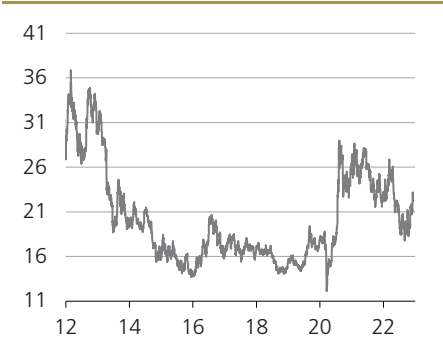


USD per ounce of gold



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	1.786,5	2,1	4,4	-2,3
Silver	22,7	8,7	26,5	-2,3
Platinum	1.002,7	2,6	18,5	4,2
Palladium	1.850,4	-4,5	-11,2	-2,2
II. In euro				
Gold	1.699,9	0,3	0,0	5,7
Silver	21,6	6,8	21,1	5,7
Platinum	953,9	0,8	13,7	12,7
Palladium	1.760,0	-6,2	-15,1	5,8
III. Gold price in other currencies				
JPY	243.787,0	-0,7	2,6	15,9
CNY	12.455,1	0,0	5,7	7,2
GBP	1.463,5	-0,5	-0,5	8,3
INR	146.890,3	1,9	8,1	7,9
RUB	110.787,8	5,8	9,8	-18,7

Source: Refinitiv; calculations by Degussa.

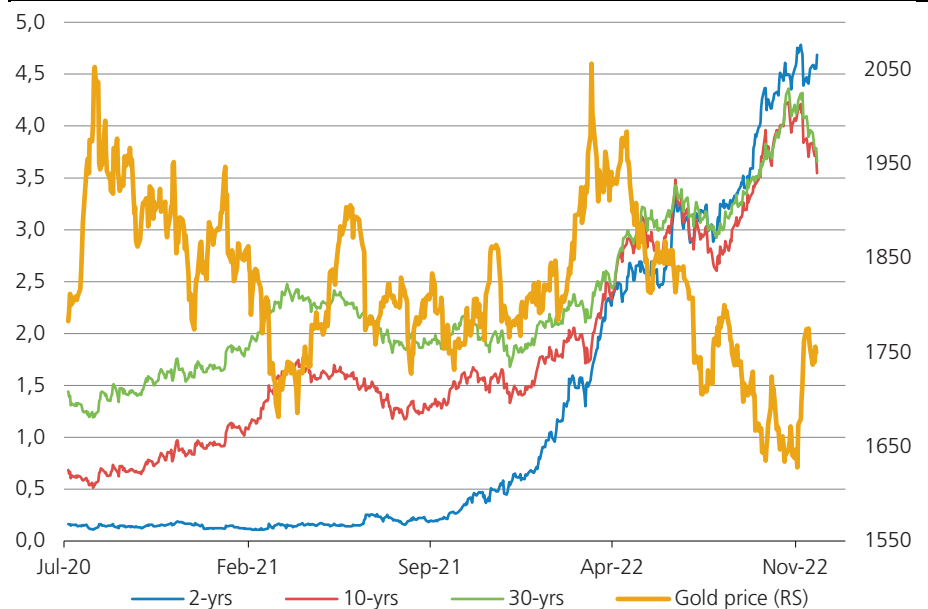
OUR TOP ISSUES

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

THE END OF THE INTEREST RATE HIKING CYCLE IS NEAR – GET SOME GOLD

The financial market still believes that the US Federal Reserve (Fed) will continue to raise interest rates. A 50 basis point hike in the December 13/14 meeting seems likely, bringing the band for the Federal Funds rate to 4.25-4.50 per cent. Recent data suggest that the US economy has been relatively resilient. For instance, the ISM's Purchasing Managers Index for the services sector came in higher than expected, suggesting that economic activity had increased at a faster pace in November than in October. The labour market data were also better than expected.

