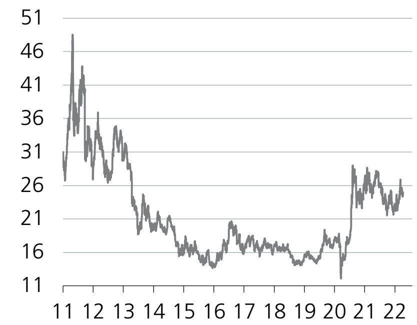
Degussa Market Report

13 April 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	1.964,5	0,4	7,4	11,1
Silver	25,3	-0,6	8,9	-2,1
Platinum	966,6	-3,5	0,4	-19,3
Palladium	2.333,1	-0,2	23,3	-20,5
II. In euro				
Gold	1.814,0	1,8	12,8	23,3
Silver	23,4	0,8	14,4	8,6
Platinum	892,5	-2,0	5,4	-10,6
Palladium	2.154,0	1,0	29,4	-11,8
III. Gold price in other currencies				
JPY	246.330,0	3,1	17,1	27,5
CNY	12.504,3	0,3	7,7	9,2
GBP	1.510,5	1,7	11,8	18,0
INR	149.411,6	1,9	9,7	14,1
RUB	162.808,8	-13,8	19,4	22,5

Source: Refinitiv; calculations by Degussa.

OUR TOP ISSUES

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

DO YOU KNOW WHAT INFLATION REALLY IS? THEN HOLD SOME GOLD AND SILBER

In March 2022, annual US consumer goods price inflation was 8.5%, the highest level since 1981. While Main Street considers it, and rightfully so, terrifying data, Wall Street actually sees it as good news of sorts: Financial markets are expecting US CPI inflation to have peaked, and hopefully inflation rates will come down in the coming months. However, is this a likely scenario? To answer this question, let us take a brief look at what inflation really means.

Goods price inflation – the continued increase in the price of goods and services across the board – is not a natural disaster. The truth is that it is a man-made tragedy. It is caused by government-sponsored central banks increasing the quantity of money. Admittedly, there are developments that affect goods prices, such as a strong increase in energy prices, a VAT hike or an increase in wages. However, they do not cause inflation (as defined above). This is easy to explain.

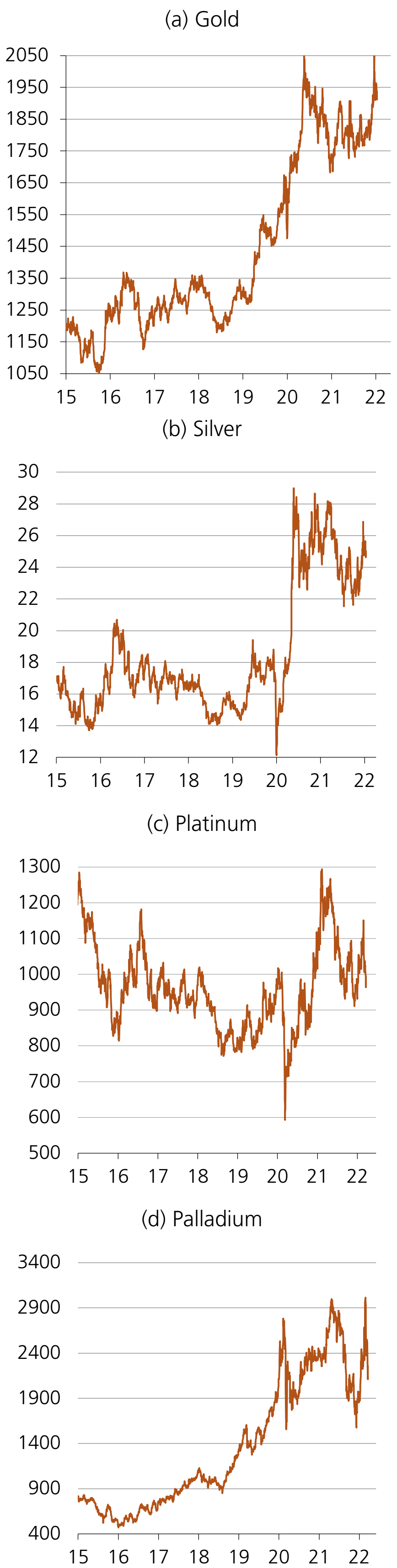
Assume the quantity of money in the economy is constant. Suddenly, fuel prices double. To consume the same amount of fuel as before, people have to reduce their demand for other things (clothing, travel, cars etc.). The economy ends up with increased fuel prices and reduced prices of other goods (the demand for those goods, and therefore their prices have declined). There is no inflation in the sense of a permanent increase in goods prices across the board over time.

