

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	1.666,6	-1,7	-7,8	-6,5
Silver	19,5	-3,0	-3,7	-18,2
Platinum	952,7	4,5	6,6	-6,4
Palladium	1.963,5	-10,0	1,4	-1,9
II. In euro				
Gold	1.654,9	-4,8	-3,9	7,4
Silver	19,4	-6,1	0,2	-6,2
Platinum	946,7	1,1	11,2	7,6
Palladium	1.942,0	-13,7	5,1	12,2
III. Gold price in other currencies				
JPY	244.151,0	-0,8	-0,4	20,1
CNY	11.950,9	-0,8	-1,2	4,7
GBP	1.435,1	-6,1	-3,2	10,2
INR	136.556,3	1,9	-4,3	2,2
RUB	102.076,8	-0,7	7,6	-19,2

Source: Refinitiv; calculations by Degussa.

OUR TOP ISSUES

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

FASTEN YOUR SEATBELT: THE FED REPLACES MONETARY INFLATION WITH MONETARY DEFLATION

Investors are holding their breaths, trying to gauge what the Fed's rate hike cycle could mean for the US economic and financial system. The central question is: How high will US interest rates rise? And when will the Fed cut interest rates again? It is widely expected among financial market investors that the Fed is serious about reducing inflation. As a result, the federal funds rate is widely expected to move towards 4.5 or even 5 per cent in the coming months.

What is often overlooked is that rather restrictive developments are already underway and might force the Fed to pause sooner rather than later. First, sky-high consumer goods price inflation in the US causes a "negative real balance effect" that reduces consumer and business demand. Simply speaking, a rise in goods prices reduces the purchasing power of private households and firms, translating into lower overall demand and easing the upward pressure on goods prices going forward. This effect can be illustrated by looking at the US money stock M2 expansion in real terms.

1 Real money supply shrinks

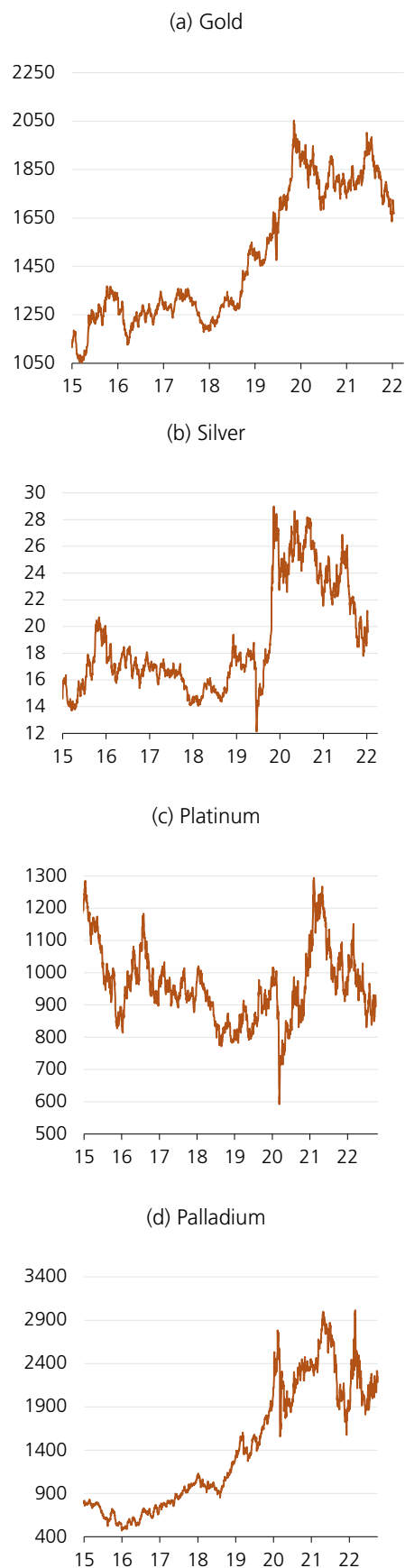
Annual increase in US real money stock M2* in per cent



Source: Refinitiv; calculations Degussa. *Nominal M2 adjusted for US CPI.

