Degussa Market Report

4 November 2021 **Economics · Finance · Precious Metals**

USD per ounce of gold

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	1.774.6	0.4	-2.1	-0.1
Silver	23.6	1.3	-7.3	4.3
Platinum	1.044.0	-1.0	-1.2	8.2
Palladium	2.044.1	-1.4	-23.6	-13.9
II. In euro				
Gold	1.535.4	0.8	0.5	3.1
Silver	20.4	1.7	-4.6	7.7
Platinum	903.3	-0.6	1.7	11.9
Palladium	1.769.0	-1.0	-21.7	-11.0
III. Gold price in other currencies				
JPY	202.464.0	0.3	2.2	9.3
CNY	11.348.7	-0.2	-3.1	-2.9
GBP	1.300.6	1.2	-0.4	-2.4
INR	132.110.1	1.9	-2.0	0.5
RUB	127.041.8	1.5	-3.8	-6.3

Source: Refinitiv; calculations by Degussa.

OUR TOP ISSUES

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

STAGFLATION IS REARING ITS UGLY HEAD

In the 1970s, something happened that, according to the then prevailing economic policy model of Keynesianism, should not have happened: while growth was anaemic and unemployment high, the inflation of goods prices rose sharply. Keynesian textbook wisdom would have predicted that in such a recessionary, contractionary environment, goods price inflation would have declined, or even goods price deflation would occur. So what happened in this period of "stagflation," of low growth and high price inflation?

The Bretton Woods system began to crumble as early as the mid-1960s. Markets increasingly doubted that the US government would keep its promise to redeem the Greenback for physical gold at the agreed price of 35 US-dollar per ounce. And rightly so. The US had been engaged in a series of military (mis-)adventures around the world, such as the Korean War and the Vietnam War. It kept increasing the US-dollar supply without backing it up with physical gold reserves. Confidence in the Bretton Woods system declined.

The end of the Bretton Woods System

As a result, a growing number of foreign central banks decided to redeem their Greenbacks for physical gold with the Federal Reserve System (Fed). The US gold reserves started to dwindle. To stop the unpleasant gold outflow, and to prevent a potential risk of US default of physical gold payments, US president Richard Nixon (1913–1994) "closed the gold window" on August 15, 1971, which means that he suspended the redemption of the US dollar for physical gold.

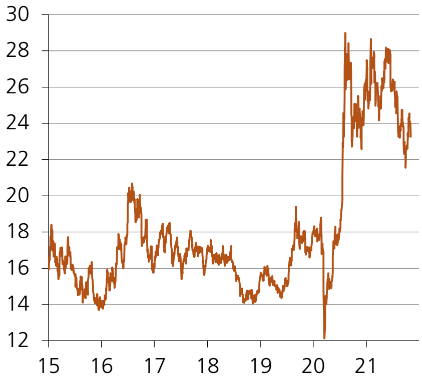
Nixon's decision made the US dollar a fiat currency – state controlled money, the amount of which can be increased to any level considered politically desirable at any point in time. This unilateral decision destroyed the last remaining elements of the anchoring of the US dollar in physical gold, and it marked the end of the Bretton Woods System. All the other major currencies, such as the British pound, Japanese yen, French franc, German mark, etc., also lost their link to physical gold and became fiat money.

Inspired by Keynesian policy recipes, governments immediately took advantage of this new situation, imposing deficit spending, prompting central banks to issue ever greater amounts of newly created fiat money at favourable terms, driving goods price inflation to stimulate production and employment. Goods price inflation was already on the rise when the first oil price shock hit in 1973. Economies went into recession as the cost of energy skyrocketed. In an effort

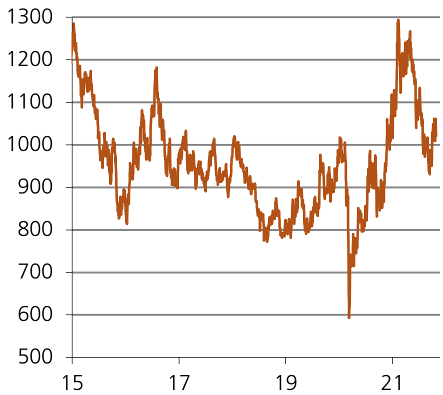
Precious metal prices in the last six years (USD/oz)

(a) Gold

(b) Silver



(c) Platinum



(d) Palladium

Source: Refinitiv; graphs by Degussa.

to fight the contraction, governments and their central banks sought to increase aggregate demand.

The period of stagflation

Deficits grew sharply, financed by central banks opening up the monetary spigots. However, people's confidence in the stability of fiat currencies began to decline, and price inflation expectations rose further. Unions pushed through higher wages, adding to the general upward pressure on prices of goods and services. The early 1970s became the time of a "Great Inflation" in many countries around the world. It quickly became clear, however, that inflation is very expensive, an economic and social evil.

