

13 February 2020

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
<b>I. In US-dollar</b>				
Gold	1.564.4	-0.4	3.4	19.2
Silver	17.5	-3.0	-3.2	12.4
Platinum	962.5	-3.9	3.3	10.6
Palladium	2.332.2	-3.9	30.0	51.1
<b>II. In euro</b>				
Gold	1.433.6	0.7	5.7	24.2
Silver	16.1	-2.0	-0.9	17.5
Platinum	882.1	-3.1	5.5	15.9
Palladium	2.137.0	-3.0	32.7	57.6
<b>III. Gold price in other currencies</b>				
JPY	172.032.0	0.3	5.3	17.6
CNY	10.903.6	0.1	2.4	24.1
GBP	1.204.5	0.3	3.1	21.7
INR	111.547.0	1.9	3.9	19.9
RUB	98.586.6	1.2	1.6	13.8

Source: Thomson Financial; calculations by Degussa.

## OUR TOP ISSUES

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

# GOLD-ETFs VERSUS PHYSICAL GOLD: DIFFERENCE MATTERS

According to the *World Gold Council*, gold-backed Exchange Traded Funds (ETFs) and gold-backed Exchange Traded Commodities (ETCs) recorded an inflow of 76.2 tonnes from the beginning of January to 7 February 2020. Gold-ETFs/ETCs in North America added 39.3 tonnes, those in Europe 37.4 tonnes, those in other regions 1.0 tonnes, while there was a net outflow in Asia of 1.5 tonnes. In sum, the total gold holdings of Gold-ETFs/ETCs rose to a record of 2,961.2 tonnes.

While having amounted to just 2.4 per cent of the total demand for gold in the last decade on average, Gold-ETFs holdings have been showing a positive and relatively close relation to the price of gold: Increases (decreases) in Gold-ETFs holdings were accompanied by increases (decreases) of the price of gold. Of course, this does not tell us anything about the possible causation: We cannot say that a rise in the gold prices encourages the demand for Gold-ETFs, or whether it is the other way round.

### 1 Close relation between gold price and Gold-ETFs holdings

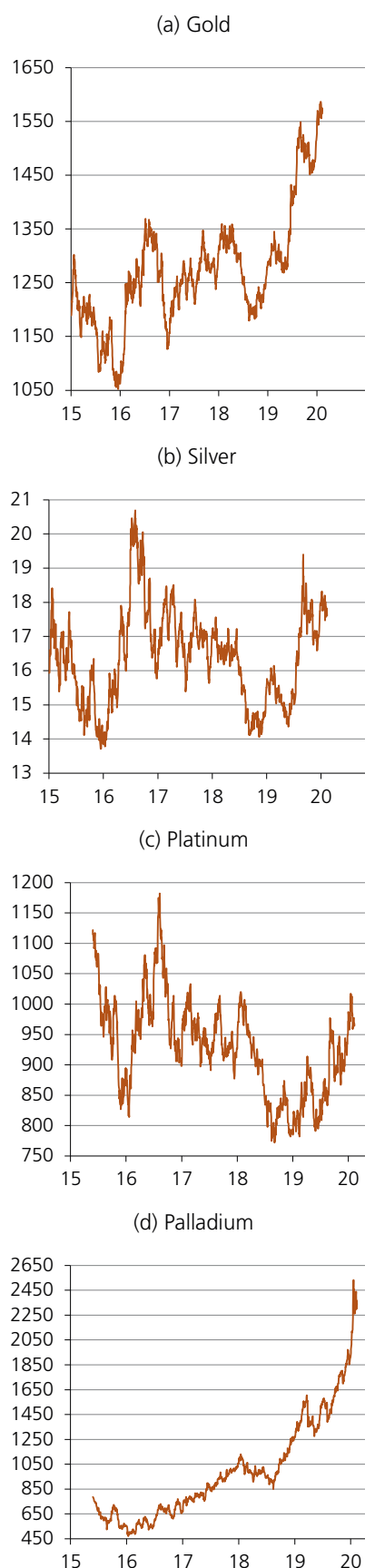
Price of gold (USD/oz) and Gold-ETFs holdings (in million oz)



Source: Thomson Financial, World Gold Council; graph Degussa.

But what it suggests is that the demand for Gold-ETFs might hold some valuable information as far as price action in the gold market is concerned. An interesting question is therefore: What are the factors that drive the demand for Gold-ETFs in the first place? Clearly, *regulatory restrictions* can be expected to

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



Source: Thomson Financial; graphs by Degussa.

play a rather important role, for quite a few institutional investors are not allowed to buy physical gold but must, if they want exposure to the gold market, rely on Gold-ETFs/ETCs.

