

12 May 2022

Economics · Finance · Precious Metals

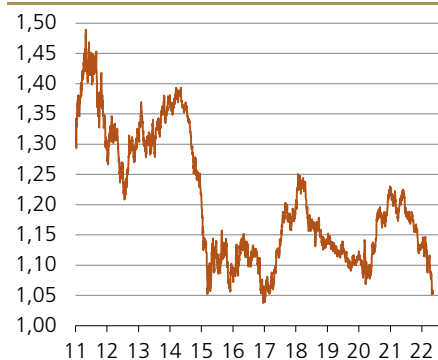
USD per ounce of gold



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	1.852,5	-4,0	3,1	-2,8
Silver	21,5	-10,8	-4,0	-23,2
Platinum	994,0	6,8	-2,4	-16,2
Palladium	2.028,7	-14,6	-13,7	-28,3
II. In euro				
Gold	1.761,4	-1,5	10,2	12,9
Silver	20,5	-8,4	2,5	-10,8
Platinum	945,1	9,8	4,2	-2,6
Palladium	1.929,0	-12,3	-7,7	-16,6
III. Gold price in other currencies				
JPY	240.826,0	-3,0	16,4	15,2
CNY	12.446,3	-0,9	8,9	2,4
GBP	1.512,8	0,6	13,3	12,7
INR	143.290,2	1,9	7,0	3,6
RUB	119.023,8	-17,7	-14,2	-14,8

Source: Refinitiv; calculations by Degussa.

OUR TOP ISSUES

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

THE FED MAKES BOOM & BUST, AND WHAT IT MEANS FOR GOLD

Since the middle of March 2022, the US Federal Reserve (Fed) has hiked its interest rate from zero to between 0.75 and 1.00 per cent, and it has indicated that it could hike rates up to 3 per cent by the end of the year. That doesn't sound much. But the expectation that the Fed would end its extremely expansive policy has already triggered something of a landslide on the financial markets: Bond prices dropped, credit spreads widened, stock prices tumbled, prices for bitcoin & Co plummeted, and the prices of gold and silver also fell sharply.

To better understand what rising interest rates are doing to the economy and financial markets, one must first understand what happens when the Fed cuts interest rates.

The Fed injects additional credit and money into the system, and this artificially lowers market interest rates. People's consumption increases, savings decline, and firms launch new investment projects. The economy expands, a "boom" sets in. However, something goes wrong. The monetary stimulus allows the economy to live beyond its means. Eventually, the boom turns into bust. Why is that?

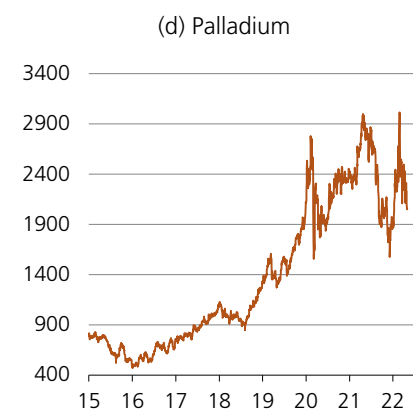
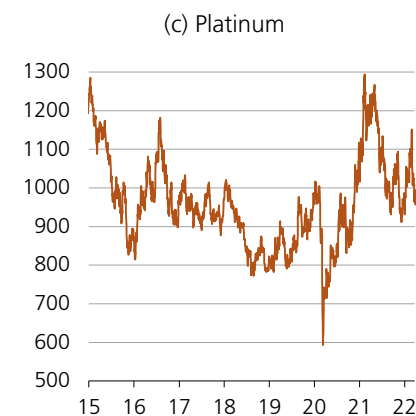
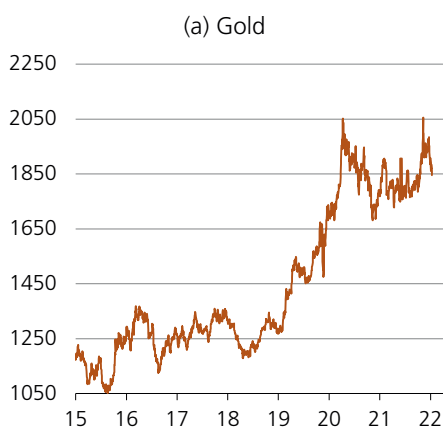
After the increase in credit and money has made its way through the economy – raising goods prices, wages, and financial asset prices, moving scarce resources from less time-consuming production (consumer goods industry) to more time-consuming production (capital goods industry) –, people realize that the boom was a "one-off" experience and return to their original consumption-savings-investment ratios.

