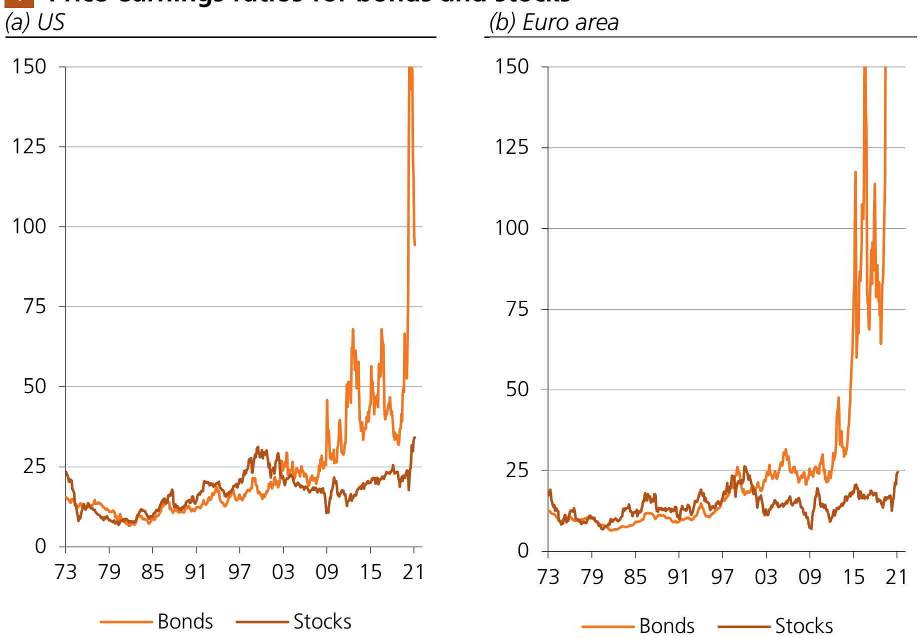
*This is a short summary of our fortnightly **Degussa Marktreport**.*

GOLD IS NOT IN BUBBLE TERRITORY

"It looks like a duck; it walks like a duck; it quacks like a duck. Maybe it is a duck? This saying comes to mind when looking at financial markets these days.

For instance, the valuation of government bond markets is ridiculously high. 10-year US Treasuries currently yield 1.13 per cent, which amounts to a price-earnings ratio of 88. In other words, if you bought the bond now, you would have to wait 88 years to recover your investment from receiving coupon payments. In the euro area, the composite of long-term government bonds trades at a negative yield, a rather grotesque situation.

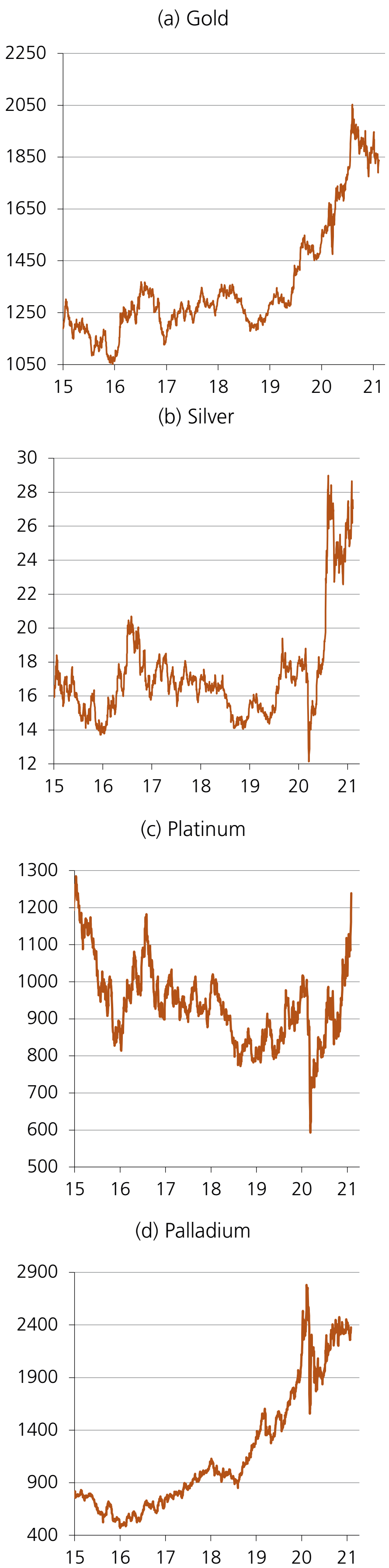
1 Price-earnings ratios for bonds and stocks