Under such conditions, interest rates can be expected to become highly important. Generally speaking, interest rates typically have a negative relation to the price of gold: High (low) interest rates lower (increase) the demand for gold, translating into a lower (higher) price of gold (*ceteris paribus*). This is because holding gold causes opportunity costs – which, of course, decline (rise) as interest rates fall (rise).

## 2 Demand for Gold-ETFs reacts to interest rates

US 2 year interest rate (in %) and Gold-ETFs holdings (in million oz)



Source: Thomson Financial, World Gold Council; graph Degussa.

As figure 2 shows, there has been indeed a negative (trend) relation between US interest rates and the demand for Gold-ETFs, i.e. Gold-ETFs holdings: As interest rates have come down, Gold-ETFs holdings have gone up. Of course, other factors have been at work as well. For instance, people might find it more convenient and cost-efficient to seek exposure to the gold market via Gold-ETFs than through buying physical gold in the form of coins and bars.

What is more, a great many investors these days can be expected to enter the gold market not to seek an insurance against a potential breakdown of the monetary system; they simply want to participate in the upward trend of the gold price. Whatever advantages they ascribe to Gold-ETFs: *We should note that holding Gold-ETFs and holding physical gold is not the same!* Depending on their particular structure, Gold-ETFs tend to carry various risks.

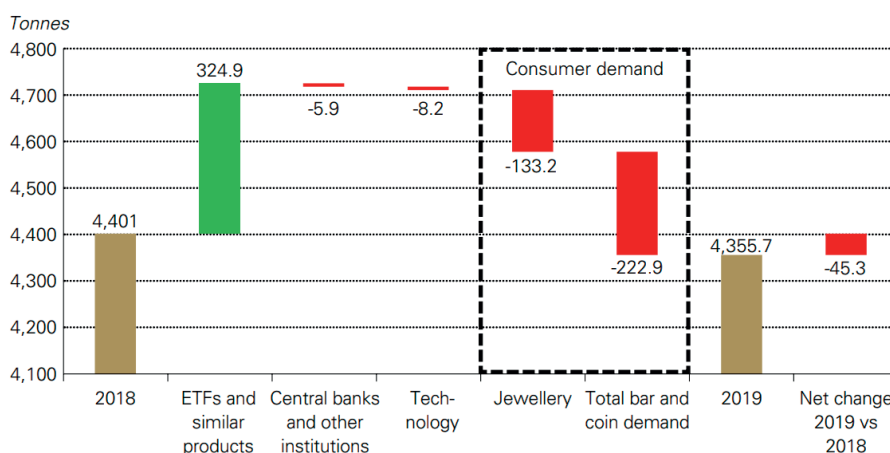
For instance, the Gold-ETF issuer's gold may be subject to fraud, loss, damage, theft, or restricted access. Or redemption orders might be subject to postponement, suspension, or rejection by the trustee under certain circumstances. Or the Gold-ETF share may trade below the NAV per share due to, say, market developments on the day Gold-ETF holders wish to sell their shares.

Here is another risk factor: Because neither the Gold-ETF's issuer nor its custodian oversee or monitor the activities of sub-custodians who may temporarily hold the Gold-ETF issuer's gold until transported to the predetermined vault; possible failure of the sub-custodians to exercise due care in the safekeeping of

the Gold-ETF issuer’s gold could result in a loss – especially so if and when the ability to take legal action against sub-custodians is limited.

To cut a long story short: In a period of a real crisis, in case of massive market turmoil, the investor would indeed be served best if and when he has direct access to physical gold. Purchasing physical gold is fairly easy, and storage facilities can be obtained at reasonable costs. It may well be that Gold-ETFs meet institutional investors’ preferences and match their regulatory requirements. For all other investors, however, there is no compelling reason why Gold-ETFs should trump holding physical gold.

