

## 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
<b>I. In US-dollar</b>				
Gold	1.754,4	4,4	-0,6	-1,1
Silver	21,5	3,2	5,8	-5,7
Platinum	991,7	3,2	10,6	6,1
Palladium	1.894,3	1,7	-11,0	9,0
<b>II. In euro</b>				
Gold	1.683,5	-0,2	-2,5	7,6
Silver	20,6	-1,5	3,6	2,4
Platinum	951,9	-1,3	8,5	15,1
Palladium	1.818,0	-3,1	-12,7	18,5
<b>III. Gold price in other currencies</b>				
JPY	243.721,0	-1,1	3,6	21,5
CNY	12.535,8	3,8	5,3	11,1
GBP	1.451,8	-1,7	0,1	8,9
INR	143.374,0	1,9	2,4	7,6
RUB	105.935,0	3,3	0,4	-19,1

Source: Refinitiv; calculations by Degussa.

## OUR TOP ISSUES

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

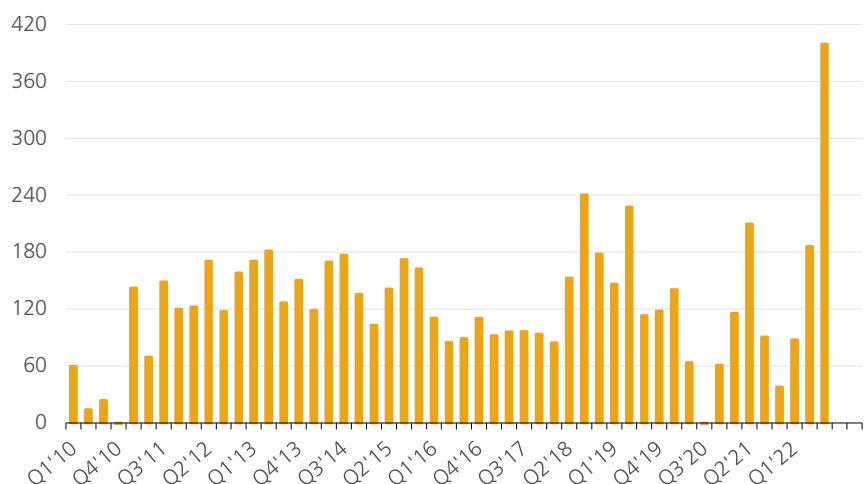
## SOME THOUGHTS ABOUT CENTRAL BANKS' RENEWED INTEREST IN GOLD

### Central banks are rediscovering gold, right?

In the third quarter of 2022, central banks and monetary authorities around the world purchased 399.3 tons of gold. This was a whopping 341 per cent increase over the same quarter last year. Most notably, it was also the largest amount bought by central banks/monetary authorities since 2000. This brings the total volume purchased by this group of buyers from Q1 to Q3 2022 to 673 tons – the largest annual volume since 1967. The buyers listed by the World Gold Council were the Central Bank of Turkey with 31 tons, the Central Bank of Uzbekistan with 26 tons, the Central Bank of India with 17 tons and the Central Bank of Qatar with 15 tons. Interestingly, the World Gold Council leaves the other central banks on the buying side unnamed – after all, the purchases mentioned do not explain the entire purchase volume; “Western central banks” were not listed.

