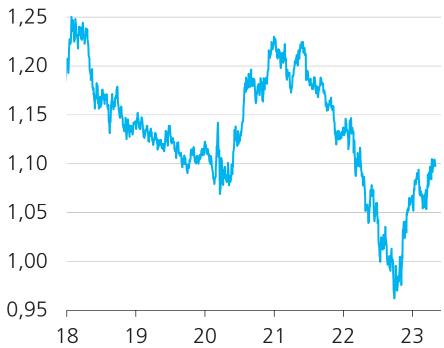
Degussa Market Report

11 May 2023 | Economics · Finance · Precious Metals

USD per ounce of gold

USD per ounce of silver

EURUSD



Source: Refinitiv; graphs by Degussa.

Precious metals prices per ounce				
	Actual (spot)	Change against (in per cent): 2 W	3 M	12 M
I. In US-dollar				
Gold	2.030,9	2,4	5,3	10,6
Silver	25,4	1,3	7,0	17,8
Platinum	1.113,1	-1,0	10,1	15,4
Palladium	1.602,8	0,0	-2,8	-19,8
II. In euro				
Gold	1.848,7	2,5	4,2	8,1
Silver	23,1	1,4	5,7	15,2
Platinum	1.013,2	-1,0	8,9	12,3
Palladium	1.459,0	0,1	-3,9	-21,7
III. Gold price in other currencies				
JPY	272.633,0	2,5	8,7	15,3
CNY	14.078,7	3,0	8,2	14,9
GBP	1.608,4	0,9	2,8	10,4
INR	166.364,5	1,9	5,6	16,8
RUB	154.554,5	-3,1	13,6	39,7

Source: Refinitiv; calculations by Degussa.
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OUR TOP ISSUES

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

BANKS AND GOLD

The failures of Silicon Valley Bank, Signature Bank, and First Republic Bank must be considered a wake-up call, even as a potential starting point for much bigger economic and financial troubles. Bank customers want to get rid of their uninsured bank deposits, swap them for insured bank deposits, or exchange them for other assets such as money market funds or T-Bills. Deposits are withdrawn, in particular, from small and medium-sized banks and shoved into large banks. This causes a liquidity drain for small and medium-sized banks.

What is more, investors realize that in an emergency, bank deposits will most likely be rescued, while bank equity and bond holders will be wiped out. This, in turn, increases the capital costs of small and medium-sized banks, reducing their competitiveness and profits. Even worse, it can even result in losses – which is the case when a bank's funding costs (which are largely driven by short-term liabilities) suddenly exceed the return on its asset portfolio (which consists of long-term investments).

Faced with such problems, small and medium-sized banks can be expected to become more risk-sensitive, restricting their credit supply, which will affect mainly local or regional consumers, firms, and public sector entities. As credit becomes less available and more expensive, economic activity suffers, affecting consumption and investment. Moreover, the looming losses in the commercial real estate sector may put severe pressure on banks' equity capital, prompting banks to reduce balance sheet risks, tighten lending standards, and further reduce their credit supply.

And then there is the thorny issue of "fractional reserve banking". It means that banks' cash reserves are merely a tiny fraction compared to their customers' sight deposits, which can be withdrawn at any time and in full should the customer choose to do so. Fractional reserves mean that banks are "latently illiquid". As long as customers do not withdraw their funds, everything seems fine. But if they do, banks can plunge into a liquidity crisis: They simply do not have enough cash to fund their customers' cash withdrawals.

To prevent a liquidity crisis in March 2023, linked to the failure of Silicon Valley Bank and Signature Bank, the US Federal Reserve (Fed) extended new credit and central bank money to banks in need. While a system-wide liquidity shortage can technically be solved or prevented that way, there is no guarantee that investors' and customers' lost confidence can be restored that easily. Confidence in banks is a crucial factor in the functioning of today's fiat money system, in which commercial banks keep up and increase the money stock through credit creation.