This makes the market interest rates rise, and people increase their savings at the expense of consumption, while firms realize that the profits of their new investments fall short of their expectations. They scale back investment and cut jobs. The boom turns into bust.

By raising interest rates, the Fed essentially puts an end to the boom and soaring asset prices, which were caused by lowering interest rates in the first place. In a highly leveraged system, however, the financial and economic adjustment process caused by a bust can be particularly painful in terms of output and employment losses and a decline in asset prices. In fact, there is good reason to believe that the Fed could very well trigger a new financial and economic crisis by tightening its policy.

Because the Fed does not know the "correct" interest rate. If it sets the interest rate too low, goods price inflation will continue or even worsen. If it sets interest

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



Source: Refinitiv; graphs Degussa.

rates too high, the economy tanks and financial markets collapse. The risk that something could go wrong is enormous, especially given record levels of global debt: It amounted to 301 trillion USD or 351 per cent of global GDP at the end of 2021, according to the *International Institute of Finance* (IIF).

The huge debt burden in the global financial system suggests that the room for interest rate hikes is relatively limited. It is not likely (from our point of view) that central banks are willing to cause a recession and high unemployment, a major stock market crash, a housing crisis, or a full-blown credit crunch to bring inflation down to around 2 per cent in the near future; nor would the general public accept it.

A likely scenario is that central banks will hike interest rates a bit more, but not to the point of "crashing the system to lower inflation." This suggests that goods price inflation will remain elevated for longer but may not spiral out of control. Real interest rates, i.e. nominal interest rates net of inflation, will most likely remain in negative territory for years to come, especially for high-quality credit such as government bonds. In such an environment, stock prices can continue to trend higher after shedding their bubble element.

What role do physical gold and silver play? As long as financial markets are reasonably confident that central banks can strike an acceptable balance between raising interest rates to curb inflation and preventing the financial and economic system from falling off the cliff, gold and silver prices may be prevented from rising sharply for now. As noted earlier, however, the risk that central banks will not succeed in their plans and cause a major crisis is real, and it is non-negligible.

Another major crisis could actually be deadly for the fiat money system. So there is a case for gold and silver. From our point of view, they are currently not expensive at all, especially when assessed considering the prevailing financial and economic risk structure. With that in mind, holding gold and silver as part of one's liquid portfolio should ultimately prove risk-mitigating and return-enhancing for the long term oriented investor.

PRECIOUS METALS PRICES

In US-Dollar per ounce

	Gold		Silver		Platinum		Palladium	
I. Actual	1853,5		21,5		994,8		2025,7	
II. Gliding averages								
10 days	1904,8		23,6		940,6		2290,0	
20 days	1931,7		24,4		958,6		2328,6	
50 days	1938,0		24,8		1008,7		2456,4	
100 days	1879,9		24,0		1003,4		2264,3	
200 days	1835,0		23,8		1003,3		2203,9	
III. Estimates for end 2022	2100		28		1175		2261	
⁽¹⁾	13		31		18		12	
<i>Band width</i>	<i>Low</i>	<i>High</i>	<i>Low</i>	<i>High</i>	<i>Low</i>	<i>High</i>	<i>Low</i>	<i>High</i>
⁽¹⁾	1700	2280	21,0	31,0	830	1280	1650	2400
	-8	23	-2	44	-17	29	-19	18
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

