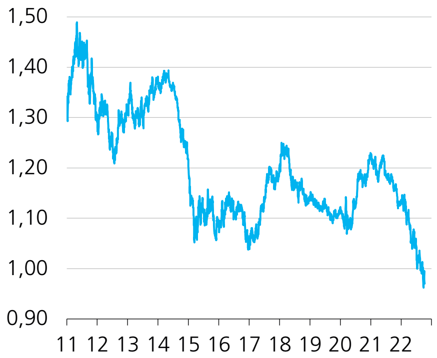
Degussa Market Report

13 October 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	1.671,3	1,7	-7,5	-6,3
Silver	19,1	1,5	-5,5	-19,8
Platinum	886,0	3,7	-0,9	-13,0
Palladium	2.116,1	2,4	9,2	5,7
II. In euro				
Gold	1.724,4	1,7	0,1	11,9
Silver	19,7	1,6	2,2	-4,4
Platinum	914,2	3,5	7,3	3,9
Palladium	2.183,0	2,3	18,2	26,1
III. Gold price in other currencies				
JPY	245.430,0	4,2	0,1	20,8
CNY	11.985,1	2,3	-0,9	5,0
GBP	1.513,0	0,0	2,0	16,2
INR	137.499,5	1,9	-3,6	2,9
RUB	106.461,8	13,9	12,3	-15,7

Source: Refinitiv; calculations by Degussa.

OUR TOP ISSUES

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

PROPOSAL IN THE US CONGRESS: REINTRODUCTION OF GOLD BACKING FOR THE US DOLLAR

On October 7, 2022, U.S. Congressman Alex Mooney (Republican from West Virginia) introduced a bill ("Gold Standard Restoration Act", H.R. 9157) that would stipulate for the US dollar to be backed by physical gold owned by the U.S. Treasury.[1] The initiative clearly indicates that concerns about an increasingly inflationary US dollar are triggering efforts to get better money.

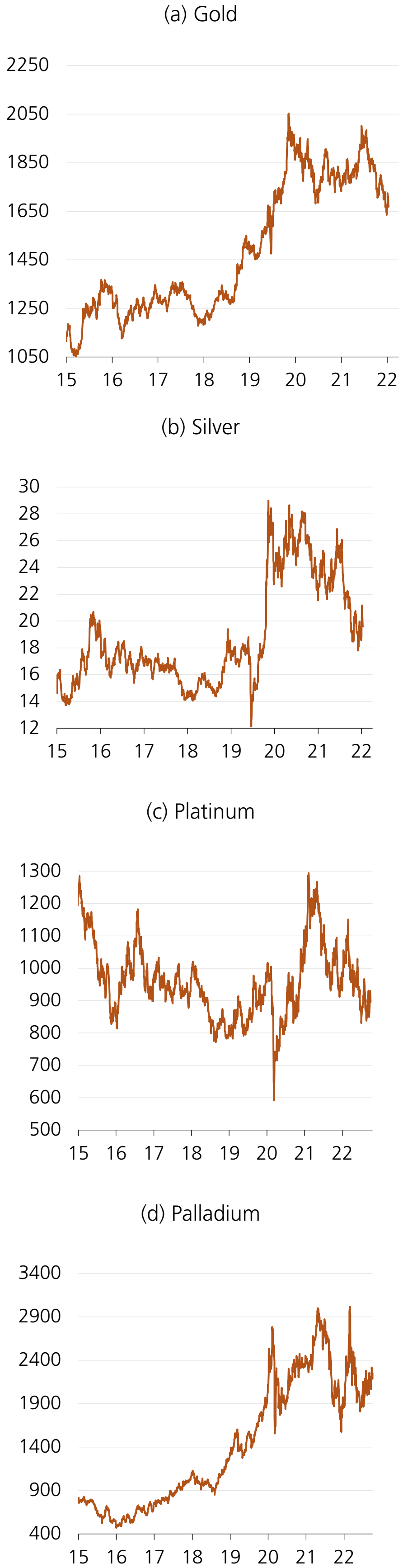
It should be emphasized that in recent years there have already been many legislative changes in a number of US states to make precious metals more attractive as a means of payment compared to the US dollar: In many US states, the value-added tax (VAT) and capital gains tax on gold and silver, but also on platinum and palladium, have been abolished.[2] To assess Mr Mooney's Bill, which is aimed at the federal level, let us first begin with an overview of the proposal. It is divided into three sections.

