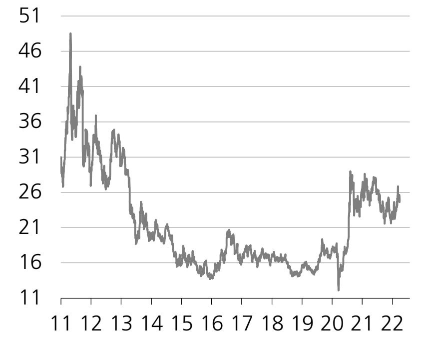
Degussa Market Report

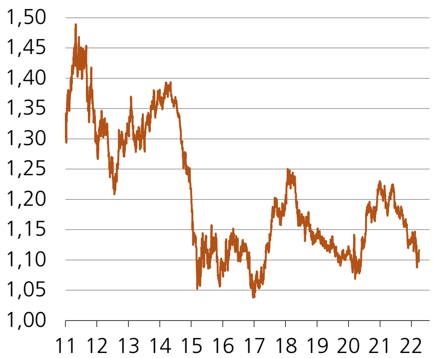
31 March 2022 **Economics · Finance · Precious Metals**

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	1.929,2	-2,8	8,8	13,0
Silver	24,8	-4,1	8,6	1,5
Platinum	988,1	-8,5	5,8	-16,8
Palladium	2.256,3	-19,9	29,8	-13,9
II. In euro				
Gold	1.727,1	-5,1	10,4	18,7
Silver	22,2	-6,2	10,2	6,6
Platinum	884,9	-10,6	7,0	-12,2
Palladium	2.020,0	-21,7	31,7	-9,6
III. Gold price in other currencies				
JPY	234.219,0	0,6	16,7	23,9
CNY	12.233,9	-2,8	8,4	9,4
GBP	1.467,1	-3,6	10,0	18,5
INR	146.065,3	1,9	9,7	17,0
RUB	157.189,1	-37,4	20,0	21,8

OUR TOP ISSUES

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

HOW TO NOT GET BATTERED

US interest rates have been drifting upwards since mid-2020, but over the past few weeks, interest rates have skyrocketed. For instance, US 2-year interest rates rose from around 0.13 per cent at the beginning of 2021 to around 2.29 per cent in March 2022, while US 10-year interest rates went up from 0.91 per cent to 2.33 per cent in the same period. Of course, from a long-term perspective, US credit costs are still relatively low. However, the impact of such a move on bond prices is wild. To give an example: due to a rise in the market yield from 1 per cent to 2 per cent, the price of a 1 per cent coupon-bearing bond with a maturity of 10 years would decline by around 17 per cent.

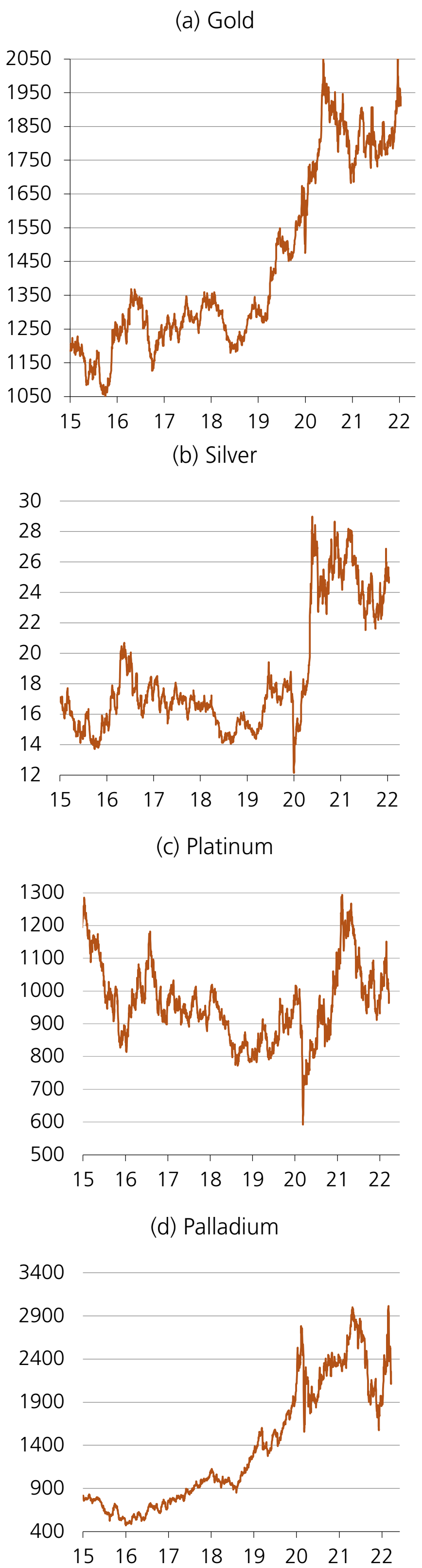
Deflating bond prices, of course, is just one effect higher interest rates will have. After many years of ultra-low interest rates, the economies' production and employment structure depend on a continued low yield environment more than ever. While slightly higher interest rates will not necessarily upset economic expansion, the critical question is: at what point will higher credit costs trigger a bust? Neither the Federal Reserve (Fed) nor any other central bank, economist, politician, or businessman would know. The truth is that the Fed and other central banks are pursuing a "trial and error" process when it comes to raising borrowing costs.

