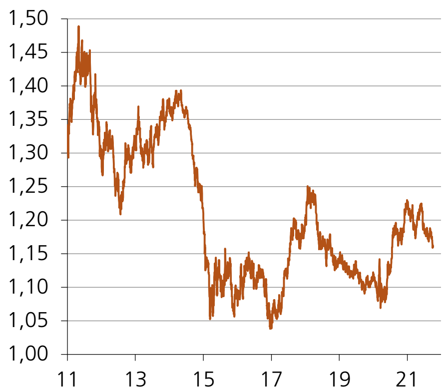
Degussa Market Report

7 October 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	1.755.3	0.1	-0.8	-7.4
Silver	22.4	-0.1	-14.3	-7.0
Platinum	964.2	2.5	-10.1	12.3
Palladium	1.864.3	-7.5	-32.9	-15.7
II. In euro				
Gold	1.521.0	1.7	1.9	-6.6
Silver	19.4	1.5	-12.0	-6.3
Platinum	835.3	4.3	-7.9	13.3
Palladium	1.615.0	-6.1	-31.1	-15.0
III. Gold price in other currencies				
JPY	195.554.0	1.4	-0.5	-1.5
CNY	11.313.0	-0.2	-1.0	-10.8
GBP	1.293.8	1.4	1.1	-11.8
INR	131.484.7	1.9	-0.1	-6.9
RUB	127.130.5	-0.4	-1.6	-16.5

Source: Refinitiv; calculations by Degussa.

OUR TOP ISSUES

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

Source: Nintendo.

HERE COMES THE INFLATION BEAST

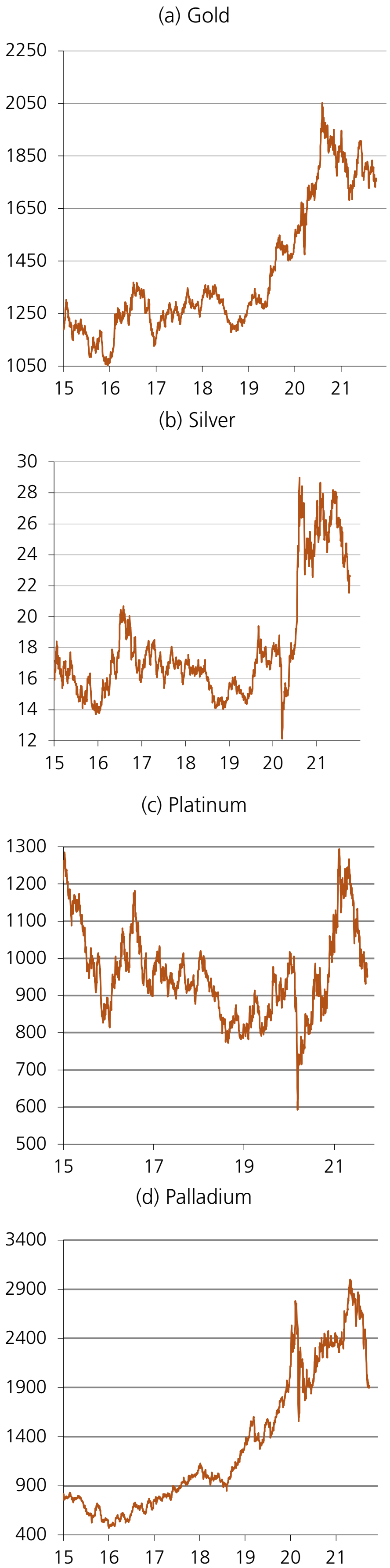
The sharp rise in consumer price inflation, which began around the spring of this year in many currency areas around the world, was a warning shot to many investors. It clearly shows that "inflation is not dead", but that the "inflation beast" can rear its ugly head quite powerfully. Of course, special factors and, in particular, strongly rising energy prices (for, say, oil, natural gas, coal etc.) are driving headline inflation indices higher. However, there is room to expect that the upward drift in inflation will not ease off anytime soon.

In an effort to cope with the economic fallout of the politically-dictated lockdown crisis in 2020, central banks slashed interest rates to exceptionally low levels and increased the quantity of money significantly. The result is a fairly large "monetary overhang," which will help drive prices for goods and services higher – especially in an environment where supply bottlenecks have remained severe, and production and logistic chains are still very much out of step. These "cost-push" factors could thus all too easily fuel upward price pressure further.

This, in turn, puts the credit-based monetary system in dire straits. Because if consumer goods prices continue to rise for all eyes to see, peoples' inflation expectations will likely go up. In other words, people will expect an inflation rate that is higher than the target inflation rate of the central bank and incorporate such a higher rate into their contracts (for leases, loans, wages, etc.). This, in turn, will lead to big problems. If the central bank allows a higher-than-promised inflation rate, an upward inflation spiral could be set in motion.

