Degussa Market Report

25 May 2023 **Economics · Finance · Precious Metals**

OUR TOP ISSUES

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

WATCH OUT: THE "TRUST FACTOR"!

Hardly anyone would disagree with the proposition that trust is important for human action. Without trust, any social interaction is difficult, if not impossible. Even Bitcoin enthusiasts need at least a certain amount of trust – just think of the trust they put into the implementation of Satoshi Nakamoto's White Paper in practice. Trust is particularly needed in the field of credit and money. In fact, it is vital for the smooth operation of a sophisticated financial system.

Trust is indispensable for today's fiat money regime. Fiat money is created from thin air, mostly through bank credit expansion. Its quantity can be increased literally at any time in any amount politically desired: central banks hold the monopoly of central bank fiat money, and commercial banks have a license to produce commercial bank fiat money on the basis of central bank fiat money. As experience shows, a fiat money regime is always at risk of producing too much money, leading to an excessive inflation rate.

Just think of the period from 2020 to early 2023, when consumer price inflation in many countries skyrocketed. Why did it happen? In an attempt to fend off the fallout of the politically dictated lockdown crisis, central banks increased the quantity of money by buying all kinds of credit instruments. The result was an enormous monetary overhang, which inflated consumer and asset prices. This development was accompanied by strong "cost-push" factors.

Supply bottlenecks led to upward pressure on production inputs. The "green policy" drove energy prices up. The war in Ukraine contributed to higher prices for virtually all commodities. The prevailing monetary overhang made it possible that the cost-push factors translated into significantly higher prices, a process that resulted in sky-high inflation. At the same time, however, there was no flight from fiat currencies. Of course, many people complained about the decline in fiat monies' purchasing power. But it is fair to say that most of them haven't lost their trust in fiat monies.

It seems that people have retained their faith in central banks. Why? People are being told that sky-high inflation is due to cost-push developments, which are beyond the control of monetary policy. Such an explanation, if believed by the public, dispels any doubt about central banks' "inflation-fighting credibility." (Let me say: incorrectly, as inflation is always and everywhere a monetary phenomenon, to use the words of the US economist Milton Friedman (1912–2006).)

What is more, people seem to have remained confident that central banks are in a position to bring inflation down and that the currently sky-high inflation will be a temporary rather than a permanent evil. Even the latest turmoil in the US banking market or the excessive rise in government debt around the world have not significantly, let alone permanently, affected people's confidence in the fiat US dollar and other fiat monies.

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	1.963,3	-2,6	1,8	6,9
Silver	23,1	-9,9	-2,4	7,4
Platinum	1.027,1	-3,0	1,6	6,5
Palladium	1.400,0	-6,1	-15,1	-30,0
II. In euro				
Gold	1.828,4	-0,2	3,0	6,9
Silver	21,5	-7,5	-1,4	7,4
Platinum	956,5	-0,5	2,8	6,1
Palladium	1.304,0	-3,6	-14,1	-30,0
III. Gold price in other currencies				
JPY	273.840,0	0,6	9,2	15,9
CNY	13.872,8	-0,5	6,6	13,2
GBP	1.585,2	-0,8	1,3	8,8
INR	162.406,3	1,9	3,1	14,0
RUB	156.567,5	-0,3	15,1	41,5

Source: Refinitiv; calculations by Degussa.
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By and large, investors seem to remain convinced that "nothing terrible will happen to fiat monies." Inflation expectations, as measured by, for example, inflation-indexed bond yields or inflation swaps, have remained relatively contained. It shows that investors are not expecting runaway inflation. Price increases for consumer and producer goods are still quite high, but they have largely lost momentum in recent months.

Moreover, indicators of stress in financial markets have remained fairly low. To put things into perspective, stress levels during the US banking sector turmoil in March 2023 were only 40% of the level seen during the lockdown crisis in 2020; it was only 20% of the stress level in the great financial and economic crisis of 2008/2009. Markets express confidence that a credit crisis is not even remotely imminent.

It may come as a surprise to many, but confidence in the fiat money regime is alive and well – at least according to the price developments in financial markets. This leads to the question: Are investors expecting the impossible? Of course, central banks can bail out the economic and financial system in times of crisis. This, however, would require the issuance of additional fiat money to keep struggling borrowers afloat. High inflation would be the result.

Or central banks reduce the growth rate of the money supply to lower future inflation. This, however, would almost certainly trigger a drop in output and employment and cause credit defaults – which would put severe pressure on the highly leveraged fiat money system. Or will central bankers succeed in lowering inflation while at the same time preventing the economies from going into (a severe) recession?

If the latter were the case, investors would indeed expect the impossible. The latest series of interest rate hikes by the central banks are already leading to a sharp decline in credit and money supply growth. In real, i.e. inflation-adjusted terms, the growth rate of credit and money is already deep in negative territory. It indicates a decline in consumers' and firms' real spending power and portends a looming recession.

