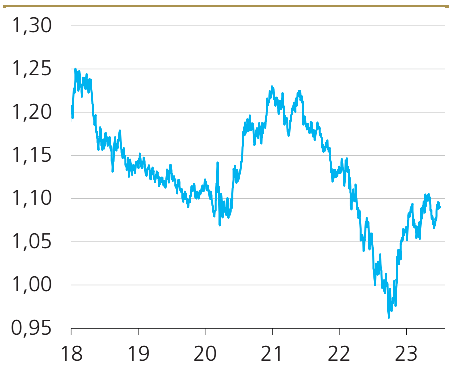
Degussa Market Report

6 July 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 | 1.927,8 | -1,5 | -2,0 | 9,2 |
| Silver | 22,9 | -5,3 | -5,1 | 12,5 |
| Platinum | 917,1 | -6,6 | -7,5 | 2,2 |
| Palladium | 1.238,9 | -12,2 | -15,2 | -41,8 |
| **II. In euro** | | | | |
| Gold | 1.769,7 | -1,1 | -2,5 | 2,5 |
| Silver | 21,0 | -5,0 | -5,4 | 5,6 |
| Platinum | 841,9 | -6,3 | -7,9 | -4,1 |
| Palladium | 1.137,0 | -11,9 | -15,6 | -45,4 |
| **III. Gold price in other currencies** | | | | |
| JPY | 278.217,0 | 0,2 | 6,4 | 18,3 |
| CNY | 13.962,1 | 0,1 | 3,3 | 17,3 |
| GBP | 1.516,0 | -0,7 | -5,0 | 4,5 |
| INR | 158.498,6 | 1,9 | -2,0 | 13,2 |
| RUB | 174.493,0 | 8,1 | 13,6 | 65,4 |

Source: Refinitiv; calculations by Degussa.

## OUR TOP ISSUES

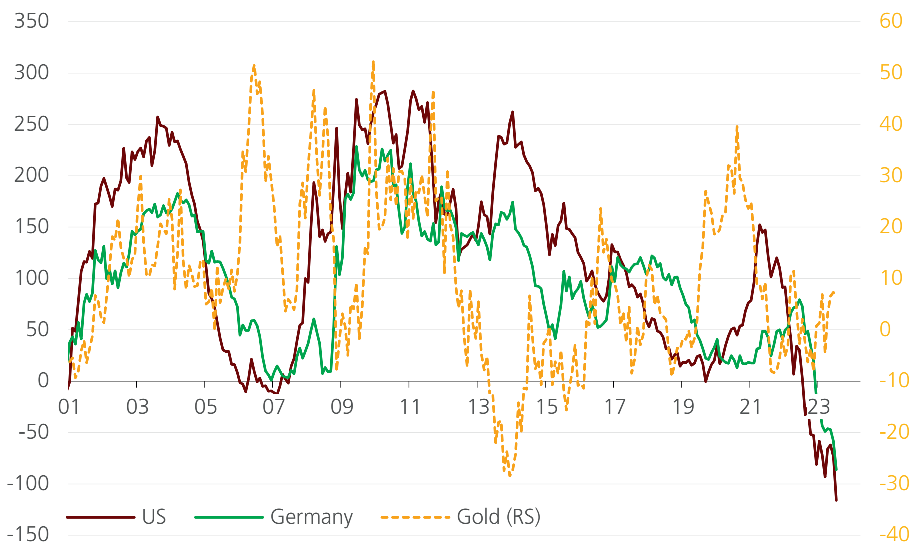
*This is a short summary of our fortnightly **Degussa Marktreport**.*

# WHAT THE INVERSION OF THE YIELD CURVE IS TELLING US

The yield curves in the US and the euro area are deeply inverted. This means the level of long-term interest rates trades well below the level of short-term yields. In July 2023, the 10-year US Treasury yield was 116 basis points below the 2-year US Treasury rate, and the corresponding yield curve inversion in the euro area was 86 basis points – rather serious inversions from a historical perspective. Moreover, experience has shown that an inverted yield curve is often an indicator of an impending financial and/or economic crisis, often of recession. Is this time any different?

**1 Yield curve inversions suggest higher gold price**

*10-yrs minus 2-yrs in basis points, US and Germany, and gold price (USD/oz)*




Source: Refinitiv; own calculations.

