Degussa Market Report

10 November 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	1.711,8	3,3	-3,0	-3,5
Silver	21,4	10,2	5,2	-6,2
Platinum	993,9	6,6	10,8	6,4
Palladium	1.894,7	-6,1	-11,0	9,0
II. In euro				
Gold	1.708,0	1,7	-1,1	9,2
Silver	21,3	8,6	7,3	6,1
Platinum	988,3	4,7	12,6	19,5
Palladium	1.891,0	-7,5	-9,2	23,3
III. Gold price in other currencies				
JPY	250.707,0	2,5	6,6	24,9
CNY	12.400,7	3,4	4,2	9,9
GBP	1.502,6	2,5	3,6	12,7
INR	139.236,2	1,9	-0,6	4,5
RUB	103.177,5	2,7	-2,2	-21,2

Source: Refinitiv; calculations by Degussa.

OUR TOP ISSUES

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

INVESTING IN AN INFLATIONARY REGIME: KEEP AT LEAST SOME GOLD

Sky-high goods price inflation is here to stay. Unfortunately, this situation is not temporary but permanent in nature, one has to fear. While central banks have started raising interest rates, real interest rates (i.e. nominal interest rates minus goods price inflation) have remained deep in negative territory. And central banks are unlikely to increase (real) interest rates up to levels that will put sufficient downward pressure on overall goods price inflation. The reasons for such an outlook are manifold.

In mid-2022, global debt reached a record USD 300 billion, or around 350 per cent of global GDP. Most of the debt has been financed at record-low interest rates, and it is reasonable to assume that the credit pyramid would collapse should interest rates (in real terms) rise much further. In fact, the massive debt load puts an upper lid on interest rates central banks can impose on highly leveraged borrowers.

Then there is the runaway deficit spending of many governments – linked to the aftermath of the politically-dictated lockdown crisis, “green policy” and energy crisis. The growing gap between government spending and revenue is enormous and financed by issuing new debt. Needless to say, governments want very low borrowing costs – a demand central bankers cannot and will not resist.

While sky-high inflation has already become a serious problem for most people, it is actually rather helpful for the state apparatus for several reasons. If central banks keep nominal interest rates below the inflation rate, government debt is reduced in real terms – at the expense of money holders and creditors. In fact, negative real interest rates are a blessing for cash-strapped governments .

Inflation also helps the state to grow even bigger. Politicians will come to the rescue of any problem caused by inflation. When inflation leads to an economic contraction, the government stands ready to increase deficit spending. When inflation puts people in need, the government stands ready to hand out food stamps. When inflation makes energy and food prices unaffordable, the government rushes to impose price ceilings.

The truth is that inflation – unless it spins completely out of control – is an elixir of government expansion, which means the state grows at the expense of the freedom and liberty of the people and free enterprise. And it is very difficult to stop inflation, especially sky-high inflation, once it begins. This is what makes inflation so particularly problematic. What can the investor do about it? It is fair to say that it is rather difficult to escape the effects of inflation.

For instance, many businesses suffer from inflation. Inflation reduces people’s purchasing power, which, in turn, leads to a decline in the demand for many

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

(a) Gold

(b) Silver

(c) Platinum

(d) Palladium

Source: Refinitiv; graphs Degussa.

products. As a result, not all stocks will provide the investor with an 'inflation hedge'. What is more, inflation increases the maintenance costs for real estate, which can all too easily make housing investments less attractive if rents cannot be increased accordingly.

It is also worth noting that inflation typically affects different goods prices at different times and to different degrees. Therefore, investing in an inflationary regime becomes a rather tricky business that offers opportunity but also many risks. The obvious thing for investors to do is to minimize their cash holdings (as cash will lose more and more of its value). It also makes sense to seek a broad portfolio diversification, for example, in equities, real estate and commodities worldwide.

Finally, the investor should hold physical gold and silver as part of their liquid means. These precious metals can be considered "close money substitutes", and their purchasing power cannot be debased by central banks keeping real interest rates negative and running the electronic printing presses. Given the current gold and silver prices, we see a fairly good opportunity for long-term oriented investors to build up and expand their precious metals holdings.

