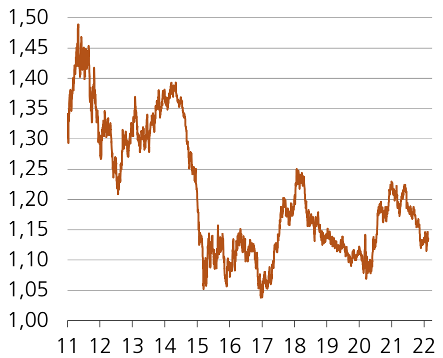
Degussa Market Report

17 February 2022 Economics · Finance · Precious Metals

USD per ounce of gold

USD per ounce of silver

EURUSD



Source: Refinitiv; graphs by Degussa.

OUR TOP ISSUES

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

THE INFLATION BEAST IS BIGGER THAN YOU THINK IT IS

Inflation is on the rise. For instance, in the US, consumer goods prices rose by 7.5 per cent in January 2022 compared to the previous year. In the euro area, annual consumer goods price inflation was 5.1 per cent in December last year. In many countries, the prices of, e.g., producer and wholesale goods, as well as food prices, are rising even more. In particular, energy prices are skyrocketing. As always in times of price inflation, people are debating two questions. The first question: Is rising price inflation temporary or permanent? A few months ago, many people thought elevated price inflation would be temporary, that it would return to normal soon. At the time of writing, the consensus is that price inflation will remain elevated longer than previously expected but will eventually return to acceptable levels around 2 per cent. Is that a reasonable expectation?

This brings us to the second question: What is the cause of price inflation? Mainstream economists usually point to the impact of the politically dictated lockdown crisis (production halts, logistical bottlenecks, etc.) and 'green policies', which, they argue, have been driving goods prices up. While this is undoubtedly true, an important inflation driver is overlooked: the excessive increase in the quantity of money. For instance, the US Federal Reserve (Fed) has increased the money stock M2 by 40 per cent since the end of 2019. In the euro area, the European Central Bank (ECB) has raised the M3 money stock by around 20 per cent. This, in turn, has created an enormous 'monetary overhang' that is now translating into higher goods prices – both consumer and asset prices. To cloud the inflation outlook further, money growth rates have remained high.

But wait: Central banks have announced that they will take their foot off the monetary accelerator. The Fed is now expected to start raising interest rates in March, followed by quite a few more rate hikes later this year. The ECB is also expected to change course, ending its hyper-expansive monetary policy in the coming quarters. Will it be enough to dampen price inflation? Probably not. Because central banks are faced with a delicate trade-off: bringing down price inflation would require substantially high(er) real interest rates to rein in credit and money supply growth. This, however, would presumably cause the debt pyramid in the global financial system to collapse. This is, of course, politically highly undesirable.

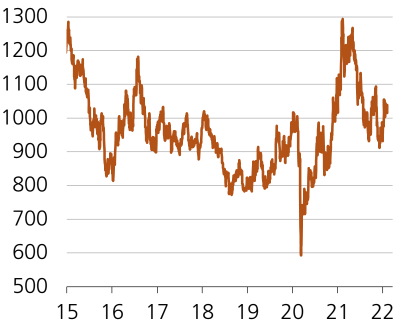
Central banks will likely be less harsh when it comes to curbing price inflation. In other words, price inflation will most likely be higher for longer, while real interest rates will remain lower for longer. In fact, what seems to unfold is a textbook example: Financially overstretched governments are resorting to raising the 'inflation tax' to lower their debt load in real terms. Of course, governments

Precious metal prices (USD/oz), last seven years

(a) Gold

(b) Silver

(c) Platinum



(d) Palladium

Source: Refinitiv; graphs Degussa.

probably would not want price inflation to spin out of control. However, they can be expected to favour increased price inflation of 4 to 6 per cent for some time. For this 'financial repression' to work, nominal interest rates must be kept low. Governments and their central banks will likely get away with this policy for the time being.

However, playing with higher price inflation is playing with fire. It can get out of control. If people recognize the scam, they adjust their inflation expectations upwards, pricing higher inflation into their wages, rent, and credit agreements. When this happens, the political incentives to take recourse in an even higher dose of 'surprise inflation' grow. It is not difficult to see that such a process could be devastating to the purchasing power of money. In fact, once an inflation process has started, it is relatively difficult to stop – for political reasons. And the longer the inflation process lasts, the greater the economic and socio-political costs to put an end to it will be. There is plenty of evidence in monetary history to support this concern.

The Austrian economist Friedrich August von Hayek (1899–1992) has put it succinctly (1960, pp. 332):

"The manner in which inflation operates explains why it is so difficult to resist when policy mainly concerns itself with particular situations rather than with general conditions and with short-term rather than with long-term problems. It is usually the easy way out of any temporary difficulties for both government and business – the path of least resistance and sometimes also the easiest way to help the economy get over all the obstacles that government policy has placed in its way. It is the inevitable result of a policy which regards all the other decisions as data to which the supply of money must be adapted so that the damage done by other measures will be as little noticed as possible."

