

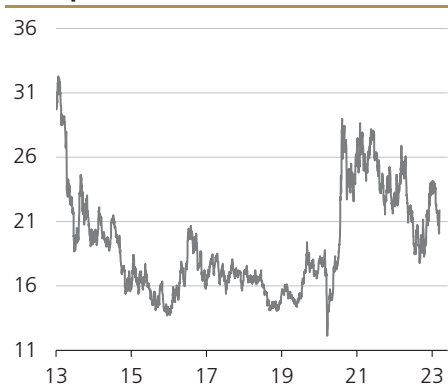
16 March 2023

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	1.922,9	6,2	8,7	-0,7
Silver	21,9	5,5	-1,3	-11,5
Platinum	960,2	5,6	-7,0	-2,4
Palladium	1.436,3	2,3	-23,6	-36,5
II. In euro				
Gold	1.825,6	6,4	7,5	4,4
Silver	20,8	5,7	-2,3	-7,1
Platinum	911,6	5,7	-8,2	2,7
Palladium	1.364,0	2,6	-24,5	-33,3
III. Gold price in other currencies				
JPY	255.841,0	3,5	4,8	8,6
CNY	13.275,7	5,4	5,9	8,2
GBP	1.595,9	5,3	8,9	8,3
INR	159.211,5	1,9	10,7	8,3
RUB	145.776,0	5,9	36,3	-5,0

Source: Refinitiv; calculations by Degussa.

OUR TOP ISSUES

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

WHY NOT HIGHER?

„Gold and silver are the emissions of nature: paper is the emission of art.“
—Thomas Paine (1736–1809)

The collapse of Silicon Valley Bank on 10 March 2023 has caused quite some turbulence in the financial markets. In particular, the prices of bank stocks went down, not only in the US but worldwide, as investors feared that the fall of the California-based bank could trigger contagion effects.

In fact, investors have become increasingly concerned about the stability of the entire US banking system. On 14 March, Moody's Investor Service downgraded the US banking system, citing a "rapidly deteriorating operating environment".

Silicon Valley Bank went under because it mishandled its duration management: The duration of its assets (loans and long-term debt) was much higher than its liabilities (mainly customer deposits). As a result, the rise in interest rates made the bank's asset values decline much faster than its liabilities' market value, causing massive "unrealized losses".

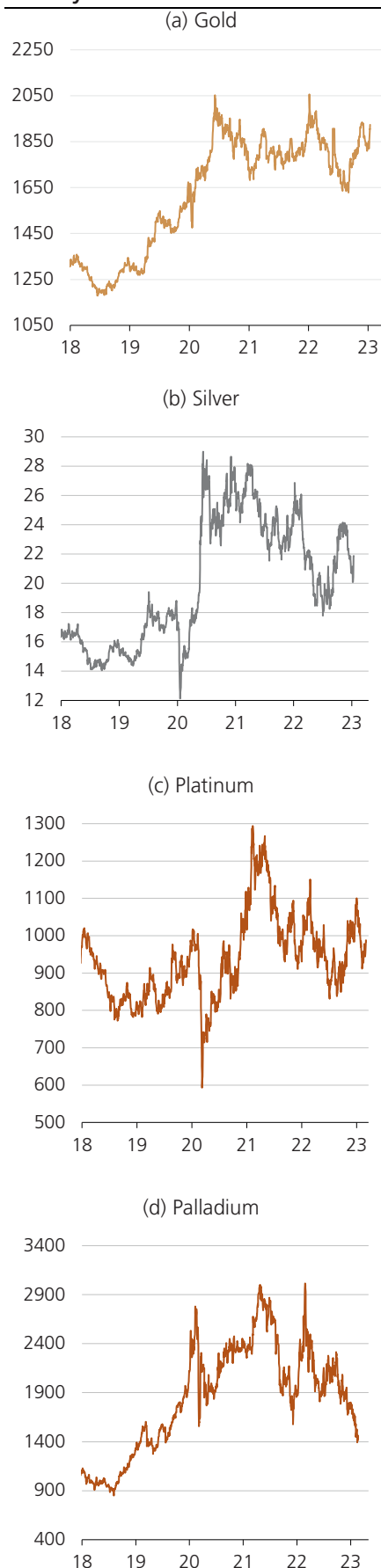
The real problem began when clients withdrew their funds. To finance the cash outflow, Silicon Valley Bank sold securities – and realized previously unrealized losses, which depleted its equity capital. This is when the FDIC intervened and closed the bank.

