Degussa *Market Report*

19 Dezember 2019 | Economics · Finance · Precious Metals

OUR TOP ISSUES

Dear reader,

We wish you a Merry Christmas and a Happy New Year!

The next Degussa Market Report will be published on 23 January 2020.

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

THE INFLATION SHAM

The world over people are told that central banks pursue "price stability" by making sure that consumer goods prices do not rise by more than 2 per cent per annum. This is, of course, a big sham. If the prices of goods rise over time, it does not take that much to understand that prices do *not* remain stable. And if the prices of goods increase over time, it necessarily means that the purchasing power of the money unit declines.

As money loses its purchasing power, income and wealth are stealthily redistributed. Some individuals and groups of people are enriched at the expense of others. For instance, savers and workers are swindled out of their deserved income and retirement benefits, while those who own goods that rise in price or borrow money typically reap a windfall profit. Clearly, the banking industry is a major beneficiary of monetary debasement.

'INFLATION' IS A RISE IN THE QUANTITY OF MONEY

Central banks are the very source of the phenomenon that all prices of goods tend to rise over time. They hold the money production monopoly and increase – in close cooperation with commercial banks – the outstanding quantity of money through credit expansion, an increase in the supply of credit that is not backed by real savings. It goes without saying that it is rather profitable to be active in the money production business.

The increase in the quantity of money results, and necessarily so, in higher prices compared to a situation in which the quantity of money had not been increased. This is no arbitrary assertion but stems from logical reasoning: A rise in peoples' money holding lowers the marginal utility of the additionally received money unit, meaning the marginal utility of other goods that can be exchanged against money rises.

Consider the case in which the quantity of money in the hands of market agents rises. People will then exchange money balances (which have, from the viewpoint of the money holder, lost in marginal utility) against other vendible items (which have gone up in marginal utility). As people exchange money units

