

12 August 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  |
| <b>I. In US-dollar</b>                     |               |                              |       |       |
| Gold                                       | 1.751.9       | -2.7                         | -0.9  | -11.1 |
| Silver                                     | 23.5          | -6.5                         | -9.2  | -16.7 |
| Platinum                                   | 1.020.5       | -3.9                         | -14.9 | 9.8   |
| Palladium                                  | 2.632.6       | -1.5                         | -10.3 | 17.4  |
| <b>II. In euro</b>                         |               |                              |       |       |
| Gold                                       | 1.491.0       | -2.5                         | 1.3   | -9.5  |
| Silver                                     | 20.0          | -6.3                         | -7.1  | -15.0 |
| Platinum                                   | 868.5         | -3.7                         | -13.0 | 11.7  |
| Palladium                                  | 2.240.0       | -1.3                         | -8.3  | 19.5  |
| <b>III. Gold price in other currencies</b> |               |                              |       |       |
| JPY  | 193.339.0     | -2.9                         | 0.0   | -7.2  |
| CNY  | 11.349.3      | -2.8                         | -0.9  | -15.8 |
| GBP  | 1.261.9       | -3.7                         | -1.4  | -14.2 |
| INR  | 130.083.8     | 1.9                          | -0.7  | -9.7  |
| RUB  | 128.720.1     | -3.0                         | -3.2  | -11.4 |

Source: Refinitiv; calculations by Degussa.

## OUR TOP ISSUES

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

### THE CRIME OF 1971

#### *The end of the System of Bretton Woods: a Mephistophelian bargain*

Almost 50 years ago, on August 15, 1971, the US administration under President Richard Nixon (1913-1994) abolished the gold redeemability of the US dollar. It was through this unilateral decision that the world's major currencies were turned into irredeemable money: money that is no longer backed by physical gold. This surprise coup put an end to the System of Bretton Woods, which had been adopted in 1944.

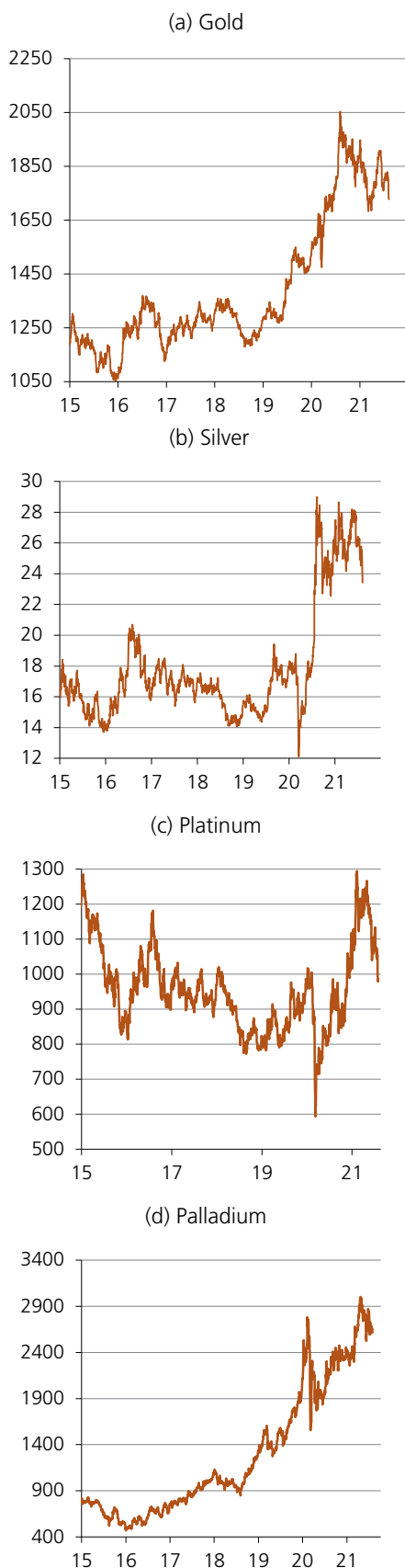
From 1 to 22 July of that year, 730 delegates from 44 nations met in the village of Bretton Woods in the US state of New Hampshire to determine the global monetary order for the period after the Second World War. Here it was agreed to give the US dollar the status of the world reserve currency. 35 US dollars corresponded to one troy ounce of gold (i.e. 31.10347 ... grams). All other currencies (such as French franc, British pound, Swiss franc, etc.) were linked to the greenback at a fixed exchange rate, and they could be converted into the Greenback at any time. In this way they too were - at least indirectly - tied to physical gold.

