Degussa Market Report

22 June 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	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

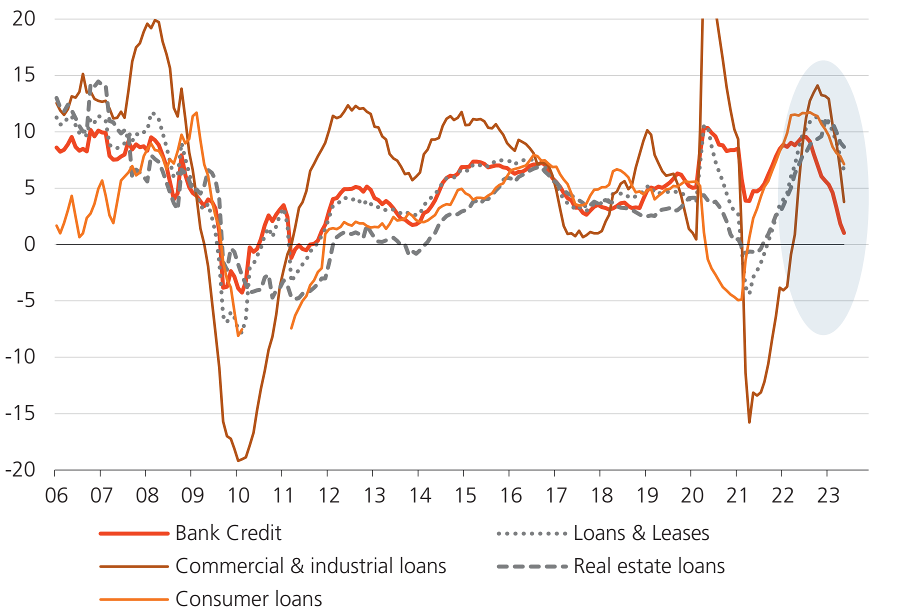
This is a short summary of our fortnightly ***Degussa Marktreport****.*

THE CREDIT CYCLE HAS TURNED DOWN. WHAT DOES IT MEAN FOR GOLD?

The growth rate of bank lending is decelerating sharply. In May 2023, the annual growth in US bank credit slowed to just 1 per cent – down from 9.5 per cent in July 2022. The growth in bank loans to businesses, consumers, and real estate developers has declined considerably from their recent peaks. Therefore, it is fair to say that the credit cycle has turned downwards. As experience has shown on many occasions, a slowdown in bank credit growth spells trouble.

Bank credit growth slows down

US bank credit aggregates, annual changes in per cent



Source: Refinitiv; own calculation.

Why? In today's unbacked paper money (or: fiat money) system, bank lending artificially decreases market interest rates while simultaneously increasing the money supply. The increase in bank lending, which is not backed by "real savings" but comes "out of thin air", depresses the market interest rate – compared to a situation in which the credit supply had not been increased.

And whenever banks grant new loans to consumers, producers, and government entities, they increase the money supply. In other words, in a fiat money system, banks do not transfer existing savings from the saver to the borrower but quite literally create new money balances whenever they extend new credit. The inconvenient truth is that in a fiat money system, bank lending is inflationary in the sense that it leads to an artificial expansion in the money supply.

As long as banks continue to lend and expand the money stock and the market interest rates fall, the economy will be pushed along, and consumption and investment increase. Once the creation of additional bank credit slows down, let alone goes into reverse, the proverbial punch bowl is taken from the party. Interest rates rise, money supply growth declines or falls, and the illusionary boom, created by ever more credit and money supplied at low interest rates, ends.

You might say: haven't people been waiting for the "recession that never came" for quite some time now? Maybe it won't come at all? This is indeed a good point that cannot be dismissed out of hand. However, there is the "time lag" issue, which argues that it may be too early to dismiss recession concerns. The reason is that monetary policy measures take time to show their (full) effects.

From this perspective, the consequences of the series of interest rate hikes by the US central bank (Fed) and other central banks worldwide are just beginning to show – and that (much) more downward pressure on bank lending and money expansion must be expected. Suppose you, dear reader, agree with such an interpretation. In that case (and if we give a "soft landing scenario a low probability), we should conclude that the popping of the current "boom" is a done deal and a "bust" is actually inevitable.

Of course, we cannot say exactly when things will turn sour. And we do not know how quickly central banks will respond to increasing stress in the economic and financial system. The currently elevated consumer goods price inflation keeps central bankers hawkish. However, consumer goods price inflation is already declining, and it will likely continue to slow substantially due to the (interest-driven) slowdown in monetary expansion (or the contraction in US money stock M2).

Should the drop in money supply continue as banks become increasingly unwilling and/or unable to extend new loans, a deflationary effect, i.e. downward pressure on consumer, producer and asset prices (such as real estate and stocks), cannot be ruled out.

However, any signs of a slowdown in economic activity would open the door for central bank councils to abandon their rate hiking spree and move to an easier monetary policy. In this sense, the unfolding downturn of the credit cycle may be seen as an early indicator for a return to a low-interest regime in the not-too-distant future. The jitters accompanying a credit cycle downturn or central bank countermeasures make holding physical gold a good idea.

