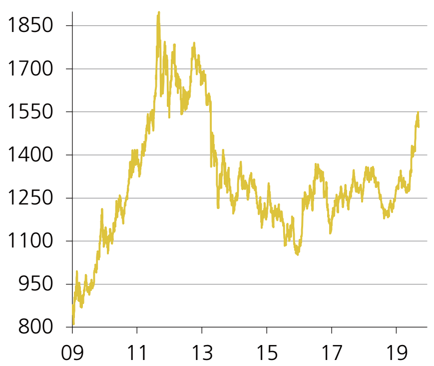
Degussa Market Report

12 September 2019 Economics · Finance · Precious Metals

USD per ounce of gold



USD per ounce of silver

EURUSD

Source: Thomson Financial; graphs by Degussa.

Precious metals prices	Actual (spot)	Change against (in percent): 2 W	3 M	12 M
I. In US-dollar				
Gold	1.490.0	-2.4	14.2	25.4
Silver	18.0	3.5	23.5	24.4
Platinum	943.8	10.6	19.2	14.9
Palladium	1.580.3	8.2	19.3	49.6
II. In euro				
Gold	1.354.3	-1.1	16.0	32.0
Silver	16.4	4.7	25.6	31.0
Platinum	857.9	11.6	21.6	21.2
Palladium	1.436.0	9.5	21.2	57.5
III. Gold price in other currencies				
JPY	160.501.0	-0.2	13.6	18.6
CNY	10.602.5	-2.1	17.7	30.0
GBP	1.207.9	-2.8	16.9	32.7
INR	106.807.7	1.9	17.6	23.3
RUB	97.403.7	-3.3	13.8	26.2

Source: Thomson Financial; calculations by Degussa.

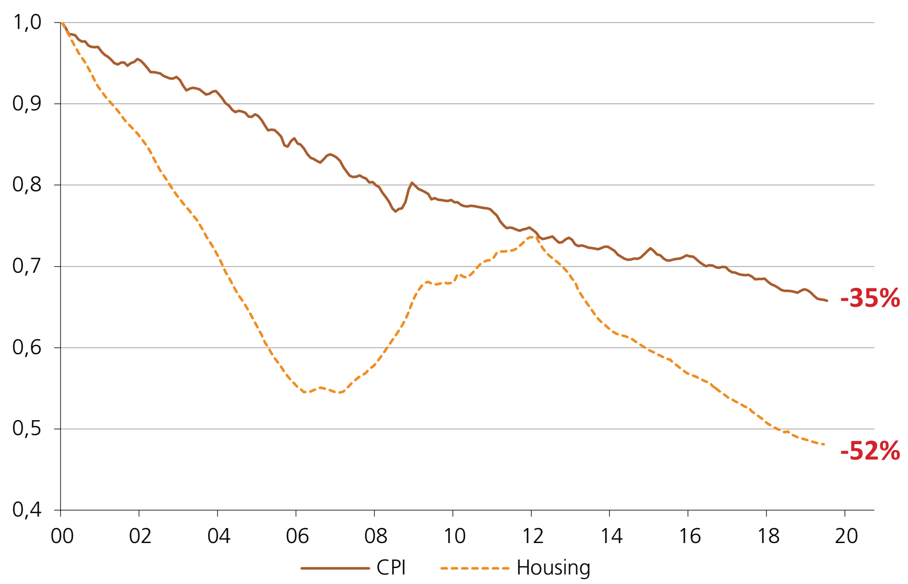
OUR TOP ISSUE

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

The Inflationary Tide That Lifts all Boats but One

In most countries around the world, inflation, when measured as an increase in the prices of consumer goods over time, appears to be relatively tame when compared to, say, the 1970s and 1980s. However, even a rise in consumer prices of around 2 per cent per year – which is what most central banks these days seek to deliver – is *inflationary*, as it means that the purchasing power of money declines over time. If prices rise by 2 per cent per year, the loss in purchasing power after ten years amounts to more than 16 per cent, after 20 years to more than 31 per cent.