However, one should not think that the Bretton Woods system was something like a re-establishment of the gold standard. Not even close. At best, it was something of a "pseudo gold standard". Although the US dollar was defined in terms of its physical gold weight, gold no longer circulated in day-to-day business in the world's major economies. In the US, President Franklin D. Roosevelt (1882-1945) in 1933 had made gold ownership illegal for US-American citizens. Banks and consumers had to hand over their gold to the US Treasury. In return, they received US dollar banknotes and balances at the US central bank. Only as far as international payment transactions between central banks were concerned was the US dollar still redeemable into gold.

At the conference of Bretton Woods there was a consensus that there could be no reliable world currency system without gold playing a role. The proposals for the design of the world monetary system, which were competing with one another in Bretton Woods at that time - the so-called "Keynes Plan" and the "White Plan" -, assigned an anchor function to gold. The yellow metal was seen as a kind of perfect money; at least no one could say how something better could have been substituted for it.

At the end of the day, however, only a "dollar currency standard" was agreed upon in Bretton Woods. That is, the world relied on the promise given by the US that it would exchange the US dollar in full for physical gold upon request. Not a good decision as it should turn out to be. But at first the System of Bretton Woods worked reasonably - despite a number of structural shortcomings.

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



Source: Refinitiv; graphs by Degussa.

The economies around the world recovered, world trade and world capital movements expanded.

Soon, however, dark clouds gathered. As early as the 1950s, the US began to get bogged down in an increasingly bellicose foreign policy. They financed the costs of the Korean and Vietnam wars mainly by spending new US dollars not backed by physical gold. As expected, goods price inflation began to take off. The purchasing power of the US dollar declined noticeably, and with it confidence in the world reserve currency declined. More and more nations began to demand their US dollars holdings converted into physical gold.

The American gold reserve – at that time it amounted to about two-thirds of the world's monetary gold - melted like snow in the sun. The US was threatened with insolvency in terms of gold payments. And this is why President Nixon pulled the emergency brake in the summer of 1971 and decided not to redeem the US dollar in gold any more - as had been contractually agreed upon. The decision to end the gold redeemability of the Greenback was probably the largest act of monetary expropriation of modern times.

The monetary system in the world was fundamentally changed in one fell swoop. In fact, all currencies became non-redeemable paper money, or: "fiat money", money that can be increased in any amount deemed politically desirable at any moment in time. The preferred method of producing new fiat money is through credit expansion on the part of central banks and commercial banks. Unsurprisingly, chronic inflation came with fiat money: the phenomenon that the prices of goods and services keep rising over time.

What is more, the issuing of fiat money through bank lending causes recurring waves of speculation, bubbles and financial and economic crises. Most notorious are the so called "boom and bust cycles": In an effort to keep expanding the fiat money supply, central banks artificially suppress market interest rates, thereby inducing a pseudo-upswing ("boom"), which sooner or later has to end in a recession ("bust"). And since during a cycle debt typically swells faster than economic performance increases, the overall debt pyramid keeps growing and becomes overwhelming over time.

Furthermore, fiat money makes the state bigger and more powerful. The state's central bank provides it with any desired amount of money on credit created out of thin air, provided at most favourable funding costs. As a result, the state can literally buy anything and expand its power; it can most conveniently roll out the welfare and warfare state. The state's expansion comes inevitably at the expense of the freedoms of citizens and entrepreneurs.