With this in mind, there is reason to conclude that 'the inflation beast is bigger than you think' and to remind the investor that protecting one's capital from inflation-related losses is, and will remain, a key challenge in the years to come, a challenge that requires a lot of attention in everyone's investment process.

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See also the **LBMA Forecast Survey 2022**:

https://www.lbma.org.uk/articles/forecast-survey-2022

PRECIOUS METALS PRICES

In US-Dollar per ounce

	Gold		Silver		Platinum		Palladium	
I. Actual	**1866,7**		**23,5**		**1057,5**		**2283,2**	
II. Gliding averages								
10 days	1827,8		23,1		1025,7		2288,2	
20 days	1824,8		23,3		1027,5		2253,8	
50 days	1811,1		22,9		984,1		2012,4	
100 days	1802,7		23,3		999,9		1996,9	
200 days	1807,5		24,3		1035,6		2289,6	
III. Estimates for end 2022	**2100**		**28,2**		**1175**		**2261**	
(1)	*13*		*20*		*11*		*-1*	
Band width	*Low*	*High*	*Low*	*High*	*Low*	*High*	*Low*	*High*
	1700	2280	21,0	31,0	830	1280	1650	2400
(1)	*-9*	*22*	*-11*	*32*	*-22*	*21*	*-28*	*5*
V. Annual averages								
2019	1382		16,1		862		1511	
2020	1753		20,2		878		2180	
2021	1804		25,5		1095		2422	

In Euro per ounce

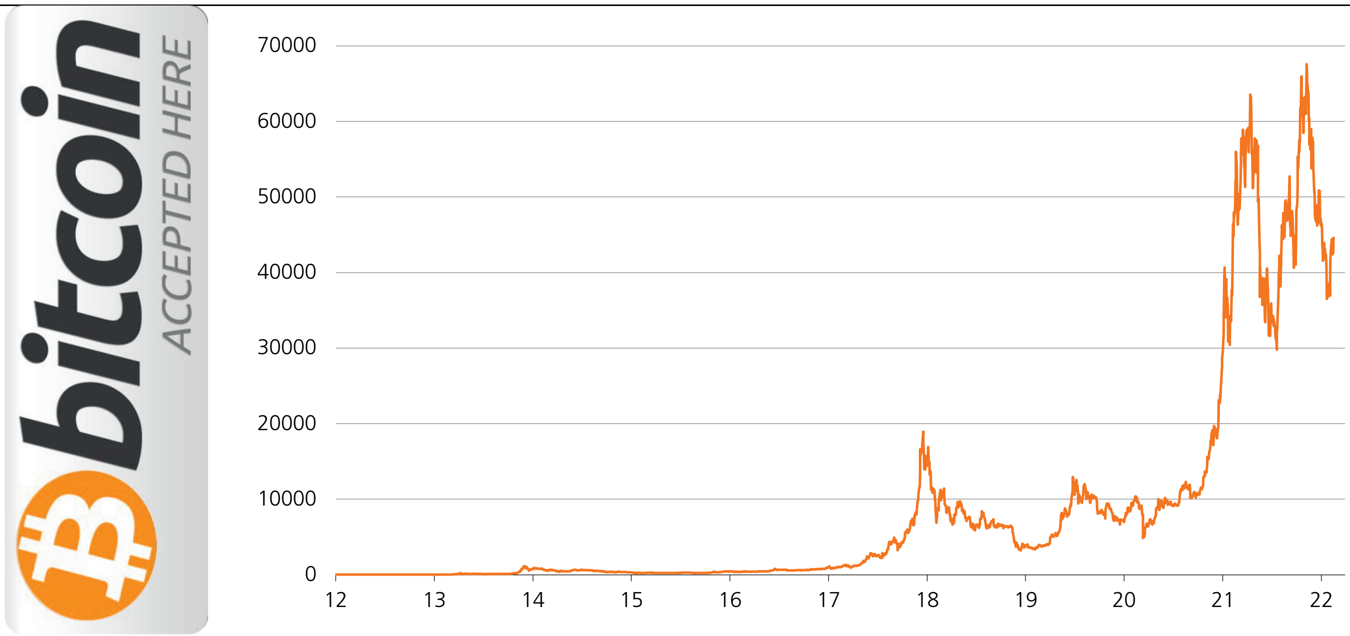
	Gold		Silver		Platinum		Palladium	
I. Actual	**1640,4**		**20,6**		**929,3**		**2006,5**	
II. Gliding averages								
10 days	1603,6		20,3		899,9		2007,6	
20 days	1610,1		20,6		906,6		1988,9	
50 days	1598,6		20,2		868,7		1776,3	
100 days	1580,6		20,4		876,5		1750,6	
200 days	1551,5		20,9		887,9		1959,2	
III. Estimates for end 2022	**1944**		**26,1**		**1088**		**2093**	
(1)	*18*		*26*		*17*		*4*	
Band width	*Low*	*High*	*Low*	*High*	*Low*	*High*	*Low*	*High*
	1573	2110	19,4	28,7	760	1180	1520	2220
(1)	*-4*	*29*	*-6*	*39*	*-18*	*27*	*-24*	*11*
V. Annual averages								
2019	1235		14		770		1350	
2020	1535		18		769		1911	
2021	1519		21		921		2035	