The *first section* of the bill establishes the need for a return to a gold-backed US dollar. For example, it is said that the US dollar – or more precisely, the bill refers to "Federal Reserve Notes", that is, banknotes issued by the US Federal Reserve (Fed) – has lost its purchasing power on a massive scale in the past: Since 2000, it has dropped by 30 per cent, and since 1913 by 97 per cent. The bill also argues that with an inflation target of 2 per cent, the Fed will not preserve the purchasing power of the US dollar but will have it halved after just 35 years. Moreover, the bill points out that it is in the interest of US citizens and firms to have a "stable US dollar". The bill highlights that the inflationary US dollar has been eroding the industrial base of the US economy, enriching the owners of financial assets, while endangering workers' jobs, wages, and savings.

The *second section* of the bill describes in more detail the technical process for re-anchoring the US dollar to the US official gold stock. It states that (1) the U.S. Secretary of the Treasury must define the US dollar banknotes using a fixed fine gold weight 30 days after the law goes into effect, based on the closing price of the gold on that day. The Fed must (2) ensure that the US banknotes are redeemable for physical gold at the designated rate at the Fed. (3) If the banks of the Fed system fail to comply with peoples' exchange requests, the exchange must be made by the US Treasury, and in return, the Treasury takes the Fed's bank assets as collateral.

[1] See https://www.moneymetals.com/uploads/content/HR-9157-Gold-Standard-Restoration-Act----Alex-Mooney.pdf.
[2] We reported on this in the **Degussa Market Report, US States Are Leading the Way: Gold and Silver as Competing Means of Payment Against the US Dollar, September 14, 2018**.

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



Source: Refinitiv; graphs Degussa.

The *third section* specifies how a "fair" gold price in US dollar can develop in an orderly manner within 30 days after the bill has taken effect. To this end, (1) the U.S. Treasury and the Fed must publish all of their gold holdings, disclosing all purchases, sales, swaps, leases, and all other gold transactions that have taken place since the "temporary" suspension of the redeemability of the US dollar into gold on August 15, 1971 under the Bretton Woods system Agreement of 1944. In addition, (2) the U.S. Treasury and the Fed must publicly disclose all gold redemptions and transfers in the 10 years preceding the "temporary" suspension of the US dollar's gold redemption obligation on August 15, 1971.

What to make of this?

The bill's core is the idea of re-anchoring the US dollar to physical gold based on a fair gold price freely determined in the market. [By the way, this is an idea put forward by the economist Ludwig von Mises (1881–1973) in the early 1950s.[3]] To establish such a "fair" gold price, the public should be given full insight into the existing official US gold holdings available for the intended gold backing. To allow the market to do its job properly, gold buyers and sellers indeed need information about the amount of physical gold in the hands of the US Treasury and the Fed and also the quality of their gold, namely its fineness – a detail that unfortunately does not (yet) appear in the draft legislation. The bill refers to US banknotes. However, banknotes only comprise a (fractional) part of the total US dollar money supply. But since US bank deposits can be redeemed (at least in principle) in US banknotes, not only US dollar cash (coins and notes) could be exchanged for gold, but also the money supply M1 or M2 as time and savings deposits could be exchanged for sight deposits. Sight deposits, in turn, could be withdrawn in cash by customers, and the banknotes could then be exchanged for gold at the Fed.

As of August 2022, the stock of US cash ("currency in circulation") amounted to 2,276.3 billion US dollar. Assuming that the official physical gold holdings of the US Treasury amount to 261.5 million troy ounces, and the market expected US cash to be backed by the official US gold stock, a gold price of about 8.700 US dollar per troy ounce would result. This would correspond to a 418 per cent increase compared to the current gold price of 1.680 US dollar. If, however, the market were to expect the entire US money supply M2 to be covered by the official US gold stock, then the price of gold would move towards 83.000 US dollar per troy ounce – an increase of 4.840 per cent compared to the current gold price. Needless to say, such an appreciation of gold has far-reaching consequences.

