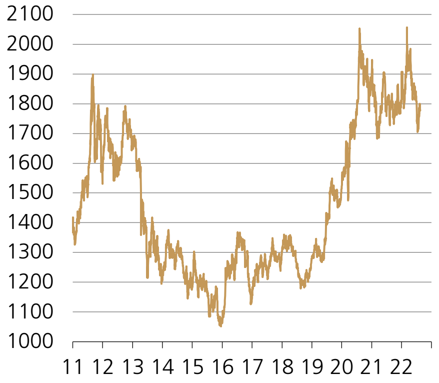
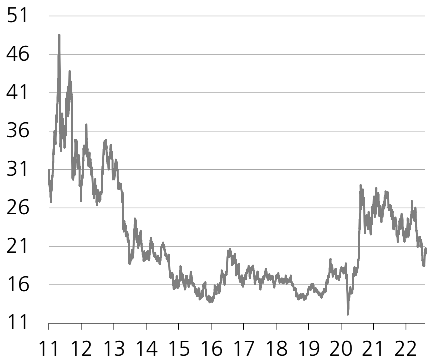
Degussa Market Report

18 August 2022 | **Economics · Finance · Precious Metals**

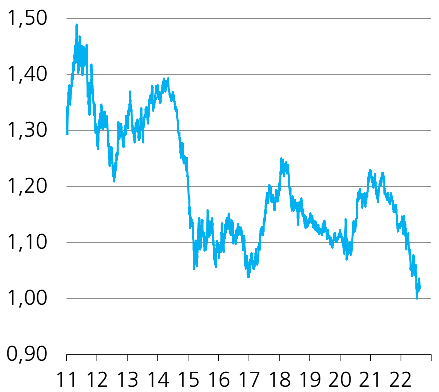
USD per ounce of gold



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	1.765,5	0,0	-6,9	-2,6
Silver	19,9	-2,3	-12,7	-16,9
Platinum	926,7	3,3	-0,5	-8,5
Palladium	2.138,1	0,5	-7,9	-13,3
II. In euro				
Gold	1.733,3	0,3	-3,6	12,9
Silver	19,5	-2,0	-9,7	-3,5
Platinum	909,8	3,7	2,5	6,0
Palladium	2.099,0	0,8	-4,7	0,4
III. Gold price in other currencies				
JPY	238.432,0	1,4	-3,2	19,6
CNY	11.971,0	0,5	-4,5	2,2
GBP	1.463,5	0,9	-3,0	11,1
INR	140.121,5	1,9	-3,4	6,0
RUB	105.047,9	-0,4	-21,1	-20,7

Source: Refinitiv; calculations by Degussa.

OUR TOP ISSUES

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

SKY-HIGH INFLATION IS JUST ONE REASON TO HOLD PHYSICAL GOLD

It appears that most market observers expect high inflation to be a temporary phenomenon, that it will sooner or later slow down again, especially as the world's major central banks have started tightening monetary policy. But is such an expectation really justified?

Central banks in most countries have the mandate to keep consumer goods price inflation low, at a rate of around 2 per cent p.a., and this is indeed what most central banks have achieved in recent years. Against this backdrop, it is not surprising that many expect the currently very high inflation to come down again. But that seems a bit naïve.

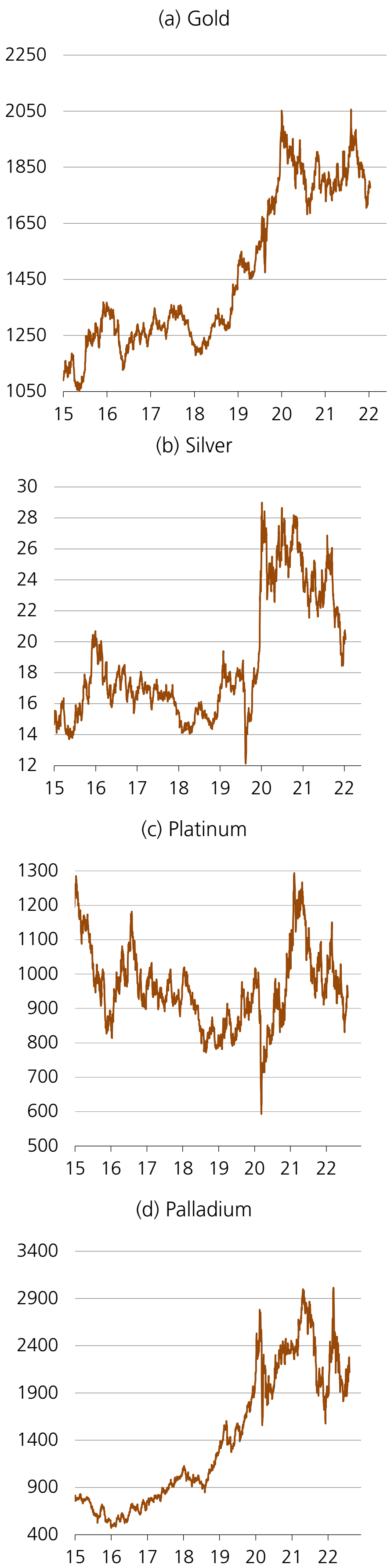
To explain, let us take a closer look at the latest inflation numbers. Official inflation rates have been strongly affected by "special factors", namely the increased scarcity of goods as a result of the politically dictated lockdowns, the drastic increase in energy prices due to "green policies", and, moreover, higher goods prices due to Russia's war on Ukraine. These "demand-pull"- and "cost-push" effects have significantly driven up consumer goods prices.

