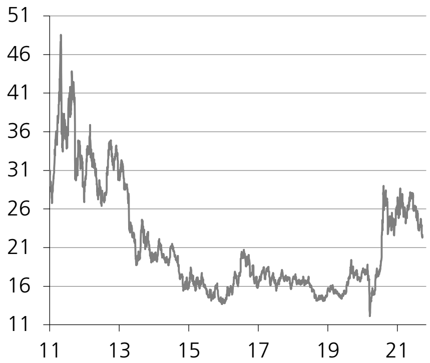
Degussa Market Report

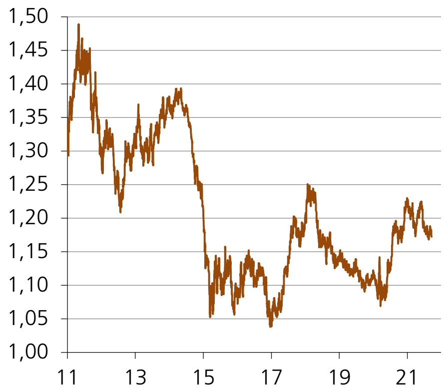
23 September 2021 Economics · Finance · Precious Metals

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	1.774.8	-2.8	-6.9	-5.9
Silver	22.8	-7.5	-18.6	-1.6
Platinum	994.8	-3.0	-16.2	12.0
Palladium	2.023.0	-16.5	-28.5	-12.2
II. In euro				
Gold	1.511.3	-1.7	-3.1	-6.0
Silver	19.4	-6.5	-15.3	-1.9
Platinum	846.9	-1.6	-12.7	11.6
Palladium	1.723.0	-15.5	-25.5	-12.5
III. Gold price in other currencies				
JPY	194.359.0	-3.1	-7.0	-2.2
CNY	11.455.6	-2.8	-5.7	-10.5
GBP	1.299.4	-1.4	-3.2	-10.9
INR	130.956.5	1.9	-5.3	-5.6
RUB	128.929.7	-3.0	-7.7	-11.8

Source: Refinitiv; calculations by Degussa.

OUR TOP ISSUES

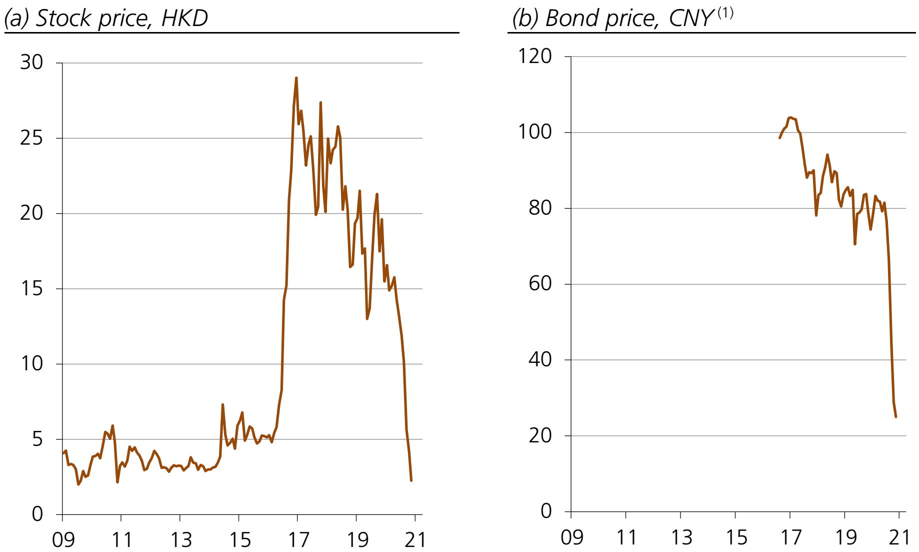
This is a short summary of our fortnightly ***Degussa Marktreport****.*

EVERGRANDE: CHINA'S POTENTIAL 'LEHMAN MOMENT'?

The gigantic real estate developer Evergrande's credit crisis is shaking world financial markets. Evergrande is China's second-largest of its kind with massive 300 US$ bn outstanding debt. As reported by the press, the firm is struggling to pay interest on its liabilities, as it falls short of cash inflows from its assets. Investors are racing for the exit in a default scenario, causing Evergrande stock and bond prices to collapse. In turn, the sell-off has affected stock and bond markets on a worldwide scale. With good reason, because the "contagion issue" is real.