In fact, it makes sense to distinguish between *goods price inflation* and *monetary inflation*, the latter denoting the increase in the quantity of money. In this sense, goods price inflation is the *symptom* of a *cause*, namely monetary inflation. And since state-sponsored central banks hold the money production monopoly, they are responsible for inflation. From this perspective, it does not come as a surprise that goods price inflation has skyrocketed.

The US Federal Reserve (Fed) has increased the money stock M2 by 42 per cent since the end of 2019, while the European Central Bank (ECB) has expanded the money stock M3 by 21 per cent. As a result, an enormous "monetary overhang" was built up. It allows the "negative price shocks" stemming from lockdowns, green policies, and the war in Ukraine to push up virtually all goods and services prices, leading to increased goods price inflation.

At the same time, central banks are reluctant to end their ultra-low interest rate policies and rein in money supply growth to curb inflation. On the one hand, this is in a way understandable. After many years of excessively easy monetary policy,

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



Source: Refinitiv; graphs Degussa.

economies have become heavily reliant on the continued monetary stimulus. The heavily leveraged system could all too easily be thrown over the cliff if borrowing and capital costs rise too much.

On the other hand, monetary policymakers might hope that consumer goods price inflation will ease off, so they do not have to hike interest rates too much. This is, of course, a rather dangerous bet. The decision not to raise interest rates or delay rate hikes means that goods price inflation will be higher than it would otherwise be. And if future inflation pressure turns out to be higher than expected today, things could get really messy.

Experience in many countries has shown that persistently high inflation risks eroding people's confidence in official currencies. Once that happens, a "crisis of confidence" requires very a restrictive monetary policy, sending the economy into a deep recession and dissapointing people's elevated inflation expectations. However, given the heavily indebted western world, it is particularly difficult to believe that such a scenario would not be economically and politically catastrophic.

Even so, central banks continue to play with fire. They installed an overly accommodative monetary policy in the first place, and they did not have the courage to end it when it still was possible. Even worse: Policymakers now see elevated inflation as an acceptable „societal price" and the policy of increased inflation as the policy of the "least evil". All of this is, of course, bad news for the general public, who will suffer most from the debasement of their currencies.

As outlined in previous reports, inflation is quite a challenge for investors. There tends to be no easy way to avoid the costs and losses caused by inflation. However, holding physical gold and silver ranks among the viable options. Central banks' inflationary policies cannot reduce the exchange value of these precious metals, and other than bank deposits and short-term debt instruments, physical gold and silver do not carry any counterparty or default risk.

What is more, holding physical gold and silver would also hedge against the *extreme downside scenario – the unbacked paper money system spiralling completely out of control*. Admittedly, this is a tail risk scenario at this point. Unfortunately, however, it becomes increasingly likely with central banks allowing price inflation to edge ever higher, prioritizing "propping up the system" over "keeping inflation low".

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PRECIOUS METALS PRICES

In US-Dollar per ounce

	Gold		Silver		Platinum		Palladium	
I. Actual	**1964,5**		**25,4**		**965,2**		**2324,8**	
II. Gliding averages								
10 days	1780,0		22,3		938,7		1775,6	
20 days	1796,5		23,1		971,5		1861,8	
50 days	1797,1		23,6		1013,1		1967,3	
100 days	1790,1		23,6		1003,2		2143,5	
200 days	1794,1		25,0		1084,1		2441,7	
III. Estimates for end 2022	**2100**		**28**		**1175**		**2261**	
(1)	*7*		*11*		*22*		*-3*	
Band width	*Low*	*High*	*Low*	*High*	*Low*	*High*	*Low*	*High*
	1700	2280	21,0	31,0	830	1280	1650	2400
(1)	*-13*	*16*	*-17*	*22*	*-14*	*33*	*-29*	*3*
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