We believe there is a relatively high probability that the slowdown of the world economy will be more severe in the coming quarters than consensus estimates suggest and that the downward pressure on goods price inflation, resulting from slower credit and money supply growth, will be much more pronounced. We also believe that central banks' interest rates will not remain at elevated levels for long but will sooner rather than later be cut to much lower levels, keeping real (that is inflation-adjusted) interest rates in negative territory.

This, in turn, clearly has the potential to prompt investors to reassess the risk/reward situation in financial markets. While the "trust factor" among investors is currently high, it will likely fall. With this in mind, we see a good chance that investor interest in precious metals as a store of value and hedge against the whims of the fiat money system will soon be propelled to much higher levels. Because it will become increasingly obvious that fiat monies are not and will never be a reliable store of value. Physical gold and silver offer savers and investors a much-needed alternative.

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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	**1962,8**	**23,1**	**1026,8**	**1399,5**
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)	*12*	*25*	*22*	*4*

	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*	*1*	*42*	*3*	*34*	*-7*	*19*

	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	**1828,6**	**21,5**	**956,6**	**1303,8**
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)	*15*	*29*	*25*	*7*

	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*	*26*	*4*	*47*	*6*	*38*	*-5*	*23*

	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.

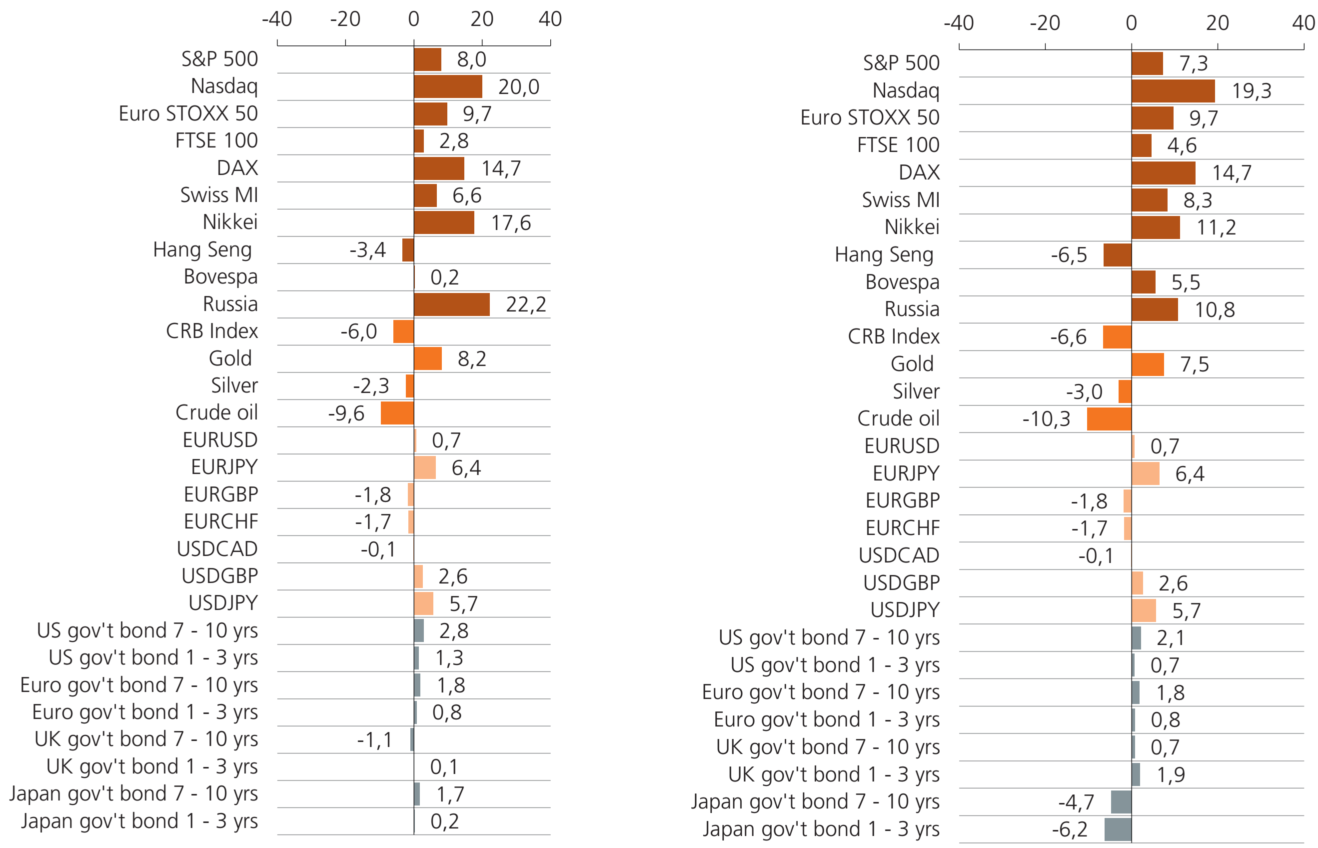
BITCOIN, PERFORMANCE OF VARIOUS ASSET CLASSES

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
25 May 2023	Watch Out: The 'Trust Factor'!
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
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
2 February 2023	You Think the Global Economy Is Brigthening? 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
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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

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GOLD UND SILBER.

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