History does not repeat itself, but occasionally, it rhymes. Today governments and their central banks are taking recourse again to Keynesian economics of deficit spending and money printing. Governments have stalled economic activity in response to the coronavirus pandemic with their lockdown policies. As production halted and unemployment skyrocketed, governments increased deficit spending, funded by central banks issuing vast quantities of fiat currency.

The truth is that the "monetary overhang" in the western world is now much higher than it was in the stagflation episode of the 1970s. It seems very likely that this excess liquidity is driving up the prices of goods and services – the prices of consumer goods as well as asset prices (such as the prices of stock and bonds, real estate, commodity, art, etc.) This, in turn, means that the purchasing power of fiat currencies will decline, not only temporarily but permanently.

The return of high(er) inflation

A rise in the prices of goods and services across the board will eventually put a strain on economic growth and employment. On the one hand, price inflation causes economic distortions such as overconsumption and malinvestments, harming the productive capacity of economies. On the other hand, price inflation is a policy that cannot last. It takes ever higher doses of price inflation to keep alive the "illusion of prosperity," the boom it has set into motion in the first place. However, inflation can only go so far.

The American economist and social philosopher Murray N. Rothbard (1926-1995) explained the consequences of the political efforts to keep the boom going:

"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."

Undoubtedly, today's world has become a rather different place compared to the 1970s – technologically, politically, culturally, and socially. Yet, the same timeless economic laws are still at work. One of these economic laws is that an increase in the money supply pushes up the prices of goods and services (compared with a situation in which the money supply had remain constant); and that the policy of price inflation will ultimately bring down the economic and financial system. Given the global inflationary policy, it is by no means an exaggeration to be concerned that the world economy will, at some point, be hit by a severe recession, accompanied by a sharp spike in price inflation. In other words: The risk of stagflation is definitely rearing its ugly head.

Investors may want to protect themselves against the risk that central banks around the world will increasingly resort to inflation to fend off a crash of the credit pyramid they have built over the past decades. Physical gold and silver come to mind. The exchange value 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 investors, holding physical gold and silver as part of their liquid portfolio should be worthwhile, as they can be expected to be both risk-reducing and return-enhancing in the coming years.

***

PRECIOUS METALS PRICES

In US-Dollar per ounce

	Gold		Silver		Platinum		Palladium	
I. Actual	**1774.5**		**23.6**		**1044.3**		**2045.9**	
II. Gliding averages								
10 days	1789.5		24.0		1038.1		2008.3	
20 days	1781.1		23.6		1032.4		2032.5	
50 days	1780.7		23.4		998.4		2088.8	
100 days	1785.5		24.3		1028.0		2369.6	
200 days	1791.2		25.5		1111.4		2502.3	
III. Estimates for end 2021	**2448**		**47**		**1272**		**2710**	
(1)	*38*		*100*		*22*		*32*	
Band width	*Low*	*High*	*Low*	*High*	*Low*	*High*	*Low*	*High*
	1750	2684	23.0	55.1	950	1472	2280	2910
(1)	*-1*	*51*	*-2*	*134*	*-9*	*41*	*11*	*42*
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

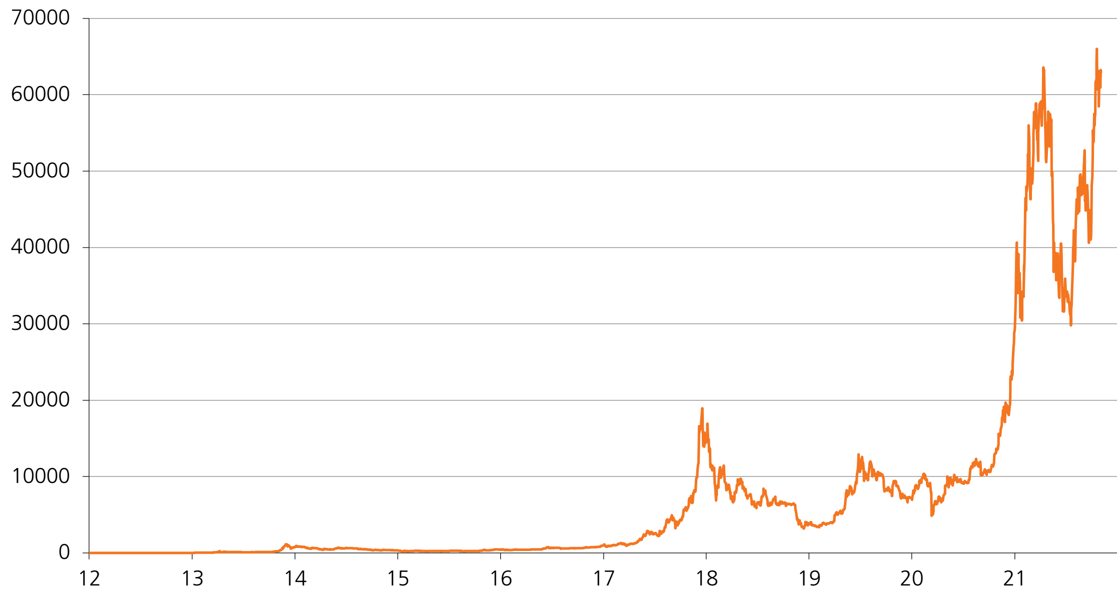
	Gold		Silver		Platinum		Palladium	
I. Actual	**1536.1**		**20.4**		**904.0**		**1771.0**	
II. Gliding averages								
10 days	1541.3		20.7		894.2		1729.8	
20 days	1535.3		20.3		889.9		1752.0	
50 days	1523.4		20.0		854.2		1786.2	
100 days	1519.0		20.7		874.4		2014.1	
200 days	1505.5		21.4		933.4		2101.0	
III. Estimates for end 2021	**2044**		**39**		**1062**		**2263**	
(1)	*33*		*93*		*17*		*28*	
Band width	*Low*	*High*	*Low*	*High*	*Low*	*High*	*Low*	*High*
	1470	2260	19.0	46.6	800	1240	1920	2450
(1)	*-4*	*47*	*-7*	*128*	*-12*	*37*	*8*	*38*
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

