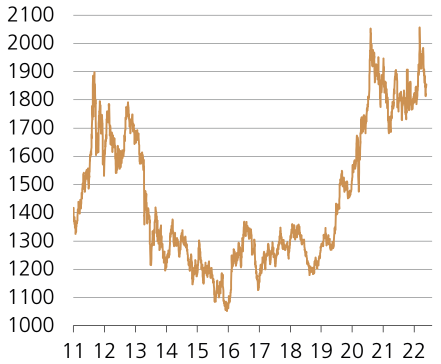
Degussa Market Report

25 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	Change against (in percent):		
	(spot)	2 W	3 M	12 M
I. In US-dollar				
Gold	1.860,6	-1,2	3,6	-2,4
Silver	22,0	-1,7	-2,2	-21,7
Platinum	956,6	-0,7	-6,0	-19,4
Palladium	1.994,9	-2,5	-15,1	-29,5
II. In euro				
Gold	1.737,3	-2,6	8,6	11,4
Silver	20,5	-3,2	2,6	-10,6
Platinum	893,2	-1,9	-1,5	-7,9
Palladium	1.862,0	-4,1	-10,9	-19,5
III. Gold price in other currencies				
JPY	236.688,0	-3,7	14,4	13,2
CNY	12.387,9	-1,3	8,4	1,9
GBP	1.489,9	-2,3	11,5	11,0
INR	144.308,9	1,9	7,8	4,3
RUB	105.472,4	-15,8	-24,0	-24,5

Source: Refinitiv; calculations by Degussa.

OUR TOP ISSUES

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

CRISIS RISK ON THE RISE. GOLD AS INSURANCE

Inflation is rising worldwide, causing great and increasing economic pain for many people. In an effort to curb the excessive rise in goods prices, many central banks have already started raising interest rates. While tightening monetary policy is undoubtedly necessary, it comes with a certain risk. This becomes evident when we take a closer look at the underlying forces pushing goods prices higher.

On the one hand, there is a "negative price shock" resulting from the politically dictated lockdown crisis and "green policies". It has reduced the supply of goods relative to demand, and it has driven up energy and thus production costs; the war in Ukraine exacerbates these effects. Taken together, the price level in the economies is being pushed up so that people's real incomes and thus their standards of living are falling.

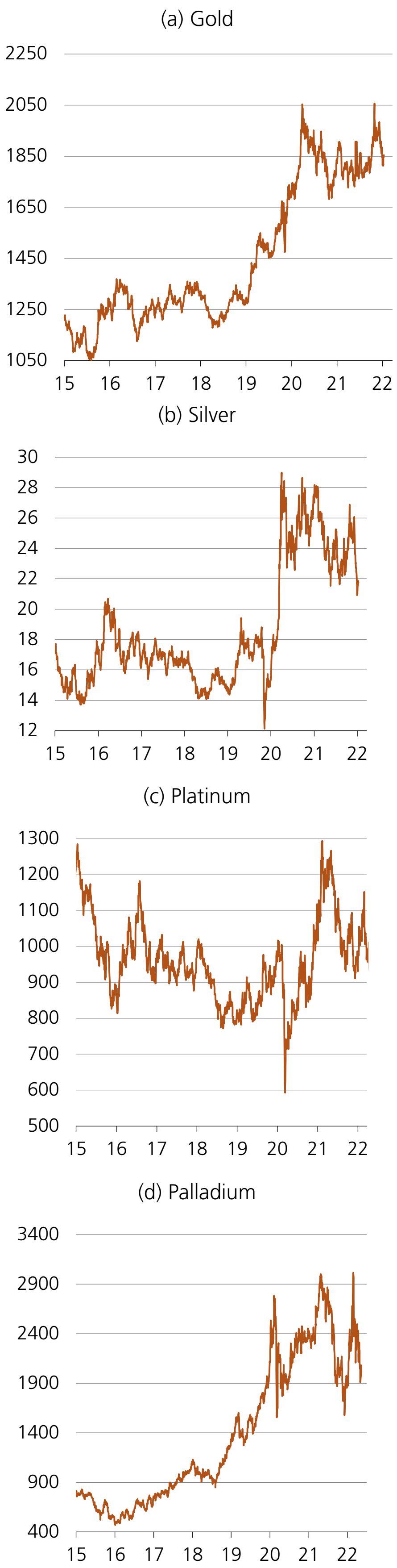
On the other hand, there is an enormous "monetary overhang": Central banks have significantly increased the quantity of money in recent years. When the monetary overhang meets the negative price shock, inflation – the ongoing rise in goods prices across the board – is the inevitable result: People do not only experience a "one-off" drop in their real incomes but a prolonged and even more severe decline in their material wealth.