### 1 Large gold demand on the part of central banks

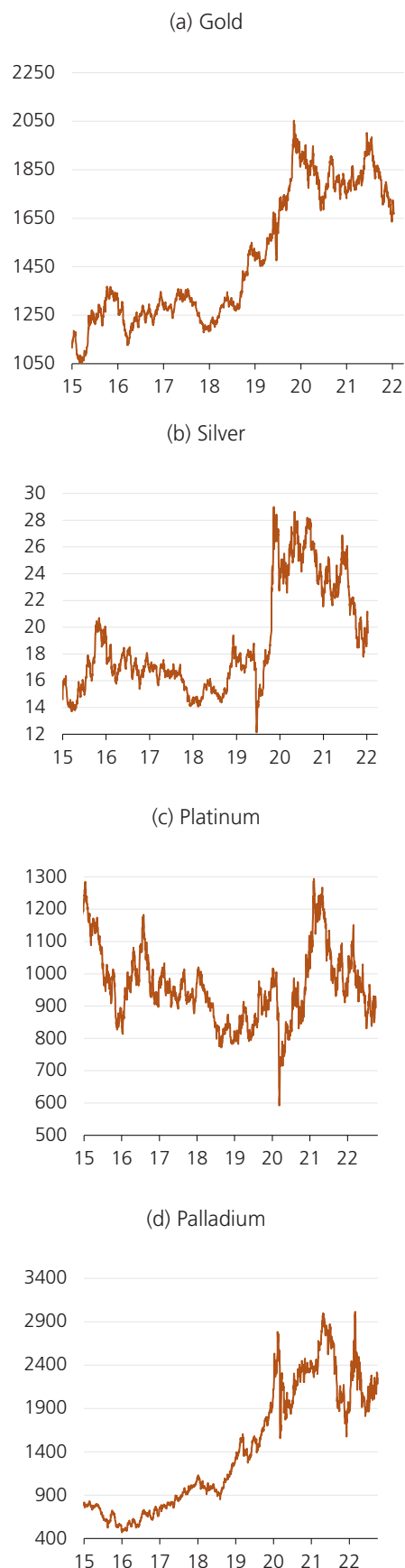
Gold demand in tons



Source: World Gold Council; graph Degussa. Last data point: Q3 2022.

One can speculate: Perhaps the central bank of Russia was a very important gold buyer in the past quarter. With Russia locked out of global capital markets, it stands to reason that the Kremlin swapped energy and commodity export revenues denominated in US dollars and euros for physical gold. Possible trading partners would have been Turkey, India and, above all, China. For example, a quantity of 200 tons of gold currently has a market value of around 11 billion US dollars.

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



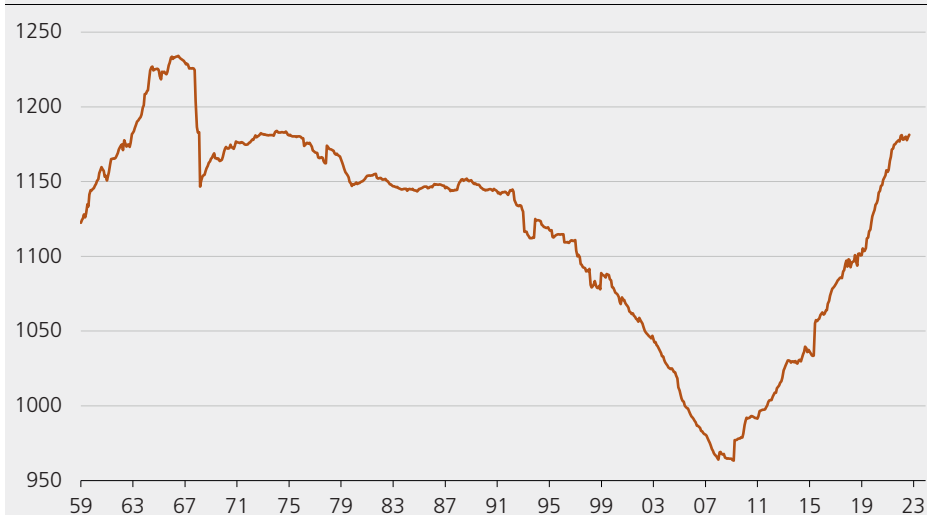
Source: Refinitiv; graphs Degussa.

An amount that the Russian state treasury can most likely handle without any problems: In September 2022 alone, Russian income from oil exports amounted to 15.3 billion US dollars. However, assuming that not only the central bank of Russia but also other (non-Western) central banks have increased their demand for gold raises some questions.

### WORLDWIDE CENTRAL BANKS HAVE BEEN BUYING ON GOLD FOR A LONG TIME

To avoid misunderstandings: The central banks worldwide have been restocking their gold reserves since the beginning of 2009. As the chart below shows, central banks (as a whole) had been systematically reducing their gold positions since around the mid-1970s. Since the spring of 2009 (in the wake of the global financial and economic crisis), however, this development has reversed: The monetary authorities have been building up their gold positions again. As of September 2022 (latest data point available), central banks' gold reserves were 1,181.4 million troy ounces, the highest level since February 1975.

