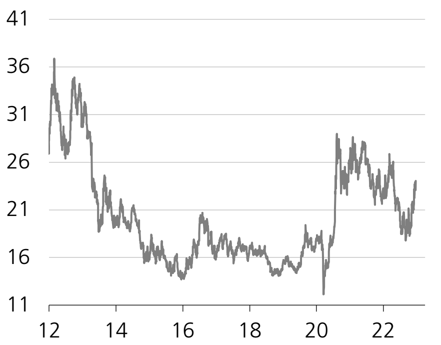
Degussa Market Report

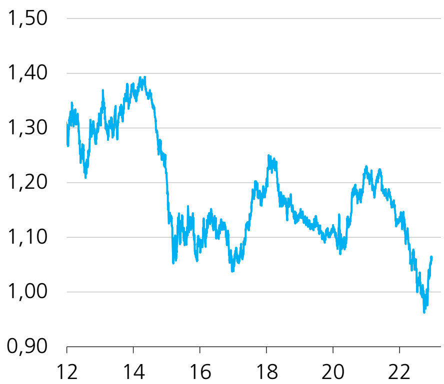
22 December 2022 | Economics · Finance · Precious Metals

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	1.817,4	1,1	6,2	-0,6
Silver	24,0	3,8	33,6	3,2
Platinum	1.002,1	-1,2	18,4	4,1
Palladium	1.670,5	-12,1	-19,9	-11,7
II. In euro				
Gold	1.715,5	0,6	0,9	6,7
Silver	22,7	3,4	27,0	10,9
Platinum	946,0	-1,7	12,7	11,8
Palladium	1.577,0	-12,5	-23,9	-5,2
III. Gold price in other currencies				
JPY	240.579,0	-0,4	1,3	14,3
CNY	12.685,9	0,5	7,7	9,2
GBP	1.507,1	3,1	2,5	11,5
INR	150.604,1	1,9	10,8	10,6
RUB	129.112,1	16,8	28,0	-5,3

Source: Refinitiv; calculations by Degussa.

OUR TOP ISSUES

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

Dear reader,

We wish you a Merry Christmas and a Happy New Year!

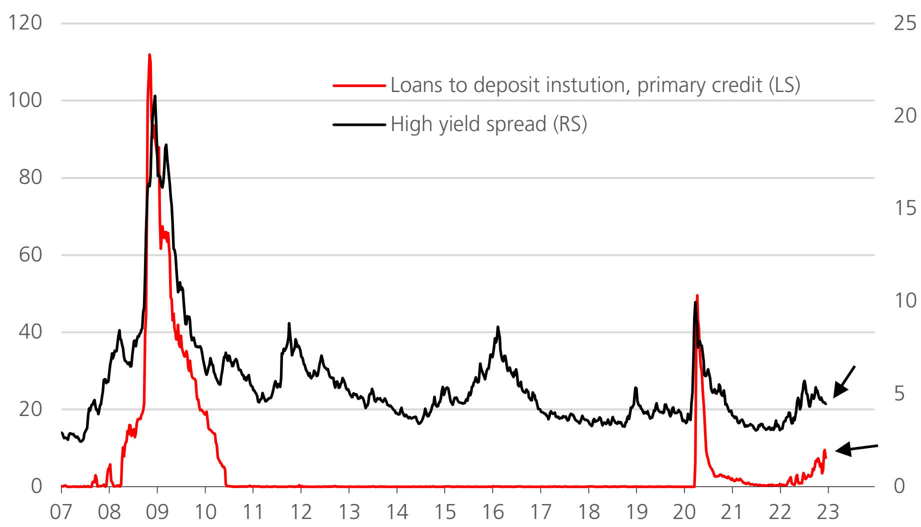
The next Degussa Market Report will be published on 19 January 2023.

CENTRAL BANKS' PROPENSITY FOR INFLATION IS A VERY GOOD REASON TO HOLD AT LEAST SOME GOLD

The truth is that reliable leading indicators are hard to come by, so forecasting the business cycle is a rather difficult task. However, we know that credit markets play a very important role in the functioning of the financial and economic system, and that they affect economic activity.