This is a rather unpredictable environment for monetary policy tightening. Neither the negative price shock nor the existing monetary overhang can be reversed by the central banks raising interest rates. The negative price shock will sooner or later peter out, presumably keeping the prices of many goods at elevated levels. However, it will not lead to inflation – a permanent increase in the price of goods across the board.

The monetary overhang, in turn, is reduced by rising goods prices – i.e. by a surge in inflation – and/or higher output growth. All central bank policy can do at this stage is raise interest rates to a level that reduces credit and money supply growth, thereby hopefully lowering future inflation. In other words: There is, unfortunately, no quick fix to the real inflation problem unfolding before our eyes.

It is important to note that the negative price shock is restrictive: It lowers people's purchasing power and weakens the demand side of economies. The creation of the monetary overhang in early 2020 was expansionary as the money stock in the economy rose while goods prices remained fairly stable. However, this has changed with rising goods prices: Inflation now reduces the monetary overhang, devaluing the purchasing power of people's money holdings.

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



Source: Refinitiv; graphs Degussa.

Against this backdrop, it becomes clear that a restrictive effect is currently working itself through the economic and financial system. In other words, a slowdown in economic activity is already underway. It could all too easily turn into a recession if monetary policy tightens too much. Therefore, the pressing question is: How high could interest rates go without sending economies over the cliff while curbing future inflation?

The disturbing answer is: We do not know; and central bank council members and their staff would not know either. The truth is that central banks follow a path of trial and error. Needless to say, things can potentially go terribly wrong along the way. If central banks hike interest rates too high (as they set rates in view of current inflation, for example), a recessionary scenario becomes quite likely; and if they keep interest rates too low, inflation will be high, even much higher, longer.

Most important, monetary policymakers probably know that the scope for interest rate hikes is quite limited given the extremely high level of debt in the global financial system. In many countries, real interest rates (i.e. nominal interest rates adjusted for inflation) have been in negative territory for the past decade. Bringing them back above zero is virtually impossible without dealing the economic and financial system a rather hard, perhaps even fatal, blow.

Imagine a scenario in which central banks inadvertently cause a recession and collapse financial markets. I would think that monetary policy would change course immediately, quickly reverting to an extremely inflationary stance. After all, the financial and economic stress would likely be extremely painful, and "sustained high inflation" would soon be considered the lesser evil compared to shrinking output, large-scale credit defaults and mass unemployment.

All in all, there is a risk of crisis for the investor that should not be neglected. It comes with a profile that is, and most likely will remain, heavily skewed to high inflation in the years to come. Real interest rates, particularly for short-term and high-quality bonds, should remain negative, even if central banks further tighten policy. In view of the incipient weakening of the global economy, this seems all the more likely as it further limits the scope for higher interest rates.

Holding physical gold and silver is and remains an effective strategy to reduce investment portfolio risks: namely, the risk resulting from a permanent debasement of the official currencies' purchasing power; and the default risk that would result from a hard landing in the current cycle, let alone from a collapsing financial and economic system. At current prices, physical gold and silver can be viewed as effective insurance with considerable upside price potential.

I would like to conclude with a quote from Alan Greenspan, the former Federal Reserve Chairman. In 2014 he wrote: "[G]old has special properties that no other currency, with the possible exception of silver, can claim. For more than two millennia, gold has had virtually unquestioned acceptance as payment. It has never required the credit guarantee of a third party. No questions are raised when gold or direct claims to gold are offered in payment of an obligation."

In times of rising crisis risk, I think it is rather helpful to remind ourselves that today's official currencies, or fiat currencies, suffer from irreversible economic and ethical problems and that physical gold and silver would probably rank among the very few monies that could protect investors from the global fiat money system going down the drain. In other words: There is certainly a case for holding at least some physical gold and silver in the current cycle.