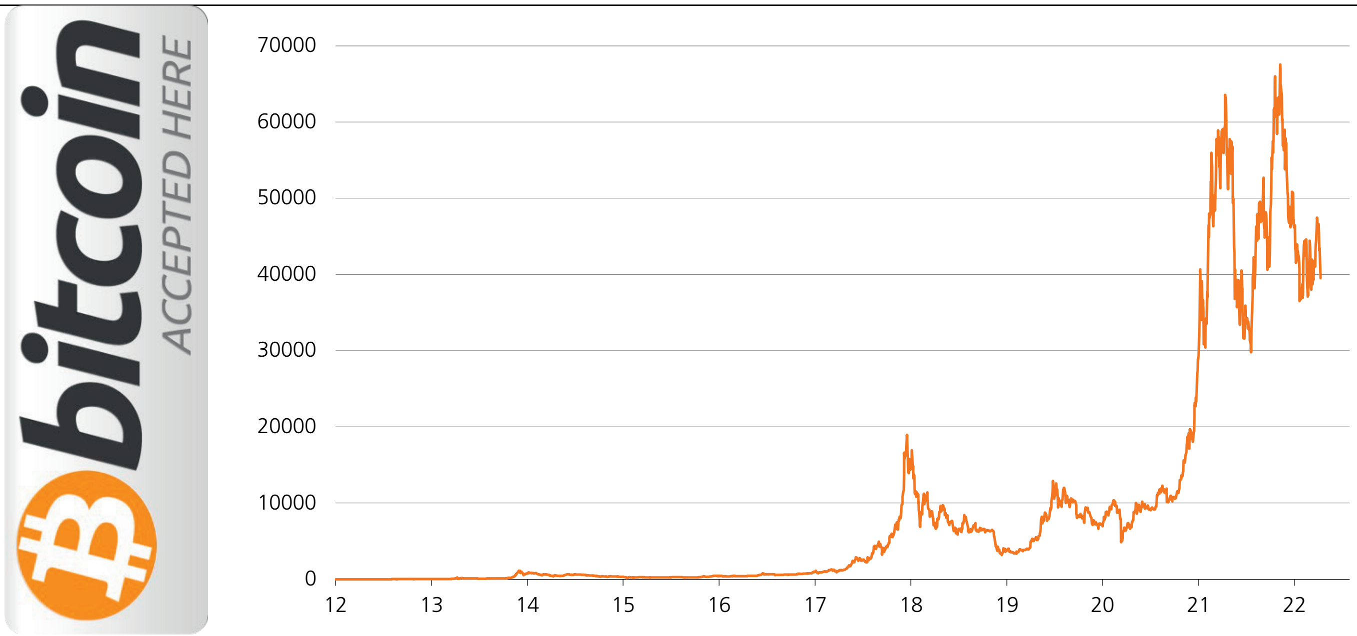
	Gold		Silver		Platinum		Palladium	
I. Actual	**1814,5**		**23,4**		**891,5**		**2147,3**	
II. Gliding averages								
10 days	1576,4		19,8		831,3		1572,5	
20 days	1592,2		20,5		861,0		1650,1	
50 days	1569,3		20,6		884,3		1717,0	
100 days	1542,5		20,4		864,3		1844,0	
200 days	1521,7		21,2		918,4		2065,5	
III. Estimates for end 2022	**1944**		**26**		**1088**		**2093**	
(1)	*7*		*11*		*22*		*-3*	
Band width	*Low*	*High*	*Low*	*High*	*Low*	*High*	*Low*	*High*
	1573	2110	19,4	28,7	760	1180	1520	2220
(1)	*-13*	*16*	*-17*	*23*	*-15*	*32*	*-29*	*3*
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