If, however, the central bank takes action and raises interest rates and reduces credit and money supply growth to lower actual inflation and thereby curb inflation expectations, the economy and financial markets will most likely collapse – as the current recovery is no doubt fuelled by ultra-low interest rates and most generous increases in the supply of credit and money. Credit mar-

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



Source: Refinitiv; graphs by Degussa.

kets, in particular, would be vulnerable to any appreciable tightening of monetary policy – as borrowers might not be able to roll over their maturing debt and/or cannot afford higher borrowing costs.

So what are central banks doing? Their representatives, aided and abetted by quite a few mainstream economists, try to make the general public believe that the current inflation is just "temporary" and caused by "special factors," the effects of which will soon disappear. Policymakers are trying to dispel the notion that high inflation is here to stay. They want to convince market agents that there is no need to distrust central banks' inflation promise and that people do not have to raise their inflation expectations because everything will be just fine.

The truth is that the scenario of rising inflation and possibly rising inflation expectations on the part of market agents is a rather explosive constellation. A fairly critical point is when inflation leads to higher goods prices, as blue-collar and white-collar workers seek compensation for the loss of purchasing power in their current wages. In turn, higher wages would compel companies to charge higher prices for their products. Once kicked off, such a "price-wage spiral" typically has to be ended by a harsh restrictive monetary policy, causing recession and perhaps even deflation.

If supply-side bottlenecks in the goods and energy markets were to ease noticeable in the near future, and market agents continue to sit tight and maintain their confidence in central banking, the very troublesome scenario outlined above could, of course, be prevented. However, it should be clear that the current stance of monetary policymaking around the world – keeping interest rates at record lows, greatly increasing the money supply, and allowing inflation to rise – even temporarily without changing policy, is a rather dangerous way of running things.

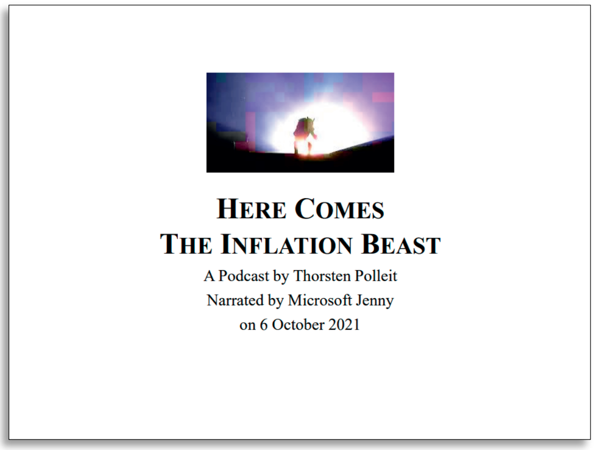
So here comes the "inflation beast". What can the investor do about it? And what role can gold and silver play in the investor portfolio? Central banks worldwide can be expected to stick to their inflationary policy, delivering elevated but not necessarily runaway inflation in the months to come; this is the base line scenario. That said, chronic inflation – the ongoing loss of purchasing power of official currencies such as the US dollar, the euro, the Chinese renminbi, the British pound etc., be it in the form of consumer goods price and/or asset price inflation – will continue. The downside risk is that it will end up in a high and even explosive inflation regime, followed by a big crash.

That said, the long-term oriented investor might want to remain exposed in the market for real assets – such as stock and housing markets. This provides them with an opportunity to hedge their capital against the inflationary machinations of central banks. Gold and silver also come to mind. The quantity of these precious metals cannot be increased at political expediency or debased like official currencies like the US dollar, euro & Co. This means that physical gold and silver should be able to avoid the fate of permanent devaluation.

At the same time, however, the investor must be patient when holding physical gold and silver. As the recent past has shown, the price of gold and silver can be subject to substantial gyrations in the short run, and it is no guarantee that their prices will steadily move upwards over time. In fact, the numerous market interventions by central banks, which have now become "standard practise", may lower investor "safe haven" demand for physical gold and silver, potentially causing periods of "counterintuitive fluctuations" of their market prices.

However, if the investor manages to obtain gold and silver at an attractive price (that is, by buying them when almost everyone else is selling, for example), these metals can be seen as insurance against the whims of central banks' inflationary policies, providing the investor with a considerable upside price potential in a period when the going gets rough. In such times the holders of gold and silver may have a "last line of portfolio protection" or even take the chance to convert high-priced precious metals into undervalued assets, thereby increasing their return on capital.

