

8 April 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	1.742.9	-0.1	-8.1	3.7
Silver	25.2	-4.0	-4.4	67.7
Platinum	1.223.1	2.2	14.7	58.4
Palladium	2.617.6	-0.7	6.9	33.6
II. In euro				
Gold	1.467.9	0.2	-5.5	-4.6
Silver	21.2	-3.6	-1.5	55.5
Platinum	1.030.2	2.7	17.8	46.1
Palladium	2.205.0	-0.5	10.1	23.3
III. Gold price in other currencies				
JPY	190.876.0	0.5	-2.6	5.6
CNY	11.416.6	0.6	-7.8	-4.1
GBP	1.268.5	0.9	-8.6	-5.2
INR	130.244.4	1.9	-6.0	2.9
RUB	134.379.1	4.0	-4.1	7.3

Source: Refinitiv; calculations by Degussa.

OUR TOP ISSUES

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

ON PRECIOUS METALS 2021 PRICE FORECAST

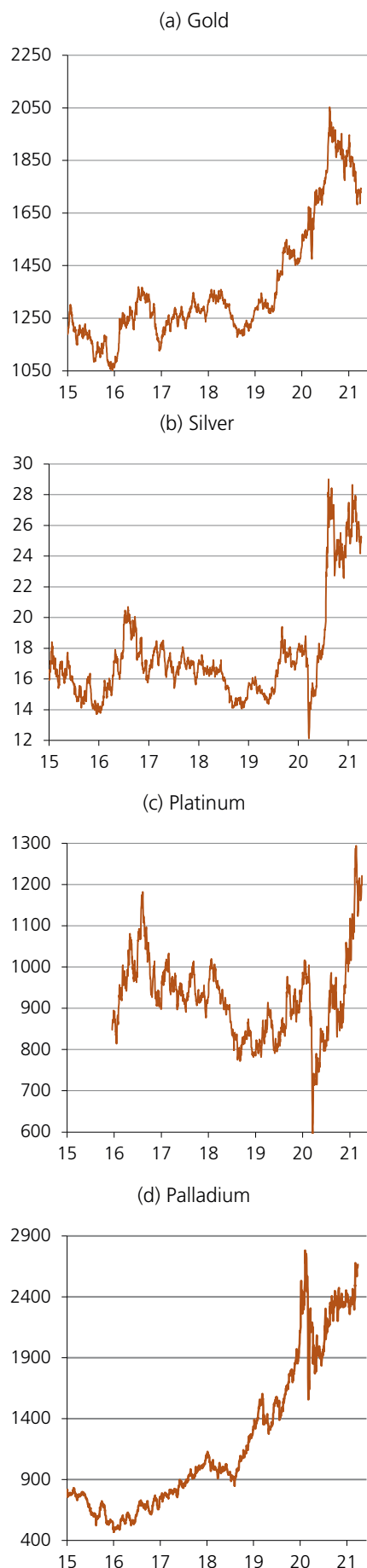
The LBMA Webinar "2021 Price Forecast Review" took place on 1 April 2021. Moderator Frederic Panizzutti (MKS Switzerland) hosted Rhona O'Connell (Stone X), René Hochreiter (Sieberana Research) and Thorsten Polleit (Degussa) for a discussion of the key factors and drivers underpinning their precious metals price forecasts for 2021. For the video, please click [here](#).

In this context, we would like to add some remarks on the relationship between the price of gold and interest rates. In general, one would expect a negative relationship between the two. That is, if interest rates rise (fall), the price of gold should go down (go up). The reason being is that interest rates represent (one type of) opportunity costs: When you are holding gold, you forgo income you could possibly earn from holding coupon-bearing securities.

In a world where people are not fooled by "money illusion", real (i.e. inflation-adjusted) rather than nominal interest rates matter. Because what people are interested in is real rather than nominal income. If the interest rate is, say, 10 per cent, and price inflation is 20 per cent, the real interest rate is a negative 10 per cent; if, however, the interest rate is, say, 2 per cent and price inflation is 0.5 per cent, the real interest rate is 1.5 per cent.

If you own gold: Do short-term or long-term interest rates (in real terms) matter? Once you consider gold as a substitute for short-term bank deposits (as a monetary substitute), short-term rather than long-term rates should represent your relevant opportunity costs. What about the argument that gold is a "long-

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



Source: Refinitiv; graphs by Degussa.

term play", and its relevant opportunity costs being represented by long-term yields (in real terms)?