Evergrande's debacle could herald the bursting of China's housing bubble, which has been feared for years already. Perhaps it is not only Evergrande that has gotten into financial trouble, but other real estate developers as well? If and when this is the case, the ramifications for almost all industries can be expected to have far-reaching consequences. Not only would it cause a severe setback to the business cycle. The need to liquidate (or: fire-sell) construction projects could even trigger a drop in residential property prices. This, in turn, could all too easily result in painful loan defaults for banks.

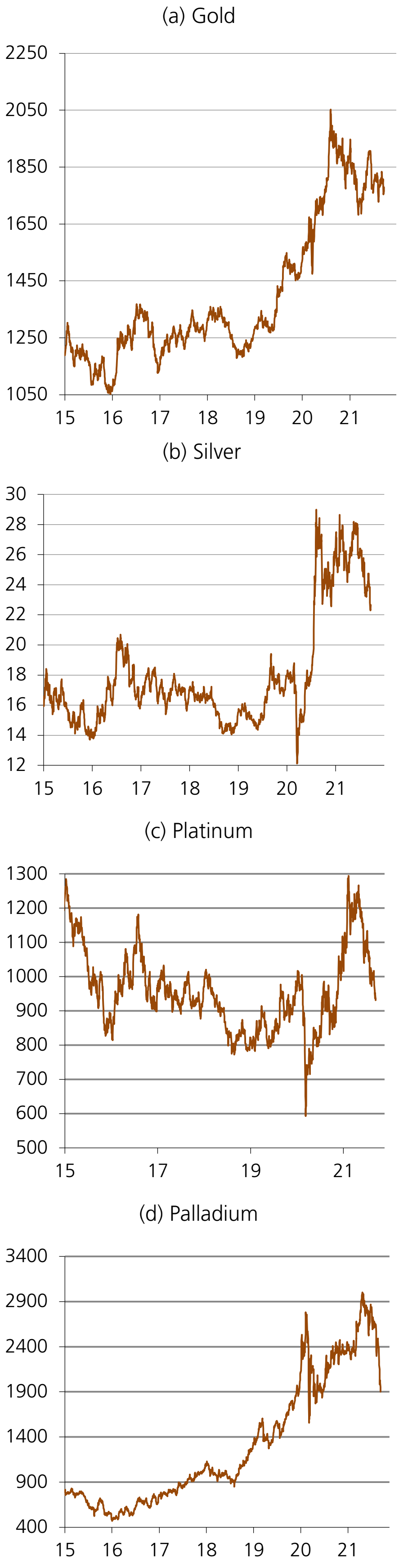
2 Evergrandes stock and bond prices



Source: Refinitiv, graph Degussa. (1) 2017 8 3/4% 28/06/25 Regulation S.

In such a case, it is quite likely that the credit market will dry up, and all of a sudden many borrowers will find themselves in dire straits: trying to roll over

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



Source: Refinitiv; graphs by Degussa.

their maturing debt, they will face significantly higher borrowing costs, or creditors may no longer be found to provide the urgently needed funding. As more and more debtors struggle to service their debt, the credit-driven boom turns into bust. The economist Murray Rothbard puts it succinctly. He wrote in 1973:

"Like the repeated doping of a horse, the boom is kept on its way and ahead of its inevitable comeuppance by repeated and accelerating doses of the stimulant of bank credit. It is only when bank credit expansion must finally stop or sharply slow down, either because the banks are getting shaky or because the public is getting restive at the continuing inflation, that retribution finally catches up with the boom. As soon as credit expansion stops, the piper must be paid, and the inevitable readjustments must liquidate the unsound over-investments of the boom and redirect the economy more toward consumer goods production. And, of course, the longer the boom is kept going, the greater the malinvestments that must be liquidated, and the more harrowing the readjustments that must be made."

And that is what should actually be worrying investors: the danger that Evergrande's credit crisis could be the starting point of a new worldwide credit crunch. The Evergrande debacle could serve as a reminder that the global economic and financial system is literally built on credit, fuelled by an enormous increase in credit since early 2020. Should investors become concerned about the quality of the outstanding debt and lose confidence in borrowers' ability and willingness to service their debt, all hell would break loose. If and when the flow of credit dries up, consumption and investment will be hit hard, and financial asset prices are likely to decline sharply.