To make matters even more uncomfortable, the recent string of very high rates of consumer goods price inflation is urging monetary policymakers to accelerate tightening, and more aggressively so than previously intended. On the one hand, this is understandable: With US CPI inflation close to 8 per cent in February 2022, US short term interest rates are still close to a record low of minus 7.65 per cent in real terms; in Germany, the inflation-adjusted short-term interest rate is around minus 6.3 per cent. On the other hand, faster and more aggressive tightening of monetary policy increases the likelihood of something going wrong; that, shall we say, the economies fall over the cliff.

The pressing question is: how serious are central banks about containing inflation? There is no doubt that some political circles take a positive view of elevated inflation. For example, higher inflation reduces governments' real debt burden, and under a system of progressive income taxes, inflation increasingly transfers resources from the private sector into the state's coffers. As long as people are not complaining too loudly, however, inflationary policies can continue. What is more, inflationary policies can go on for quite some time if people do not understand the real cause of inflation – and that is the increase in the quantity of money created by central banks.

Take the current situation, for instance. The rise in inflation is, in fact, being attributed to rising energy costs, supply-side constraints caused by "lockdowns", and, most importantly, Russia's war against Ukraine. While all these factors can

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



Source: Refinitiv; graphs Degussa.

and do contribute to raising some goods prices, it is actually central banks' drastic increase in the quantity of money that makes the „negative goods price shocks" translate into inflation – i.e. a sustained rise in goods prices across the board. If the general public believes that „extraordinary factors" beyond central bank control are the cause of inflation, then monetary policymakers may well continue with their inflation policy for longer.

As we have pointed out in previous reports, we remain sceptical that central banks mean business when it comes to reducing inflation. Of course, they will continue to raise interest rates somewhat. But they are unlikely to be able to raise interest rates to a level that sufficiently reduces money supply growth and brings inflation back to around 2 per cent for the foreseeable future. From this perspective, elevated inflation is very likely here to stay. At the same time, central banks will do their best to maintain market expectations that the tightening cycle has just begun, lest inflation expectations spiral out of control.

A lot can go wrong along this path. As noted earlier, policymakers could inadvertently crush the economies. Or the series of „negative price shocks" will continue, further dramatizing the already serious inflation problem and eventually forcing central banks to trigger a deep recession to curb inflation. Against this backdrop of quite unfavourable scenarios, the investor might ask: how not to get battered? If one agrees that elevated inflation will persist and that central banks are unlikely to bring real interest rates back into positive territory, keeping money balances and bonds (buy-and-hold) would not be prudent. What about stocks then?

Times of high inflation tend to be difficult for many firms. However, some of them (but unfortunately not all!) should be able to weather even an „inflationary storm". And as long as real interest rates remain below zero, monetary conditions should remain favourable for stock markets. What is more, holding physical gold and silver is also an option for the investor seeking protection against inflation and the economic as well as political discontinuities it may cause. In other words, to avoid getting battered by inflation, you should have at least some physical gold and silver in your portfolio. This is not the only possible remedy, but it is a time-tested escape route when the debasement of the purchasing power of official currencies is gaining momentum.