That said, the move away from gold money some 50 years ago has had very far-reaching consequences for Western economies and societies. It was instrumental in undermining and pushing back the free economic and societal order, replacing it by state interventionism and state planning. On top of that, things are most likely to take dramatic turn, as the fiat money system seems to be about to reach its limits.

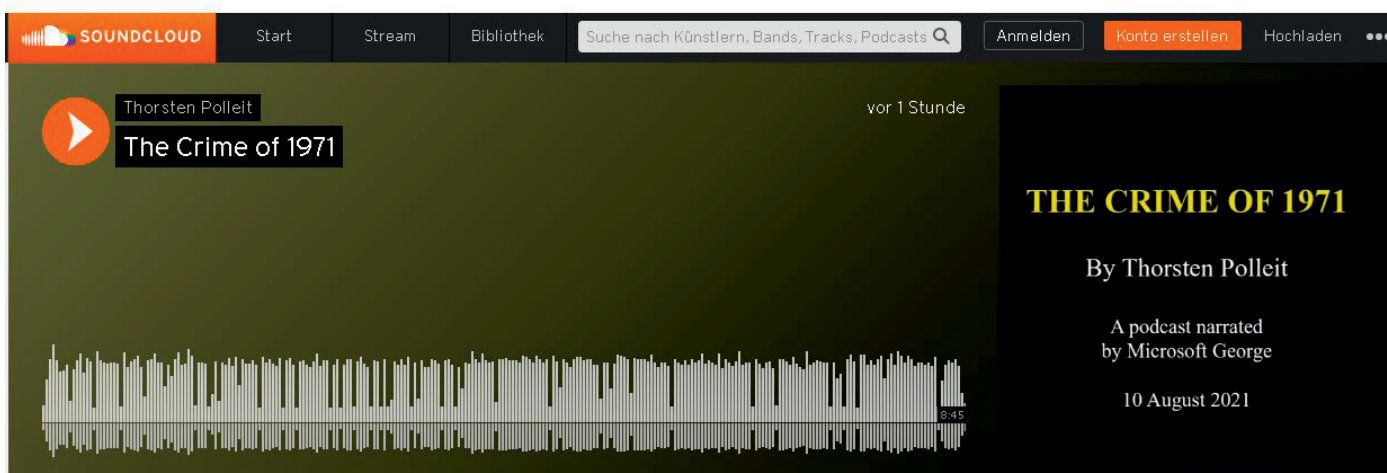
Following the politically dictated lockdown crisis in 2020/2021, global debt has reached alarming record levels. The International Institute of Finance (IIF) estimates that at the end of the first quarter of 2021, global debt stood at 289 trillion US dollar, or 360 percent of global economic output. Looked at soberly, it is a mountain of debt that no one can or will not repay.

The world's major central banks have reduced market interest rates to or even below zero, and keep the electronic printing presses running for financing struggling states and banks through the issuance of huge amounts of newly created fiat money. In other words: Policy makers have unabashedly resorted to inflation to keep the system afloat. As experience shows, inflation all too easily begets more inflation, which could in the extreme prove to be self-destructive for world's fiat money system.

If the fiat monetary system is to be saved from collapse, the economies will unfortunately have to throw overboard what little is left of the free economic and social system; for basically all the remaining corrective forces of the free market will have to be put to rest. In fact, governments will have to take recourse to more regulation, prohibitions, taxes, controls etc. In other words: The free economic and societal system will fall victim to the effort of preserving the fiat money system.

Seen in this way, the move away from gold money, which reached its dramatic end point in the summer of 1971, was much more than just historical occurrence well back in the past. It is was a rather fateful event, the final nail in the idea of sound money; we may even speak of the 'Crime of 1971'. It actually can also be seen as a kind of Mephistophelian trade: Good gold money was exchanged for bad fiat money – as in the Faustian Bargain supreme moral values, or the personal soul, were surrendered to an evil spirit. In any case, the decoupling money from gold and henceforth entrusting the money producing enterprise to the state and its central bank will probably prove to be one of the greatest follies in human history.

The podcast (8:45 min.) can be found [here](#).