Source: Refinitiv, calculations Degussa. For the US: 10-year Treasuries; for the euro area: long-term government bonds (composite). The series for the US ends in Feb. '21, for the euro area in Nov. '20 (as the yield became negative.)

Stock market multiples are also at very high levels, largely driven by the low interest rate environment created by central banks. Expected future profits are discounted with a rather low interest rate, which increases the present values of companies and thus their share prices. What is more, low interest rates reduce the cost of debt and thus benefit businesses' profits, contributing to higher stock prices. In the low yield environment, investors increasingly scram-

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



Source: Refinitiv; graphs by Degussa.

ble for a "yield pick-up", running into the stock market and boosting stock prices.

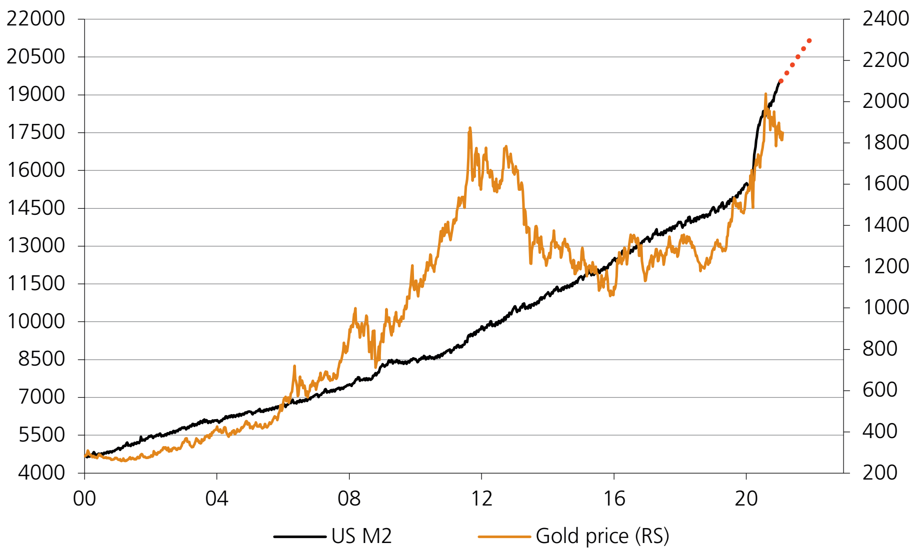
It is fair to assume that bond and stock markets are in "bubble territory". But as experience shows, bubbles can persist for a quite a while. (They do not have to burst the moment you detected them!) In fact, a market correction appears to be relatively unlikely at the moment. Why is that? The answer is that central banks have tightened their grip on credit markets, fixing interest rates at very low levels.

Without raising interest rates, it is difficult to see how the price correction can, or will, kick in. If and when central banks continue their low interest rate and monetary expansion policies – which we believe is likely –, expectations that the inflationary effects will continue to drive up consumer goods and asset prices seem to be justified. In particular, prices in stock and housing markets stand a good chance of getting inflated further in what lies ahead.

What is more, there is reasonable doubt about the prospect that central banks will necessarily raise interest rates once consumer price inflation rears its ugly head. That is if it creeps above 2 per cent p.a. An important reason for this assumption is that governments favour higher inflation: With interest rates firmly suppressed, higher inflation means negative real funding yields.

2 Money supply up, gold price up

US money stock M2 (USD bn) and gold price (USD/oz)



Source: Refinitiv; calculations Degussa. *Assuming that the US stimulus package will be financed by the Fed.