On Sunday, 12 March, the US government insured all deposits – including those which were previously uninsured – clients hold with Silicon Valley Bank (and Signature Bank in New York) to prevent a run. Most importantly, the Federal Reserve (Fed) provides banks with a new and virtually unlimited line of credit ("Bank Term Funding Program") so that banks needing cash will not have to sell assets and realize losses.

According to the FDIC, at the end of Q3 2022, US banks had unrealized losses in their securities portfolio of 689.92 USD billion ("available-for-sales-securities" of 321.50 USD billion and "held-to-maturity" of 368.46 USD billion). These losses are largely attributable to the Fed's policy tightening. Banks bought the securities when interest rates were at rock bottom, and when the Fed delivered a series of interest rate hikes, bond prices cratered.

The Fed's new credit line for banks will most likely prevent a liquidity crisis. There won't be a shortage of funds if clients wish to withdraw their money from the banks. And if the Fed stops its interest rate hiking spree, if it cuts interest rates, banks' unrealized losses will be reduced as bond prices would go

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



Source: Refinitiv; graphs Degussa.

up. From a purely technical point of view, the measures taken by the US government seem suitable to stamp out a bigger banking crisis before it ensues.

But what about the real economy? What if the flow of credit to consumers and producers starts to dry up as investors and banks become more hesitant to take on more risk? Experience shows that trouble in the banking system, even if banks are kept afloat, can certainly have negative consequences for production and employment.

The US government's rescue policy conveys a rather important message: Namely that in times of crisis, printing new money is widely considered the policy of the least evil – an evil deemed acceptable to prevent a perceived even greater evil. Needless to say, this is a slippery slope towards locked-in higher inflation, actually a high-inflation regime.

But wait: the prices of gold and silver have not really moved as one would have expected in such a crisis scenario. Investors appear confident that the current concerns about the health of the US banking system can and will be contained, that they will be short-lived, and that the Fed will succeed in lowering inflation. Taken together, this might be an answer to the question of why gold and silver have not been trading much higher in the past few days.

However, it is certainly too early to give an all-clear and believe the crisis is over. With its Bank Term Funding Program, the Fed has actually underwritten US banks' deposit base of around USD 17 trillion. And while this is, as things stand, "just" insurance, what happens if clients actually start withdrawing funds in sizable amounts from the banking system?

How would the markets react to a sudden and enormous increase in central bank money pumped into the banking system and the Fed's balance sheet expanding like never before? How will people react when the Fed cuts interest rates to prop up the banking system despite elevated inflation? And suppose confidence in the greenback, the world's reserve currency, dwindles. What will happen to all the currencies essentially built on the US dollar?

It is high time to realize that the fiat US dollar monetary system faces tremendous challenges and that the risks of higher inflation and/or creditor defaults are increasing. Granted, this is an uncomfortable truth. However, holding at least some physical gold and silver is one possible solution to protect one's portfolio from the vagaries of a fiat money system spiralling out of control.

Let us end with a quote from Thomas Paine (1736–1809): "Man has no share in making gold or silver; all that his labors [sic] and ingenuity can accomplish is, to collect it from the mine, refine it for use and give it an impression, or stamp it into coin." It is worth remembering that today's fiat money is actually the opposite of gold and silver: It can be increased at any time in any amount by man. This is why we can expect gold and silver trading much higher going forward.

PRECIOUS METALS PRICES

In US-Dollar per ounce

	Gold		Silver		Platinum		Palladium	
I. Actual	1922,6		21,9		959,8		1442,8	
II. Gliding averages								
10 days	1829,0		21,4		936,3		1468,4	
20 days	1853,4		21,9		958,9		1543,9	
50 days	1864,9		23,0		1006,9		1656,9	
100 days	1794,6		22,0		990,5		1787,3	
200 days	1775,5		21,0		948,5		1918,9	
III. Estimates for end 2023	2200		29		1250		1450	
⁽¹⁾	14		33		30		1	
<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⁾	1900	2360	23,3	32,9	1060	1380	1300	1670
	-1	23	7	51	10	44	-10	16
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	1822,7		20,7		909,9		1367,8	
II. Gliding averages								
10 days	1719,7		20,1		880,4		1380,6	
20 days	1731,2		20,5		895,6		1441,7	
50 days	1739,1		21,5		939,0		1545,2	
100 days	1714,0		21,0		946,5		1713,3	
200 days	1718,4		20,3		917,9		1864,2	
III. Estimates for autumn 2023	2100		28		1200		1392	
⁽¹⁾	15		34		32		2	
<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⁾	1820	2300	22,4	31,6	1010	1320	1240	1600
	0	26	8	52	11	45	-9	17
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