When the US-bank Lehman Brothers collapsed in September 2008, it led to a credit crunch that became the biggest financial and economic crisis since the "Great Depression" in 1929-33. The key question now is: Will China's Communist Party (CCP) intervene and bail out Evergrande? On the one hand, the CCP wants to make the economy less credit-dependent, pushing for deleveraging the economy. On the other hand, deliberately allowing an Evergrande' credit event with its incalculable contagion and ripple effects could backfire politically.

If the 2008/2009 and 2020 crises taught us anything, it is this: the storm of a credit crisis could all too easily turn into a hurricane that could bring the economy and financial markets to their knees; and that such a scenario would be inevitable without government intervention in the form of a rate cut by the central bank, an increase in the quantity of money, and underwriting credit risk. Against this backdrop, if the storm gets worse, it is reasonable to assume that the CCP will at some point step up and keep the worst – the hurricane – from happening.

While investors in stocks, bonds, and housing may find relief in such an outlook, the uncomfortable truth would be that inflationary policies will be intensified not only in the US and Europe but also in China. Any government-sponsored bail-out of a credit crisis would have to rely on a sizeable increase in the quantity of money, and an increase in the quantity of money will translate to higher goods prices, be it consumer, producer and/or asset prices. That said, the over-leveraged economic and financial system is actually paving the way for rising price inflation.

It cannot be dismissed out of hand that Evergrande could become "China's Lehman" moment. At the same time, such an unfortunate outcome could be averted, or at least contained, by an early and determined bail-out by the CCP firing up the electronic printing presses of the Peoples' Bank of China. Either way, investors may want some protection against the risk that central banks worldwide will increasingly be taking recourse to inflation to fend off a crash of the credit pyramid they have been building up over the past decades.

Physical gold and silver come to mind. The exchange value power of these precious metals cannot be debased by monetary policy. And they also do not carry a default or counterparty risk. Especially for long-term oriented investors, holding physical gold and silver as part of their liquid portfolio should pay off, as, in the coming years they can be expected to be both risk-reducing and return-enhancing. The current Evergrande debacle may or may not be easily overcome. In any case, it should be seen as a kind of precursor of what the world's credit-driven monetary system still has in store for us.

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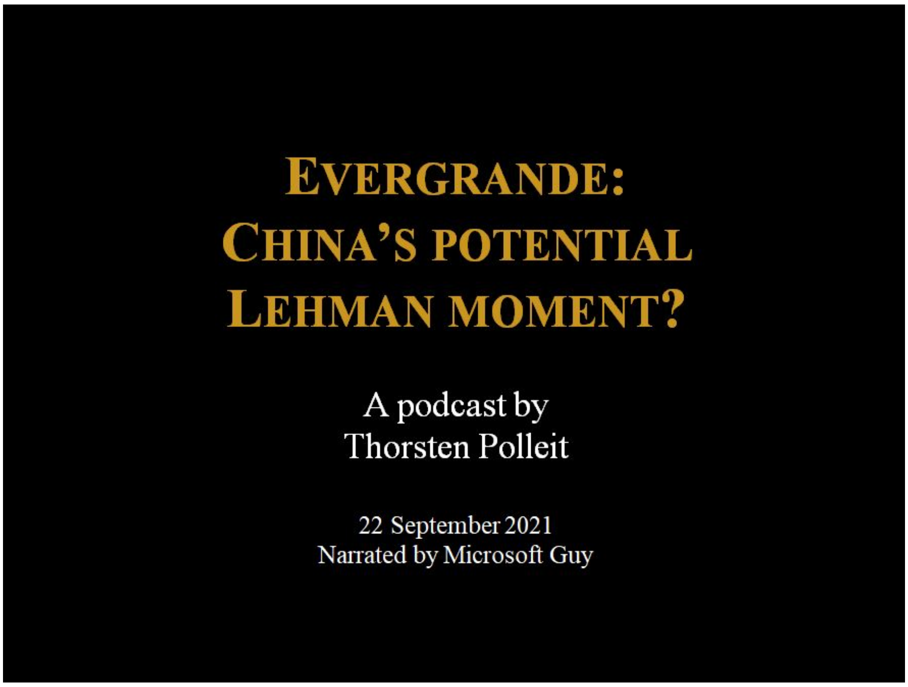
The podcast for this article can be found ***here****.*