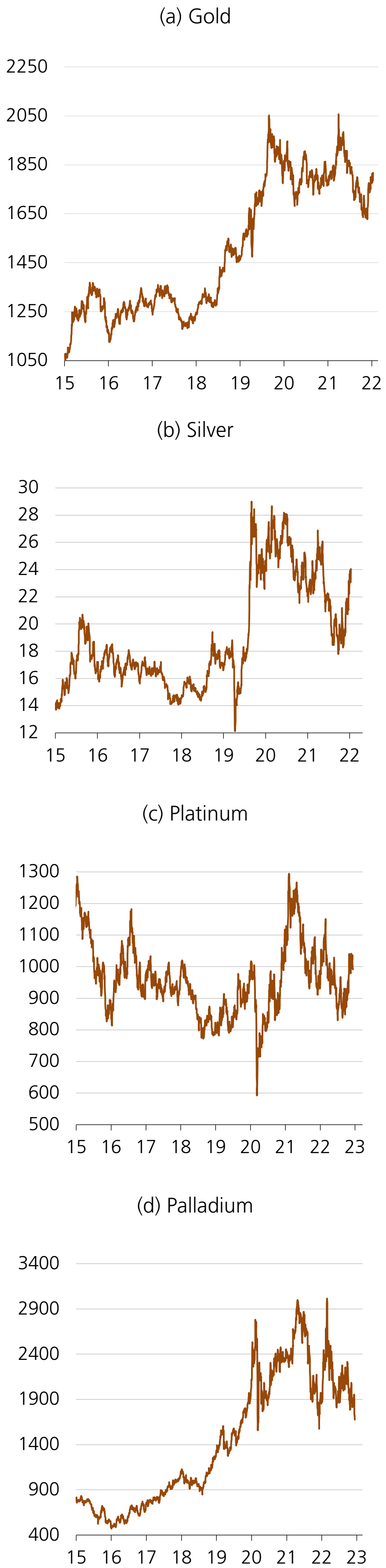
This is because today's money – be it the US dollar, the euro, the Chinese renminbi or the Japanese yen – is created through bank lending. In fact, the world's economic and financial system is, so to speak, based on credit. Therefore, tensions or stress in the markets for lendable funds deserve particular attention from those trying to form a view about the future.

Fed loans to banks (US$ bn) and high yield spread (per cent)



Source: Refinitiv; graph Degussa.

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



Source: Refinitiv; graphs Degussa.

The chart below shows the Fed's loans to banks (primary credit, the Fed's "discount window") from January 2007 to mid-December 2022. As apparent, in times of crisis – such as the global financial crisis of 2008/2009 and the lockdown crisis of 2020 – the Fed extended credit to banks in an effort to prop up the financial system. These loans were part of the Fed's effort to bail out the financial and economic system.

Most interestingly, since the Fed started raising interest rates in March 2022, Fed loans to the banking sector have also increased. The amounts are not huge by historical comparison, but nevertheless, they show that someone is borrowing from the Fed.

Also depicted in the chart is a measure of the credit spread situation in the US high-yield market. Credit spreads also widened as the Fed began raising interest rates. Since July 2022, however, they have declined somewhat, indicating less concern for investors about defaults (and liquidity). How are these two developments to be interpreted?

It is clear that rising interest rates are putting pressure on the economy and, in particular, on borrowers. Especially since the Fed has now substantially increased lending rates in a relatively short period. In the face of higher interest rates, a number of investments fail, and jobs are lost. Those in debt must pay considerably more when rolling over their maturing loans. The number of defaults is increasing, causing banks to become more restrictive in their lending. Taken together, the Fed's rate hiking spree undoubtedly has the potential to trigger a bust.

At the same time, however, credit spreads have remained fairly low so far and, as noted earlier, have even contracted. This suggests that investors are not really concerned about credit defaults. It seems that investors are confident that the Fed will not allow the financial and economic system to collapse. In fact, the expectation is that if something goes wrong in the credit market, the Fed will come to the rescue, pumping new money into the system and potentially even cutting interest rates again.