On the one hand, one could argue that the yield curve inversion has been around for quite some time, but a major crisis hasn't hit yet, so the yield curve is wrongly sounding alarm bells and should be dismissed. On the other hand, one has to consider that the yield curve tends to be a leading indicator: it sends crisis signals well before such a scenario is supported by hard data.

In fact, there are some developments that could validate the signals currently coming from the yield curves.

The US Federal Reserve and the European Central Bank have raised interest rates significantly in a relatively short period of time. The increase in credit and capital costs will likely curb consumption and investment. However, it will take some time for the full effect to be felt as monetary policy measures become noticeable with a time delay.

In addition, banks, in particular, will feel the inversion of the yield curve, which is rather unfavourable for their lending business: They can no longer make money from maturity transformation. This, in turn, increases the cost of credit and reduces banks' willingness to take on riskier assets.

No less importantly, as their loans mature, borrowers will continue to be under pressure and have to refinance them at considerably higher interest rates. When borrowers decide to repay their loans, the outstanding credit and money supply shrinks, absorbing market liquidity and putting downward pressure on asset prices.

All these considerations cannot be dismissed lightly, as we can already observe that the growth rates of bank credit aggregates in the US and the euro area – the main source of monetary expansion in the respective economies – have slowed noticeably in recent months, indicating the credit cycle has already begun its downward trend. That said, the signals from the yield curves certainly deserve significant attention from investors.

Not least because there seems to be a fairly clear correlation between the shape of the yield curve and the price of gold. As Figure 1 shows, changes in gold prices were negatively associated with the shape of the yield curve: a steepening (flattening) of the yield curve, on average, tended to be associated with a falling (rising) gold price.

The flattening and inversion of the US yield curve from 2021 onwards have only been associated with a rather modest increase in the price of gold. Compared to the years 2007/2008/2009 – the global financial and economic crisis – one would have expected a much more pronounced increase in the price of gold, especially given the current strong inversion of the US yield curve.

Indeed, in our view, markets are underestimating the downward potential from significantly higher interest rates, particularly the burgeoning problems in the credit and monetary systems, initially manifesting in a slowdown in bank lending and a contraction of the money supply. That said, we wouldn't be surprised if the gold price was to return to its long-term upward trend soon – as investors renew their interest in the yellow metal as a hedge against the vagaries of the worldwide fiat currency regime.

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# PRECIOUS METALS PRICES

**In US-Dollar per ounce**

| | Gold | | Silver | | Platinum | | Palladium | |
|---|---|---|---|---|---|---|---|---|
| **I. Actual** | **1927,9** | | **22,9** | | **916,7** | | **1238,3** | |
| II. Gliding averages | | | | | | | | |
| 10 days | 1922,3 | | 22,7 | | 919,5 | | 1275,4 | |
| 20 days | 1938,9 | | 23,3 | | 956,4 | | 1326,2 | |
| 50 days | 1967,5 | | 23,9 | | 1015,9 | | 1414,7 | |
| 100 days | 1947,0 | | 23,4 | | 1001,9 | | 1438,7 | |
| 200 days | 1863,7 | | 22,6 | | 994,2 | | 1651,1 | |
| **III. Estimates for end 2023** | **2200** | | **29** | | **1250** | | **1450** | |
| (1) | *14* | | *27* | | *36* | | *17* | |
| *Band width* | *Low* | *High* | *Low* | *High* | *Low* | *High* | *Low* | *High* |
| | 1900 | 2360 | 23,3 | 32,9 | 950 | 1380 | 1300 | 1670 |
| (1) | *-1* | *22* | *2* | *44* | *4* | *51* | *5* | *35* |
| 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** | **1770,2** | | **21,0** | | **841,7** | | **1137,0** | |
| II. Gliding averages | | | | | | | | |
| 10 days | 1760,9 | | 20,8 | | 842,3 | | 1168,3 | |
| 20 days | 1783,3 | | 21,4 | | 879,8 | | 1219,9 | |
| 50 days | 1811,3 | | 22,0 | | 935,3 | | 1302,4 | |
| 100 days | 1799,1 | | 21,6 | | 925,8 | | 1329,7 | |
| 200 days | 1756,7 | | 21,3 | | 937,9 | | 1566,4 | |
| **III. Estimates for autumn 2023** | **2100** | | **28** | | **1200** | | **1392** | |
| (1) | *19* | | *32* | | *43* | | *22* | |
| *Band width* | *Low* | *High* | *Low* | *High* | *Low* | *High* | *Low* | *High* |
| | 1820 | 2300 | 22,4 | 31,6 | 910 | 1320 | 1240 | 1600 |
| (1) | *3* | *30* | *6* | *50* | *8* | *57* | *9* | *41* |
| 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.