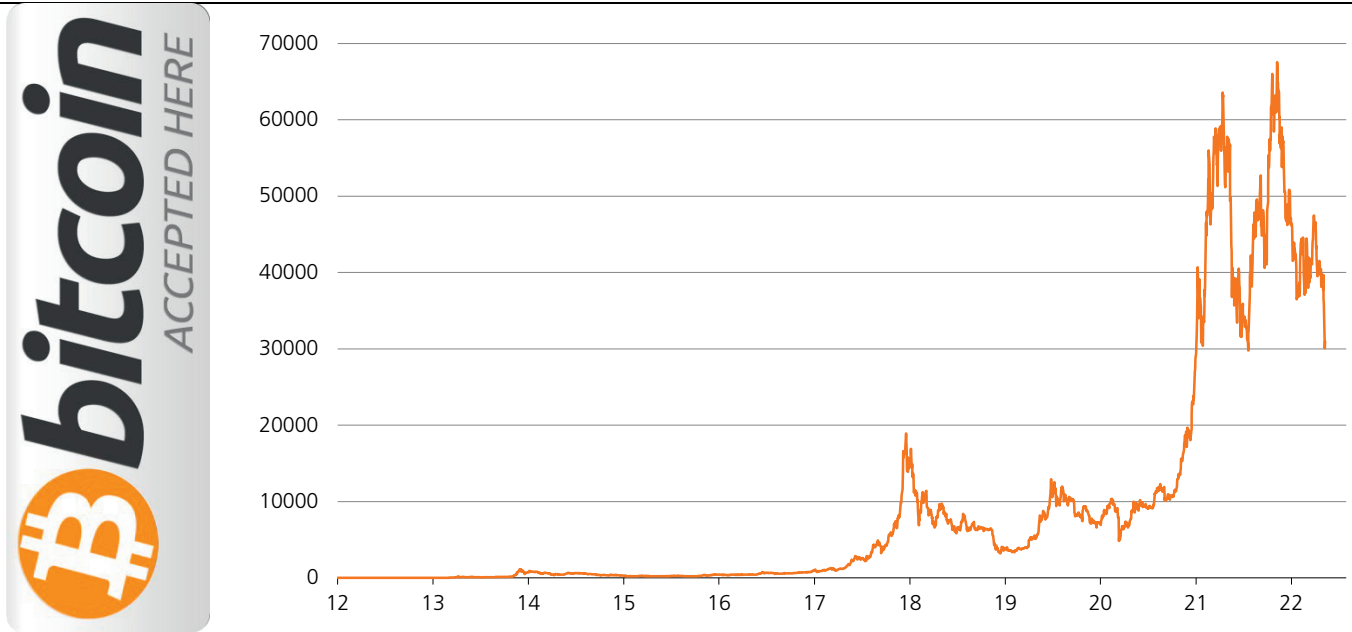
	Gold		Silver		Platinum		Palladium	
I. Actual	1763,1		20,5		946,3		1926,9	
II. Gliding averages								
10 days	1788,7		22,2		883,2		2150,2	
20 days	1797,3		22,7		891,8		2166,5	
50 days	1774,0		22,7		922,9		2247,7	
100 days	1690,7		21,6		901,7		2037,9	
200 days	1616,6		21,0		883,0		1941,0	
III. Estimates for end 2022	1944		26		1088		2093	
⁽¹⁾	10		27		15		9	
<i>Band width</i>	<i>Low</i>	<i>High</i>	<i>Low</i>	<i>High</i>	<i>Low</i>	<i>High</i>	<i>Low</i>	<i>High</i>
⁽¹⁾	1573	2110	19,4	28,7	760	1180	1520	2220
	-11	20	-5	40	-20	25	-21	15
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