The screenshot shows the SoundCloud interface for a podcast. At the top, the SoundCloud logo is on the left, and navigation links for 'Start', 'Stream', and 'Bibliothek' are in the center. A search bar contains the text 'Suche nach Künstlern, Bands, Tracks, Podcasts'. On the right, there are buttons for 'Anmelden', 'Konto erstellen', and 'Hochladen'. Below the navigation, the podcast title 'The Crime of 1971' by Thorsten Polleit is displayed, along with a play button icon and the text 'vor 1 Stunde'. A large waveform visualization of the audio is shown at the bottom left. On the right side, the title 'THE CRIME OF 1971' is written in yellow, followed by 'By Thorsten Polleit', 'A podcast narrated by Microsoft George', and the date '10 August 2021'. The duration '8:45' is visible at the bottom right of the waveform.

## PRECIOUS METALS PRICES

In US-Dollar per ounce

|                                    | Gold          |             | Silver      |             | Platinum      |             | Palladium     |             |
|------------------------------------|---------------|-------------|-------------|-------------|---------------|-------------|---------------|-------------|
| <b>I. Actual</b>                   | <b>1751.8</b> |             | <b>23.5</b> |             | <b>1019.5</b> |             | <b>2632.6</b> |             |
| II. Gliding averages               |               |             |             |             |               |             |               |             |
| 10 days                            | 1805.9        |             | 25.3        |             | 1081.7        |             | 2665.8        |             |
| 20 days                            | 1802.8        |             | 25.7        |             | 1089.9        |             | 2740.9        |             |
| 50 days                            | 1831.1        |             | 26.6        |             | 1120.2        |             | 2741.2        |             |
| 100 days                           | 1799.0        |             | 26.3        |             | 1163.8        |             | 2743.0        |             |
| 200 days                           | 1821.2        |             | 25.9        |             | 1108.2        |             | 2546.3        |             |
| <b>III. Estimates for end 2021</b> | <b>2448</b>   |             | <b>47</b>   |             | <b>1272</b>   |             | <b>2710</b>   |             |
| <sup>(1)</sup>                     | 40            |             | 101         |             | 25            |             | 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> |
|                                    | 1750          | 2684        | 23.0        | 55.1        | 950           | 1472        | 2280          | 2910        |
| <sup>(1)</sup>                     | 0             | 53          | -2          | 135         | -7            | 44          | -13           | 11          |
| V. Annual averages                 |               |             |             |             |               |             |               |             |
| 2018                               | 1253          |             | 17.1        |             | 947           |             | 857           |             |
| 2019                               | 1268          |             | 15.8        |             | 880           |             | 1019          |             |
| 2020                               | 1382          |             | 16.1        |             | 862           |             | 1511          |             |