But what about inflation? Well, even if headline inflation rates ease somewhat in the coming months, there is a systematic conflict between the Fed's objective of bringing down high inflation and its determination to keep the fiat money system going by all means necessary. Because the fiat money system inadvertently causes crises, and these crises are becoming ever more serious. So to fend off the feared losses in production and gruelling mass unemployment, the Fed must therefore continue to inflate – that is, increase the quantity of credit and money at ever lower interest rates.

While declining headline inflation may come as a relief to many firms and consumers, one should not overlook the inherent inflationary bias that comes with the fiat money system and the political efforts to prevent its collapse. It is rather safe to assume that the Fed (as, of course, all other major central banks), faced with the precarious choice of saving the economy from depression or allowing inflation to run high, will most likely opt for the former and against the latter.

Against this backdrop, it makes sense for the savvy investor to consider physical gold (and some silver) as part of their liquid means. The purchasing power of these precious metals cannot be debased by monetary policy. Physical gold and silver also do not carry a default risk – in contrast to bank deposits and money market funds shares. Central banks' propensity for inflation is a very good reason to hold at least some gold. ***

PRECIOUS METALS PRICES

In US-Dollar per ounce

	Gold	Silver	Platinum	Palladium
I. Actual	**1816,4**	**24,0**	**995,5**	**1699,9**
II. Gliding averages				
10 days	1794,1	23,4	1007,0	1841,6
20 days	1779,1	22,6	1004,9	1857,9
50 days	1724,4	21,0	974,2	1917,8
100 days	1721,6	20,2	935,2	2029,3
200 days	1786,0	21,2	940,2	2070,0
III. Estimates for autumn 2023	**2200**	**28**	**1070**	**2261**
(1)	*21*	*17*	*7*	*33*

	Gold Low	Gold High	Silver Low	Silver High	Platinum Low	Platinum High	Palladium Low	Palladium High
Band width	1800	2398	21,0	31,0	830	1280	1650	2400
(1)	*-1*	*32*	*-12*	*29*	*-17*	*29*	*-3*	*41*

	Gold	Silver	Platinum	Palladium
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	**1710,9**	**22,6**	**937,7**	**1601,1**
II. Gliding averages				
10 days	1694,4	22,1	951,1	1739,4
20 days	1693,5	21,5	956,5	1768,7
50 days	1688,9	20,6	954,0	1881,5
100 days	1705,5	20,0	925,9	2013,5
200 days	1726,2	20,5	909,1	2002,4
III. Estimates for autumn 2023	**2281**	**29**	**1110**	**2345**
(1)	*33*	*29*	*18*	*46*

	Gold Low	Gold High	Silver Low	Silver High	Platinum Low	Platinum High	Palladium Low	Palladium High
Band width	1867	2487	21,8	32,1	860	1320	1710	2480
(1)	*9*	*45*	*-4*	*42*	*-8*	*41*	*7*	*55*

	Gold	Silver	Platinum	Palladium
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.

Articles in earlier issues of the *Degussa Market Report*

Issue	Content
22 December 2022	Central banks' propensity for inflation is a very good reason to hold at least some gold
8 December 2022	Some Thoughts About Central Banks' Renewed Interest In Gold
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
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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
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7 July 2022	I'm Sorry To Say, But It Doesn't Look Good. Hold At Least Some Gold
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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
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7 October 2021	Here Comes The Inflation Beast
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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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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

The Degussa Marktreport (German) and the Degussa Market Report (English) are available at:
www.degussa-goldhandel.de/marktreport

Disclaimer

Imprint
Marktreport is published every 14 days on Thursday and is a free service provided by Degussa Goldhandel GmbH.
Deadline for this edition: 22 December 2022
Publisher: Degussa Goldhandel GmbH, Kettenhofweg 29, 60325 Frankfurt, Tel.: (069) 860068-0, Fax: (069) 860068-222
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