Degussa Market Report

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	1.959,2	-0,9	7,2	8,4
Silver	23,5	-1,5	12,2	15,9
Platinum	1.033,4	-2,8	8,5	15,6
Palladium	1.410,0	-6,8	-0,5	-27,2
II. In euro				
Gold	1.832,9	0,2	6,2	6,4
Silver	22,0	-0,5	11,1	13,6
Platinum	966,7	-1,7	7,4	13,5
Palladium	1.319,0	-5,8	-1,4	-28,6
III. Gold price in other currencies				
JPY	273.856,0	0,4	10,1	11,7
CNY	13.949,6	0,7	10,2	15,3
GBP	1.578,5	-0,6	3,9	6,4
INR	161.682,2	1,9	7,1	13,4
RUB	159.710,2	2,1	16,5	68,4

Source: Refinitiv; calculations by Degussa.

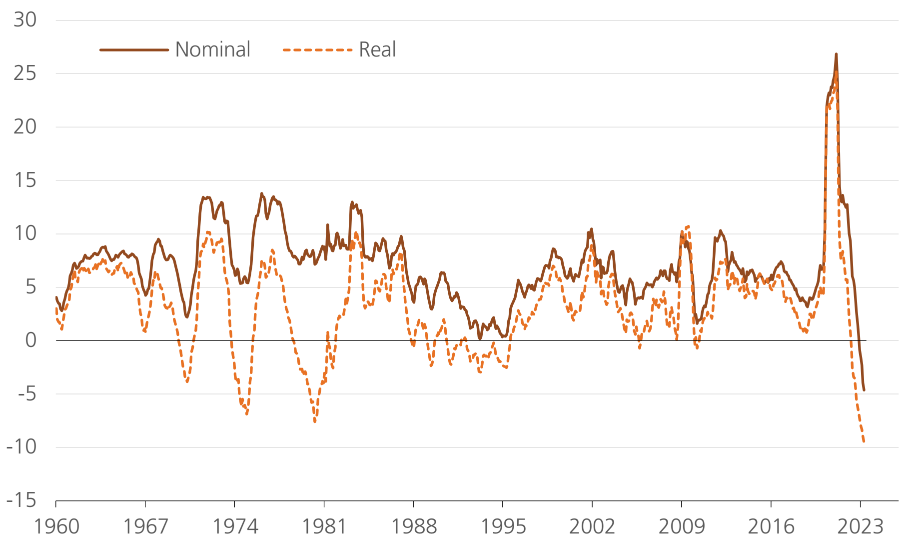
OUR TOP ISSUES

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

THE SHRINKING MONEY SUPPLY AND THE CASE FOR GOLD

The US money stock M2 – defined as US dollar cash in circulation plus consumers' and producers' US dollar deposits at US commercial banks – is shrinking. In April 2023, it declined by 4.7 per cent compared to last year. Why is this happening, and more importantly, what does it mean for precious metal investors? Answers to these questions should be of great interest to those who think "money matters".

1 US money stock M2, nominal and real*, annual changes in per cent



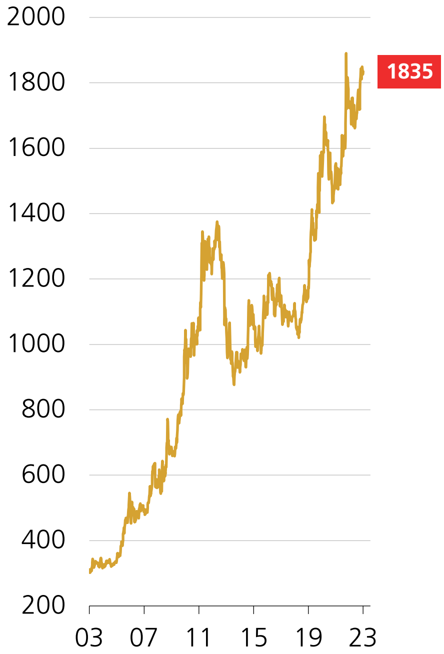
Source: Refinitiv; calculation Degussa. *Nominal rate minus annual change in CPI.