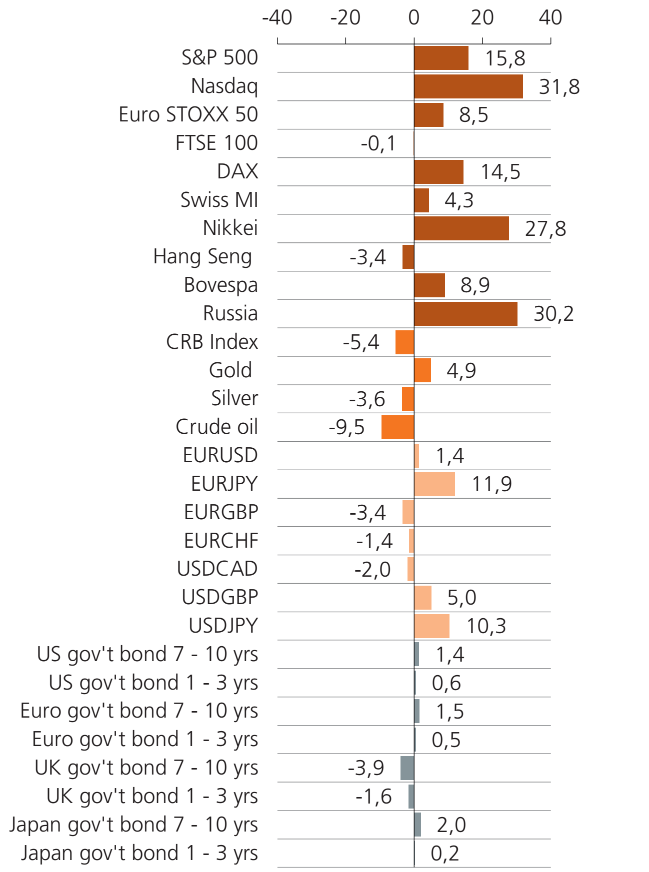
# BITCOIN, PERFORMANCE OF VARIOUS ASSET CLASSES

**Bitcoin in US dollars**

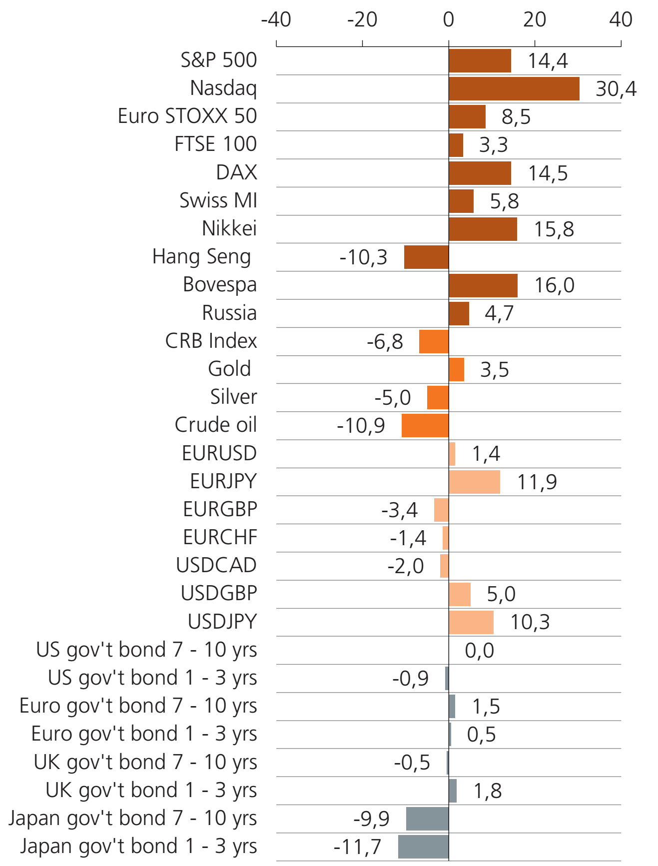

Source: Refinitiv; graph by Degussa.

**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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