Degussa Market Report

30 March 2023 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	1.966,2	5,3	11,2	1,5
Silver	23,4	14,0	5,3	-5,6
Platinum	970,5	1,2	-6,0	-1,3
Palladium	1.446,4	4,9	-23,1	-36,0
II. In euro				
Gold	1.812,8	3,3	6,7	3,6
Silver	21,6	11,9	1,2	-3,7
Platinum	894,8	-0,7	-9,9	0,9
Palladium	1.334,0	3,0	-26,1	-34,7
III. Gold price in other currencies				
JPY	260.875,0	3,5	6,9	10,7
CNY	13.539,7	5,0	8,1	10,3
GBP	1.596,2	2,8	8,9	8,3
INR	161.578,4	1,9	12,3	10,0
RUB	151.929,3	6,7	42,0	-1,0

Source: Refinitiv; calculations by Degussa.

OUR TOP ISSUES

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

NOT OVER YET. HOLD GOLD AND SILVER

The collapse of US California-based Silicon Valley Bank (and Signature Bank in New York) on 10 March 2023 sent shock waves through the international financial system. It not only sent bank stocks and bank bonds plummeting but also finally brought ailing banking giant Credit Suisse to its knees. The Swiss bank had to be rescued and was bought by UBS on 19 March 2023. In another wave of market fear, Deutsche Bank, another G-SIB (global systemically important bank), came under pressure: its share price fell sharply, and credit default swap spreads on its liabilities skyrocketed.

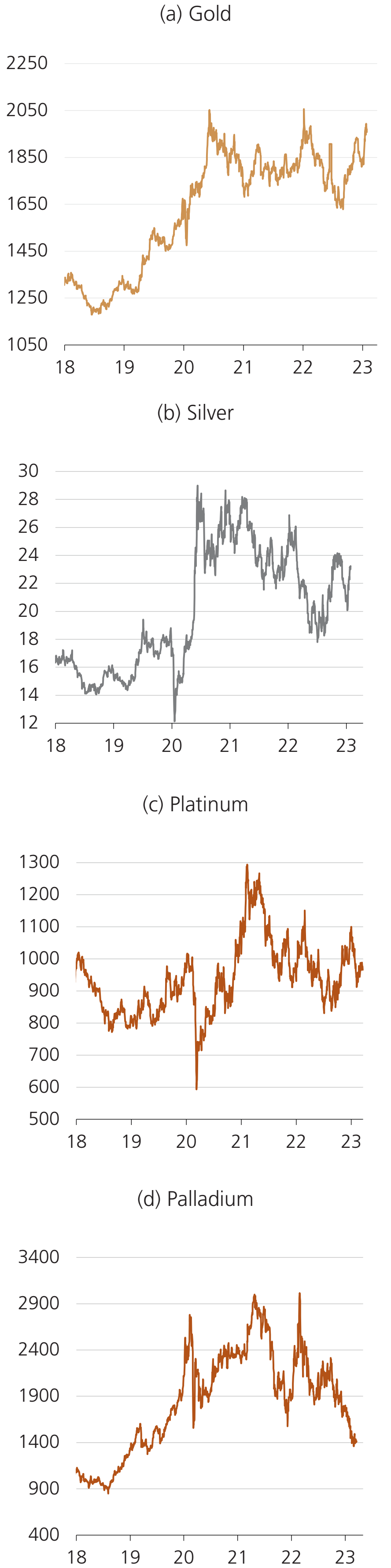
In the meantime, however, market stress seems to have subsided. It is fair to say that the Federal Reserve (Fed) and the US Treasury have pulled it off. The Fed opened its funding spigots for banks, providing them with the necessary funds. This washed away the unfolding liquidity crisis. And the US Treasury guaranteed banks' (hitherto) uninsured deposits, calming peoples' fears and giving them less incentive to withdraw their funds from the banks, especially from small and medium-sized banks and put them into bigger banks.

However, it would be premature to say that the banking crisis is over. In fact, sound economics suggests that things could all too easily take a rather bad turn. The reason lies in the unbacked paper or fiat money system. In a fiat money system, banks create new money balances through credit expansion, accompanied by an artificial suppression of market interest rates. This, in turn, results in an initial boom, which, however, sooner or later ends in a bust. Because distorted market interest rates lead to overconsumption and malinvestment.

In a fiat money regime, banks operate with fractional reserves: They hold merely a fraction of their immediate payment obligations to their customers in cash (banknotes and central bank money balances). In normal times, this does not seem to be a problem. In times of market stress, however, things can get ugly: the "latent illiquidity" of banks could result in a bank run. Of course, the central bank can provide any cash needed to distressed banks at virtually any time, a liquidity shortage can thus be solved. But an even bigger problem may rise.