Suppose today's ten-year nominal yield on government bonds is, say, 2 per cent. Current CPI inflation is, say, 1.5 per cent, so the bond's real yield is 0.5 per cent. Does that mean that you lock in a 0.5 real return per annum if you buy the bond today? The answer is no. Because such an assumption actually implies that you can re-invest all the coupon payments at a real rate of 0.5 per cent. But is that a reasonable assumption?

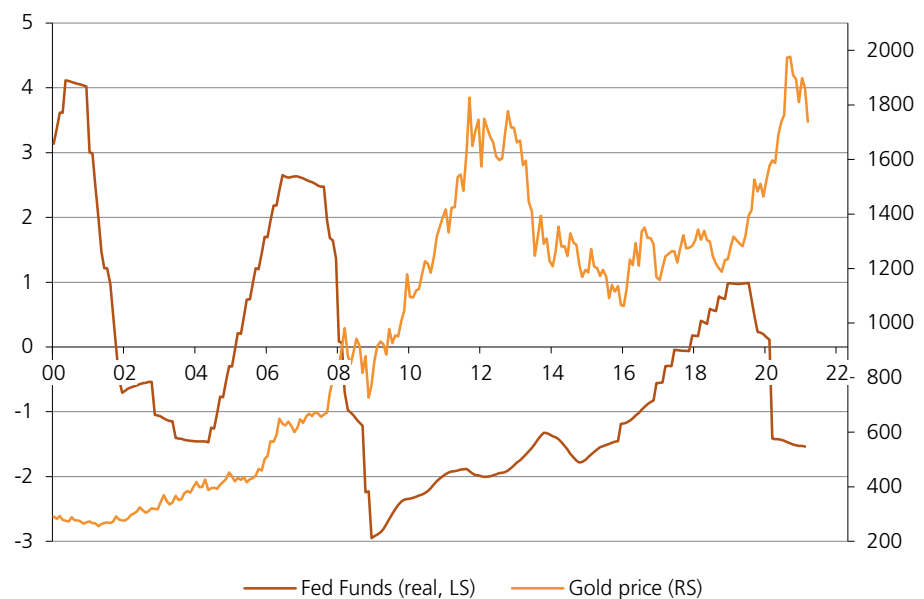
It is not. Because CPI inflation could rise in the years to come, which would reduce your real rate of return, and it could even turn it into a negative real return. Also in this context, one can have serious doubts that CPI is the "correct" measure for the decline in the purchasing power of money. This is, for instance, because CPI does not include asset prices and therefore ignores asset price inflation, which contributes to the erosion of the purchasing power of money.

What is more, the central bank may not set its short-term rate in the future as it is expected today. It may reduce the short-term interest rate, or it may not raise it to the level implied by today's nominal bond yields. This, in turn, would also result in an ex-post real interest rate that is perhaps (much, much) lower than what today's bond yield implies. In other words, you are well-advised to question current spot interest rates as an unbiased predictor of future long-term (real) interest rates.

The experience in recent years has demonstrated that bond markets have virtually always overestimated the level of the Fed's short-term interest rates: While markets expected short-term interest rates to rise, the Fed had actually cut them. That said, bond investors can be expected to have been widely disappointed as far as their ex-post real yields were concerned. Reality may even have delivered them negative real yields.

1 Gold price and real short-term interest rate

Gold price (USD/oz) and real US Federal Funds Rate*



Source: Refinitiv; calculations Degussa. * Nominal rate minus 5-year average of the annual change in the consumer price index (in per cent).

We argue that there are good reasons for precious metals investors to focus on short-term real interest rates as their relevant, their "true" opportunity cost factor. US real short-term yields, calculated on the basis of CPI, averaged *minus* 0.40 per cent in the period January 2000 to February 2021. From August 2008 until today, the average was *minus* 1.2 per cent.

Given the grave problems in the international financial architecture and economic system, chances are that short-term interest rates in real terms will remain negative or fall even further into negative territory.

This, in turn, is a strong argument for holding physical gold and silver as part of your portfolio. At current prices, holding physical gold and silver is a great way to reduce your portfolio risks while contributing to a higher portfolio return.