Central banks will be reluctant to abandon their extremely expansionary monetary policy too soon. Because if they do, the debt pyramid is most likely to collapse, potentially causing a recession and mass unemployment on a grand scale. The US Federal Reserve (Fed) has already changed its inflation target accordingly: In August 2020, the Fed announced that it will now aim for an "average" of 2% inflation, rather than maintaining 2% as a fixed goal.

Against the backdrop of this assessment, at least two major risks for investors become apparent. First, the ongoing inflationary monetary policy will continue to fuel consumer and/or asset price inflation, in particular, driving asset valuations further into bubble territory. In other words: The purchasing power of money will decrease. Second, the bubble bursts earlier than is widely expected, deflating runaway asset valuations and sending the economies into a tailspin.

Both risks are undoubtedly challenging from an investor point of view. Holding gold (as portion of the portfolio liquidity) could be part of the solution. In the medium to long term, the purchasing power of gold cannot be debased by central banks running the electronic printing presses. And gold does not carry a default risk (other than, for example, bank deposits) – an important characteristic especially in view of the "bursting bubble" scenario.

As things stand, we think that gold isn't in bubble territory. At its current price, we consider gold a "buy", offering considerable upside potential for investors with an investment horizon of, say, three or five years; the yellow metal has an attractive risk-reward profile from our point of view, which becomes even more attractive should the price of gold suffer a short-term set-back.

PRECIOUS METALS PRICES

In US-Dollar per ounce

	Gold		Silver		Platinum		Palladium	
I. Actual	**1842.1**		**27.2**		**1255.3**		**2356.6**	
II. Gliding averages								
10 days	1835.9		27.1		1131.2		2306.8	
20 days	1842.4		26.2		1114.1		2337.1	
50 days	1860.1		25.8		1071.7		2347.8	
100 days	1870.7		24.9		983.5		2345.1	
200 days	1856.5		23.3		926.4		2205.3	
III. Estimates for end 2021	**2448**		**47**		**1272**		**2710**	
(1)	*33*		*73*		*1*		*15*	
Band width	*Low*	*High*	*Low*	*High*	*Low*	*High*	*Low*	*High*
	1750	2684	23.0	55.1	950	1472	2280	2910
(1)	*-5*	*46*	*-15*	*103*	*-24*	*17*	*-3*	*23*
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

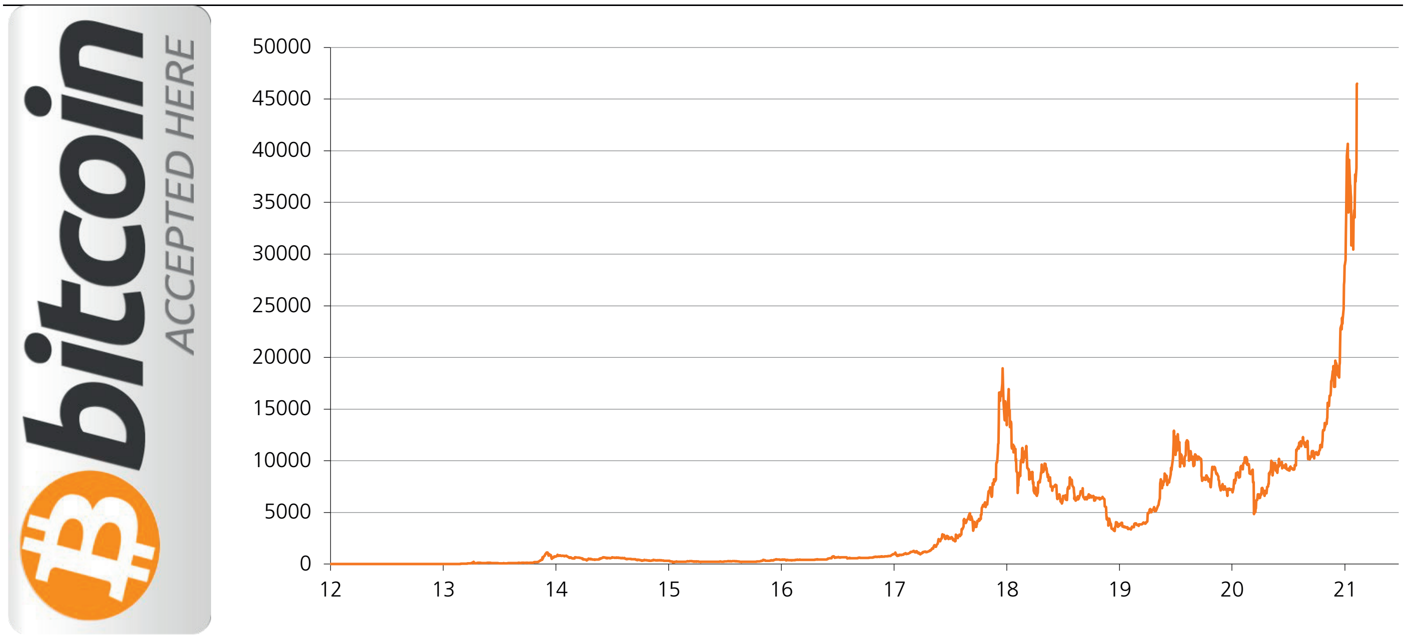
	Gold		Silver		Platinum		Palladium	
I. Actual	**1519.3**		**22.4**		**1035.3**		**1943.6**	
II. Gliding averages								
10 days	1521.3		22.4		937.3		1911.5	
20 days	1523.1		21.7		921.1		1932.0	
50 days	1530.4		21.2		881.9		1931.7	
100 days	1562.6		20.8		820.3		1958.4	
200 days	1584.2		19.8		788.8		1878.9	
III. Estimates for end 2021	**2044**		**39**		**1062**		**2263**	
(1)	*35*		*76*		*3*		*16*	
Band width	*Low*	*High*	*Low*	*High*	*Low*	*High*	*Low*	*High*
	1470	2260	19.0	46.6	800	1240	1920	2450
(1)	*-3*	*49*	*-15*	*108*	*-23*	*20*	*-1*	*26*
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