**Huge rise in ETF inflows almost equalled the sharp drop in consumer demand in 2019**



Source: Metals Focus, World Gold Council

## Precious metals prices

In US-Dollar per ounce

	Gold		Silver		Platinum		Palladium	
<b>I. Actual</b>	<b>1564.6</b>		<b>17.5</b>		<b>963.9</b>		<b>2342.9</b>	
II. Gliding averages								
10 days	1570.1		17.7		970.0		2340.6	
20 days	1566.2		17.8		987.2		2363.0	
50 days	1529.6		17.6		960.7		2117.4	
100 days	1506.8		17.5		931.0		1930.9	
200 days	1461.8		16.8		892.4		1701.7	
<b>III. Estimates, end 2020</b>	<b>1695</b>		<b>25</b>		<b>1256</b>		<b>1536</b>	
<sup>(1)</sup>	8		42		30		-34	
<i>Band width</i>	<i>Low</i>	<i>High</i>	<i>Low</i>	<i>High</i>	<i>Low</i>	<i>High</i>	<i>Low</i>	<i>High</i>
	1459	1931	19.8	28.8	1020	1492	1300	1772
<sup>(1)</sup>	-7	23	13	64	6	55	-45	-24
V. Annual averages								
2017	1253		17.1		947		857	
2018	1268		15.8		880		1019	
2019	1382		16.1		862		1511	

In Euro per ounce

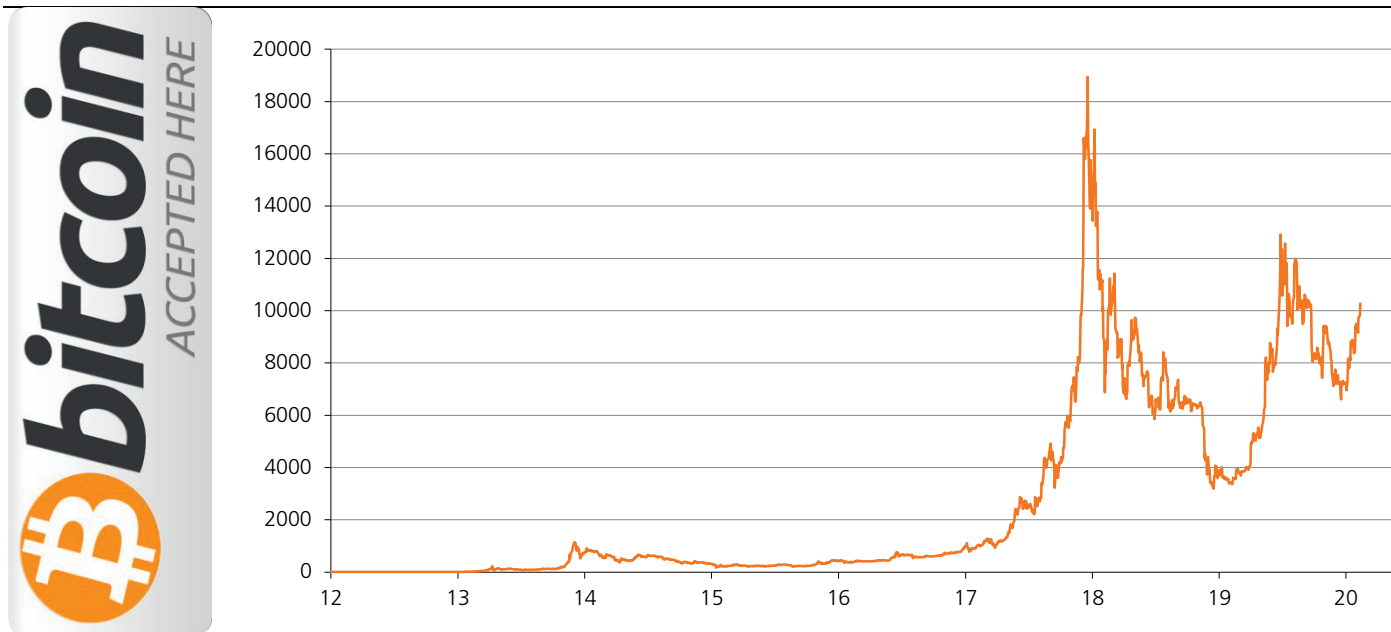
	Gold		Silver		Platinum		Palladium	
<b>I. Actual</b>	<b>1433.9</b>		<b>16.1</b>		<b>883.4</b>		<b>2147.3</b>	
II. Gliding averages								
10 days	1427.4		16.1		881.9		2128.0	
20 days	1419.2		16.2		894.4		2141.2	
50 days	1379.3		15.9		866.3		1910.0	
100 days	1361.5		15.8		841.1		1744.6	
200 days	1315.0		15.2		802.9		1531.4	
<b>III. Estimates, end 2020</b>	<b>1610</b>		<b>24</b>		<b>1190</b>		<b>1460</b>	
<sup>(1)</sup>	12		47		35		-32	
<i>Band width</i>	<i>Low</i>	<i>High</i>	<i>Low</i>	<i>High</i>	<i>Low</i>	<i>High</i>	<i>Low</i>	<i>High</i>
	1390	1840	18.9	27.5	970	1420	1240	1690
<sup>(1)</sup>	-3	28	18	71	10	61	-42	-21
V. Annual averages								
2017	1116		15		844		760	
2018	1072		13		743		863	
2019	1235		14		770		1350	

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

<sup>(1)</sup> On the basis of actual prices.