PRECIOUS METALS PRICES

In US-Dollar per ounce

	Gold		Silver		Platinum		Palladium	
I. Actual	1742.3		25.2		1223.9		2616.4	
II. Gliding averages								
10 days	1723.9		24.8		1193.3		2626.7	
20 days	1726.8		25.3		1193.8		2578.1	
50 days	1763.1		26.3		1191.1		2436.4	
100 days	1809.9		25.7		1114.5		2397.5	
200 days	1859.2		25.0		1005.0		2315.8	
III. Estimates for end 2021	2448		47		1272		2710	
⁽¹⁾	41		87		4		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>
	1750	2684	23.0	55.1	950	1472	2280	2910
⁽¹⁾	0	54	-9	119	-22	20	-13	11
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

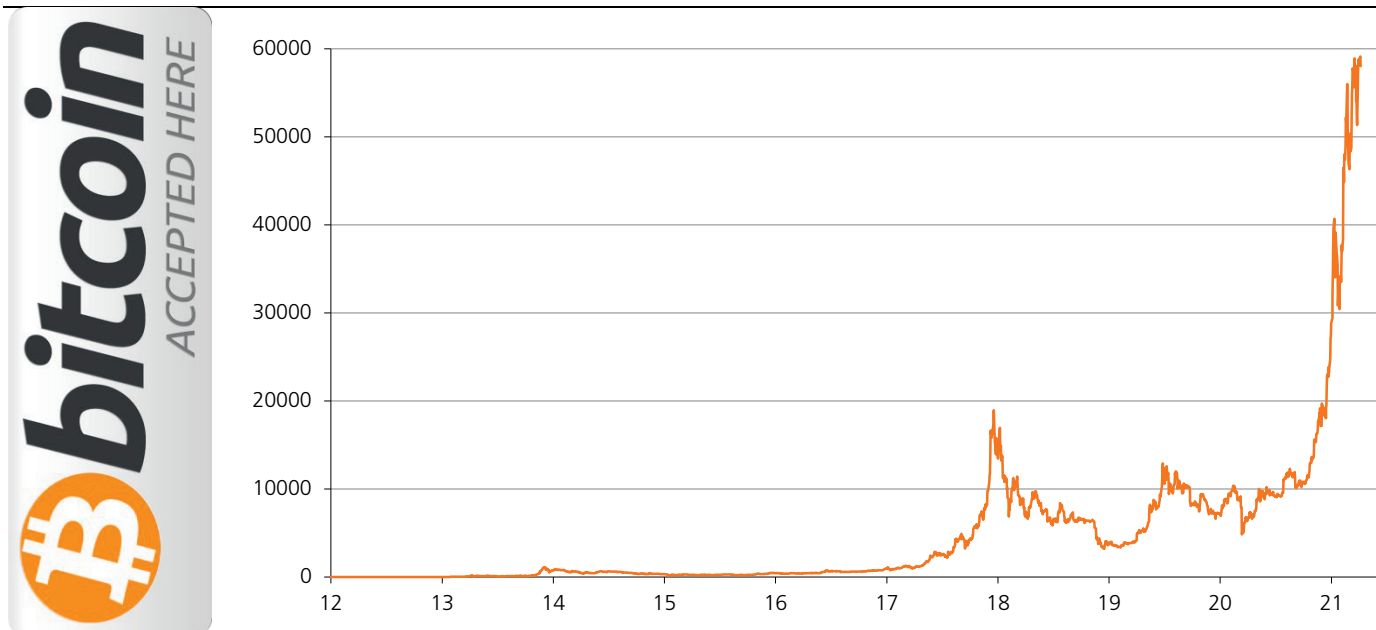
	Gold		Silver		Platinum		Palladium	
I. Actual	1467.8		21.2		1031.1		2204.2	
II. Gliding averages								
10 days	1462.5		21.1		1012.3		2228.4	
20 days	1457.5		21.4		1007.6		2176.3	
50 days	1471.7		21.9		994.4		2035.2	
100 days	1501.5		21.3		925.1		1990.2	
200 days	1564.3		21.0		844.3		1947.2	
III. Estimates for end 2021	2044		39		1062		2263	
⁽¹⁾	39		85		3		3	
<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>
	1470	2260	19.0	46.6	800	1240	1920	2450
⁽¹⁾	0	54	-10	119	-22	20	-13	11
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