The chart above shows that the annual increase of the real money stock M2 in the US has turned negative. In fact, it has never been this negative in the period under review, not even during the global financial crisis of 2008/2009. It puts a

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



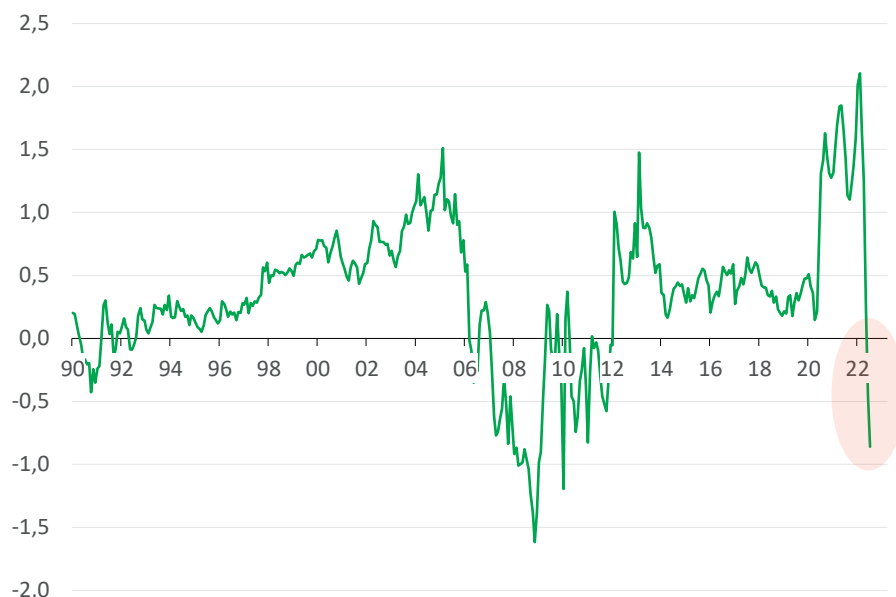
Source: Refinitiv; graphs Degussa.

massive strain on economic expansion, and it may also cause stress for the financial system. Because a contraction of the real money stock, accompanied by higher interest rates, will make it much harder for borrowers to service their debt, especially when the economy goes into recession.

Another indication that monetary conditions are tightening significantly is the price development in the US housing market. The chart below shows the monthly changes in the Shiller house price index. In August 2022, US house prices contracted by 0.9 per cent month-on-month, following a decline of 0.5 per cent month-on-month in July. Suppose the price decline develops into a fully-blown housing market crash – which is what further monetary policy tightening would most likely do – it could become quite turbulent as far as the economic and financial system are concerned.

2 US house prices on the decline

Monthly change in Shiller US house prices in per cent



Source: Refinitiv; calculations Degussa.

That said, there is reason for the savvy investor to be concerned given the outlook that the Fed wants to keep tightening policy further by raising interest rates and shrinking its balance sheet. In any case, it should be clear that the monetary policy that led to the current record inflation in the first place – namely, the Fed's increase of M2 by around 40 per cent since the beginning of 2020 – cannot be undone without incurring high costs in terms of output and employment losses.

The US economy – and the same holds true for other currency areas – faces a rather unpleasant trade-off: How much of a recession is acceptable to bring down inflation? How much longer is elevated inflation acceptable to preserve production and jobs? In the 1980s, the Fed crushed inflation over many years, causing a deep recession. Nowadays, however, the situation has become more difficult as the overall debt level of the economy has become much higher: A severe recession would risk a breakdown of the prevailing financial system.

That said, the risk profile investors have to deal with ranges from “prolonged higher inflation” to “deep recession” and even “financial system breakdown”. If such an account is accurate, one really has to wonder why gold (and silver) have been trading at such depressed levels for quite some time when measured against the expansion of the (real) money stock, for instance. As the chart below shows,

the US money stock and the price of gold have been trending on the same wave-length, even though there were some under- and overshoots of the price of gold versus the money stock along the way.

3 Gold price appears to be 'undervalued'

US money stock M2 (USD bn) and gold price (USD/oz)



Source: Refinitiv.

It is not entirely out of the question that the Fed will succeed in bringing down inflation without triggering a severe recession or even a "system crash". But experience suggests caution. Especially if the Fed replaces monetary inflation with monetary deflation, as the latest data suggest. Against this backdrop, the finding that the gold price is lagging behind the increase in the money stock should be taken as an indication that the yellow metal is undervalued and offers investors an attractive opportunity with very good chances of proving itself risk-reducing and return-enhancing for the portfolio.