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PRECIOUS METALS PRICES

In US-Dollar per ounce

	Gold		Silver		Platinum		Palladium	
I. Actual	**1711,6**		**21,4**		**994,5**		**1894,1**	
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)	*29*		*31*		*8*		*19*	
Band width	*Low*	*High*	*Low*	*High*	*Low*	*High*	*Low*	*High*
	1800	2398	21,0	31,0	830	1280	1650	2400
(1)	*5*	*40*	*-2*	*45*	*-17*	*29*	*-13*	*27*
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

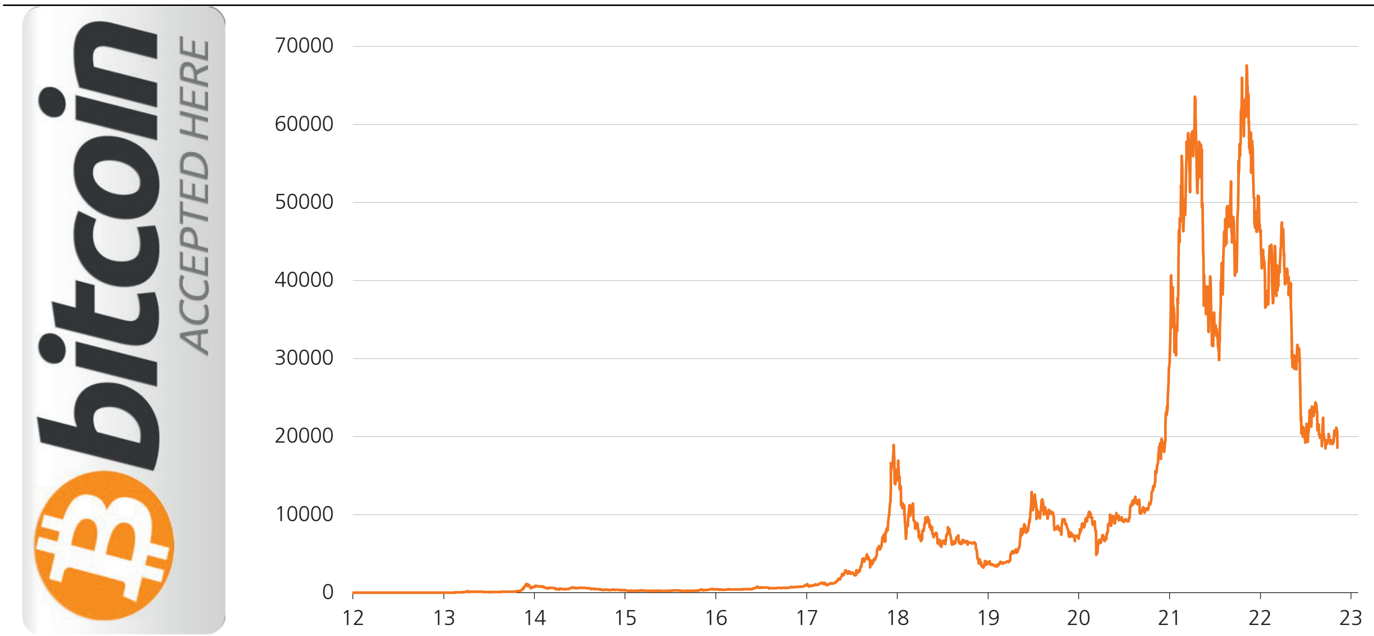
	Gold		Silver		Platinum		Palladium	
I. Actual	**1708,2**		**21,3**		**992,5**		**1890,3**	
II. Gliding averages								
10 days	1722,9		20,3		916,1		2279,1	
20 days	1705,0		19,9		912,6		2215,1	
50 days	1722,0		19,5		897,9		2145,6	
100 days	1722,8		19,6		889,2		2015,1	
200 days	1718,6		20,6		900,7		2049,3	
III. Estimates for autumn 2023	**2281**		**29**		**1110**		**2345**	
(1)	*34*		*36*		*12*		*24*	
Band width	*Low*	*High*	*Low*	*High*	*Low*	*High*	*Low*	*High*
	1867	2487	21,8	32,1	860	1320	1710	2480
(1)	*9*	*46*	*2*	*51*	*-13*	*33*	*-10*	*31*
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