PRECIOUS METALS PRICES

In US-Dollar per ounce

	Gold		Silver		Platinum		Palladium	
I. Actual	**1851,7**		**21,4**		**988,5**		**2037,2**	
II. Gliding averages								
10 days	1872,4		22,4		958,1		2182,3	
20 days	1905,7		23,5		959,4		2256,1	
50 days	1932,5		24,5		996,8		2406,5	
100 days	1884,3		23,9		1005,9		2287,2	
200 days	1836,5		23,7		1000,8		2187,7	
III. Estimates for end 2022	**2100**		**28**		**1175**		**2261**	
(1)	*13*		*32*		*19*		*11*	
Band width	*Low*	*High*	*Low*	*High*	*Low*	*High*	*Low*	*High*
	1700	2280	21,0	31,0	830	1280	1650	2400
(1)	*-8*	*23*	*-2*	*45*	*-16*	*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

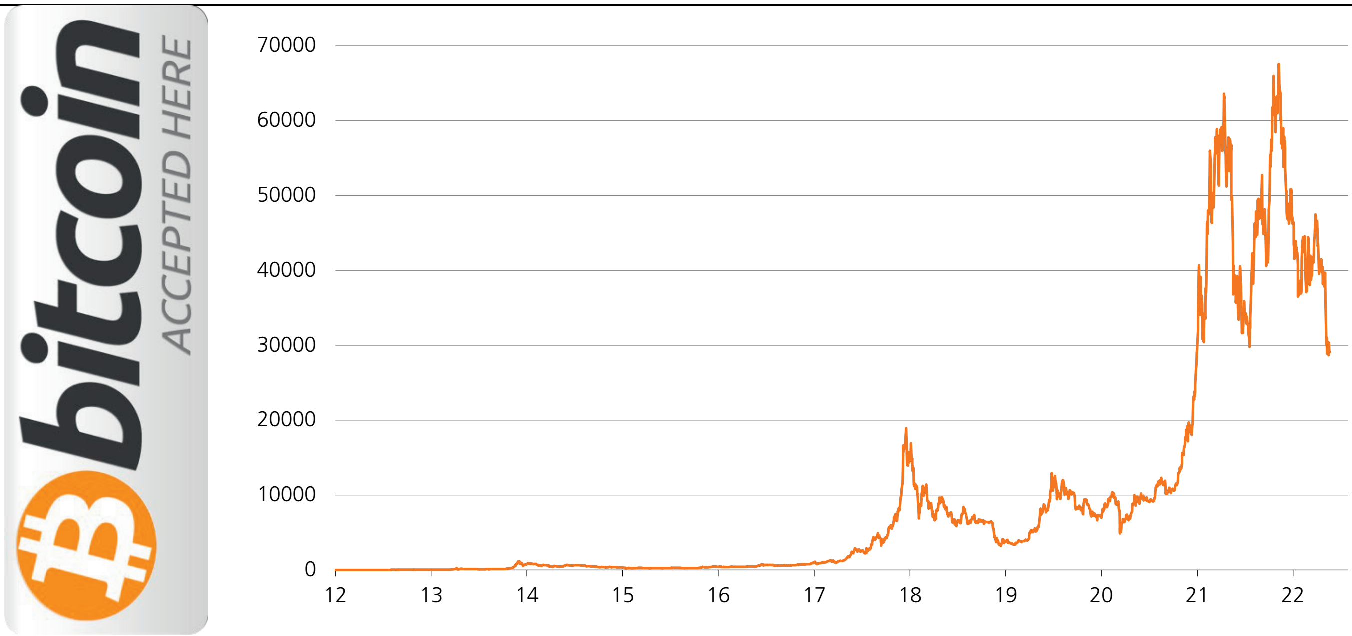
	Gold		Silver		Platinum		Palladium	
I. Actual	**1763,4**		**20,4**		**941,3**		**1940,0**	
II. Gliding averages								
10 days	1776,3		21,3		908,9		2070,4	
20 days	1790,1		22,1		901,3		2118,7	
50 days	1781,2		22,6		918,6		2216,8	
100 days	1701,5		21,6		907,5		2066,1	
200 days	1623,7		20,9		884,0		1934,0	
III. Estimates for end 2022	**2078**		**28**		**1163**		**2238**	
(1)	*18*		*37*		*24*		*15*	
Band width	*Low*	*High*	*Low*	*High*	*Low*	*High*	*Low*	*High*
	1683	2257	20,8	30,7	820	1260	1630	2370
(1)	*-5*	*28*	*2*	*51*	*-13*	*34*	*-16*	*22*
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