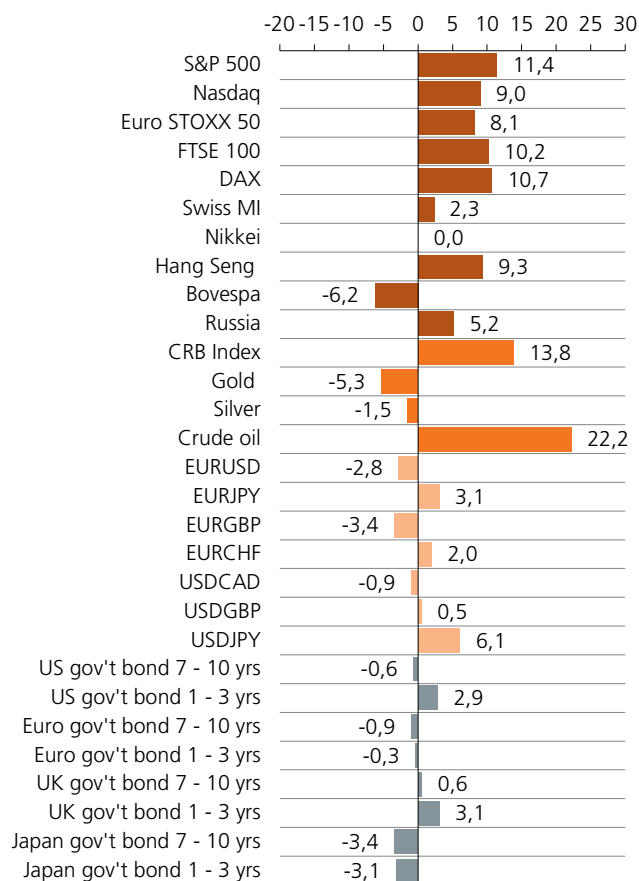
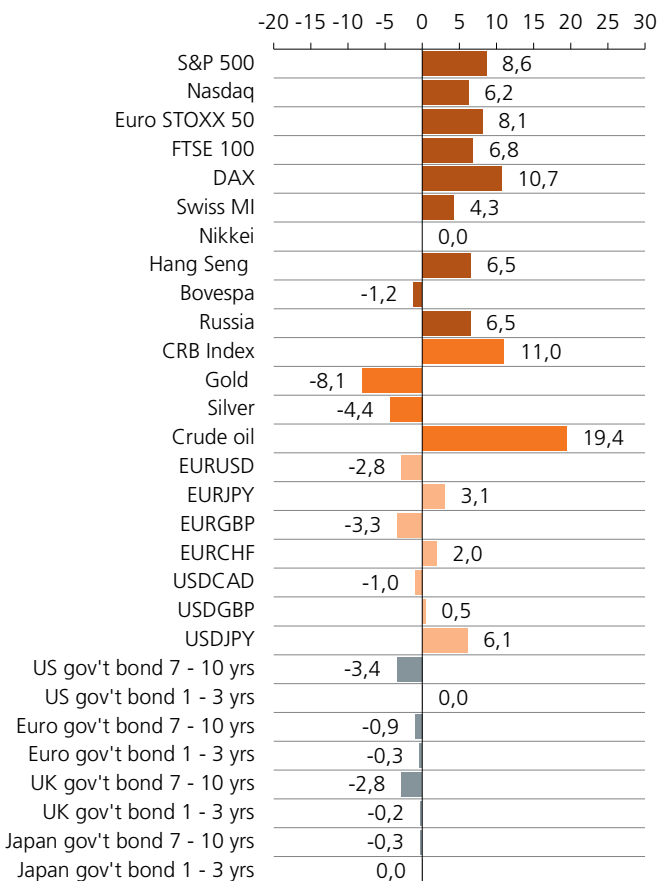


Source: Refinitiv; graph by Degussa.

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
8 April 2021	On Precious Metal 2021 Price Forecasts
25 March 2021	Money Matters For Gold And Silver Prices
11 March 2021	Interest Rates are to the Price of Gold What Gravity is to the Apple
25 February 2021	The Dangers Of Digital Central Bank Money
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

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www.degussa-goldhandel.de/marktreport

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