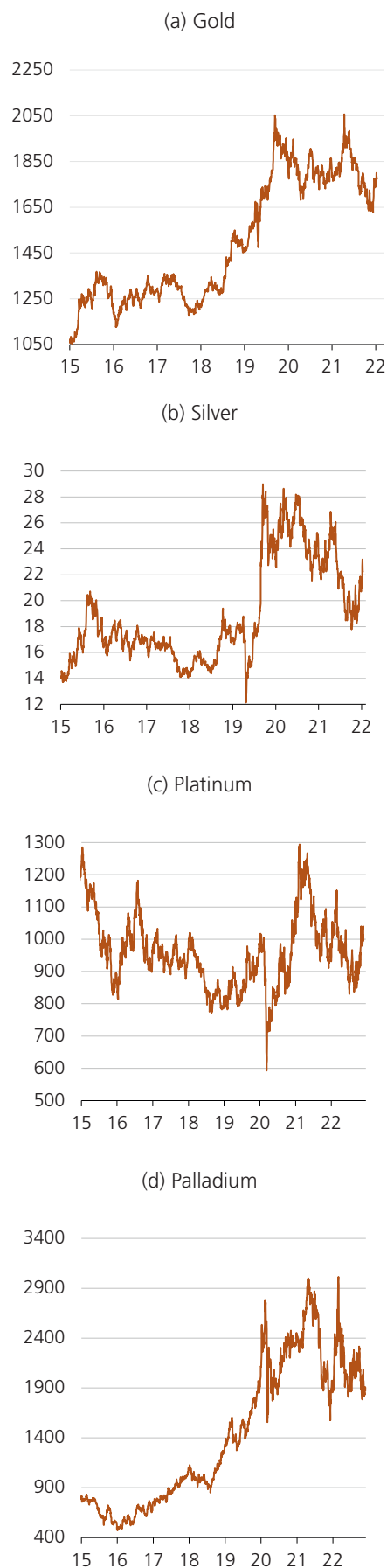
Gold price (USD/oz) and selected US interest rates in per cent



Source: Refinitiv; graph Degussa.

At the same time, however, long-term US interest rates have come down from recent highs. For instance, the 10-year US Treasury yield fell from 4.2 per cent on October 24 to 3.58 per cent on December 6. The decline comes as the market has priced in the Fed's expected rate cuts towards the end of 2023. In other words, investors do not believe that higher interest rates are here to stay. In fact, there is every reason to believe that a regime of higher interest rates, particularly a return to positive real interest rates, is unlikely. Why? The answer is: there is too much debt.

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



US government debt amounts to around USD 31 trillion. In 2021, it cost the taxpayer USD 352 billion – thanks to historically low interest rates. Assuming the US has to refinance its debt at an interest rate of, say, 4 per cent, interest payments would amount to USD 1.2 trillion per year – much higher than the US military spending of USD 801 billion in 2021. Of course, private households and companies would also have difficulties when it comes to servicing their debts. It does not take much to realize that there would be little political support for the Fed to keep interest rates that high.

In fact, the same is true for many other economies around the world. According to the Institute of International Finance (IIF), global debt was at USD 293 trillion at the end of Q3 2022, equivalent to 343 per cent of the global GDP. Higher interest rates would not only increase the borrowing costs borne by the borrowers but also risk a collapse of the financial markets, output and employment. The inconvenient truth is that today's fiat money system needs ever-lower interest rates to keep it going. After 40 years of downward-trending borrowing costs, higher interest rates could all too easily trigger a crash.

Suppose the Fed and other central banks refrain from further interest hikes to prevent the next financial and economic crisis, the question arises: what will happen to goods price inflation? It would most likely stay high or go up. Central bankers would likely continue to promise the general public to keep inflation down; this rhetoric will not be turned into action, though. Elevated inflation, combined with negative real interest rates (i.e. nominal interest rates net inflation), is expected deliberately used to help reduce the outstanding real debt burden.

In such a monetary regime, holding at least some physical gold and silver in one's portfolio seems prudent, because the purchasing power of these precious metals cannot be debased by monetary policy. What is more, physical gold and silver do not carry a counterparty or default risk – unlike, for example, bank deposits and money market funds. It is not only inflation that investors need to protect themselves against. A regime of elevated inflation combined with negative real interest rates comes with profound risks. For instance, the number of investments that flop is likely to increase.

Or credit markets will dry up as investors become increasingly wary of allocating funds to government, corporate, and bank bonds. Fiat money would become dysfunctional and all too easily lead to large-scale defaults. This, in turn, would push central banks to bail out the fiat money system and the economic and political structures it created. The inflationary effect would be enormous, perhaps gigantic: new credit would no longer be financed from existing savings but from central banks' new money creation.

If the rate-hiking cycle in long-term interest rates is really coming to an end soon, it would be a strong indication of what has been argued so far in this article: namely, that higher inflation will be politically acceptable to keep the fiat money system going, whatever it takes. Holding physical gold would be insurance against the vagaries of the fiat money system. The number of assets that can help investors to weather the inflationary storm is fairly limited. Physical gold and silver are among them.