No less importantly, central banks have created a huge "monetary overhang" that allows the latest goods price increases to translate into inflation – that is, sustained sharp rises in the prices of goods and services across the board. From this point of view, it is fair to say that inflation is indeed a monetary phenomenon – because, without the huge monetary overhang, demand pull and cost push effects simply could not ignite a sustained increase in *all* goods prices over time.

Inflation is not a natural disaster; it is man-made. And it is important to note in this context that central banks have been pursuing rather exceptionally expansionary monetary policies in recent years (established well before the lockdown periods – which, admittedly, triggered a very wild new round of money printing). The reason for this was the worsening "debt problem": to sustain ever higher levels of debt accumulated by consumers, companies and governments in particular, ever lower interest rates are required.

To prevent the debt pyramid from collapsing, governments and their central banks resort to "financial repression": the central bank keeps nominal interest rates well below the inflation rate, thereby making real interest rates negative. As a result, debtors enjoy most generous borrowing costs, while creditors and money holders get the short end of the stick. High inflation is particularly helpful

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



Source: Refinitiv; graphs Degussa.

for financially overstretched governments, as they can pay back less money in real terms than they have borrowed.

However, financial repression accompanied by sky-high inflation is difficult to handle, even explosive. Sky-high inflation hurts the vast majority of the population. Once people see the monetary scam, the situation can quickly get ugly. It may all too easily result in social unrest, violence in the streets, political instability, and even revolutions – as is already happening in a number of emerging market countries.

At the same time, however, efforts to curb high inflation could trigger a major financial and economic crisis because the current economic and societal structures have been shaped by many years of ultra-low real interest rates and relentless monetary expansion. It was allowed to continue because the inflationary effects were largely confined to asset markets – and "asset price inflation" was widely considered "acceptable", as it allegedly made the economies "richer".

But things have taken a dramatic turn as inflation has been reflected in very large increases in consumer goods prices. Public discontent has forced central banks to take action. But their measures show no determination to reduce high inflation by any means necessary or in the shortest time possible. Because the truth is that there is no easy exit from the currently high inflation regime. In fact, the chances that real interest rates, which are deep in the red in most currency areas, will return to positive territory anytime soon are rather slim.

In this context, one should not forget that many governments in the Western world are trying to implement the "Great Reset", the "Great Transformation". "Green policy" is just one prominent item on their agenda, designed to limit or end people's access to affordable and secure energy supply. It is a political ideology which aims to roll back or even shut down the free market system (or what little is left of it).

Debasing the purchasing power of the currency is a proven strategy to discredit the free market system: people become quite disenchanted with capitalism, which they falsely blame for their ordeal, and they turn to politicians and governments for help. Inflation thus is fulfilling its insidious political task: making people increasingly dependent on government handouts, allowing the state to expand its power over all sorts of economic and social affairs of the people.

Unfortunately, popular resistance to inflationary policies and governments' willingness to end inflation are not yet strong enough in many countries. While the headline numbers may ease a little further in the coming months (especially as the energy price effect peters out), investors should not conclude that the inflationary regime is over. The debasement of the purchasing power of money will remain one of the top challenges to your financial assets in the years to come.

What does this mean for your portfolio selection? In a high-inflation regime, it makes sense to minimize your cash holdings to a transaction balance plus a buffer because cash will become worth … less (and less). I still believe it makes much sense to remain invested in the international stock market for the time being. If you are not an experienced stock picker, invest in a globally diversified stock market ETF. I also think it is advisable to hold physical gold and silver.

These precious metals can serve as a cash substitute, and their purchasing power cannot be debased by central banks running the printing presses. Moreover, physical gold and silver do not carry a default risk – in sharp contrast to bank deposits. But high inflation is just one reason to hold physical gold and silver. Gold and silver also serve as insurance against the vagaries of the world wide fiat currency standard.