USD per ounce of gold

USD per ounce of silver

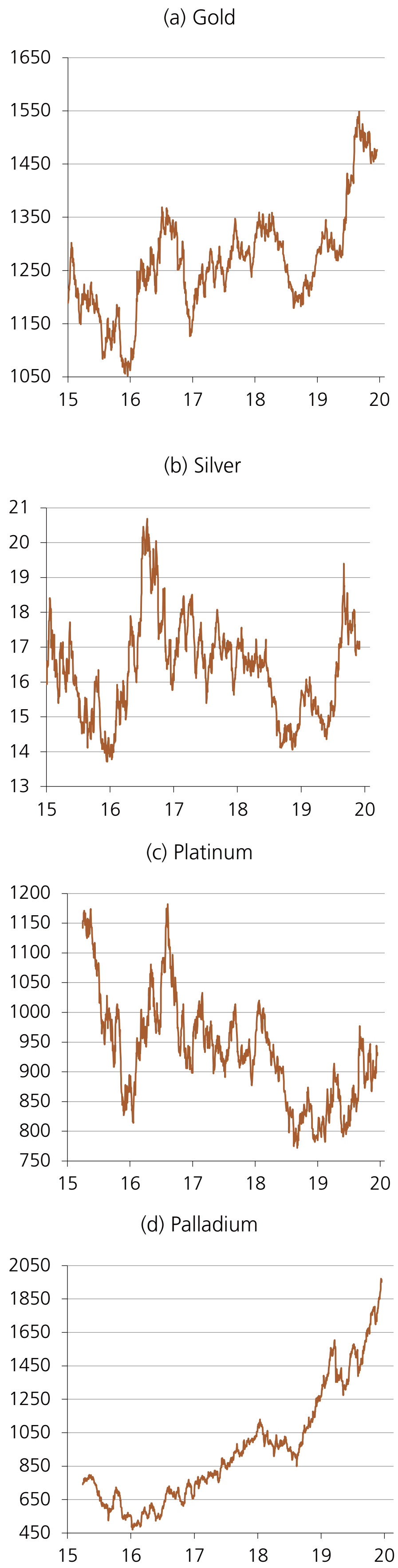
EURUSD

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	1.474.9	0.7	-3.6	15.0
Silver	16.9	-0.6	-8.3	9.3
Platinum	931.3	3.5	0.2	17.6
Palladium	1.946.4	5.7	27.1	54.3
II. In euro				
Gold	1.326.0	-0.3	-5.0	18.6
Silver	15.2	-1.3	-9.6	13.0
Platinum	837.2	2.5	-1.2	20.8
Palladium	1.750.0	4.7	25.4	58.5
III. Gold price in other currencies				
JPY	161.556.0	0.6	-0.6	15.0
CNY	10.325.2	0.2	-5.9	17.1
GBP	1.126.9	-0.6	-11.1	12.2
INR	104.677.9	1.9	-4.9	17.4
RUB	92.105.4	-2.4	-9.8	3.1

Source: Thomson Financial; calculations by Degussa.

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



Source: Thomson Financial; graphs by Degussa.

against other goods, money prices go up (compared to a situation in which the quantity of money had not been increased).

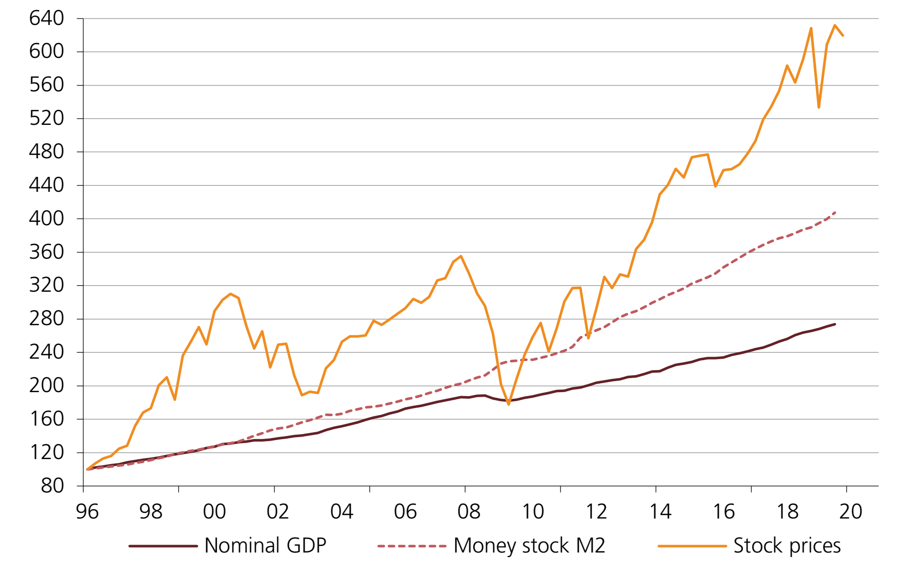
THE MAINSTREAM EXPLANATION AND ITS PROBLEMS

Of course, in real life additional factors (such as, for instance, demand changes, market introduction of new products etc.) interfere with the link between the increase in the quantity of money and rising prices of goods. This, however, does by no means refutes the economic insight that a rise in the quantity of money in the economy leads to goods prices that will be higher than had the quantity of money not been increased.

The increase in the quantity of money is what deserves to be called inflation; rising prices are just a possible symptom of an increase in the quantity of money. However, mainstream economists typically define inflation as rising consumer goods prices. This, however, is problematic for at least two reasons. *First*, by equating inflation with rising prices, the real reason for higher prices, namely the rise in the quantity of money, is obscured.

This, in turn, gives rise to arbitrary explanations of why goods prices may go up: sheikhs that force up oil prices, unions that cause wages to rise, an overall buoyant economy that creates shortages in production factors, and so forth. All these pseudo-explanations deflect from the real culprit – namely that it is the central bank, in cooperation with commercial banks, that issues new money, so that people do no longer understand who, in fact, harms them.