In Euro per ounce

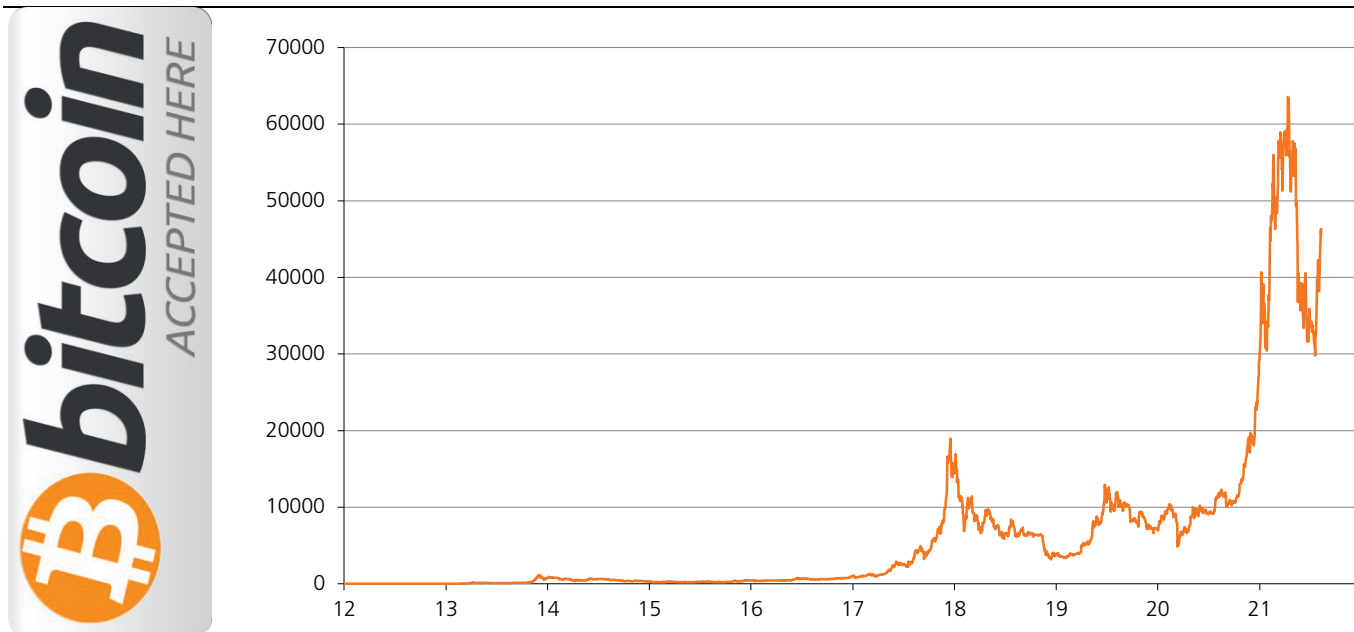
|                                    | Gold          |             | Silver      |             | Platinum     |             | Palladium     |             |
|------------------------------------|---------------|-------------|-------------|-------------|--------------|-------------|---------------|-------------|
| <b>I. Actual</b>                   | <b>1491.2</b> |             | <b>20.0</b> |             | <b>867.8</b> |             | <b>2240.9</b> |             |
| II. Gliding averages               |               |             |             |             |              |             |               |             |
| 10 days                            | 1530.8        |             | 21.4        |             | 916.9        |             | 2259.7        |             |
| 20 days                            | 1525.2        |             | 21.8        |             | 922.0        |             | 2318.7        |             |
| 50 days                            | 1527.8        |             | 22.2        |             | 934.4        |             | 2287.4        |             |
| 100 days                           | 1501.7        |             | 22.0        |             | 971.5        |             | 2289.7        |             |
| 200 days                           | 1516.6        |             | 21.6        |             | 922.5        |             | 2120.7        |             |
| <b>III. Estimates for end 2021</b> | <b>2044</b>   |             | <b>39</b>   |             | <b>1062</b>  |             | <b>2263</b>   |             |
| <sup>(1)</sup>                     | 37            |             | 97          |             | 22           |             | 1             |             |
| <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        |
| <sup>(1)</sup>                     | -1            | 52          | -5          | 133         | -8           | 43          | -14           | 9           |
| V. Annual averages                 |               |             |             |             |              |             |               |             |
| 2018                               | 1116          |             | 15          |             | 844          |             | 760           |             |
| 2019                               | 1072          |             | 13          |             | 743          |             | 863           |             |
| 2020                               | 1235          |             | 14          |             | 770          |             | 1350          |             |

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

<sup>(1)</sup> On the basis of actual prices.