Don't forget that all major currencies – the US dollar, the euro, the Japanese yen, the Chinese renminbi, and others – are all fiat currencies. And the more the fiat currency standard is pushed to its limits by more and more debt, lowering of interest rate, and accelerating the printing presses, the greater the risk of something going terribly wrong. The value of physical gold and silver will survive any cataclysmic collapse of the unbacked paper money system.

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*The video for this article can be found **here**.*

PRECIOUS METALS PRICES

In US-Dollar per ounce

	Gold		Silver		Platinum		Palladium	
I. Actual	**1765,7**		**19,9**		**928,5**		**2139,5**	
II. Gliding averages								
10 days	1783,8		20,3		936,4		2169,8	
20 days	1760,2		19,8		911,3		2096,4	
50 days	1780,3		20,2		908,8		1991,8	
100 days	1835,4		21,7		937,4		2083,8	
200 days	1842,3		22,7		974,2		2122,4	
III. Estimates for autumn 2023	**2200**		**28**		**1070**		**2261**	
(1)	*25*		*41*		*15*		*6*	
Band width	*Low*	*High*	*Low*	*High*	*Low*	*High*	*Low*	*High*
	1800	2398	21,0	31,0	830	1280	1650	2400
(1)	*2*	*36*	*6*	*56*	*-11*	*38*	*-23*	*12*
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

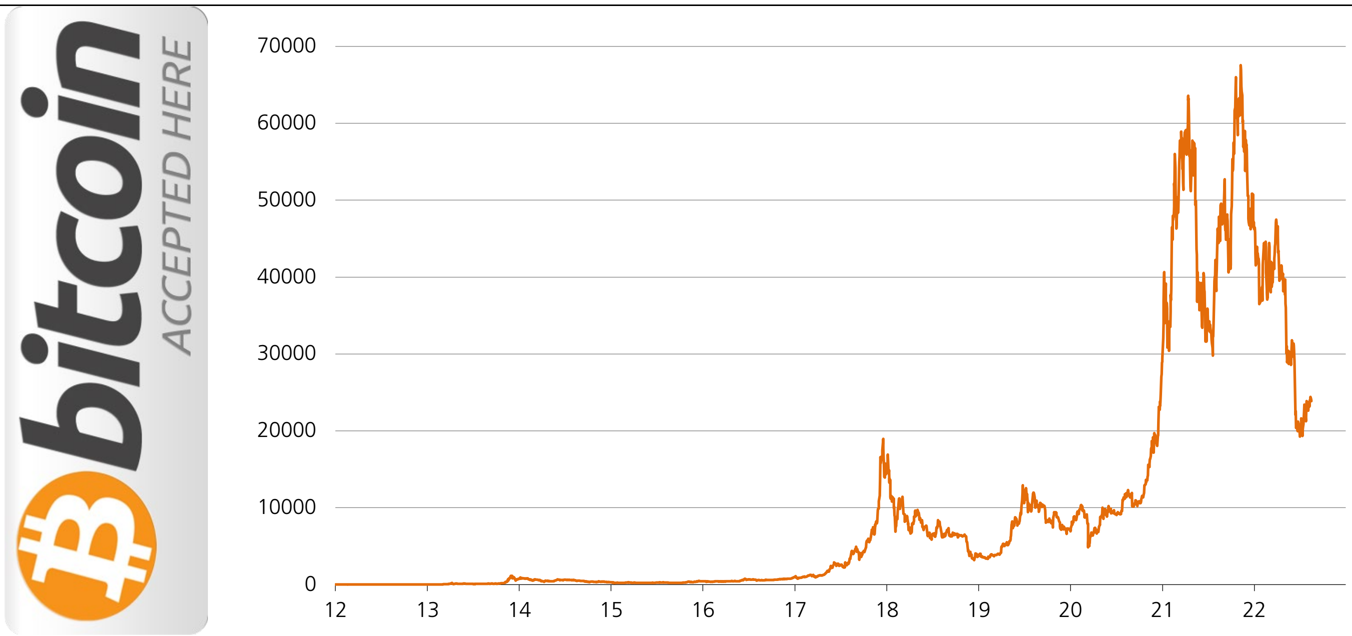
	Gold		Silver		Platinum		Palladium	
I. Actual	**1732,8**		**19,5**		**911,2**		**2099,6**	
II. Gliding averages								
10 days	1744,3		19,9		915,6		2121,4	
20 days	1724,0		19,4		892,5		2053,0	
50 days	1726,7		19,6		881,3		1933,5	
100 days	1746,1		20,6		891,8		1982,2	
200 days	1694,8		20,8		895,0		1952,4	
III. Estimates for autumn 2023	**2281**		**29**		**1110**		**2345**	
(1)	*32*		*49*		*22*		*12*	
Band width	*Low*	*High*	*Low*	*High*	*Low*	*High*	*Low*	*High*
	1867	2487	21,8	32,1	860	1320	1710	2480
(1)	*8*	*44*	*12*	*65*	*-6*	*45*	*-19*	*18*
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