1 Purchasing power of money on the decline
Purchasing power of one US dollar in terms of consumer goods and housing prices

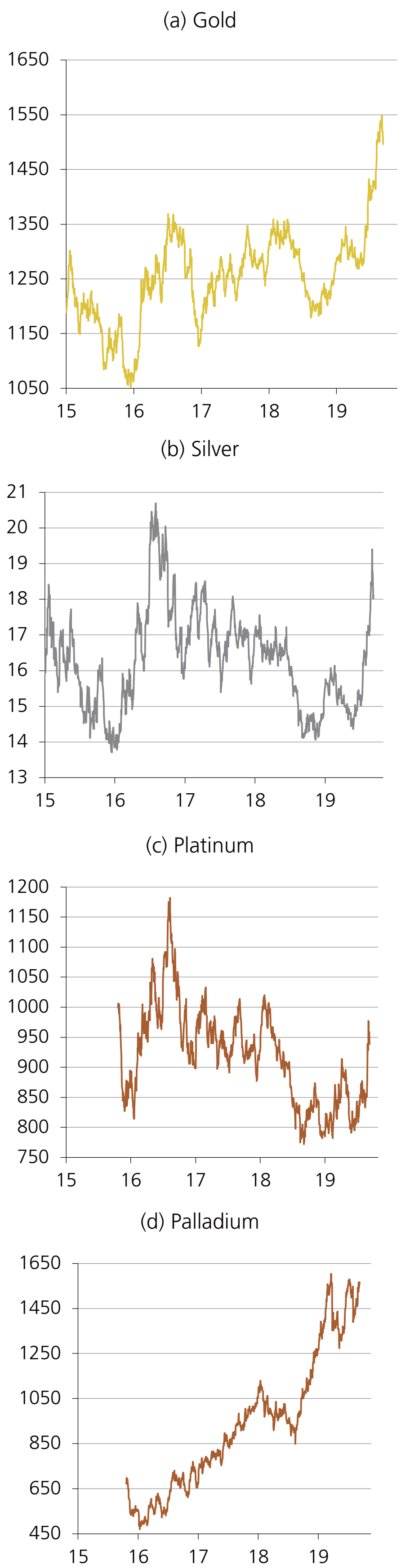


Source: Thomson Financial; calculations Degussa. Indexed (Jan. '00 = 1).

In other words: We still live in inflationary times. Central banks do *not* keep the value of money stable. On the contrary. Central banks' monetary policies constantly seek to diminish, to erode the purchasing power of money – even though such a monetary policy is officially termed "a policy of price stability". The public at large is tricked by such words. People are made to believe their money balances keep their value over time, but in fact they do not. What is more, inflation – the increase in prices of goods and services – is not properly measured by consumer price indices (CPIs).

For instance, the prices of many goods – such as stocks, firms, real estate, hous-

Precious metal prices (USD/oz) in the last 4 years



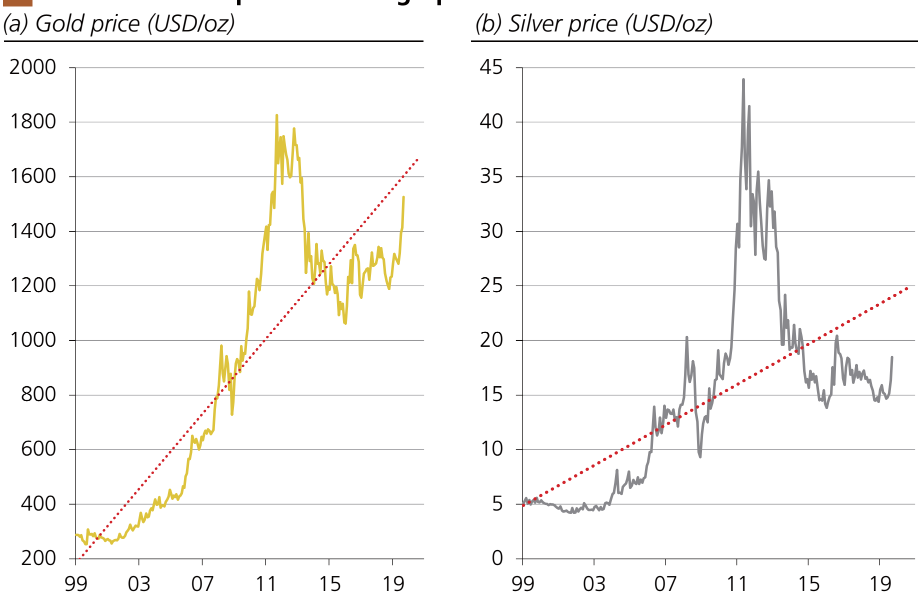
Source: Thomson Financial; graphs by Degussa.