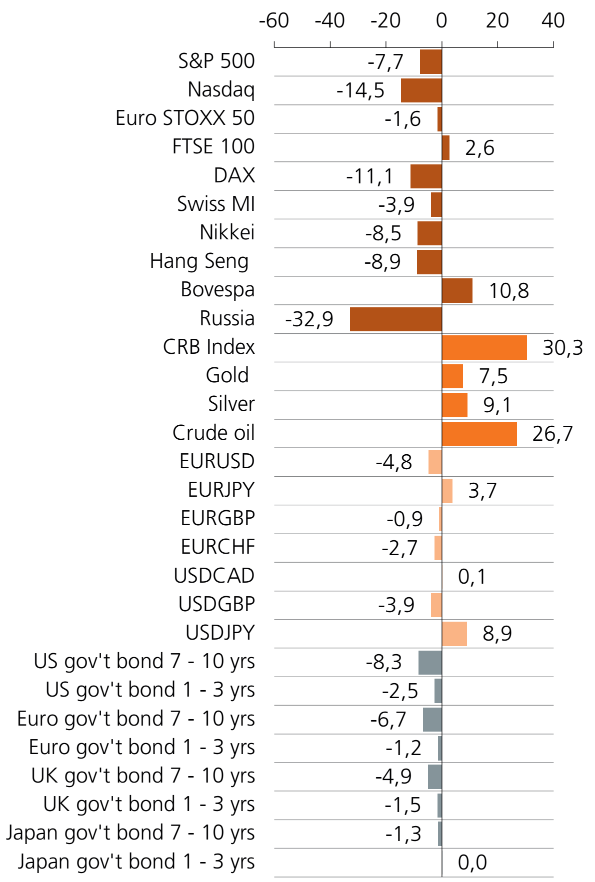
Bitcoin in US dollars



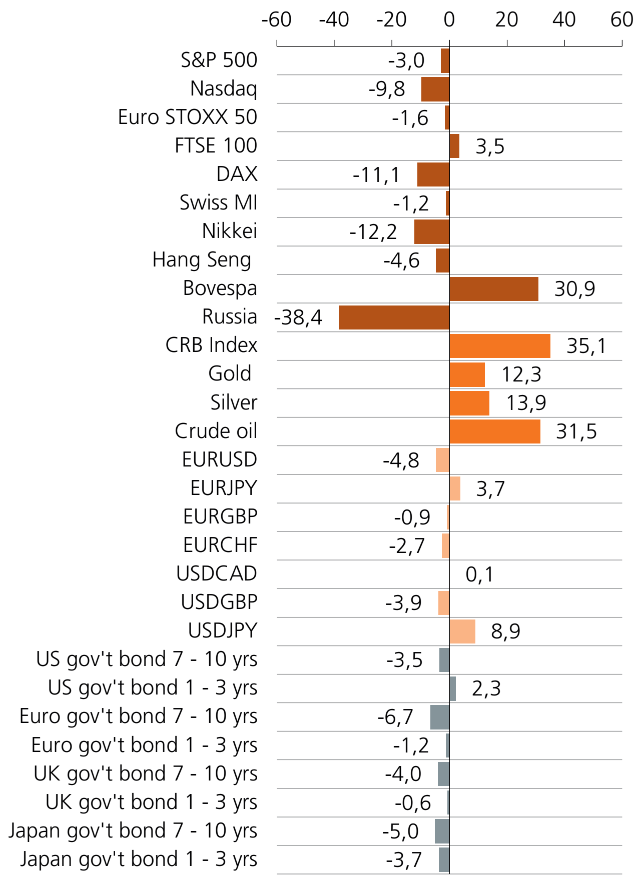
Source: Refinitiv; graph by Degussa.

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
13 April 2022	Do You Know What Inflation Really Is? Then Hold Gold And Silver
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
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15 July 2021	Gold and the Monetary Policy Empire of Deception
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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

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

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Imprint
Marktreport is published every 14 days on Thursdays and is a free service provided by Degussa Goldhandel GmbH.
Deadline for this edition: 13 April 2022
Publisher: Degussa Goldhandel GmbH, Kettenhofweg 29, 60325 Frankfurt, Tel.: (069) 860068-0, Fax: (069) 860068-222
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Degussa Market Report is available on the Internet at: http://www.degussa-goldhandel.de/marktreport/

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GOLD UND SILBER.

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