Gold reserves of central banks, million ounces



Source: Refinitiv; graph Degussa. Last data point: Sep '22.

### Many open questions

*What's behind the significant appreciation of gold by central banks/monetary authorities?* Many (non-Western) central banks probably want to diversify their currency reserves more than before, thereby reducing their dependency on the US dollar in particular. Why? On the one hand, a further loss of purchasing power is feared for the greenback – as is the case with other western currencies such as the euro, pound sterling, and the Canadian dollar. On the other hand, political risks are being reassessed: The “freeze” on Russian currency reserves has made it clear to many investors that the US is using the US dollar for political purposes, allowing US dollar investments held by foreigners to be confiscated by the US administration. Holding physical gold is not subject to such risks; it is virtually the natural currency reserve.

*Is the status of the US dollar as the world reserve currency really at risk?* Despite all the prophecies of doom, the US dollar is still the most important currency in the world. Large firms and investors cannot avoid holding US dollars to conduct financial and commercial transactions. However, the US dollar's position is not set in stone. As mentioned above, many central banks and investors seem increasingly inclined to limit or reduce their US dollar exposure. A trend that is very likely

to continue in the coming years. It definitely applies to the so-called BRICS (Brazil, Russia, India, China and South Africa), but also to various other smaller countries, and it is likely that their growing scepticism also applies to other Western currencies such as the euro, Japanese yen, pound sterling, Canadian dollar, Swiss franc – all of which are ultimately under the thumb of the US.

*Does the central bank's high demand for gold reflect the aspirations of some countries to create a gold currency?* Speculations about a new currency that Russia and/or the BRICS countries could launch have received sustained and justifiably widespread attention in recent months. Undoubtedly, a new currency could indeed be a far-reaching turning point for the status quo in the international credit and monetary system: It could become a challenge to "US dollar dominance". However, there are many hurdles to overcome when creating a new currency. For example, the acceptance of a new currency would probably not be gained overnight; it would take time.

However, it is questionable whether such a currency basket would be a qualitative improvement compared to the US dollar. Because it would be inflationary, as the underlying national fiat currencies would be inflationary. However, a gold-backed basket currency could be a rather promising option – and would certainly be desirable for private citizens and entrepreneurs. Assuming that the BRICS and their followers would agree on a new currency-based gold currency – how would that work, how *could* that work?

The devil is in the detail. The participating countries could cover their outstanding money supply (e.g. in the definition of the M1 money supply) with the official gold reserves that their respective central banks have stored in their basements. After that, the national money supplies only increase if the physical gold supply increases – through mining new money and/or the inflow of gold from abroad made available for monetary purposes. New (and fixed) exchange rates emerge between currencies backed by gold: Currencies backed by comparatively large amounts of gold appreciate against those that have comparatively little gold-backing; and these gold-backed currencies would appreciate (strongly) against those (Western) currencies with no gold backing.

National gold currencies would emerge, and none of them would be large enough in volume to serve as an international transaction unit. However, then it is possible to establish a currency basket consisting of the gold-backed currencies BRL, RUB, INR, CNY and RAN. In this case, the participating central banks would have the task of maintaining the agreed parity of their currencies against gold. The currency basket could then be given a name (such as, say, "XAU") and serve as a transaction medium, unit of account and store of value.

Whether a gold currency would really be in the political interests of the countries mentioned is worth asking – after all, it is a fact that governments prefer unbacked paper money because it can be used for political purposes. A gold currency limits the "monetary manoeuvring space" for any government. That said, it is obvious that competing with the US dollar will not be easy. What is more, the considerable shock (recession) to the financial and economic structure built in the fiat money regime likely caused by a transition to a gold currency must also be taken into account.

*Why is it actually so difficult to turn away from the greenback?* The US dollar was a precious metal currency by the Coinage Act of 1792. It was not until the early 1970s, when the Bretton Woods system, which was in effect from 1945 to 1971, was ended that it lost its redeemability into gold. Nevertheless, the US dollar has

remained the world's leading currency, and it still enjoys a high level of acceptance as a means of payment almost everywhere in the world. This does not come as a surprise: The US dollar has been the currency of the world's largest and militarily strongest economy; no other currency comes close to this status. In addition, many other currencies are actually based on the US dollar.