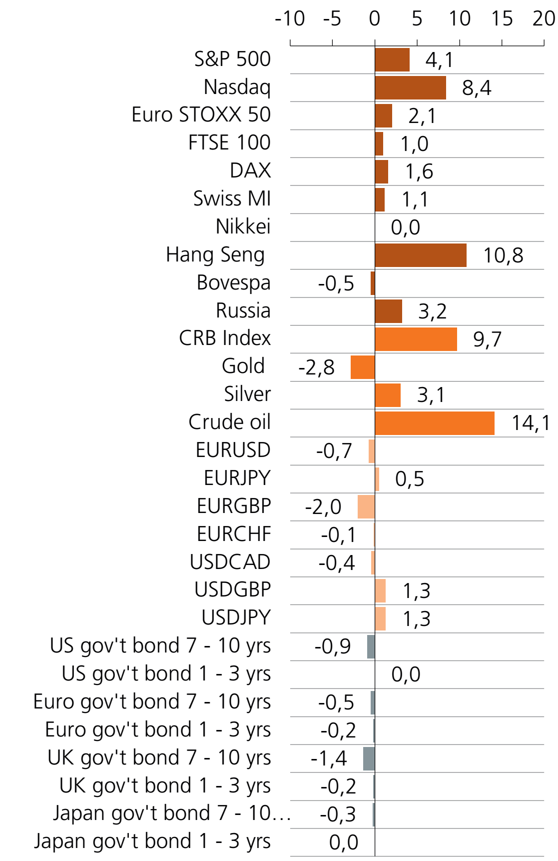
Bitcoin in US dollars



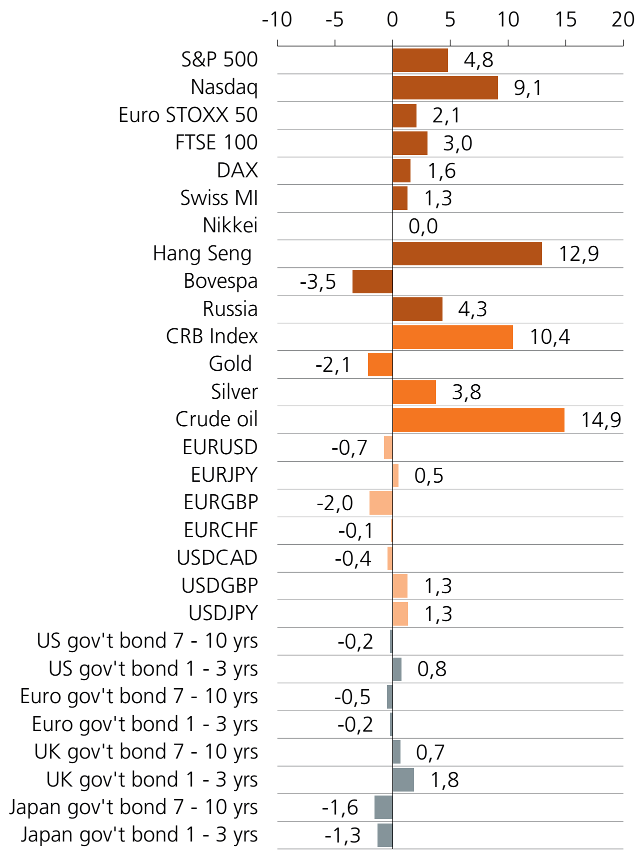
Source: Refinitiv; graph by Degussa.

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
11 February 2021	Gold Is Not In Bubble Territory
28 January 2021	It Is High Time To Buy Gold And Silver
14 January 2021	The Great Gold And Silver Bull Market Is On
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

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

Disclaimer

Degussa Goldhandel GmbH, Frankfurt am Main, is responsible for creating this document. The authors of this document certify that the views expressed in it accurately reflect their personal views and that their compensation was not, is not, nor will be directly or indirectly related to the recommendations or views contained in this document. The analyst(s) named in this document are not registered / qualified as research analysts with FINRA and are therefore not subject to NASD Rule 2711.
This document serves for information purposes only and does not take into account the recipient's particular circumstances. Its contents are not intended to be and should not be construed as an offer or solicitation to acquire or dispose of precious metals or securities mentioned in this document and shall not serve as the basis or a part of any contract.
The information contained in this document was obtained from sources that Degussa Goldhandel GmbH holds to be reliable and accurate. Degussa Goldhandel GmbH makes no guarantee or warranty with regard to correctness, accuracy, completeness or fitness for a particular purpose.
All opinions and views reflect the current view of the author or authors on the date of publication and are subject to change without notice. The opinions expressed herein do not necessarily reflect the opinions of Degussa Goldhandel GmbH. Degussa Goldhandel GmbH is under no obligation to update, modify or amend this document or to otherwise notify its recipients in the event that any circumstance mentioned or statement, estimate or forecast set forth in this document changes or is subsequently rendered inaccurate.