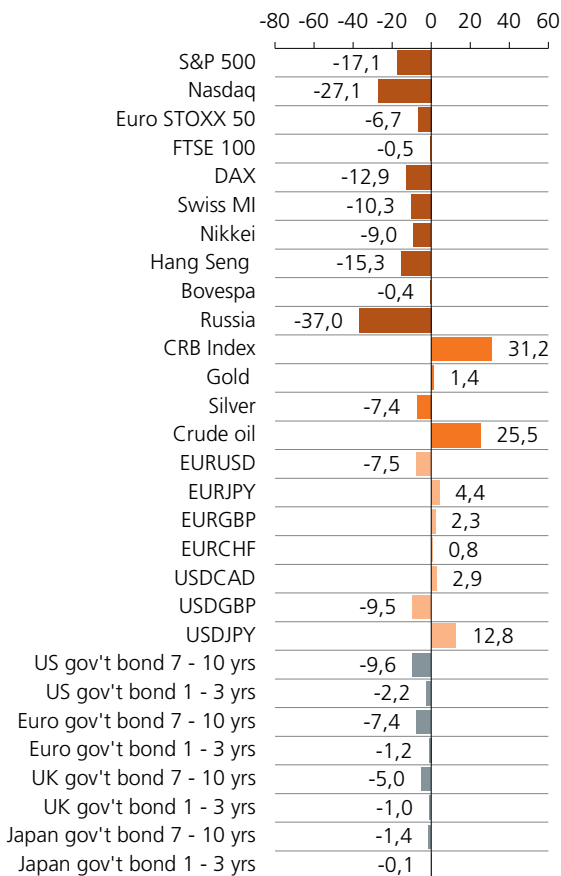
Bitcoin in US dollars



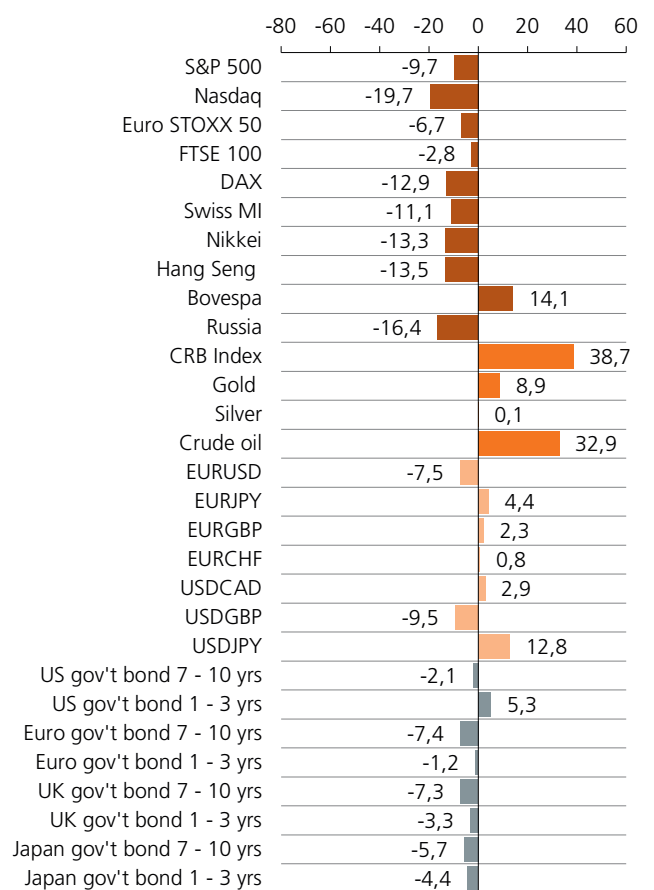
Source: Refinitiv; graph by Degussa.

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
12 May 2022	The Fed makes Boom & Bust – and what it means for Gold
28 April 2022	The Fed's Boom and Bust Cycle – and what it means for your money
14 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 January 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'?
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

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