# BITCOIN, PERFORMANCE OF VARIOUS ASSET CLASSES

## Bitcoin in US dollars

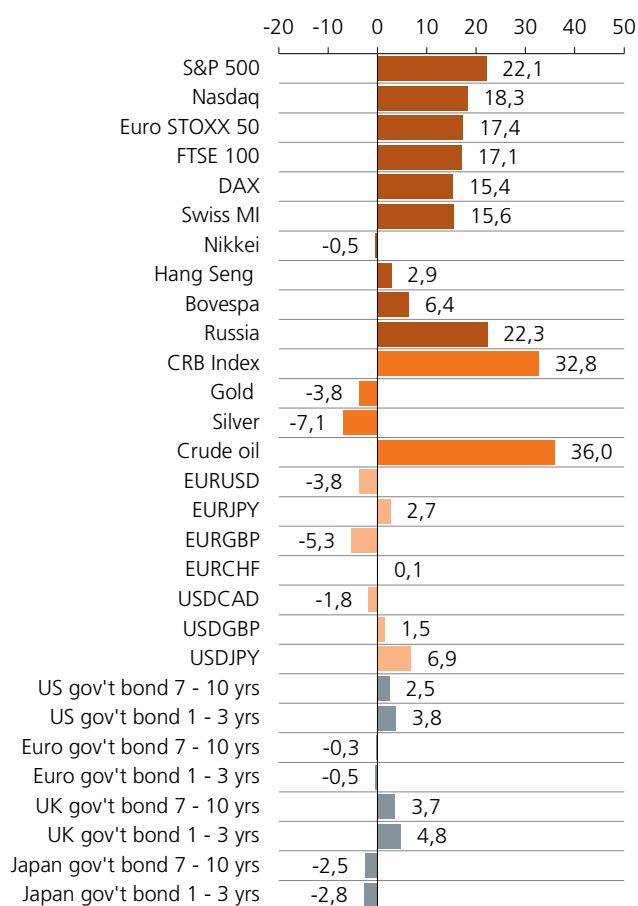
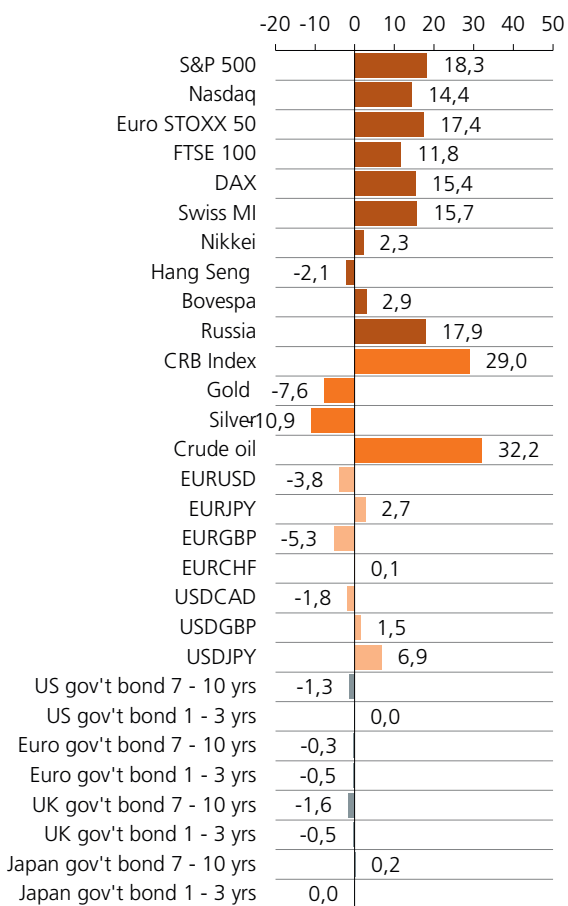


Source: Refinitiv; graph by Degussa.

## 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  |
|-------------------|--|
| 12 August 2021    | The Crime of 1971  |
| 29 July 2021      | Gold And The Market Fear That Is Not                                 |
| 15 July 2021      | Gold and the Monetary Policy Empire of Deception                     |
| 1 July 2021       | Investors believing the impossible, making the price of gold falter  |
| 17 June 2021      | Gold Against Neglected Risks   |
| 2 June 2021       | Gold And Inflation   |
| 20 May 2021       | The Price Correction In The Crypto Space Is Not The End ...          |
| 6 May 2021        | The Dark Side of the Yield Curve Control Policy                      |
| 22 April 2021     | Bitcoin and the Golden Opportunity                                   |
| 8 April 2021      | On Precious Metal 2021 Price Forecasts                               |
| 25 March 2021     | Money Matters For Gold And Silver Pricesg                            |
| 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                      |

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GOLD UND SILBER.

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