A liquidity crisis in the banking system may spill over into a credit crisis – meaning investors fear that borrowers could become unable to service their debt. Why? Banks facing a liquidity problem will become more cautious when it comes to credit risk. Their credit supply will become less abundant and more expensive. This results in payment defaults and business failures. It is precisely through such

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



Source: Refinitiv; graphs Degussa.

a process – you might call it a "credit crunch" – that boom turns into a bust. Banks suffer losses, restrict their credit supply even more, and the economy is headed for recession or even depression.

After many years of ultra-low borrowing costs, the central banks' rate hiking spree is most likely to result in a significant slowdown of growth, if not an outright recession. Money supply growth in the US is negative both in nominal and real terms, a direct result of the Fed's higher interest rates and shrinking of its balance sheet – suggesting a drop in economic activity. Likewise, bank credit growth has slowed considerably and is also negative in real (inflation-adjusted) terms. Monetary developments are quite similar in the euro area.

That said, chances of a substantial slowdown of economic growth, even a fall in production and a rise in unemployment, are high in what lies ahead. Such a scenario is all the more likely given the rather high level of debt in the national economies, which has so far been financed by very low interest rates and now has to be refinanced at significantly higher credit costs. As soon as the first borrowers default on their debts, concern about more defaults will spread like wildfire, and the risk of a collapse of the debt mountain rises.

What will central banks do in such a scenario? They would most likely prioritize keeping the banking system and government entities afloat and doing whatever it takes to ward off defaults. The objective of lowering consumer goods price inflation comes second. Inflation would be considered a lesser evil worth taking to prevent a supposedly even greater evil. And so, in the end, what started as a liquidity crisis turns into a credit crisis and eventually a currency crisis – meaning people are losing faith in the purchasing power of money.

Against this backdrop, we believe that holding physical gold and silver as part of the liquid portfolio makes sense. Gold and silver cannot be debased by central banks expanding the money supply (i.e. their inflationary policies), and the precious metals do not carry counterparty risk as bank deposits do. Most importantly, from our analytical perspective, gold and silver prices are trading on the cheap side. Perhaps this is because many investors expect the banking crisis to be over. We would warn against such a conclusion and say: It's not over yet; better hold at least some physical gold and silver.

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PRECIOUS METALS PRICES

In US-Dollar per ounce

	Gold	Silver	Platinum	Palladium
I. Actual	**1966,9**	**23,4**	**971,0**	**1449,1**
II. Gliding averages				
10 days	1958,8	22,6	976,8	1417,0
20 days	1904,9	21,7	970,2	1419,1
50 days	1888,5	22,2	977,6	1523,7
100 days	1844,7	22,5	999,1	1680,7
200 days	1781,5	21,0	949,0	1866,2
III. Estimates for end 2023	**2200**	**29**	**1250**	**1450**
(1)	*12*	*24*	*29*	*0*

	Gold		Silver		Platinum		Palladium	
Band width	*Low*	*High*	*Low*	*High*	*Low*	*High*	*Low*	*High*
	1900	2360	23,3	32,9	1060	1380	1300	1670
(1)	*-3*	*20*	*0*	*41*	*9*	*42*	*-10*	*15*

	Gold	Silver	Platinum	Palladium
V. Annual averages				
2020	1753	20,2	878	2180
2021	1804	25,5	1095	2422
2022	1798	21,7	956	2154

In Euro per ounce

	Gold	Silver	Platinum	Palladium
I. Actual	**1814,5**	**21,6**	**895,8**	**1336,8**
II. Gliding averages				
10 days	1824,7	21,0	909,9	1320,1
20 days	1782,0	20,3	907,7	1327,8
50 days	1760,2	20,7	911,2	1419,7
100 days	1735,2	21,2	940,2	1583,3
200 days	1722,9	20,3	917,7	1813,8
III. Estimates for autumn 2023	**2100**	**28**	**1200**	**1392**
(1)	*16*	*29*	*34*	*4*

	Gold		Silver		Platinum		Palladium	
Band width	*Low*	*High*	*Low*	*High*	*Low*	*High*	*Low*	*High*
	1820	2300	22,4	31,6	1010	1320	1240	1600
(1)	*0*	*27*	*4*	*47*	*13*	*47*	*-7*	*20*

	Gold	Silver	Platinum	Palladium
V. Annual averages				
2020	1535	18	769	1911
2021	1519	21	921	2035
2022	1704	21	905	2041

Source: Refinitiv; calculations and estimates Degussa. Numbers are rounded.