All goods prices in US dollar can be expected to rise (perhaps to the extent that the price of gold has risen). After all, the purchasing power of the owners of gold has increased significantly. Therefore, they would be expected to use their increased purchasing power to buy other goods (such as consumer goods, but also stocks, houses, etc.). If this happens, the prices of these goods in US dollar will be pushed up – and the initial purchasing power gain that the gold dollar holders have enjoyed by being tied to the increased gold price will melt away. Moreover, if US banks were willing to accept additional gold from the public in exchange for issuing new US dollar, re-anchoring the US dollar in gold would increase the upward price effect.

That said, with the re-anchoring of the US dollar in the US official gold stock, a far-reaching redistribution of income and wealth must be expected. In fact, it would be fatal for the outstanding US dollar debt: US dollar goods prices would rise, caused by a rise in the US dollar gold price at which the US dollar is redeemable for physical gold, thereby eroding the US dollar's purchasing power. What is more, in the foreign exchange markets, the US dollar would probably appreciate

[3] See Mises, L. v. (1953), The Theory of Money and Credit, pp. 435, esp. 449.

drastically against those currencies that are not backed by gold and against currencies which are backed by gold not as fine compared to the fineness of the gold backing of the US dollar. The purchasing power of the US dollar abroad would increase sharply, while the US export economy would suffer. US goods would become correspondingly expensive abroad, while foreign companies gain high price competitiveness in the US market.

These considerations may suffice to indicate how far-reaching (re-)pegging the US dollar to the US official gold holdings would be. Be that as it may, the bill would undoubtedly bring "better" or "sound" money. After all, with a gold-backed US dollar, which is publicly accepted and set into stone (a.k.a. law), the money supply can no longer be increased through political arbitrariness. Once the US dollar is re-anchored in gold, today's chronic inflation will end; monetary policy-induced boom-and-bust cycles will come to an end; the world will become more peaceful because financing a war in a gold-backed monetary system will be very expensive, and the general public will most likely not want to bear its costs.

There is no doubt that the "Gold Standard Restoration Act" as proposed by Mr Mooney will, if put into law, bring a gold-backed currency to the people of the US (and all those who hold US dollar), and this is certainly to be welcomed for economic and social-political reasons. However, there is still room for improvement. The idea of having a "Gold Standard Restoration Act" would deserve unconditional support if and when it paves the way towards a truly "free market for money". What does that mean? A free market in money means that you and I have the freedom to choose the kind of money we believe serves our purposes best; and that people are free to offer their fellow human beings a good that they voluntarily choose to use as money.

In a truly free market, people will choose the good they want to use as money. Physical gold has, and there should be little doubt about that, a pretty good chance of becoming money, that is the universally accepted means of payment – taking a look at monetary history strongly suggests this. Of course, crypto units can also be expected to compete for becoming money.

Most importantly, in a truly free market in money, the state (as we know it today) loses its influence on money and money production altogether. In fact, the state (and the special interest groups that exploit the state) no longer determine which kind of gold (coins and bars or cast or minted gold) can be used as money; the state is no longer active in the minting business and cannot monopolize it anymore; there is no longer a state-controlled central bank to intervene in the credit and money markets and influence market interest rates. That said, let us hope that the "Gold Standard Restoration Act" proposed by Mr Mooney will pave the way to reforming the US dollar currency system – and that it will eventually move us towards a truly free market in money.

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PRECIOUS METALS PRICES

In US-Dollar per ounce

	Gold		Silver		Platinum		Palladium	
I. Actual	**1671,2**		**19,2**		**886,2**		**2115,7**	
II. Gliding averages								
10 days	1686,2		19,9		896,6		2230,6	
20 days	1675,5		19,5		897,0		2176,8	
50 days	1718,8		19,4		896,2		2140,8	
100 days	1756,3		20,0		906,5		2050,4	
200 days	1821,5		21,9		955,6		2172,0	
III. Estimates for autumn 2023	**2200**		**28**		**1070**		**2261**	
(1)	*32*		*46*		*21*		*7*	
Band width	*Low*	*High*	*Low*	*High*	*Low*	*High*	*Low*	*High*
	1800	2398	21,0	31,0	830	1280	1650	2400
(1)	*8*	*43*	*10*	*62*	*-6*	*44*	*-22*	*13*
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	**1723,9**		**19,8**		**914,2**		**2182,5**	
II. Gliding averages								
10 days	1722,9		20,3		916,1		2279,1	
20 days	1705,0		19,9		912,6		2215,1	
50 days	1722,0		19,5		897,9		2145,6	
100 days	1722,8		19,6		889,2		2015,1	
200 days	1718,6		20,6		900,7		2049,3	
III. Estimates for autumn 2023	**2281**		**29**		**1110**		**2345**	
(1)	*32*		*47*		*21*		*7*	
Band width	*Low*	*High*	*Low*	*High*	*Low*	*High*	*Low*	*High*
	1867	2487	21,8	32,1	860	1320	1710	2480
(1)	*8*	*44*	*10*	*63*	*-6*	*44*	*-22*	*14*
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.