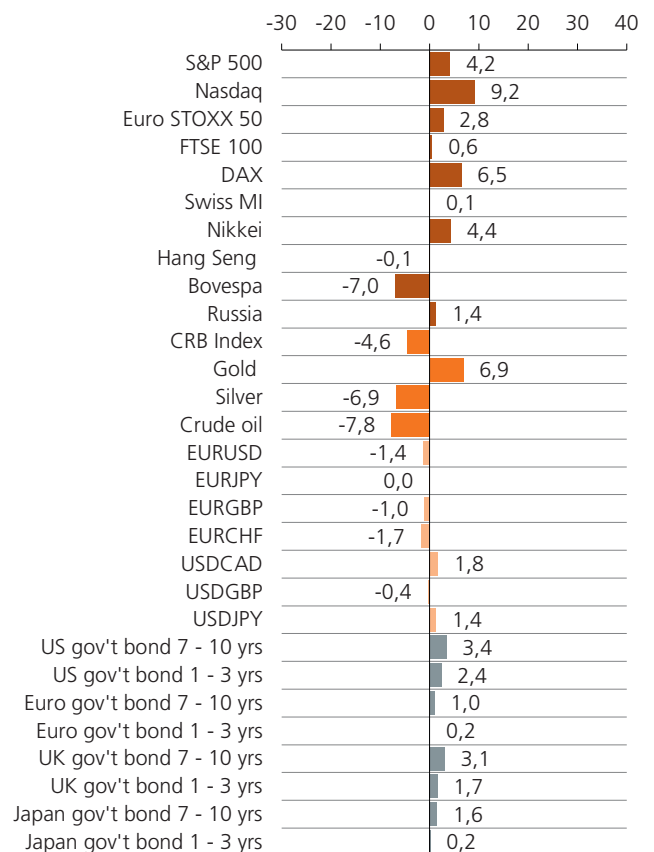
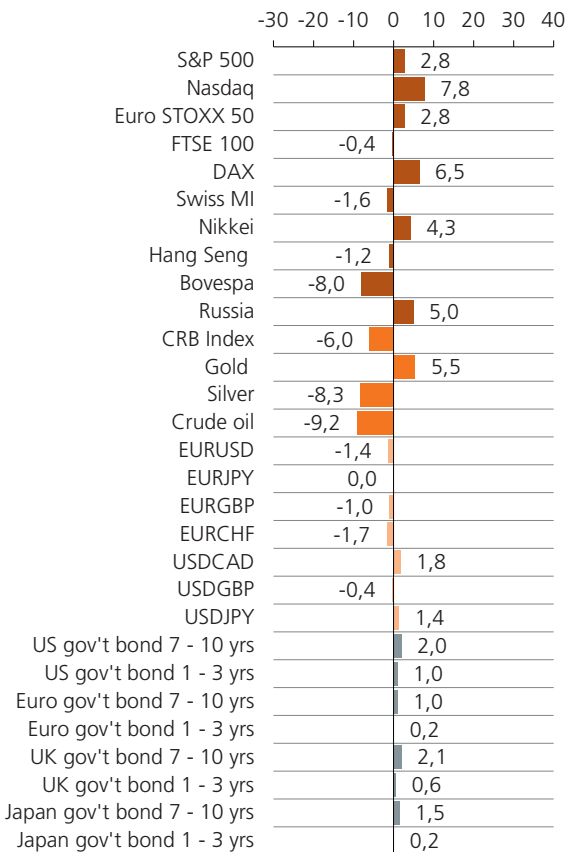


Source: Refinitiv; graph by Degussa.

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
16 March 2023	Why Not Higher?
2 March 2023	Remarks Made At The LBMA Panel "Behind The Analysis", 27 February 2023
16 February 2023	Staying Power Pays Off For Gold Holders
2 February 2023	You Think the Global Economy Is Brightening? Beware: The Big Hit Is Yet To Come ...
19 January 2023	Outlook 2023: Keepy Buying Physical Gold And Silver
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
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
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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