1 Rising money stock inflates assets prices
S&P 500 US nominal GDP, and US money stock M2[(1)]



Source: Thomson Financial; calculations Degussa. [(1)] Series are indexed (Q1 1996 = 100).

ASSET PRICE INFLATION

Second, changes in consumer goods prices do not tell us by the entire story for they do not take into account asset prices such as, for instance, stock prices, housing prices, and land prices. However, the newly injected money can be expected to not only push up consumer goods prices, it may also drive up asset prices. And like rising consumer prices, rising asset prices diminish the purchasing power of money.

In other words: Asset price inflation destroys the purchasing power of money in the same way as price inflation of consumer goods does. Take, for instance, stock market prices. If prices rise from, say, 100 US$ to 200 US$, the purchasing power of the money unit would drop by 50 per cent. The owner of the stock becomes richer, while the holder of US$ become poorer. In fact, this is precisely what has been happening in the last decades.

For illustrative purposes, let us take a look at the chart above. It shows the development of the US quantity of money, nominal GDP, and stock prices from 1996 to autumn 2019. In the period under review, the US nominal GDP has increased by 4.3 per cent per annum on average. The quantity of money rose by 6.1 per cent, while stock prices expanded by 8.1 per cent. To the attentive observer, these numbers contain an important message.

The increase in the money supply does not only raise prices of consumer goods, but it also tends to raise all prices. For instance, in the period under review, on average, the real GDP in the US rose around 1.9 per cent per year, while prices of goods and services that are included in US GDP went up by 2.4 per cent. The remaining "excess money" obviously pushed up stock prices and other asset prices such as for instance, housing prices.

DON'T PUT YOUR TRUST IN TODAY'S MONEY

The lessons to learn are this: Always think of inflation as a rise in the quantity of money. Be aware that central banks and commercial banks provide a kind of money that does not keep its purchasing power – that most people suffer losses when holding it for the purpose of storing wealth. Better do not put your trust in today's money and keep your transaction balances as small as possible. Don't be taking in by the inflation sham.

The insights outlined above should encourage all of us to join the call for better, for sound money: Money that lives up to the highest economic and ethical standards. This can be achieved by simply opening up *a free market in money*, where people are free to choose the kind of money they would like to use; and where entrepreneurial spirits are free to make their fellow people sound money offers.

A free market in money – which would be tantamount to putting an end to central banks' money production monopolies – is actually easy to come by. Just strip the official currency from its privileged 'legal tender' status and remove all capital gain and sales taxes on all media that stand an excellent chance to compete for becoming money – most notably gold and silver but potentially also crypto units.

A free market in money will work wonders. Many of the evils that haunt our world today – be it chronic price inflation, financial and economic crises, boom-and-bust-cycles, oppressive government ("deep state"), loss of liberty and freedom, war, and even overuse of natural resources would be effectively cured. One of the biggest challenges of our times is to reform our money. The solution is opening up a free market in money.

.

Precious metals prices

In US-dollar per ounce

	Gold		Silver		Platinum		Palladium	
I. Actual	1474.7		17.0		931.2		1946.0	
II. Gliding averages								
5 days	1472.1		16.9		932.6		1946.8	
10 days	1469.6		16.8		917.4		1910.4	
20 days	1466.5		16.9		909.1		1858.1	
50 days	1477.9		17.3		904.7		1794.3	
100 days	1491.2		17.5		901.2		1668.2	
200 days	1411.1		16.3		872.4		1554.1	
III. Estimate for end 2020	1690		22.9		930		1570	
Bandwidths	*Low*	*High*	*Low*	*High*	*Low*	*High*	*Low*	*High*
	1440	1840	16	26	780	990	1380	1650
(1)	*-2*	*25*	*-4*	*55*	*-16*	*6*	*-29*	*-15*
IV. Annual averages								
2016	1242		17.0		985		617	
2017	1253		17.1		947		857	
2018	1268		15.8		880		1019	