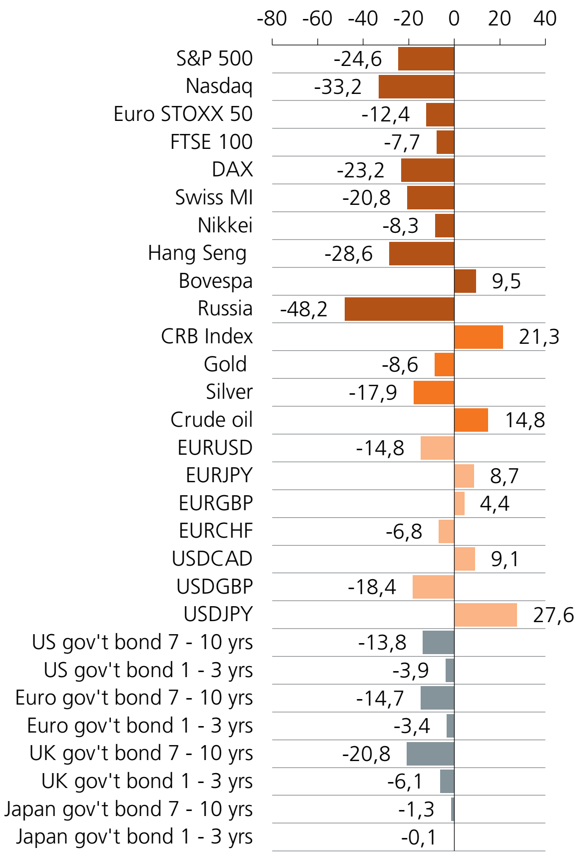
BITCOIN, PERFORMANCE OF VARIOUS ASSET CLASSES

Bitcoin in US dollars

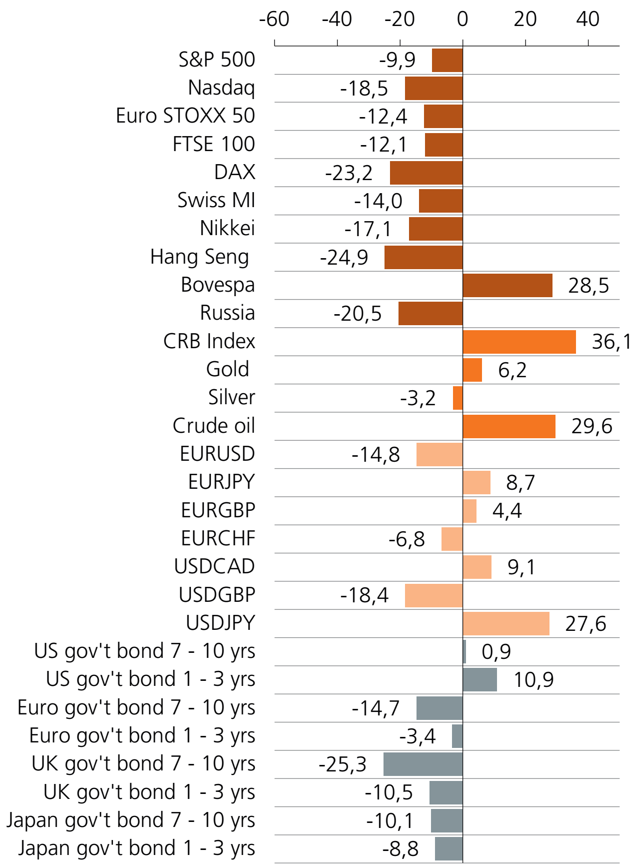
Source: Refinitiv; graph by Degussa.

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*

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www.degussa-goldhandel.de/de/marktreport.aspx.

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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 October 2022
Publisher: Degussa Goldhandel GmbH, Kettenhofweg 29, 60325 Frankfurt, Tel.: (069) 860068-0, Fax: (069) 860068-222
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