PRECIOUS METALS PRICES

In US-Dollar per ounce

	Gold		Silver		Platinum		Palladium	
I. Actual	**1774.5**		**22.8**		**994.0**		**2028.0**	
II. Gliding averages								
10 days	1808.0		23.4		956.5		2081.6	
20 days	1793.8		23.7		979.3		2254.8	
50 days	1796.1		24.3		1016.9		2471.3	
100 days	1815.4		25.7		1084.1		2631.1	
200 days	1809.8		25.9		1119.8		2559.4	
III. Estimates for end 2021	**2448**		**47**		**1272**		**2710**	
(1)	*38*		*106*		*28*		*34*	
Band width	*Low*	*High*	*Low*	*High*	*Low*	*High*	*Low*	*High*
	1750	2684	23.0	55.1	950	1472	2280	2910
(1)	*-1*	*51*	*1*	*142*	*-4*	*48*	*12*	*43*
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

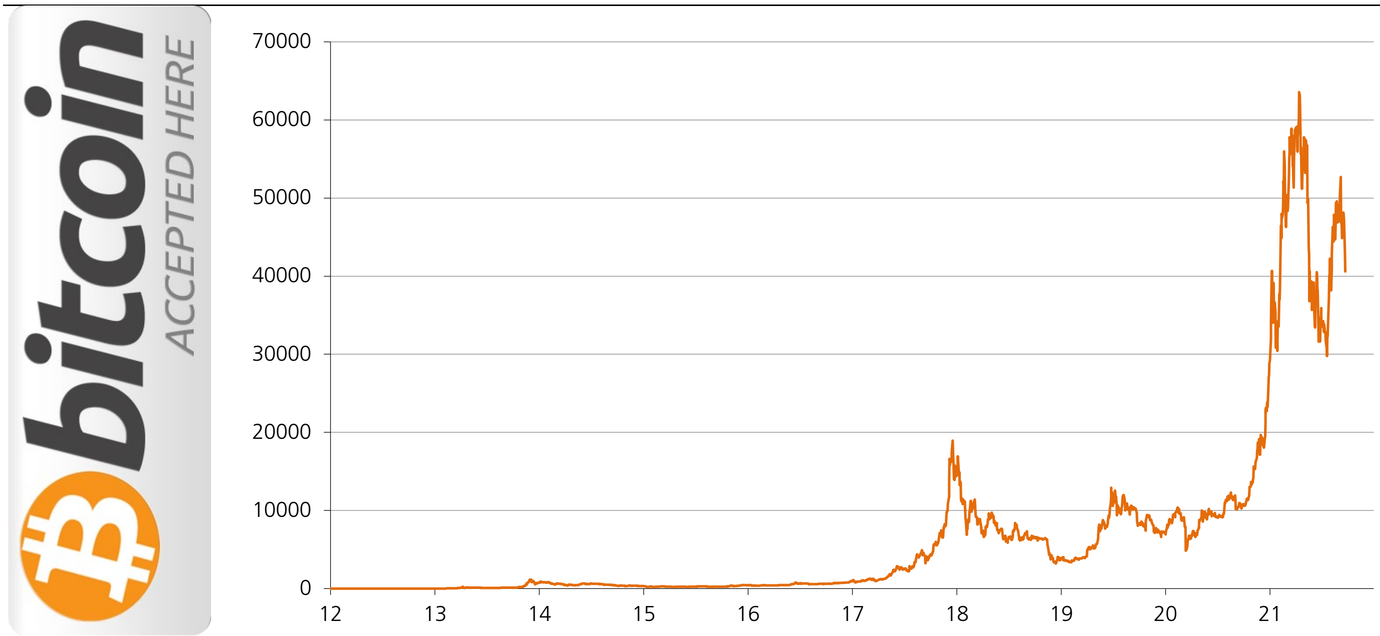
	Gold		Silver		Platinum		Palladium	
I. Actual	**1511.2**		**19.4**		**846.5**		**1727.1**	
II. Gliding averages								
10 days	1534.0		19.8		811.5		1765.9	
20 days	1519.7		20.1		829.6		1909.9	
50 days	1523.2		20.6		862.3		2095.7	
100 days	1522.6		21.5		908.5		2205.3	
200 days	1509.8		21.6		934.0		2135.4	
III. Estimates for end 2021	**2044**		**39**		**1062**		**2263**	
(1)	*35*		*102*		*25*		*31*	
Band width	*Low*	*High*	*Low*	*High*	*Low*	*High*	*Low*	*High*
	1470	2260	19.0	46.6	800	1240	1920	2450
(1)	*-3*	*50*	*-2*	*140*	*-5*	*46*	*11*	*42*
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.

(1) On the basis of actual prices.

