

20 July 2023

Economics · Finance · Precious Metals

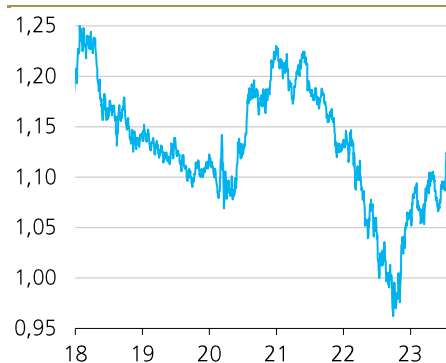
USD per ounce of gold



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	1.977,3	3,0	0,5	12,0
Silver	25,2	10,6	4,5	23,8
Platinum	973,0	8,0	-1,8	8,5
Palladium	1.307,7	6,6	-10,4	-38,6
II. In euro				
Gold	1.765,3	0,4	-2,8	2,2
Silver	22,5	7,7	1,2	13,0
Platinum	868,7	5,2	-5,0	-1,0
Palladium	1.168,0	3,8	-13,3	-43,9
III. Gold price in other currencies				
JPY	275.985,0	-0,4	5,6	17,4
CNY	14.287,6	2,6	5,7	20,0
GBP	1.527,9	1,1	-4,3	5,3
INR	162.233,4	1,9	0,3	15,8
RUB	181.354,5	8,7	18,1	71,9

Source: Refinitiv; calculations by Degussa.

OUR TOP ISSUES

This is a short summary of our fortnightly Degussa Marktreport.

THE BRICS CURRENCY PROJECT PICKS UP SPEED

On Friday, July 7, 2023, news broke in the financial market media that the "BRICS" (that is, Brazil, Russia, India, China, and South Africa) will implement their plan to create a new international currency for trading and financial transactions, and that this new currency will be "gold backed."

Most recently, on June 2, 2023, the foreign ministers of the BRICS—as well as representatives from more than twelve countries—met in Cape Town, South Africa (interestingly at the "Cape of Good Hope"). Among other things, it was emphasized that they wanted to create an international trading currency. Undoubtedly, this is an undertaking that could have consequences of epic proportions.

After all, the BRICS countries represent about 3.2 billion people, approximately 40 percent of the world's population, with a combined economic output nearly the size of the economy of the United States of America. And there are also many other countries (such as Saudi Arabia, United Arab Emirates, Egypt, Iran, Algeria, Argentina, and Kazakhstan) that might want to join the BRICS club.

The goal of the BRICS countries is to reduce their economic and political dependence on the US dollar, challenging "US dollar imperialism." To this end, they want to create a new international currency for commercial and financial transactions, replacing the US dollar as the means of transaction unit.

The reason is obvious. The US administration has on many occasions used the greenback as a "geopolitical weapon" and engaged in a kind of "financial warfare": Washington sanctions enemy countries by denying them access to the US dollar capital market, but above all, it shuts them off from the international US dollar-centric payment system.

The freezing of Russia's currency reserves (the equivalent of almost six hundred billion US dollars is currently at stake) has set off alarm bells in many non-Western countries. It has reminded a number of them that holding US dollars comes with a political risk. This, in turn, has prompted many to restructure their international foreign reserves: holding fewer US dollars, switching to other (smaller) currencies, but above all, buying more gold.

But how might the BRICS manage to swim away from the US dollar? While no details are available yet about how the new BRICS currency might be structured, it should not stop us from speculating about what lies ahead.

The BRICS could establish a new bank (the “BRICS Bank”), funded by gold deposits from BRICS central banks. The physically deposited gold holdings would be shown on the asset side of the BRICS bank’s balance sheet—and could be denominated, for example, “BRICS gold,” where one BRICS gold represents one gram of physical gold.

The BRICS Bank can then grant loans denominated in BRICS gold (for example, to exporters from BRICS countries and/or to importers of goods from abroad). To fund the loans, the BRICS Bank makes a credit contract with the holders of BRICS gold: The holders of BRICS gold agree to transfer their deposit to the BRICS Bank for, say, one month, or one or two years, against receiving an interest rate. What is more, the BRICS Bank, and it can also accept further gold deposits from international investors, who can hold (interest-bearing) BRICS gold deposits this way.