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



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PRECIOUS METALS PRICES

In US-Dollar per ounce

	Gold	Silver	Platinum	Palladium
I. Actual	**1758.8**	**22.5**	**964.4**	**1884.1**
II. Gliding averages				
10 days	1753.3	22.5	972.1	1930.7
20 days	1768.2	22.9	964.3	2006.2
50 days	1783.0	23.7	993.3	2319.7
100 days	1807.8	25.2	1058.2	2533.3
200 days	1800.7	25.7	1117.5	2539.4
III. Estimates for end 2021	**2448**	**47**	**1272**	**2710**
(1)	*39*	*109*	*32*	*44*

	Gold Low	Gold High	Silver Low	Silver High	Platinum Low	Platinum High	Palladium Low	Palladium High
Band width	1750	2684	23.0	55.1	950	1472	2280	2910
(1)	*0*	*53*	*2*	*145*	*-1*	*53*	*21*	*54*

	Gold	Silver	Platinum	Palladium
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	**1523.9**	**19.5**	**835.6**	**1632.5**
II. Gliding averages				
10 days	1503.8	19.3	833.8	1655.9
20 days	1508.3	19.5	822.6	1710.9
50 days	1515.6	20.1	844.3	1971.0
100 days	1521.8	21.2	890.3	2130.8
200 days	1505.5	21.5	933.9	2122.7
III. Estimates for end 2021	**2044**	**39**	**1062**	**2263**
(1)	*34*	*102*	*27*	*39*

	Gold Low	Gold High	Silver Low	Silver High	Platinum Low	Platinum High	Palladium Low	Palladium High
Band width	1470	2260	19.0	46.6	800	1240	1920	2450
(1)	*-4*	*48*	*-3*	*139*	*-4*	*48*	*18*	*50*

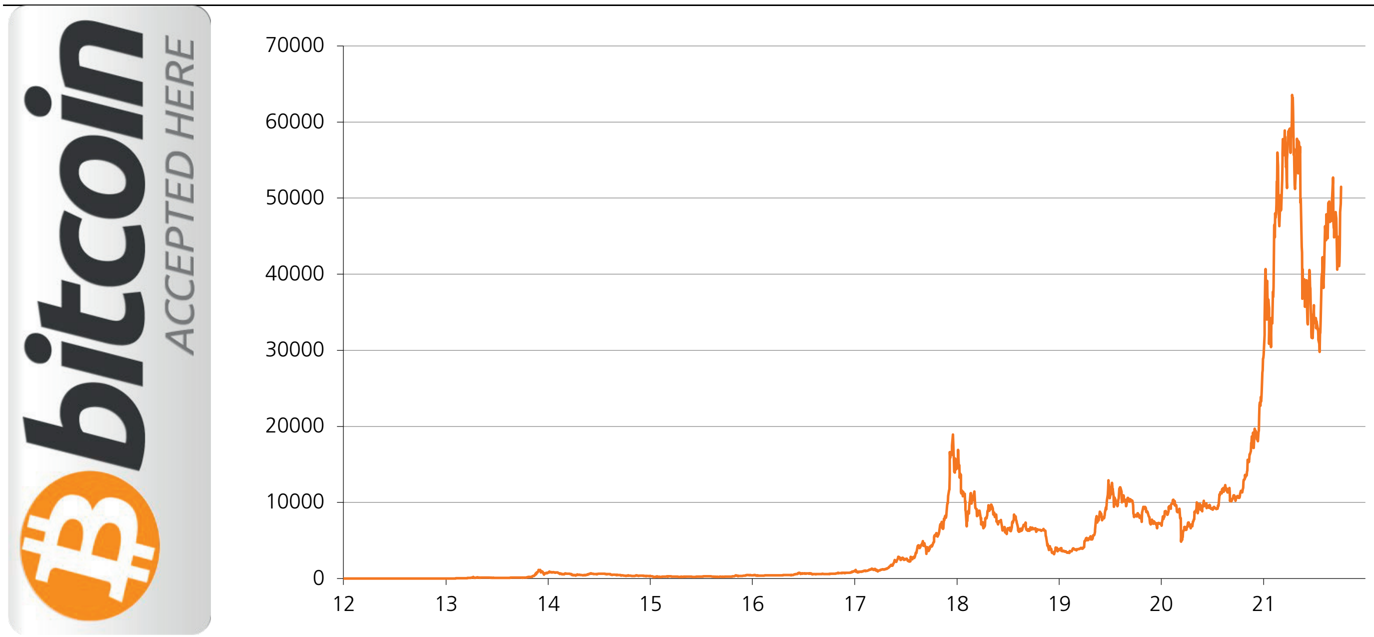
	Gold	Silver	Platinum	Palladium
V. Annual averages				
2018	1116	15	844	760
2019	1072	13	743	863
2020	1235	14	770	1350

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

(1) On the basis of actual prices.