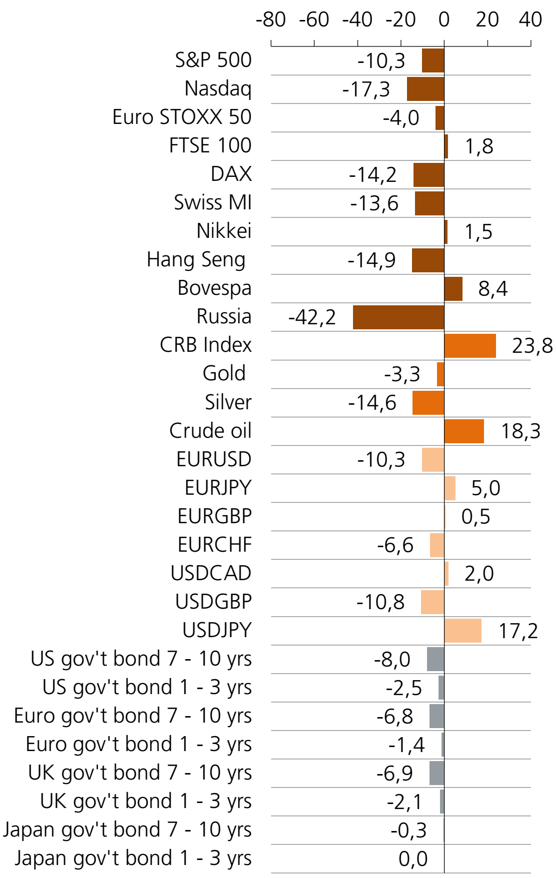
Bitcoin in US dollars



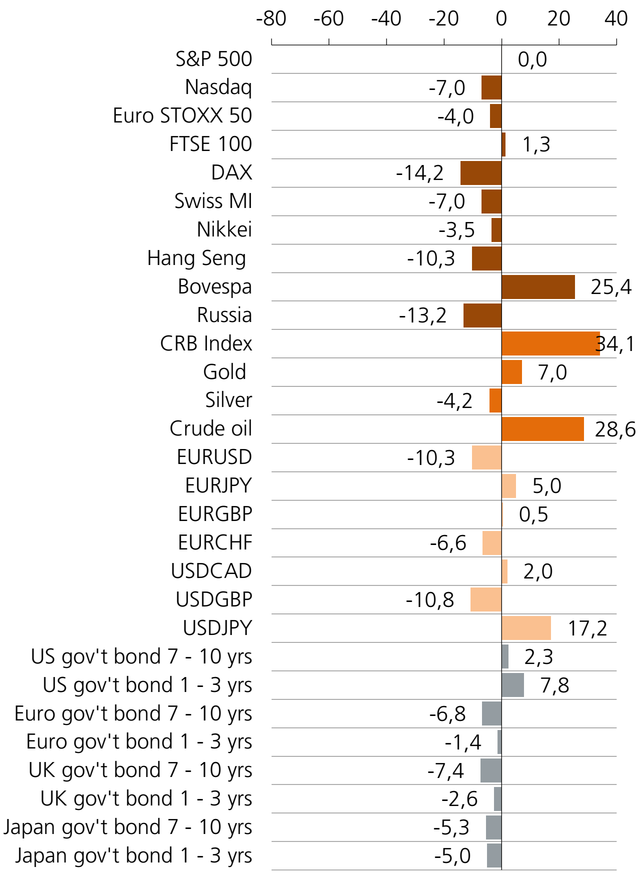
Source: Refinitiv; graph by Degussa.

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
18 August 2022	Sky-High Inflation Is Just One Reason To Hold Physical Gold
4 August 2022	Excessive Money Growth Leads To Super-High Inflation
21 July 2022	Dollar Dominance Brings Yen And Euro To Their Knees
7 July 2022	I'm Sorry To Say, But It Doesn't Look Good. Hold At Least Some Gold
23 June 2022	On The Future Of Markets And Money
9 June 2022	Interest Rates Rise. Financial Repression Continues
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

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Imprint
Marktreport is published every 14 days on Thursday and is a free service provided by Degussa Goldhandel GmbH.
Deadline for this edition: 18 August 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
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