ing, art, etc. – are typically not included in CPIs. However, in recent decades, inflation manifested itself in the prices of such "assets" rather than the prices of consumer goods. As a result, the "inflationary wave" escaped many peoples' attention. There should be no doubt, however, that asset price inflation does as much harm to the purchasing power of money as consumer price inflation. In any case, the savvy investor should be aware that today's unbacked paper currencies – be it US dollar, euro, Japanese yen, or Chinese renminbi – do not keep their purchasing power.

For the currency-issuing central banks keep inflating the quantity of money relentlessly. It does not take much to understand that an increase in the quantity of money will sooner or later translate into higher prices of goods and services (or, to be more precise: that it will push prices of goods and services to a level that is higher compared to a situation in which the quantity of money had not been increased). Central banks' monetary policies cause an inflationary tide, so to speak, that lifts all boats, but one: and the boat that does not get lifted is money, that is to say its purchasing power. The debasement of money becomes an even greater issue in a world of low or even negative interest rates.

Central banks keep pushing interest rates to ever lower levels in an attempt to boost economic growth and keep overstretched borrowers afloat. For instance, the European Central Bank (ECB) and the Bank of Japan have managed to drag government bond yields towards or even below the zero line. Of course, this will of course cause trouble, as artificially suppressed interest rates corrupt market agents' decision making, leading to malinvestment, underappreciation of risk, and speculative bubbles. To escape these self-inflicted problems, central banks take recourse to ever-greater increases in the quantity of money and suppressing market interest rates.

2 Gold and silver price trending upwards



Quelle: Thomson Financial; Berechnungen Degussa. Dotted line: linear trend.

Central banks' monetary policies will therefore increasingly debase the purchasing power of money – as inflation is, and always has been, seen by governments and established stakeholders as the policy of the "least resistance". This, in turn, propels gold to a "new status". As it is widely known, the purchasing power of gold cannot be reduced by monetary policy actions. What is more, gold does not carry any default or counterparty risk. Last but not least, as interest rates decline or are pushed into negative territory, gold loses its main competitive disadvantage: namely that there is no interest income on gold. In fact, the competitive disadvantage of gold will now turn into a competitive advantage.

Holding gold provides the chance to keep, or even increase, the purchasing power of your wealth over time. Unbacked paper currencies, however, do certainly not offer such a chance. The price of gold (and silver, by the way,) has been trending upwards since the early 1990s. And we think that this trend will continue for the foreseeable future. At current prices, we consider building up gold and silver positions an attractive option for savvy long-term oriented investors, seeking alternative liquid assets for their portfolio, or wanting to hedge their portfolio against the vagaries of the worldwide unbacked paper money system.

Precious metals prices

In US-dollar

	Gold		Silver		Platinum		Palladium	
I. Actual	1489.5		18.0		940.1		1576.5	
II. Gliding averages								
5 days	1516.7		18.6		959.6		1559.0	
10 days	1526.2		18.6		940.5		1533.1	
20 days	1521.1		18.0		894.5		1499.6	
50 days	1469.2		16.8		865.8		1505.3	
100 days	1394.0		15.8		847.0		1449.3	
200 days	1342.8		15.6		836.9		1418.7	
III. Bandwidths for 2019	*Low*	*High*	*Low*	*High*	*Low*	*High*	*Low*	*High*
	1442	1842	16.3	26.3	863	997	1386	1654
(1)	*-3*	*24*	*-9*	*46*	*-8*	*6*	*-12*	*5*
IV. Annual averages								
2015	1260		19.1		1382		800	
2016	1163		15.7		1065		706	
2017	1242		17.0		985		617	
2018	1253		17.1		947		857	