In this light, the current global monetary system can be described as a US-dollar-centric standard that cannot simply be shaken off overnight. The renewed interest of many non-western central banks in gold is, therefore, presumably primarily due to a change in currency reserve management: greater diversification is the main goal. They want to limit, perhaps even reduce, their US dollar, euros & co-exposure as far as official reserves are concerned. At the same time, non-western central banks want to limit the political risk that the US will use the US dollar and other Western currencies in its "financial warfare" to support US interests.

*Will international trade be affected if the US dollar becomes less attractive?* One might think that going forward, exporting nations could use their Greenback export earnings to buy US commodities, raw materials, and intermediate products and ship them from the US to their home turf. In other words, foreign countries would then no longer willingly finance US consumption and investment. It would cost the US dearly: Goods would become increasingly scarce in the US, their prices would rise, interest rates would go up, and asset prices would fall. America's material standard of living would decline (perhaps drastically).

#### **POTENTIAL FOR A MAJOR CRISIS**

Such a setback for the US welfare would, of course, have a huge impact on almost all other economies in the world. It could lead to a major adjustment crisis, even a system crash. It could cause the debt-fuelled fiat money system to collapse. Many borrowers would suddenly be unable to service their debts. The political incentives to avert the collapse of the financial and economic system by running the electronic printing press would increase enormously – and it could all end in high inflation, perhaps even hyperinflation.

Even these few considerations suggest that the price for the political goal of breaking the US dollar dominance (by all means and in the short term) could be very high for everyone involved. However, the apparent instability of the global fiat currency system may already be enough to reignite interest in gold. Some central banks now seem to be recognizing this more and are increasingly betting on gold again. This is, of course, revealing: It shows that the monetary authorities themselves do not trust the money their fellow central banks issue, do not consider it sufficiently reliable, and instead, prefer holding gold.

While the gold price development since March 2022 may have disappointed many investors – the price of the yellow metal fell from USD 2052/oz to around USD 1750/oz in November 2022 – there are still good reasons to continue to focus on the insurance function of gold, to bet on gold. The growing imbalances in the international credit and monetary architecture recommend holding at least part of the liquid portfolio in physical gold (and silver): The purchasing power of the precious metal cannot be devalued by monetary policy, and it – unlike bank deposits – is not subject to default risk. In our view, the current price of gold and silver are attractive for long-term investors looking to build up and expand positions in precious metals.

## PRECIOUS METALS PRICES

In US-Dollar per ounce

	Gold		Silver		Platinum		Palladium	
<b>I. Actual</b>	<b>1754,3</b>		<b>21,5</b>		<b>991,2</b>		<b>1888,8</b>	
II. Gliding averages								
10 days	1663,2		20,1		955,3		1875,9	
20 days	1657,1		19,5		932,3		1940,3	
50 days	1674,4		19,3		905,2		2064,6	
100 days	1717,2		19,5		899,4		2052,0	
200 days	1804,8		21,5		948,3		2158,8	
<b>III. Estimates for autumn 2023</b>	<b>2200</b>		<b>28</b>		<b>1070</b>		<b>2261</b>	
<sup>(1)</sup>	25		30		8		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>
<sup>(1)</sup>	1800	2398	21,0	31,0	830	1280	1650	2400
	3	37	-2	44	-16	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	
<b>I. Actual</b>	<b>1684,3</b>		<b>20,6</b>		<b>951,6</b>		<b>1813,3</b>	
II. Gliding averages								
10 days	1674,4		20,2		961,7		1888,6	
20 days	1675,7		19,7		942,6		1962,6	
50 days	1695,0		19,6		916,3		2090,6	
100 days	1710,3		19,4		896,2		2045,6	
200 days	1726,3		20,5		906,7		2064,0	
<b>III. Estimates for autumn 2023</b>	<b>2281</b>		<b>29</b>		<b>1110</b>		<b>2345</b>	
<sup>(1)</sup>	35		41		17		29	
<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>
<sup>(1)</sup>	1867	2487	21,8	32,1	860	1320	1710	2480
	11	48	5	56	-10	39	-6	37
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.

<sup>(1)</sup> On the basis of actual prices.