Looking at the data more closely, we found that the decline in M2 can be mainly attributed to three factors. Factor one: People have switched from deposits (included in M2) into longer-term bank liabilities (outside the definition of M2). This is presumably due to the higher interest rates on bank bonds compared to bank deposits and leads to a decrease in M2.

Factor two: The Federal Reserve (Fed) conducts "reverse repurchase operations" with (privileged) non-banks such as hedge funds, asset managers, etc. The latter have the opportunity to exchange their "excess cash holdings" overnight for bonds held by the Fed. As demand deposits held at commercial banks are transferred to the Fed, this also contributes to the contraction of the money stock M2.

Factor three: US commercial banks may also have sold some of their assets (particularly bonds and loans) to non-banks. In such a case (unfortunately, we do not

Gold price in euro (per ounce)



Source: Refinitiv; graph Degussa.

have access to the corresponding database), both the assets and the liabilities of the banks (in the form of "destroyed" demand deposits) decrease, also contributing to a reduction of the money stock M2.

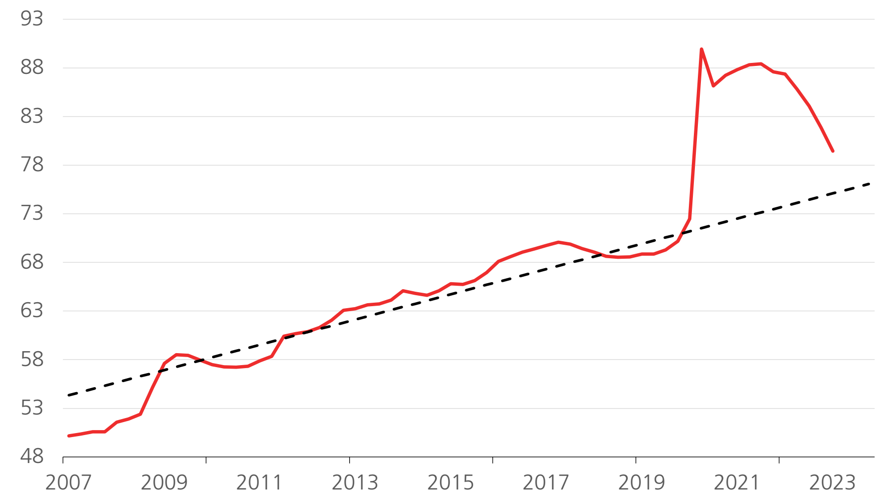
Taken together, these three factors suggest that the amount of liquidity in the US economy, in general, has declined sharply in recent months. In addition, the changes in money holdings make it more expensive for banks to refinance. If banks' returns on their asset portfolio remain unchanged, downward pressure on US lenders' profitability will increase.

It should be noted that US bank credit expansion – the main source of M2 expansion – has slowed down considerably lately. This may be due to lower credit demand (due to higher interest rates and slower economic growth) or constraints on the credit supply-side (as bank lending standards have tightened). Nevertheless, so far positive growth rates of bank loans have increased, not decreased, the money stock M2.

In fact, bank credit expansion is crucial for determining the long-term trend of the money stock M2. Should banks decide to stop lending, the inflow of new money into the economy would come to a standstill. And if banks were to ask their customers to repay their loans, the money stock would decrease. This, in turn, would pave the way to deflation: falling goods prices across the board, most likely accompanied by a recession. How likely is such a scenario?

The likelihood of the Fed "overtightening" monetary policy is certainly not zero. Look at the "monetary overhang" (calculated based on the US M2). The monetary overhang can be understood as money created that has not yet been absorbed by higher goods prices and/or higher production output. Starting in early 2020, the Fed had massively increased M2 (by roughly 40 per cent), causing an enormous monetary overhang. In the meantime, the monetary overhang has been absorbed as GDP growth has returned and goods price inflation soared. In the first quarter of 2023, the monetary overhang fell to just 2.1 per cent.