However, we know form sound economic theory that a fiat money system brings trouble. The money creation through bank credit expansion leads to overconsumption and malinvestment. It initially creates a boom, which inevitably is followed by a bust. The boom lasts as long as new credit and money are pumped into the economic and financial system. It turns into bust when the inflow of new credit and money dries up. The latter is typically caused by banks being unwilling or unable to extend new credit and roll over maturing customer loans.

It gets really nasty when loan defaults pile up. Banks' tight equity capital is dwindling, necessitating a reduction in balance sheet risk. The ensuing "credit crisis" typically triggers the economy and financial system to fall off the cliff. Investors and customers fear that banks could become insolvent, meaning that total income from banks' assets is exceeded by banks' entire payment obligations. If a liquidity crisis can cause a bank run, widespread concern among investors that banks could become insolvent certainly will.

Can the problems in the US banking system be solved by, say, establishing a system-wide deposit guarantee scheme? Are banks' capital bases strong enough to withstand the fallout of a potential recession? Will investor and customer confidence return and make concerns about the health of the banking system go away? Of course, there is a chance that everything will turn out fine – or at least that the fear of an immediate crisis will wane or even die down. However, there is also a possibility that this will not be the case and that the problems in the banking system will worsen.

Investors should know that in the event of a big crisis, a crash of the economic and financial system, there will presumably be no other option than for the central bank to intervene by lowering borrowing costs and injecting new credit and money. The casualty of such a large-scale "monetization" would be the purchasing power of the US dollar (and likely many other fiat currencies because banks elsewhere will not remain unaffected). High inflation, or perhaps sky-high inflation, would then be the outcome of "rescuing" the fiat money regime.

What does it mean for the investor? One way to protect against credit and/or inflation risks is to hold physical gold and silver as part of your liquid portfolio. These precious metals do not carry any default or counterparty risk, and central banks running the electronic printing presses cannot reduce their exchange value. Physical gold, in particular, has served people as reliable money, as a store of value to be trusted for thousands of years. There is good reason to expect that physical gold will continue to protect investors when the fiat money regime turns sour.

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The video of this article can be found ***here***.

PRECIOUS METALS PRICES

In US-Dollar per ounce

	Gold		Silver		Platinum		Palladium	
I. Actual	**2030,6**		**25,3**		**1113,2**		**1601,3**	
II. Gliding averages								
10 days	1991,0		25,1		1084,3		1534,6	
20 days	1999,0		25,1		1054,2		1507,3	
50 days	1942,2		23,2		1003,0		1463,1	
100 days	1902,3		23,2		1007,7		1577,0	
200 days	1810,9		21,6		968,8		1811,2	
III. Estimates for end 2023	**2200**		**29**		**1250**		**1450**	
(1)	*8*		*14*		*12*		*-9*	
Band width	*Low*	*High*	*Low*	*High*	*Low*	*High*	*Low*	*High*
	1900	2360	23,3	32,9	1060	1380	1300	1670
(1)	*-6*	*16*	*-8*	*30*	*-5*	*24*	*-19*	*4*
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	**1848,7**		**23,1**		**1013,5**		**1457,9**	
II. Gliding averages								
10 days	1810,5		22,8		986,0		1395,5	
20 days	1822,4		22,9		960,9		1374,0	
50 days	1795,9		21,5		927,3		1353,0	
100 days	1766,1		21,6		935,6		1464,9	
200 days	1736,6		20,7		929,2		1748,9	
III. Estimates for autumn 2023	**2100**		**28**		**1200**		**1392**	
(1)	*14*		*21*		*18*		*-5*	
Band width	*Low*	*High*	*Low*	*High*	*Low*	*High*	*Low*	*High*
	1820	2300	22,4	31,6	1010	1320	1240	1600
(1)	*-2*	*24*	*-3*	*37*	*0*	*30*	*-15*	*10*
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.