In Euro

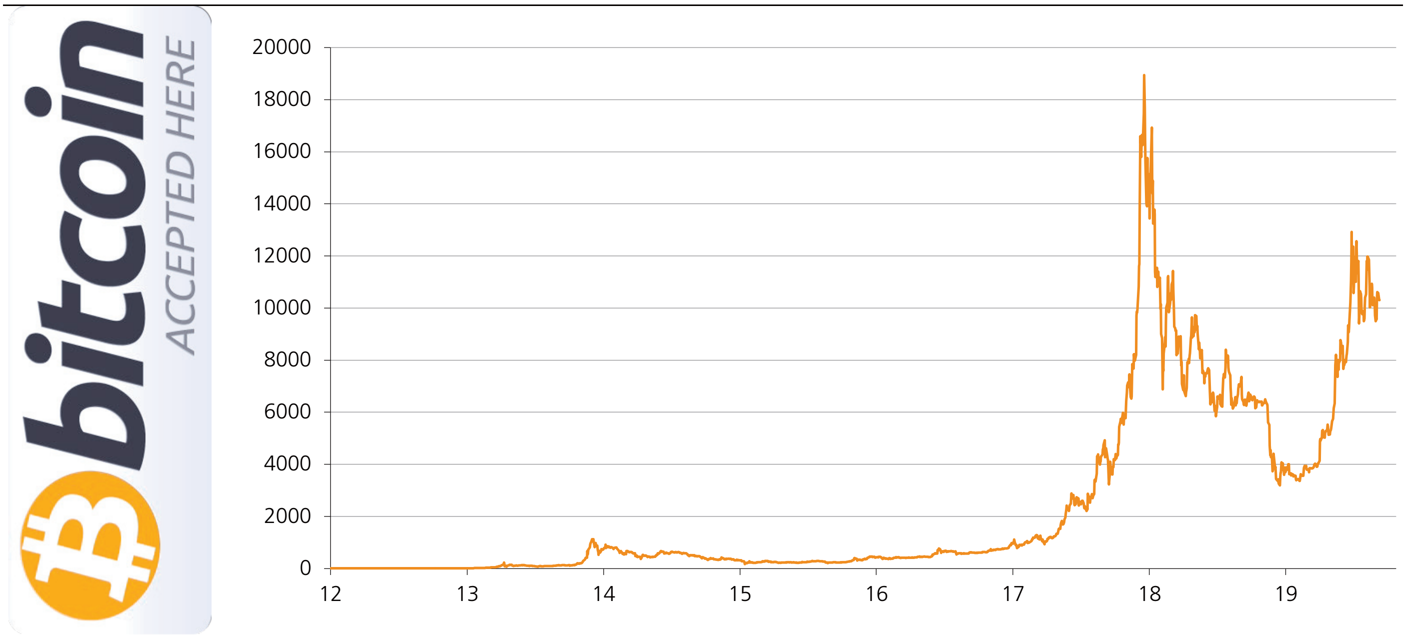
	Gold		Silver		Platinum		Palladium	
I. Actual	1354.7		16.4		855.0		1433.9	
II. Gliding averages								
5 days	1373.4		16.9		868.9		1411.7	
10 days	1383.7		16.8		852.7		1389.9	
20 days	1374.4		16.2		808.3		1355.1	
50 days	1318.6		15.1		777.1		1350.8	
100 days	1246.2		14.2		757.2		1295.4	
200 days	1192.4		13.8		743.1		1259.6	
III. Bandwidths for 2019	*Low*	*High*	*Low*	*High*	*Low*	*High*	*Low*	*High*
	1259.3	1608.3	14.2	23.0	753.4	870.7	1210.2	1444.0
(1)	*-7*	*19*	*-13*	*41*	*-12*	*2*	*-16*	*1*
IV. Annual averages								
2015	945		14		1035		601	
2016	1044		14		955		633	
2017	1120		15		888		557	
2018	1116		15		844		760	

Source: Thomson Financial; calculations and estimates by Degussa.

(1) Estimated return against actual price in percent.