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PRECIOUS METALS PRICES

In US-Dollar per ounce

	Gold		Silver		Platinum		Palladium	
I. Actual	**1928,1**		**24,7**		**984,2**		**2257,7**	
II. Gliding averages								
10 days	1936,8		25,1		1012,0		2421,8	
20 days	1953,2		25,3		1044,3		2593,0	
50 days	1892,7		24,3		1044,7		2439,6	
100 days	1850,0		23,7		1010,0		2163,3	
200 days	1818,8		24,0		1018,6		2252,7	
III. Estimates for end 2022	**2100**		**28,2**		**1175**		**2261**	
(1)	*9*		*14*		*19*		*0*	
Band width	*Low*	*High*	*Low*	*High*	*Low*	*High*	*Low*	*High*
	1700	2280	21,0	31,0	830	1280	1650	2400
(1)	*-12*	*18*	*-15*	*25*	*-16*	*30*	*-27*	*6*
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

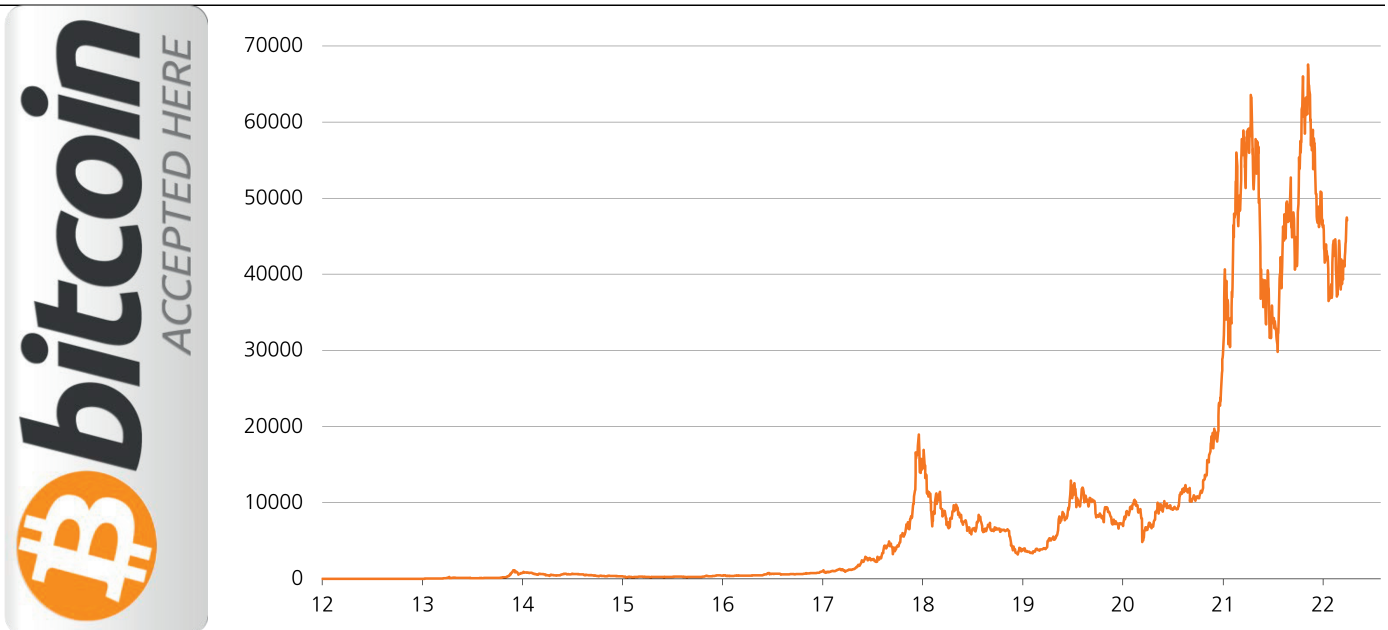
	Gold		Silver		Platinum		Palladium	
I. Actual	**1725,6**		**22,1**		**880,8**		**2020,5**	
II. Gliding averages								
10 days	1753,5		22,8		916,2		2192,8	
20 days	1774,5		23,0		948,8		2356,3	
50 days	1692,9		21,8		934,1		2183,4	
100 days	1644,7		21,1		897,8		1925,1	
200 days	1583,9		20,8		886,4		1959,4	
III. Estimates for end 2022	**1944**		**26,1**		**1088**		**2093**	
(1)	*13*		*18*		*23*		*4*	
Band width	*Low*	*High*	*Low*	*High*	*Low*	*High*	*Low*	*High*
	1573	2110	19,4	28,7	760	1180	1520	2220
(1)	*-9*	*22*	*-12*	*30*	*-14*	*34*	*-25*	*10*
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