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

(1) On the basis of actual prices.

BITCOIN, PERFORMANCE OF VARIOUS ASSET CLASSES

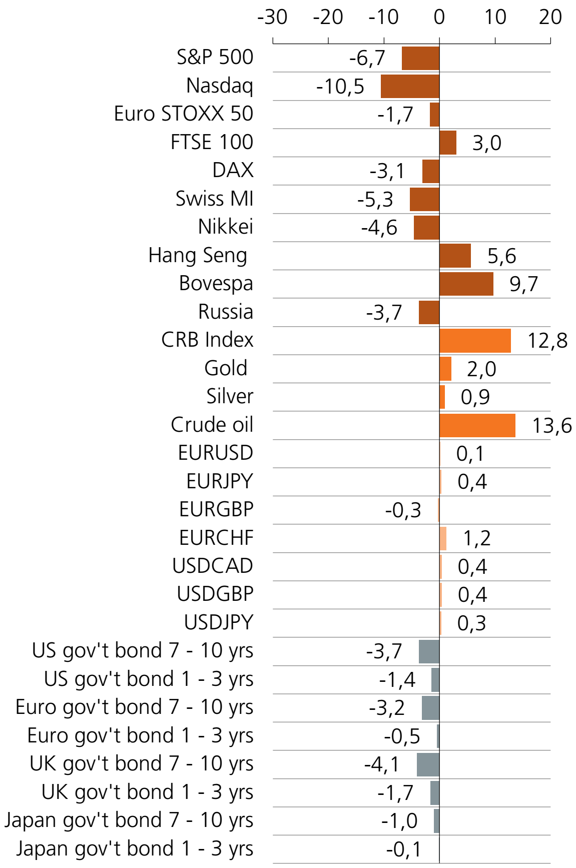
Bitcoin in US dollars



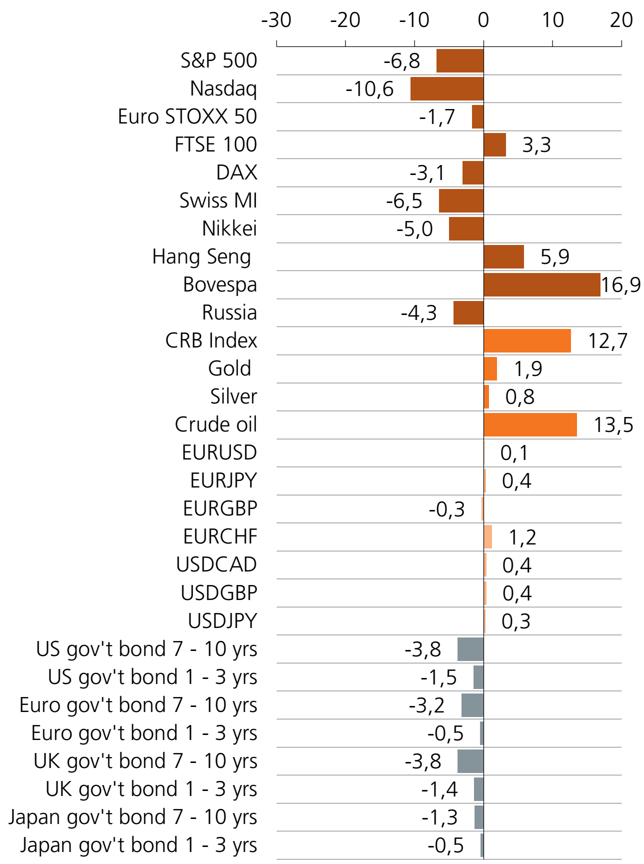
Source: Refinitiv; graph by Degussa.

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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17 February 2022	The Inflation beast is bigger than you think it is
3 February 2022	The Bigger Gold Picture
20 Januar 2022	Outlook for Gold and Silber brighter than you think it is
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2 December 2021	Inflation Is Not Temporary But Here To Stay
18 November 2021	The Case Against Gold And Silver. Revisited
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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
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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
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8 October 2020	President Trump Is Good For Gold, Or Isn’t He?
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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

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GOLD UND SILBER.

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