Bitcoin, performance of various asset classes

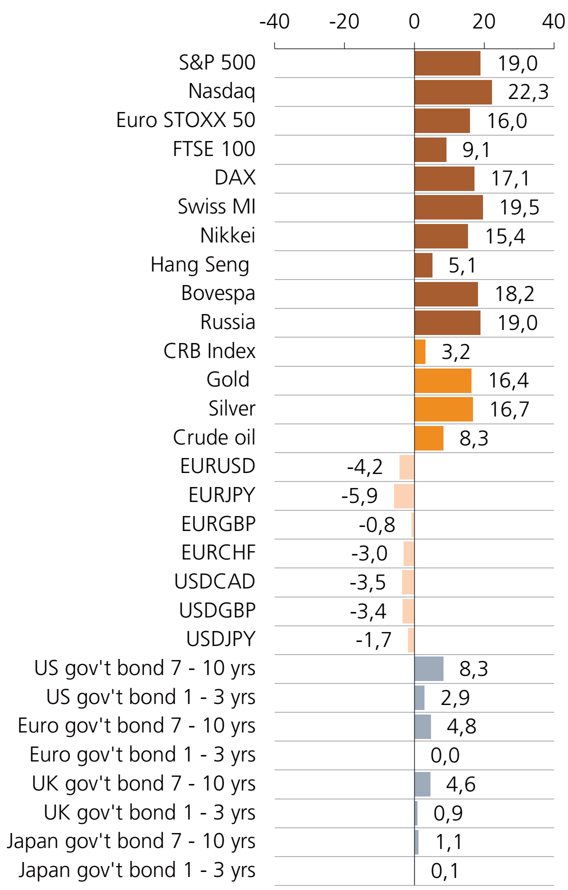
Bitcoin in US dollars



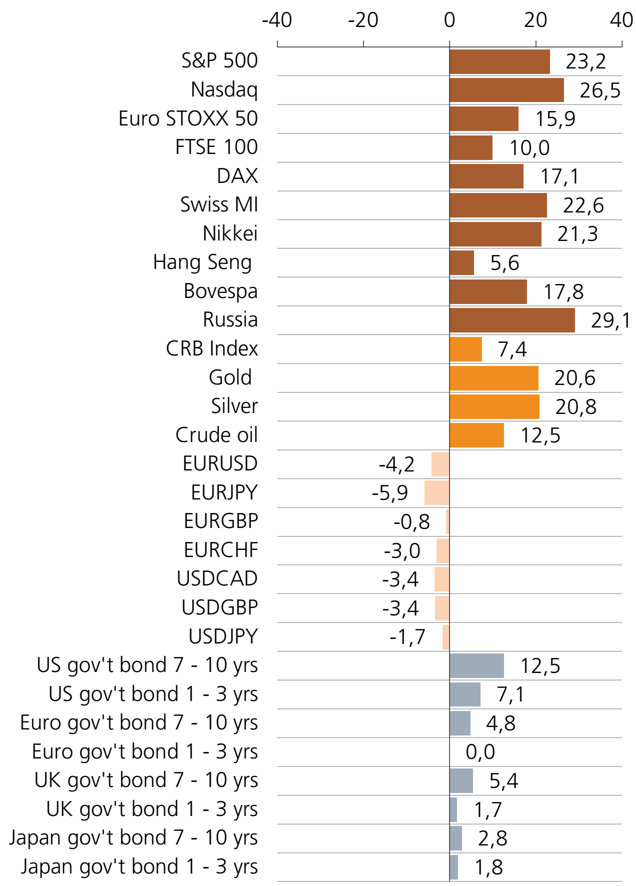
Source: Thomson Financial; graph by Degussa.

Performance of stocks, commodities, FX and bonds

(a) In national currencies



(b) In euro



Source: Thomson Financial; calculations by Degussa.

Articles in earlier issues of the *Degussa Market Report*

Issue	Content
12 September 2019	The Inflationary Tide That Lifts all Boats but One
29 August 2019	The Disaster of Negative Interest Rate Policy
15 August 2019	The Gold Bull Market Is Back
1 August 2019	Gold And Silver Prices – Get Going!
19 July 2019	Facebook's Fake Money
4 July 2019	It Looks Like A Gold Bull Market, It Feels Like A Gold Bull Market – Maybe It Is A Gold Bull Market?
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16 February 2018	The Fed Makes The Stock Market A Risky Place

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