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PRECIOUS METALS PRICES

In US-Dollar per ounce

	Gold		Silver		Platinum		Palladium	
I. Actual	1665,8		19,5		951,6		1963,3	
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		44		12		15	
<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>
	1800	2398	21,0	31,0	830	1280	1650	2400
⁽¹⁾	8	44	8	59	-13	35	-16	22
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	1655,5		19,4		945,7		1951,2	
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⁾	38		50		17		20	
<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>
	1867	2487	21,8	32,1	860	1320	1710	2480
⁽¹⁾	13	50	12	66	-9	40	-12	27
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

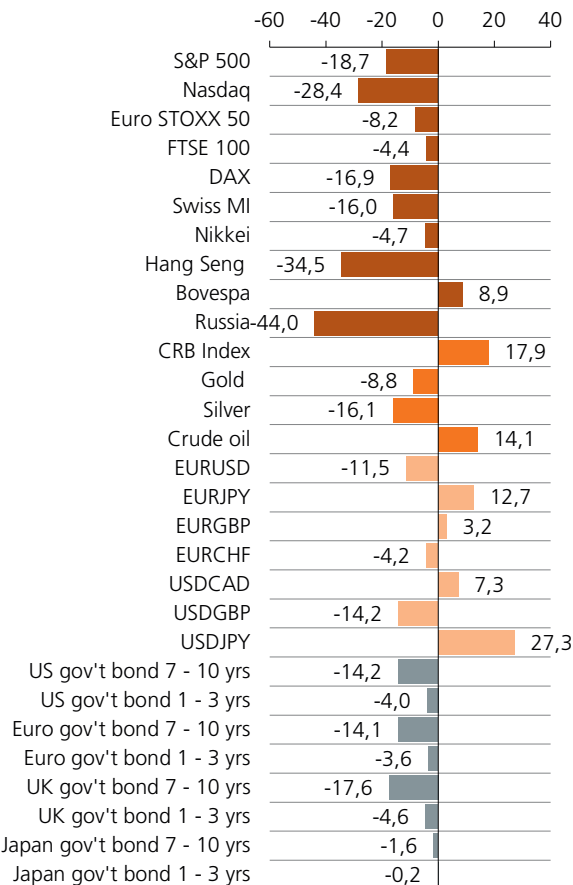
Bitcoin in US dollars



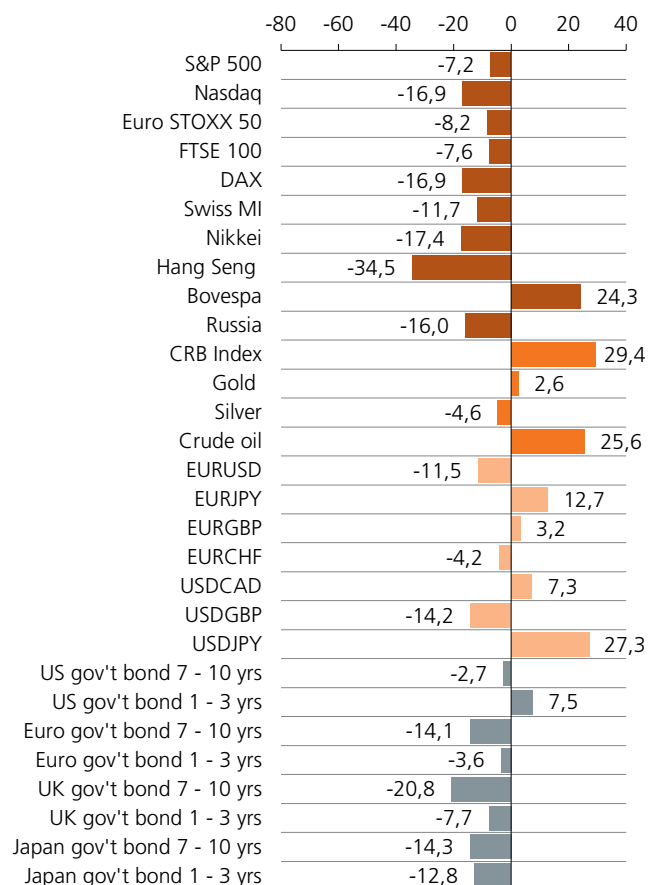
Source: Refinitiv; graph by Degussa.

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
27 October 2022	Fasten Your Seatbelt: The Fed Replaces Monetary Inflation With Monetary Deflation
13 October 2022	Proposal in the US Congress: Reintroduction of Gold Backing For the US Dollar
29 September 2022	Capital Markets Have Become A Dangerous Place
15 September 2022	Inflation, High Inflation, Hyperinflation
1 September 2022	Everything you always wanted to know about ... MONEY (but were afraid to ask)
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
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8 September 2021	It All Depends On The Fed's 'Safety Net'
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15 July 2021	Gold and the Monetary Policy Empire of Deception
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6 May 2021	The Dark Side of the Yield Curve Control Policy
22 April 2021	Bitcoin and the Golden Opportunity

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