In euro per ounce

	Gold		Silver		Platinum		Palladium	
I. Actual	1326.3		15.3		837.5		1750.2	
II. Gliding averages								
5 days	1323.1		15.2		838.2		1749.7	
10 days	1323.7		15.2		826.3		1720.7	
20 days	1324.7		15.3		821.1		1678.2	
50 days	1334.6		15.6		816.9		1620.2	
100 days	1347.6		15.8		814.5		1507.8	
200 days	1265.9		14.6		782.5		1394.3	
III. Estimate for end 2020	1580		22		870		1470	
Bandwidths	*Low*	*High*	*Low*	*High*	*Low*	*High*	*Low*	*High*
	1350.0	1730.0	15.3	24.8	730.0	930.0	1290.0	1550.0
(1)	*2*	*30*	*0*	*62*	*-13*	*11*	*-26*	*-11*
IV. Annual averages								
2016	1120		15		888		557	
2017	1116		15		844		760	
2018	1072		13		743		863	

Source: Thomson Financial; own calculations and estimates. Numbers are rounded.

(1) Estimated return against actual price in percent.

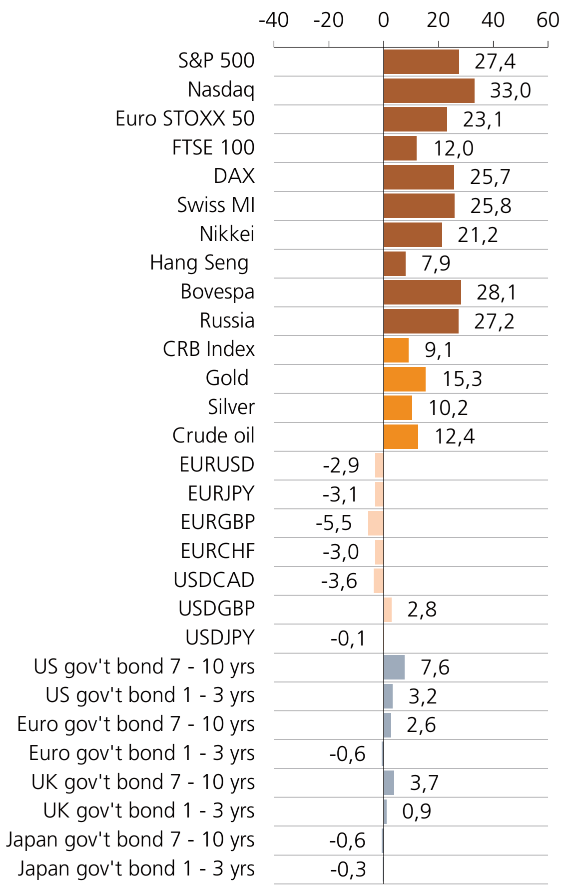
Bitcoin, performance of various asset classes