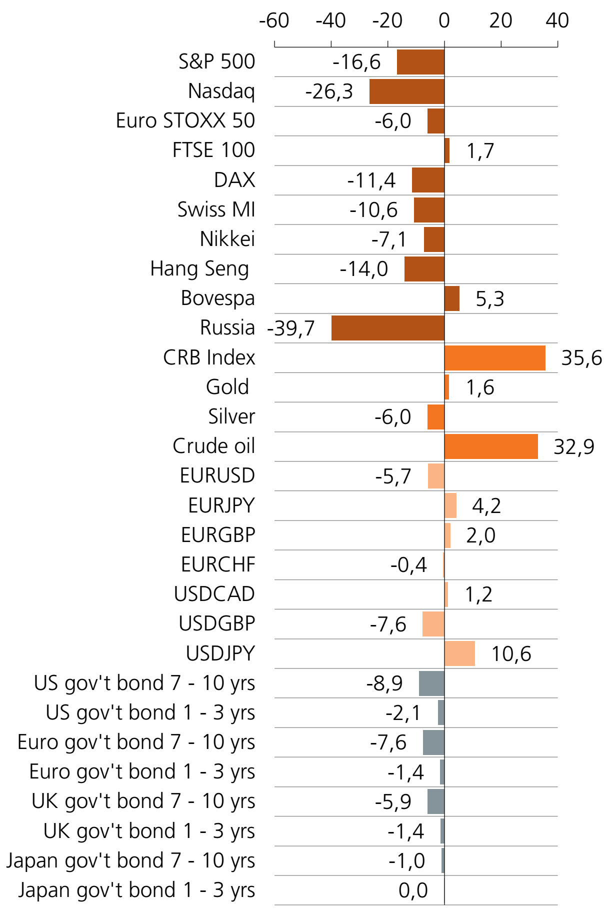
Bitcoin in US dollars



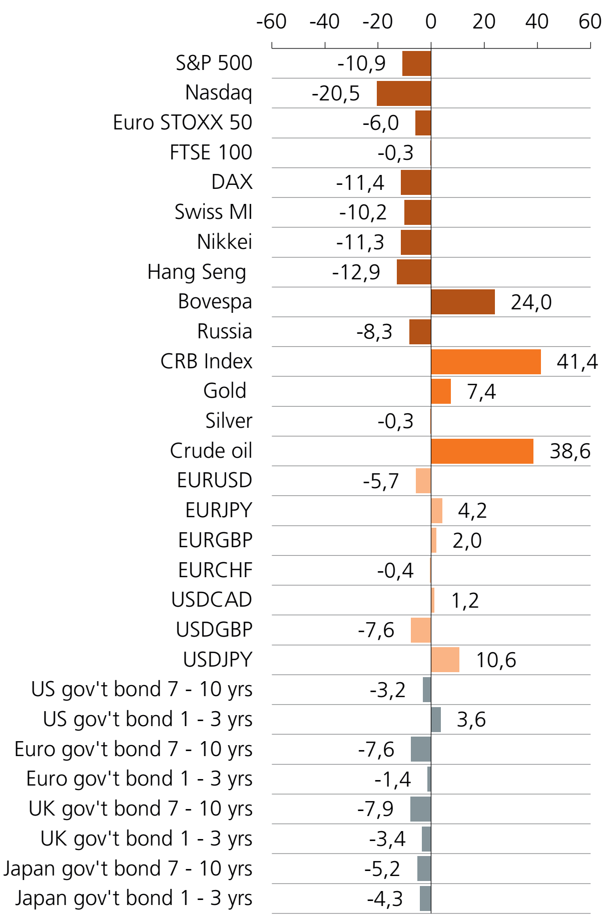
Source: Refinitiv; graph by Degussa.

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
26 May 2022	Crisis Risk On The Rise. Gold As Insurance
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

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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: 25 May 2022
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/