2 US M2 "monetary overhang" is on the decline



Quelle: Refinitiv; calculations Degussa. Dotted line: estimated trend from Q1 07 to Q4 19, extrapolated to Q1 2023. Monetary overhang defined as (i) actual M2 relative to nominal GDP in relation to (ii) the long-term trend of M2/nominal GDP. Last data point: Q1 23.

If M2 declines further, the monetary overhang could easily turn negative, exerting downward pressure on nominal GDP growth –most likely forcing the economy towards subdued goods price inflation and/or below-potential GDP growth, or a combination of both. Needless to say, this would be an extreme challenge for the highly leveraged fiat money system. In fact, once a deflationary process gets underway, it could lead to the collapse of the credit pyramid.

In this context, we must remember that the Fed's interest rate hikes are not yet fully reflected in the economic and financial system. This is because monetary policy works with a "time lag". It is fair to assume that we will see further restrictive effects from the rise in credit costs which started in 2022. If, at some point, it turns out that the Fed has tightened monetary policy too much already and a recessionary-deflationary expectation sets in, things could quite easily get ugly.

If money expansion stops and is reversed, the "house of credit cards" will collapse. The inflationary illusion of wealth and prosperity ends, and businesses and employment suffer badly. Murray N. Rothbard (1926–1995) put it succinctly: "As soon as credit expansion stops, then the piper must be paid, and the inevitable readjustments liquidate the unsound over-investments of the boom, with the reassertion of a greater proportionate emphasis on consumers' goods production."

It is fair to say that an impending deflationary-recessionary shock – caused by a depressed money stock – would very likely lead to central bank councils outdoing one another to ease monetary policy again: through interest rate cuts and the expansion of central banks' balance sheets, injecting near-unlimited liquidity into the banking system, and increasing the supply of money in the hands of the private sector – as has been practised virtually all over the world in 2020 and 2021.

In such a situation, the expansion of money, which is creating monetary inflation, will be seen as the policy of the least evil, finding approval among the public at large, one has to fear. Indeed, while the probability of the fiat money system ending in deflation is certainly not zero, there is good reason to believe that inflation poses an even greater risk for the investor in the current stage of the fiat money system's life cycle – which may pretty soon be compelled to confront deflationary forces by returning to inflationary policies.

Against this backdrop, we recommend holding at least a portion of the liquid portfolio in physical gold (and also in physical silver). These precious metals can be considered as insurance against the rising economic and (geo-)political risks that continue to increase with the prevalence of the political efforts to prop up the worldwide fiat money system. So even the temporarily shrinking US money supply should not deter investors from demanding gold. Quite the contrary!

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PRECIOUS METALS PRICES

In US-Dollar per ounce

	Gold		Silver		Platinum		Palladium	
I. Actual	**1960,7**		**23,5**		**1033,1**		**1410,9**	
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*		*23*		*21*		*3*	
Band width	*Low*	*High*	*Low*	*High*	*Low*	*High*	*Low*	*High*
	1900	2360	23,3	32,9	1060	1380	1300	1670
(1)	*-3*	*20*	*-1*	*40*	*3*	*34*	*-8*	*18*
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	**1834,5**		**22,0**		**966,6**		**1320,1**	
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*		*27*		*24*		*5*	
Band width	*Low*	*High*	*Low*	*High*	*Low*	*High*	*Low*	*High*
	1820	2300	22,4	31,6	1010	1320	1240	1600
(1)	*-1*	*25*	*2*	*44*	*4*	*37*	*-6*	*21*
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.