Bitcoin in US dollars

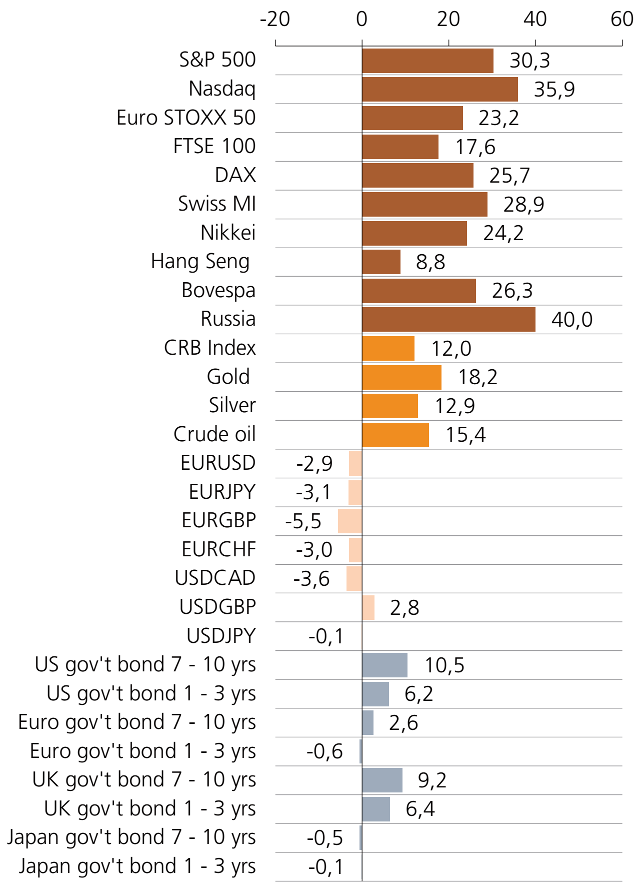
Source: Thomson Financial; graph by Degussa.

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
19 December 2019	Inflation Sham
5 December 2019	Why the Feared Crash Keeps Us Waiting
21 November 2019	Asset Price Inflation and the Price of Gold
7 November 2019	ETFs Drive Gold Demand
24 October 2019	The Inflationary Supply Of Unbacked US Dollars And The Price Of Gold
10 October 2019	Let's Get Physical With Gold And Silver
26 September 2019	The US Dollar Beast
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?
19 June 2019	Good Money, Bad Money—And How Bitcoin Fits In
6 June 2019	Gold Outshines The US Dollar
23 May 2019	The Boom That Will Have It Coming
9 May 2019	The Crusade Against Risk
25 April 2019	A Sound Investment Rationale for Gold
11 April 2019	Be Prepared For All Possibilities. The Case For Gold
28 March 2019	Sword of Damocles Over Asset Prices
14 March 2019	The Big Central Banks Increase the Case for Gold
28 February 2019	The Fed Takes Full Control of the Bond Market – And Raises The Value of Gold
14 February 2019	Everything You Always Wanted to Know About Karl Marx and Central Banking (*But Were Afraid To Ask)
1 February 2019	Pay Attention, Gold Investor: 'This Time is not Different'
17 January 2019	US Interest Rate Down, Price of Gold up
20 December 2018	Gold Money in a Digitalised World Economy
10 December 2018	The Fed Supports Gold
23 November 2018	The Fed Is Not Our Saviour
9 November 2018	The Missing Fear – And The Case For Gold
26 October 2018	President Trump is right: The Fed Is A Big Problem
12 October 2018	Here Goes The Punch Bowl
28 September 218	The Fed's Blind Flight
14 September 2018	How Fed Policy Relates to the Price of Gold
31 August 2018	Central Banks Enrich a Select Few at the Expense of Many
17 August 2018	The US dollar And Gold – Is this Time Different?
20 July 2018	Not All Is Well In Financial Markets
22 June 2018	Euro-Banks In Trouble. A Case for Gold
8 June 2018	Demand for Gold ETFs up Despite Higher Interest Rates
25 May 2018	Mind The Interest Rate

The Degussa Marktreport (German) and the Degussa Market Report (English) are available at:
www.degussa-goldhandel.de/de/marktreport.aspx.

Disclaimer

Imprint
Marktreport is published every 14 days on Thursdays and is a free service provided by Degussa Goldhandel GmbH.
Deadline for this edition: 19 December 2019
Publisher: Degussa Goldhandel GmbH, Kettenhofweg 29, 60325 Frankfurt, Tel.: (069) 860068-0, Fax: (069) 860068-222
E-Mail: info@degussa-goldhandel.de, Internet: www.degussa-goldhandel.de
Editor in chief: Dr. Thorsten Polleit
Degussa Market Report is available on the Internet at: http://www.degussa-goldhandel.de/infothek/marktreport/