PRECIOUS METALS PRICES

In US-Dollar per ounce

	Gold		Silver		Platinum		Palladium	
I. Actual	1787,5		22,7		1003,7		1851,5	
II. Gliding averages								
10 days	1764,2		21,8		1002,7		1874,1	
20 days	1759,2		21,6		1004,8		1921,5	
50 days	1702,8		20,4		952,1		1995,6	
100 days	1715,8		19,8		923,1		2047,4	
200 days	1794,9		21,3		943,9		2116,9	
III. Estimates for autumn 2023	2200		28		1070		2261	
⁽¹⁾	23		23		7		22	
<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>
⁽¹⁾	1800	2398	21,0	31,0	830	1280	1650	2400
	1	34	-8	36	-17	28	-11	30
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	1701,8		21,6		955,5		1762,7	
II. Gliding averages								
10 days	1692,6		20,9		962,0		1798,1	
20 days	1699,0		20,8		970,5		1855,9	
50 days	1694,6		20,2		947,0		1989,4	
100 days	1706,4		19,7		917,8		2038,1	
200 days	1731,3		20,5		910,8		2042,1	
III. Estimates for autumn 2023	2281		29		1110		2345	
⁽¹⁾	34		34		16		33	
<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>
⁽¹⁾	1867	2487	21,8	32,1	860	1320	1710	2480
	10	46	1	49	-10	38	-3	41
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

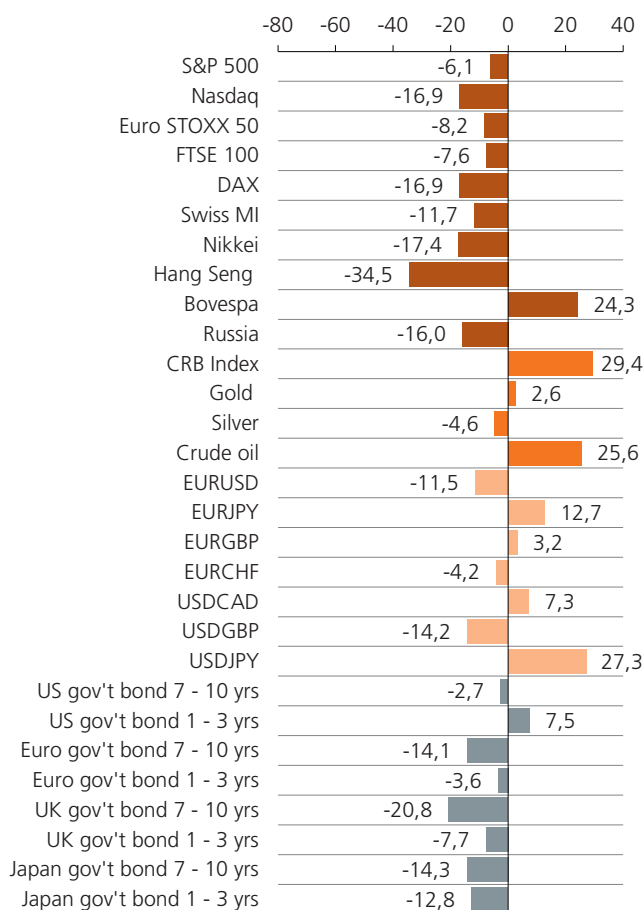
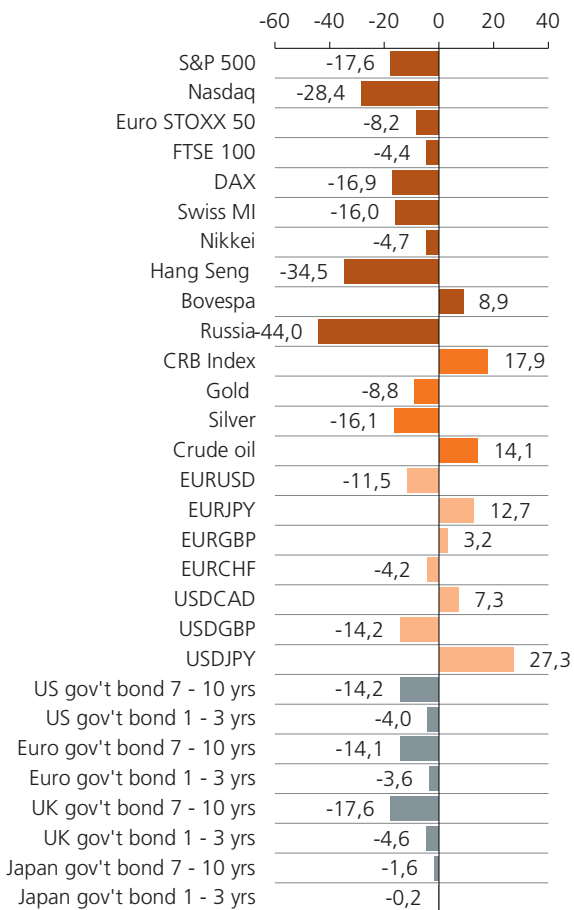


Source: Refinitiv; graph by Degussa.

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
8 December 2022	
24 November 2022	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
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
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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

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