## Bitcoin, performance of various asset classes

### Bitcoin in US dollars

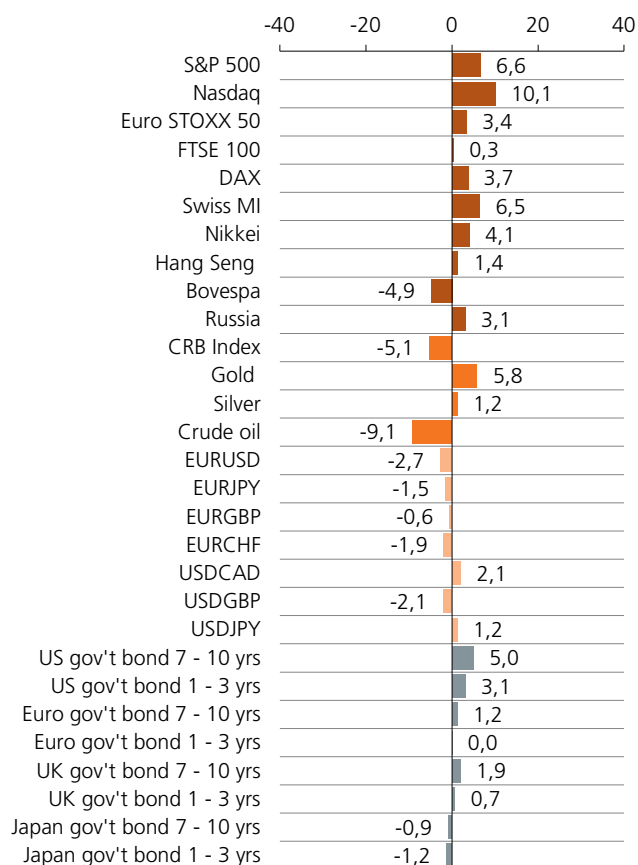
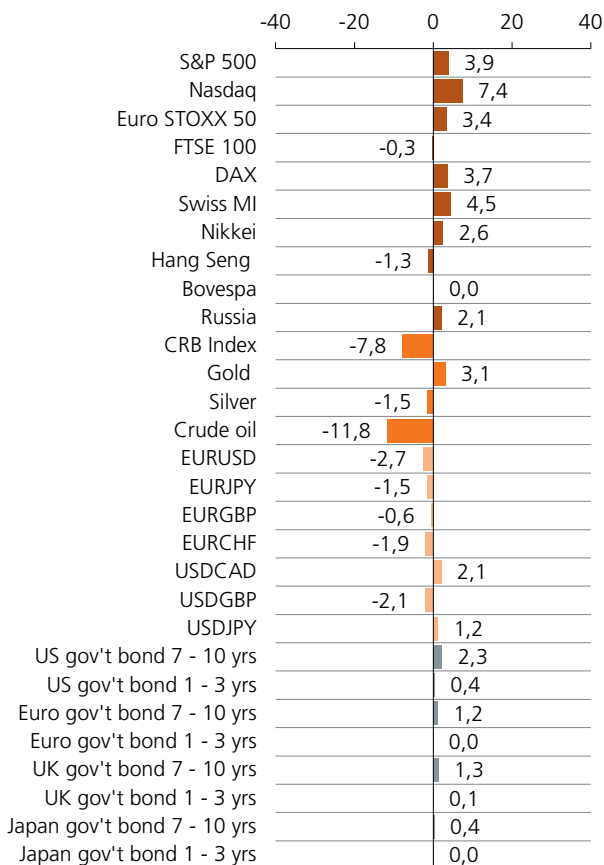


Source: Thomson Financial; graph by Degussa.

### 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
13 February 2020	Gold-ETFs Versus Physical Gold: Difference Matters
30 January 2020	Do Not Think The Era Of Boom And Bust Has Ended
23 January 2020	Bull Markets, No Bubble Markets: Gold And Silver In 2020
19 December 2019	The 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 2018	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

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