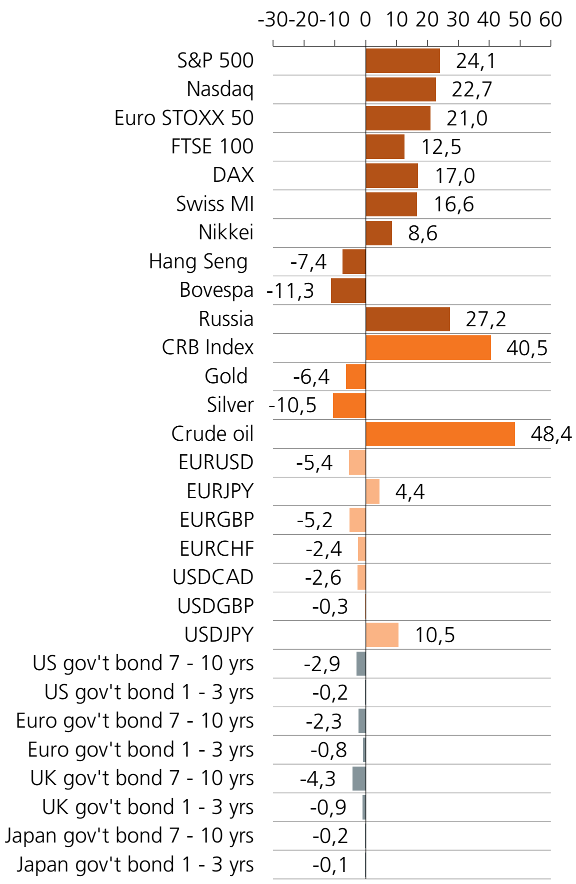
Bitcoin in US dollars



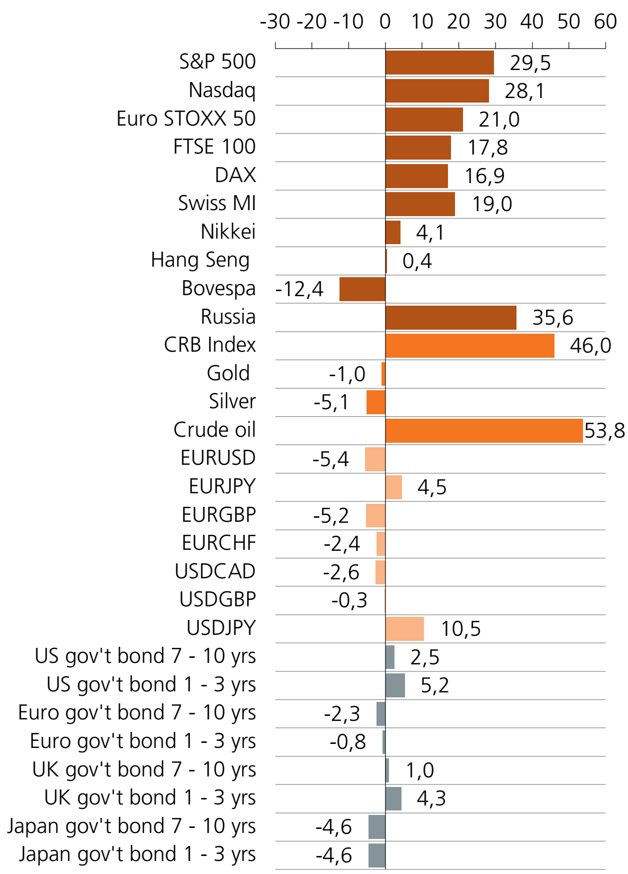
Source: Refinitiv; graph by Degussa.

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*

Issue	Content
4 November 2021	Stagflation Is Rearing Its Ugly Head
21 October 2021	At A Crossroads. It Is Time For Gold And Silver
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
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 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

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

Disclaimer

Imprint
Marktreport is published every 14 days on Thursdays and is a free service provided by Degussa Goldhandel GmbH.
Deadline for this edition: 4 November 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: 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