# BITCOIN, PERFORMANCE OF VARIOUS ASSET CLASSES

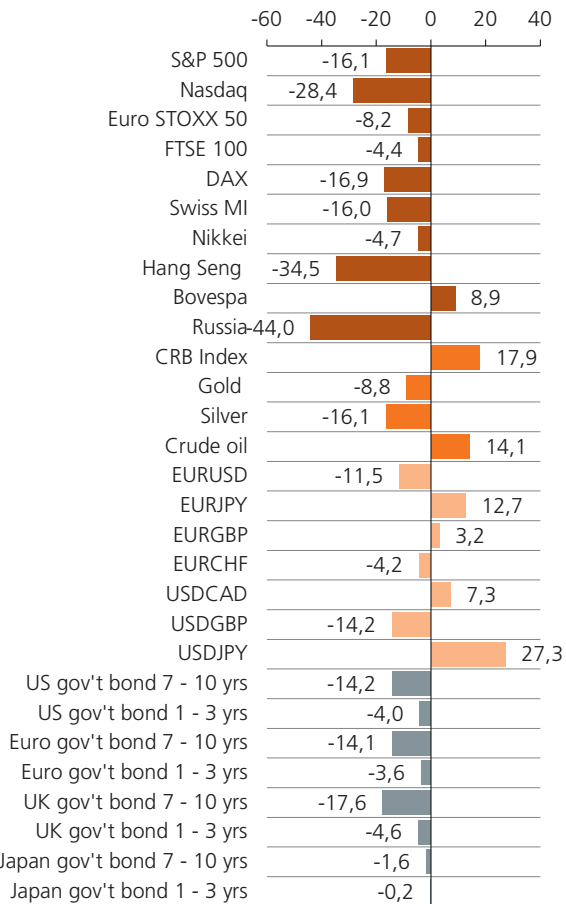
## Bitcoin in US dollars



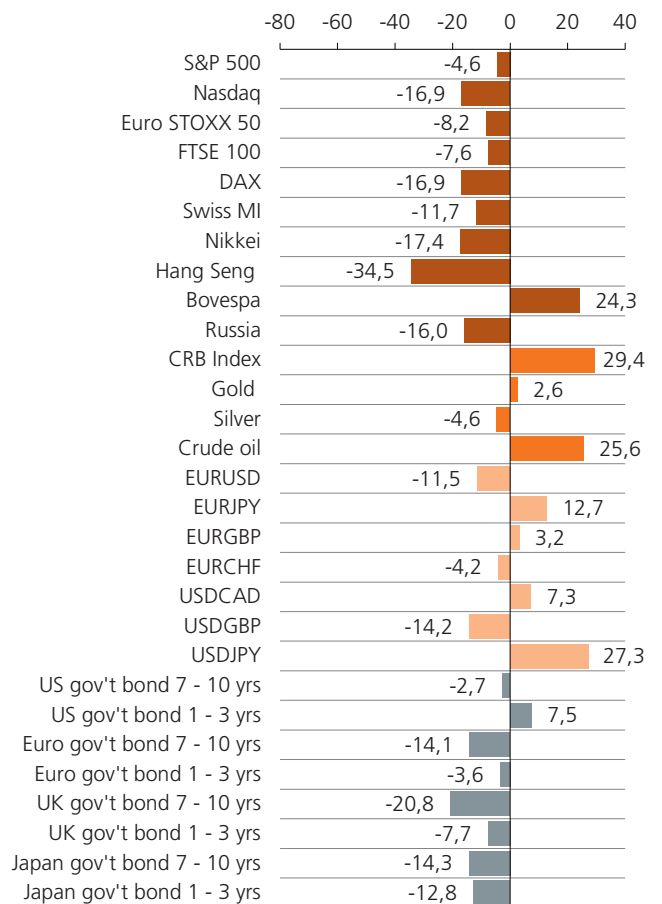
Source: Refinitiv; graph by Degussa.

## 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
24 November 2024	Some Thoughts About Central Banks' Renewed Interest In Gold
10 November 2022	Investing In An Inflationary Regime: Keep At Least Some Gold
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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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
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1 July 2021	Investors believing the impossible, making the price of gold falter
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20 May 2021	The Price Correction In The Crypto Space Is Not The End ...

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