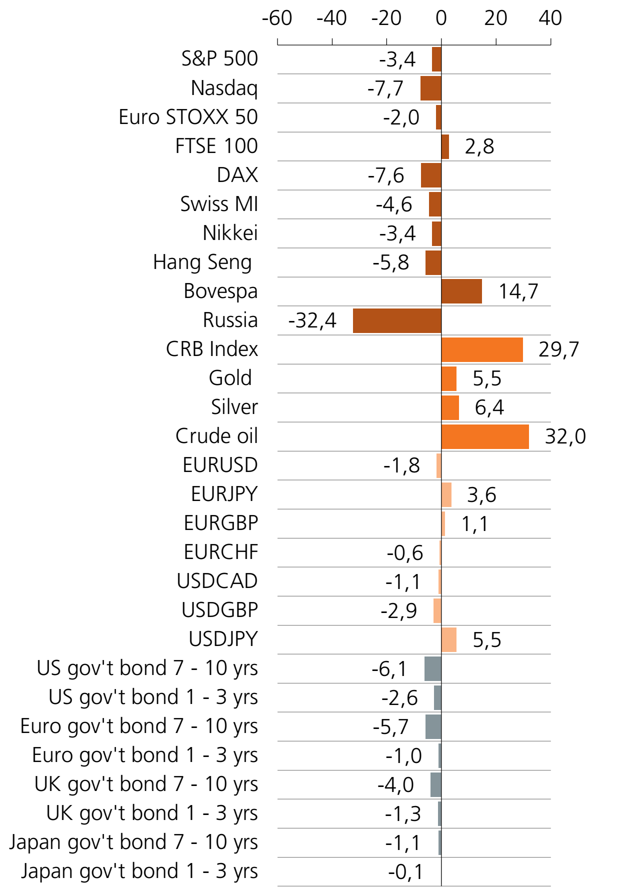
Bitcoin in US dollars



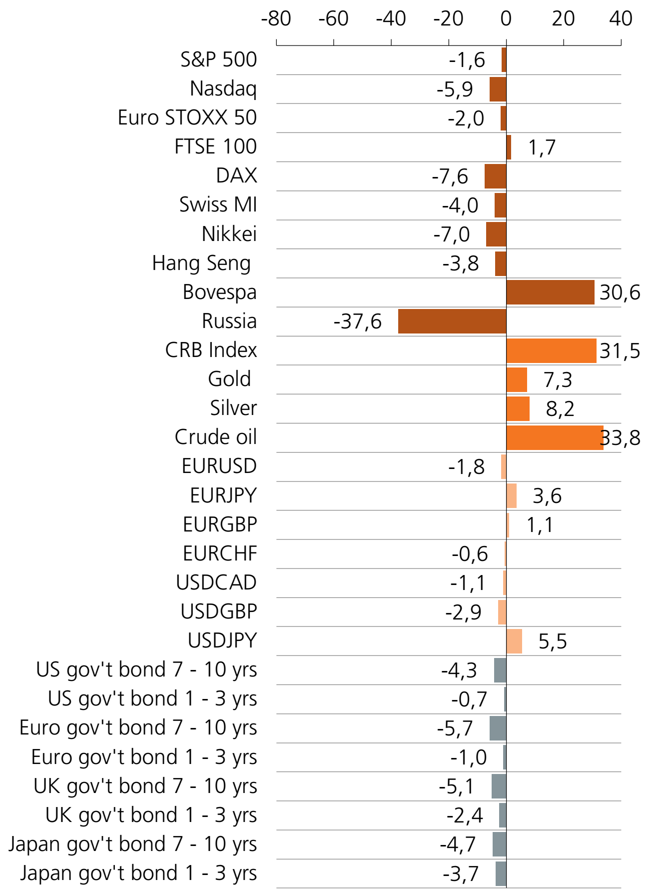
Source: Refinitiv; graph by Degussa.

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*

Issue	Content
31 March 2022	How Not To Get Battered
17 March 2022	There is no Return to Normality. The Case for Gold and Silver
3 March 2022	Gold: Too Low For Too Long
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
16 December 2021	Welcome to a new chapter in the boom-and-bust-drama
2 December 2021	Inflation Is Not Temporary But Here To Stay
18 November 2021	The Case Against Gold And Silver. Revisited
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'?
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14 January 2021	The Great Gold And Silver Bull Market Is On
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5 November 2020	For In Fire Gold Is Tested
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10 September 2020	The Inflation Threat And The Case For Gold

The Degussa Marktreport (German) and the Degussa Market Report (English) are available at:
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Disclaimer

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