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PRECIOUS METALS PRICES

In US-Dollar per ounce

	Gold		Silver		Platinum		Palladium	
I. Actual	**1932,0**		**22,7**		**947,7**		**1362,7**	
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)	*14*		*28*		*32*		*6*	
Band width	*Low*	*High*	*Low*	*High*	*Low*	*High*	*Low*	*High*
	1900	2360	23,3	32,9	950	1380	1300	1670
(1)	*-2*	*22*	*3*	*45*	*0*	*46*	*-5*	*23*
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	**1763,9**		**20,8**		**865,2**		**1244,2**	
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)	*19*		*34*		*39*		*12*	
Band width	*Low*	*High*	*Low*	*High*	*Low*	*High*	*Low*	*High*
	1820	2300	22,4	31,6	910	1320	1240	1600
(1)	*3*	*30*	*8*	*52*	*5*	*53*	*0*	*29*
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

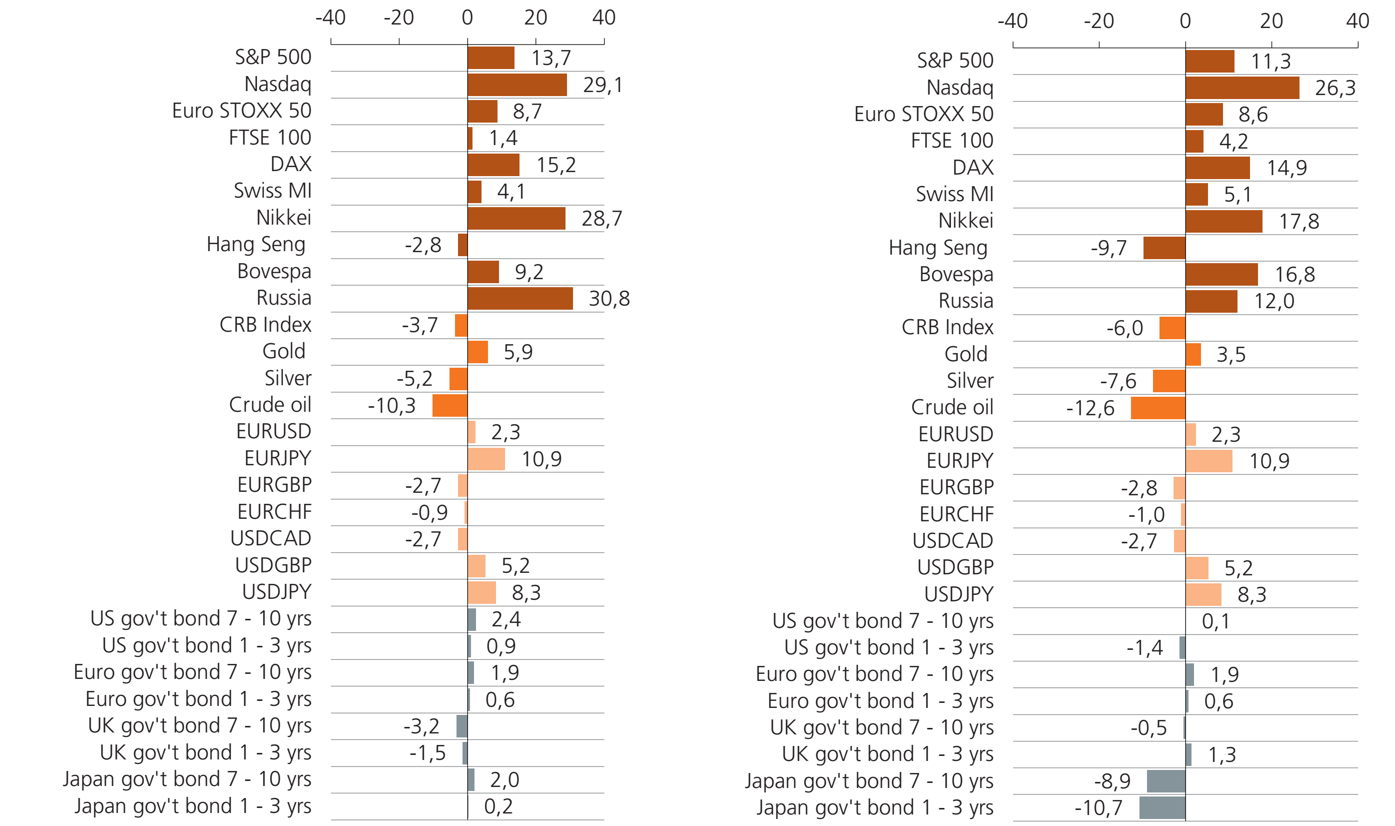
Bitcoin in US dollars

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*

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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
10 November 2022	Investing In An Inflationary Regime: Keep At Least Some Gold
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29 September 2022	Capital Markets Have Become A Dangerous Place
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1 September 2022	Everything you always wanted to know about … MONEY (but were afraid to ask)
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21 July 2022	Dollar Dominance Brings Yen And Euro To Their Knees
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18 November 2021	The Case Against Gold And Silver. Revisited

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