BITCOIN, PERFORMANCE OF VARIOUS ASSET CLASSES

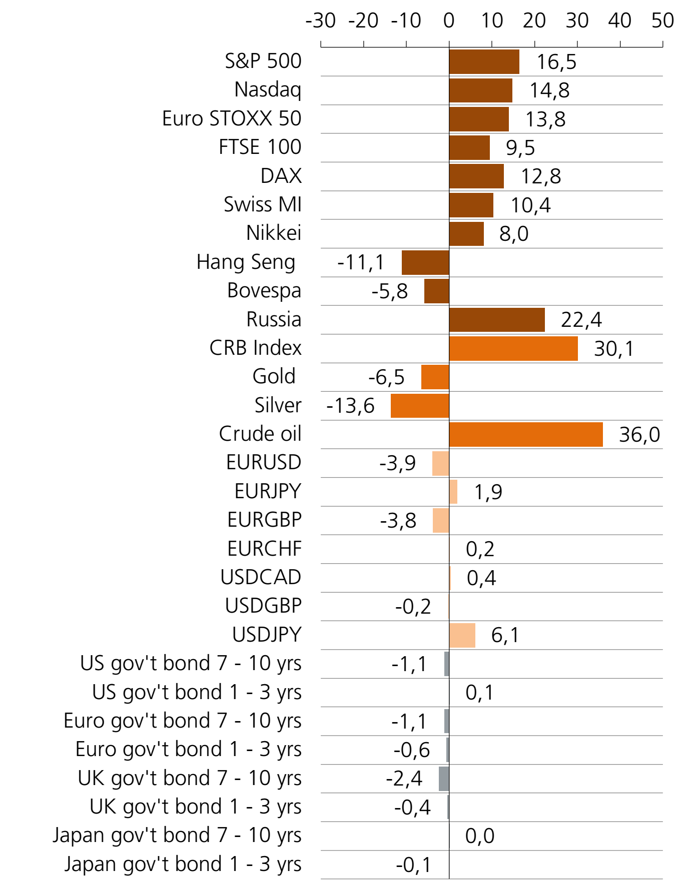
Bitcoin in US dollars



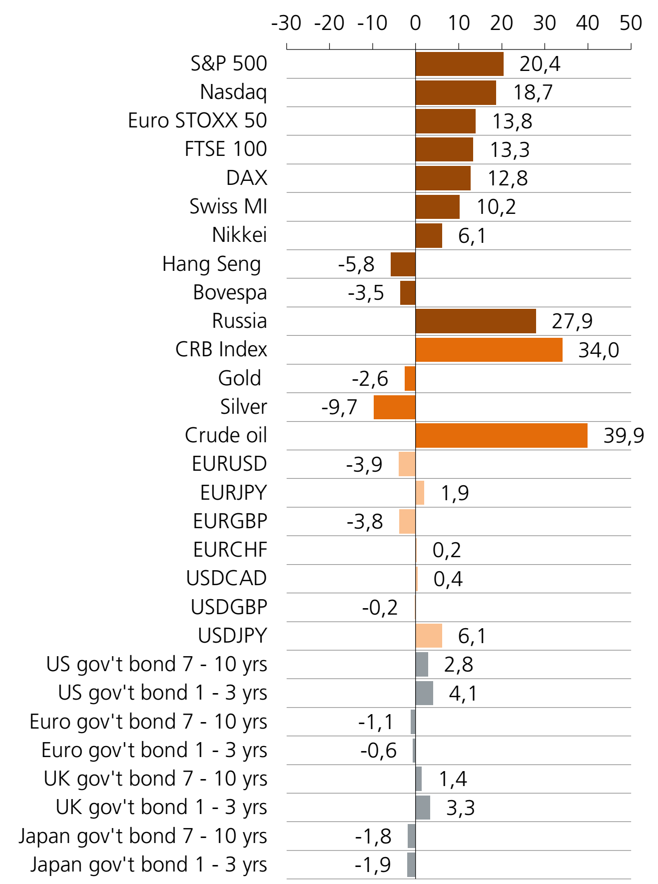
Source: Refinitiv; graph by Degussa.

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*

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15 July 2021	Gold and the Monetary Policy Empire of Deception
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The Degussa Marktreport (German) and the Degussa Market Report (English) are available at:
www.degussa-goldhandel.de/de/marktreport.aspx.

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Imprint
Marktreport is published every 14 days on Thursday and is a free service provided by Degussa Goldhandel GmbH.
Deadline for this edition: 23 September 2021
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: https://www.degussa-goldhandel.de/marktreport/

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