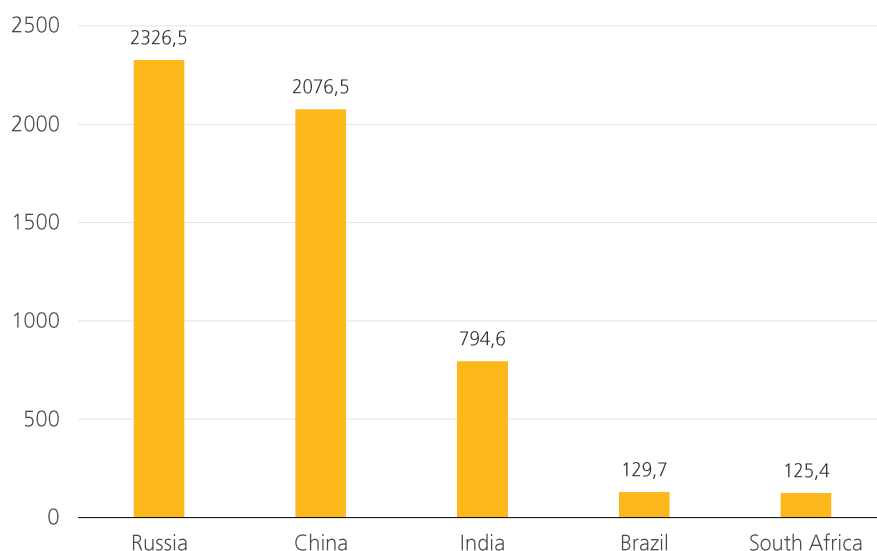
BRICS gold could henceforth be used by the BRICS countries and their trading partners as international money, as an international unit of account in global trade and financial transactions. Incidentally, the new de facto gold currency would not even have to be physically minted but could be and remain an accounting-only unit while being redeemable on demand.

The exporters from the BRICS countries and the other member countries would, however, have to be willing to sell their goods against BRICS gold instead of US dollars and other Western fiat currencies, and the importers from the Western countries would have to be willing and able to pay their bills in BRICS gold.

How do you get BRICS gold? Those demanding BRICS gold must either get a BRICS gold loan from the BRICS Bank or purchase gold in the market and deposit it with the BRICS Bank or a designated custodian, and the gold deposit is then credited to his account in the form of BRICS gold.

For example, in payment transactions, the goods importer’s BRICS gold deposits (held, for example, at the BRICS Bank) are credited to the account of the exporter of goods (also held at the BRICS Bank or at a correspondent bank or gold custodian).

BRICS official gold holdings, in billion US dollars, Q1 2023



Source: Refinitiv; own calculations. The BRICS gold reserves amounted to 5,452.7 tons in the first quarter of 2023 (market value currently around 350 billion US Dollars).

However, the transition, the use of BRICS gold as an international trade and transaction currency, would most likely have far-reaching consequences:

(1) It would presumably lead to a (sharp) increase in the demand for gold compared to current levels, with not only gold prices measured in US dollars, euros, etc. but also in the currencies of the BRICS countries increasing (substantially).

(2) Such an increase in the gold price would devalue the purchasing power of the official currencies—not only the US dollar but also the BRICS currencies—against the yellow metal. Also, the prices of goods in terms of the official fiat currencies would most likely skyrocket, debasing the purchasing power of presumably all existing fiat currencies.

(3) The BRICS countries would build up gold reserves to the extent that they run, or will run, trade surpluses. They would presumably be the winners of the “currency switch,” while the countries with trade deficits (first and foremost, the US) would lose out.

These few considerations already show how disrupting the topic of “creating a new gold-backed international trading currency” could be: the BRICS could well trigger landslide-like changes in the global economic and financial structure. Still, it will be interesting to see how the BRICS countries intend to proceed at their August 22–24 meeting in Johannesburg, South Africa.