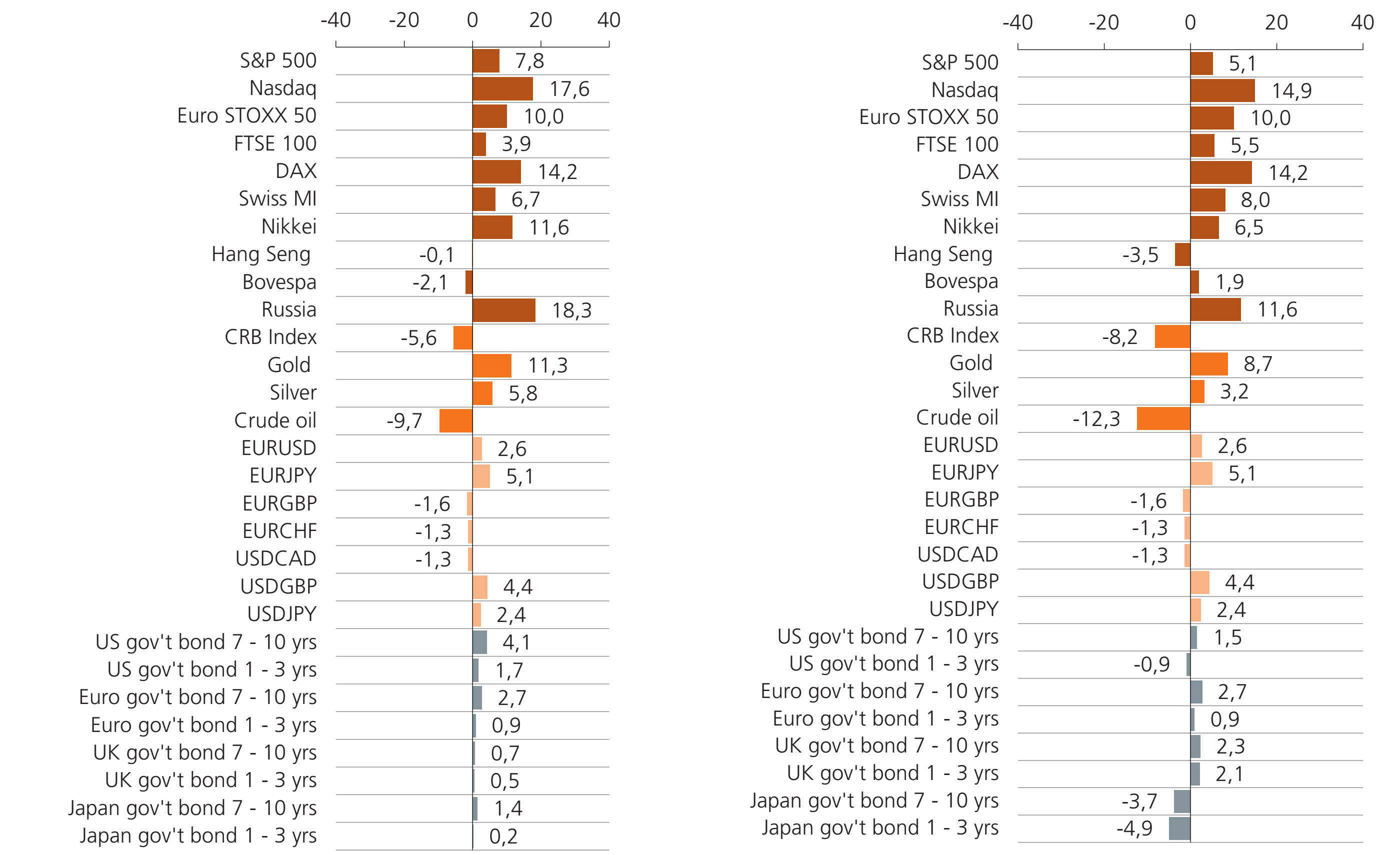
BITCOIN, PERFORMANCE OF VARIOUS ASSET CLASSES

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
11 May 2023	Banks And Gold
27 April 2023	Gold Remain Reliable In Increasingly Unreliable World Affairs
13 April 2023	The “Cause of the Crisis” that Must Not Be Named
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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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The Degussa Marktreport (German) and the Degussa Market Report (English) are available at:
www.degussa-goldhandel.de/marktreport

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