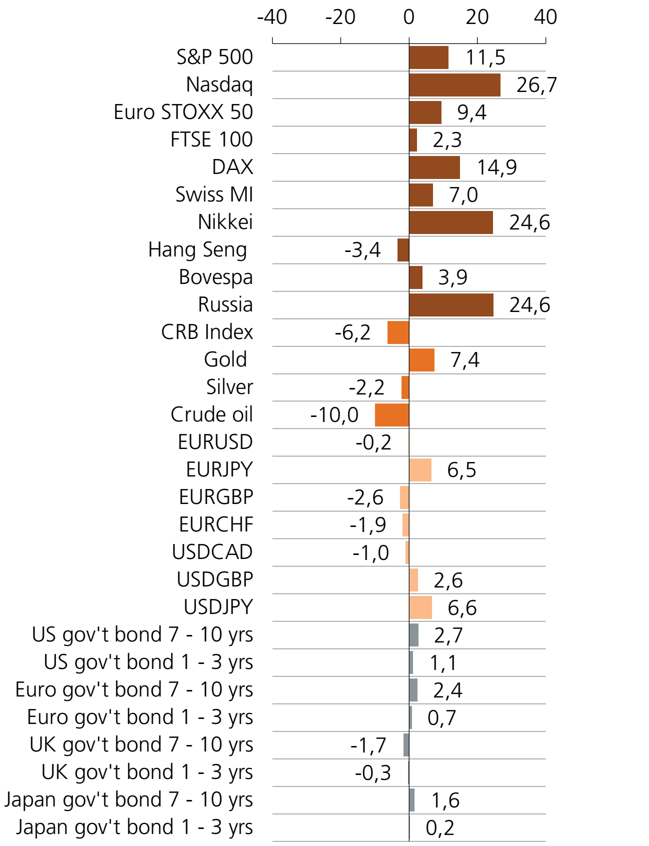
BITCOIN, PERFORMANCE OF VARIOUS ASSET CLASSES

Bitcoin in US dollars

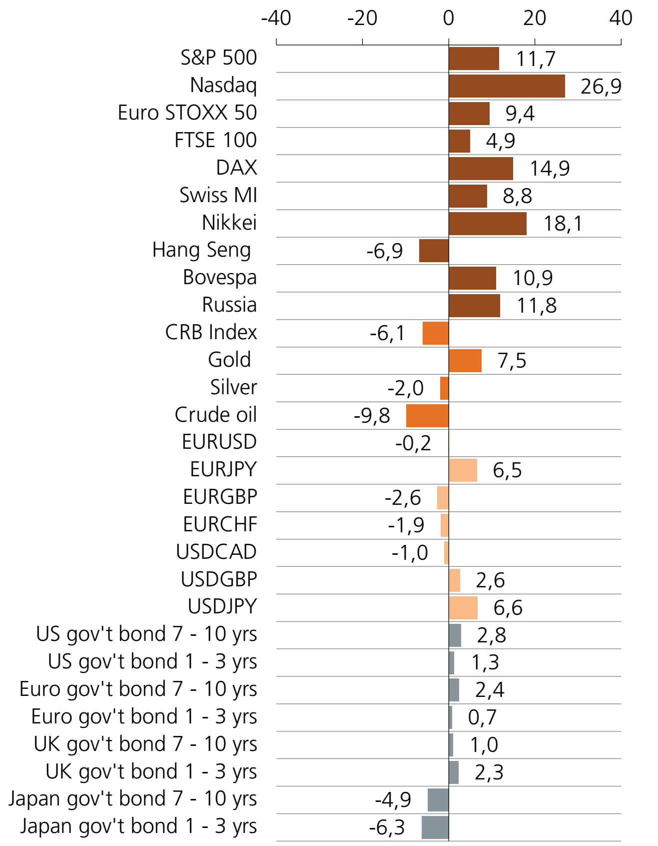
Source: Refinitiv; graph by Degussa.

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
7 June 2023	The Shrinking of the Money Supply and the Price of Gold
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
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

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