BITCOIN, PERFORMANCE OF VARIOUS ASSET CLASSES

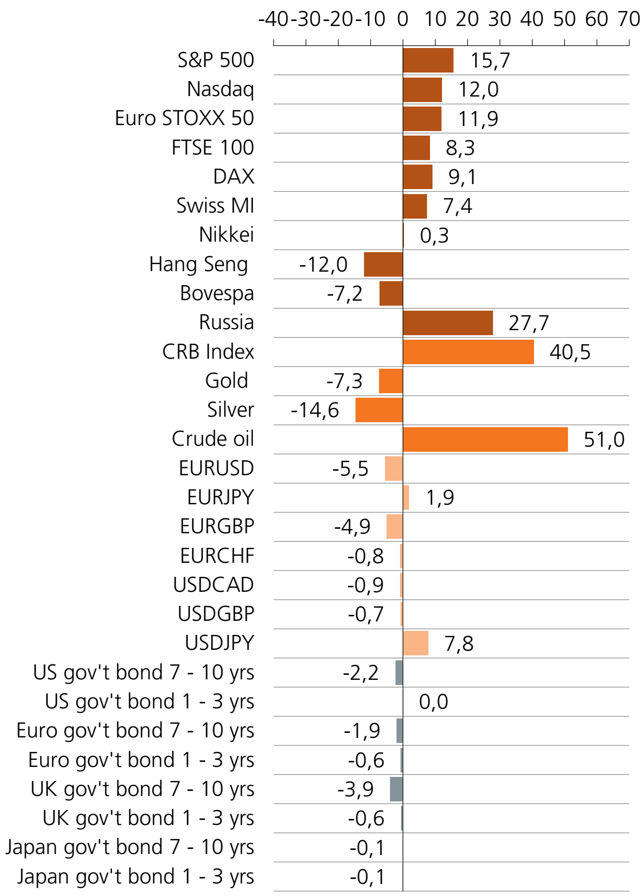
Bitcoin in US dollars



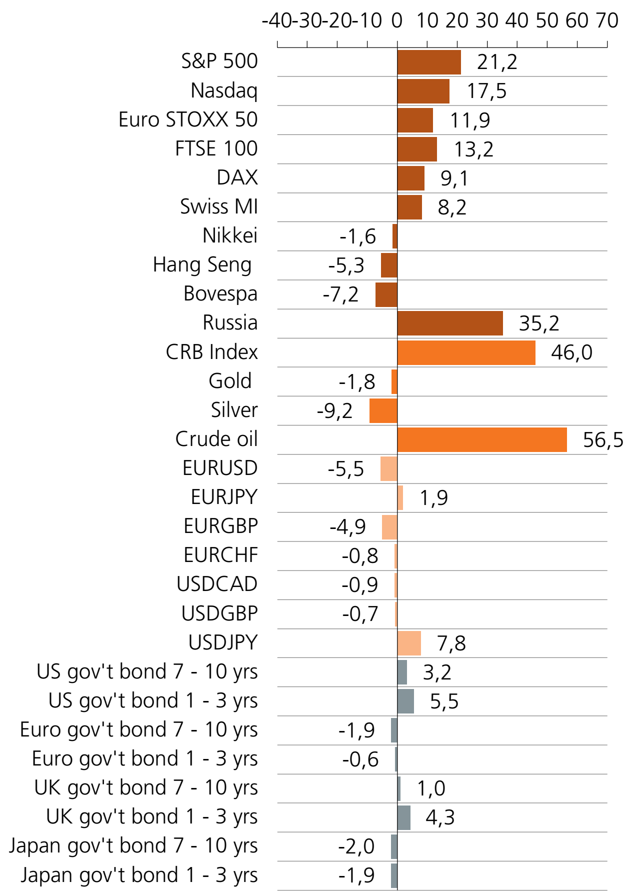
Source: Refinitiv; graph by Degussa.

Performance of stocks, commodities, FX and bonds

(a) In national currencies



(b) In euro



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Articles in earlier issues of the *Degussa Market Report*

Issue	Content
7 October 2021	Here Comes The Inflation Beast
23 September 2021	Evergrande: China’s Potential ‘Lehman moment’?
8 September 2021	It All Depends On The Fed’s ‘Safety Net’
26 August 2021	Our Money Gets Thrown Under The Bus
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
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6 May 2021	The Dark Side of the Yield Curve Control Policy
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The Degussa Marktreport (German) and the Degussa Market Report (English) are available at:
www.degussa-goldhandel.de/de/marktreport.aspx.

Disclaimer

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