The past performance of financial instruments is not indicative of future results. No assurance can be given that any views described herein would yield favorable returns on investments. There is the possibility that said forecasts in this document may not come to pass owing to various risk factors. These include, without limitation, market volatility, sector volatility, corporate actions, the unavailability of complete and accurate information and/or the circumstance that underlying assumptions made by Degussa Goldhandel GmbH or by other sources relied upon in the document should prove inaccurate.
Neither Degussa Goldhandel GmbH nor any of its directors, officers or employees shall be liable for any damages arising out of or in any way connected with the use of this document and its content.
Any inclusion of hyperlinks to the websites of organizations in this document in no way implies that Degussa Goldhandel GmbH endorses, recommends or approves of any material on or accessible from the linked page. Degussa Goldhandel GmbH assumes no responsibility for the content of and information accessible from these websites, nor for any consequences arising from the use of such content or information.
This document is intended only for use by the recipient. It may not be modified, reproduced, distributed, published or passed on to any other person, in whole or in part, without the prior, written consent of Degussa Goldhandel GmbH. The manner in which this document is distributed may be further restricted by law in certain countries, including the USA. It is incumbent upon every person who comes to possess this document to inform themselves about and observe such restrictions. By accepting this document, the recipient agrees to the foregoing provisions.

Imprint
Marktreport is published every 14 days on Thursdays and is a free service provided by Degussa Goldhandel GmbH.
Deadline for this edition: 11 February 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/

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