PRECIOUS METALS PRICES

In US-Dollar per ounce

	Gold		Silver		Platinum		Palladium	
I. Actual	1977,3		25,2		973,0		1307,7	
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)	11		15		28		11	
Band width	Low	High	Low	High	Low	High	Low	High
(1)	1900	2360	23,3	32,9	950	1380	1300	1670
	-4	19	-7	31	-2	42	-1	28
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	1765,4		22,5		868,8		1167,6	
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		24		38		19	
Band width	Low	High	Low	High	Low	High	Low	High
(1)	1820	2300	22,4	31,6	910	1320	1240	1600
	3	30	0	41	5	52	6	37
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

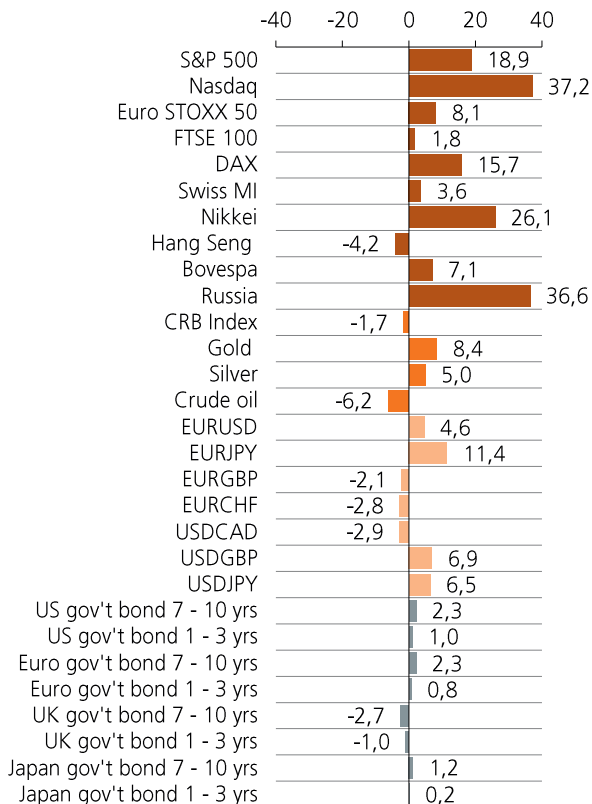
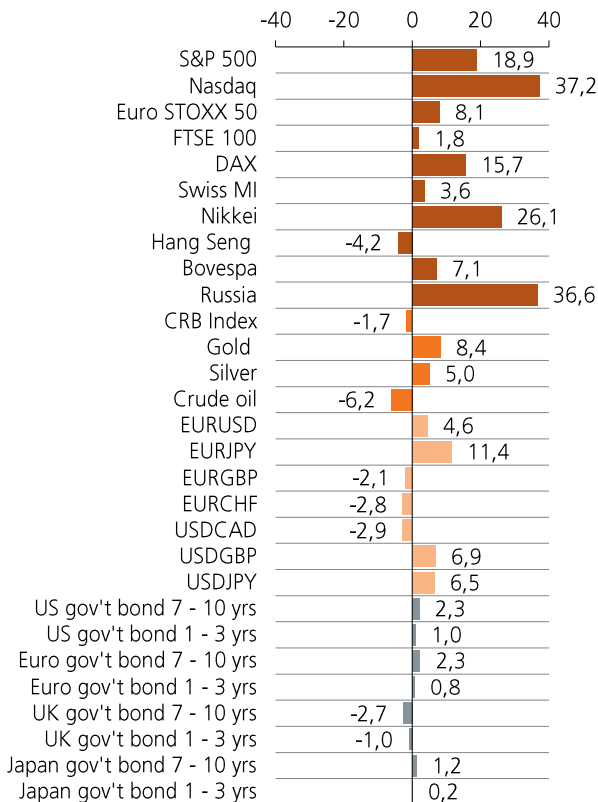


Source: Refinitiv; graph by Degussa.

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
20 July 2023	The BRICS Currency Projects Picks Up Speed
6 July 2023	What The Yield Curve Is Telling Us
22 June 2023	The Credit Cycle Has Turned Down. What Does It Mean For Gold?
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 Brightening? 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
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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

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