(1) On the basis of actual prices.

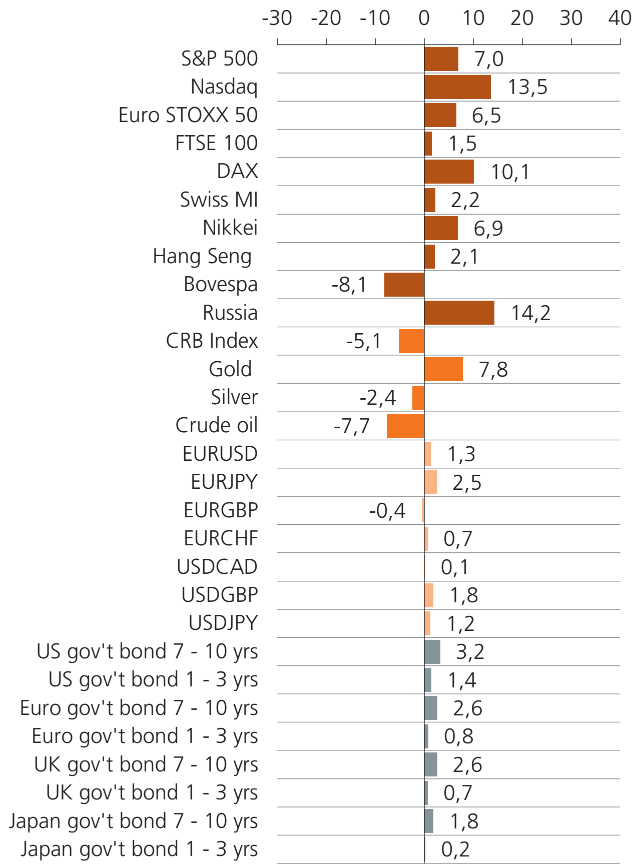
BITCOIN, PERFORMANCE OF VARIOUS ASSET CLASSES

Bitcoin in US dollars

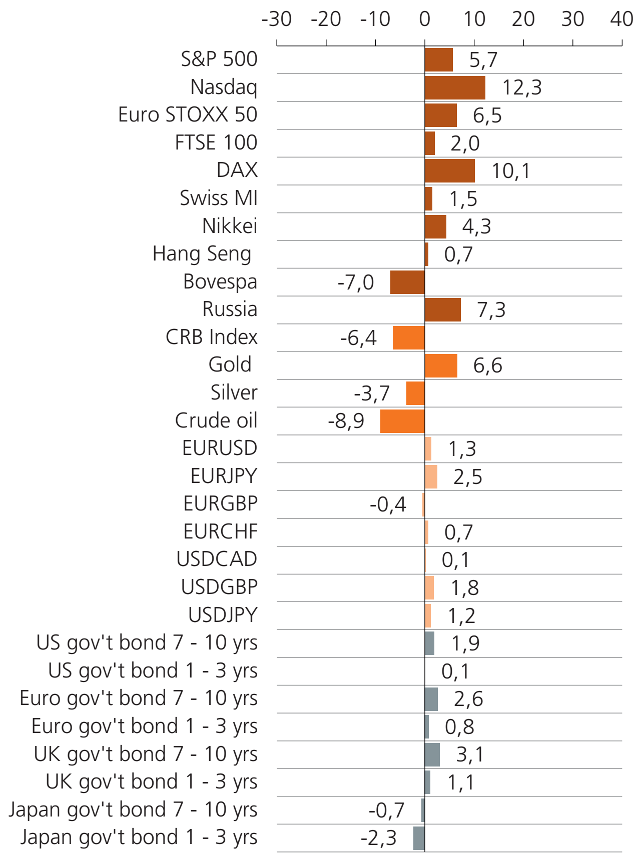
Source: Refinitiv; graph by Degussa.

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
30 March 2023	Not Over Yet. Hold Gold And Silver
16 March 2023	Why Not Higher?
16 February 2023	Staying Power Pays Off For Gold Holders
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19 January 2023	Outlook 2023: Keepy Buying Physical Gold And Silver
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8 December 2022	Some Thoughts About Central Banks' Renewed Interest In Gold
24 November 2022	Some Thoughts About Central Banks' Renewed Interest In Gold
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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
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28 April 2022	The Fed's Boom And Bust Cycle – And What It Means For Your Money
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26 August 2021	Our Money Gets Thrown Under The Bus

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GOLD UND SILBER.

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