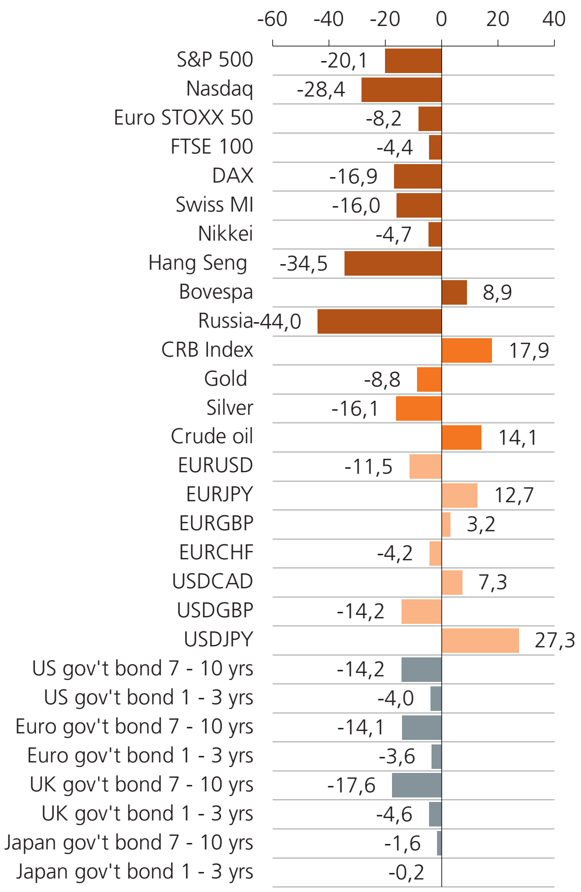
Bitcoin in US dollars



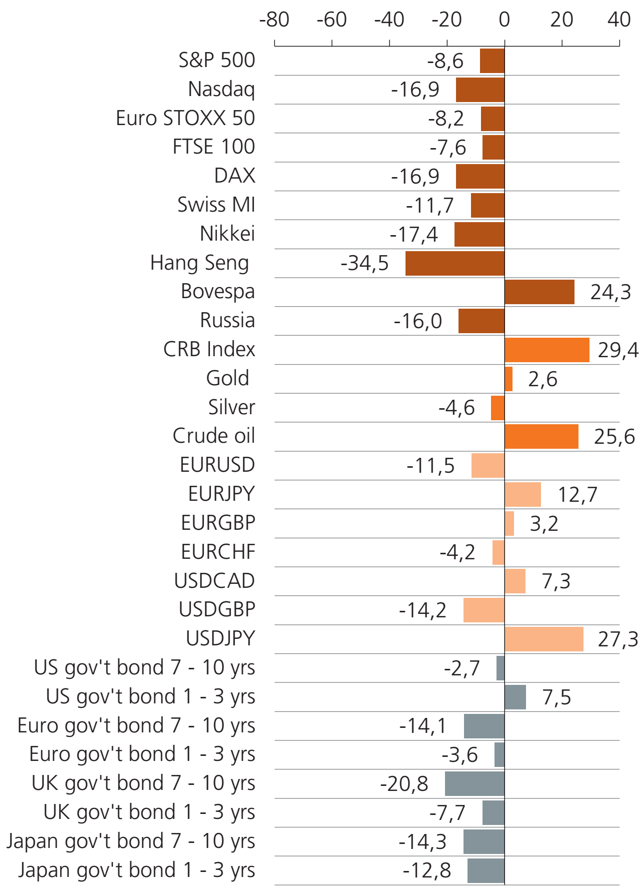
Source: Refinitiv; graph by Degussa.

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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GOLD UND SILBER.

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