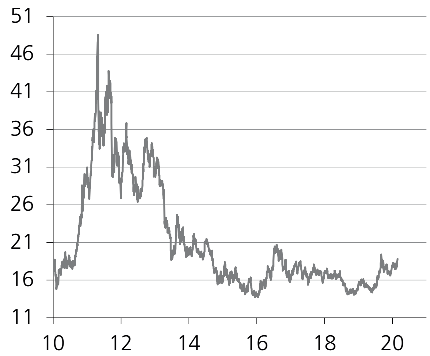
Degussa Market Report

27 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
I. In US-dollar				
Gold	1.639.5	4.4	8.3	24.9
Silver	17.9	1.3	-1.2	14.8
Platinum	914.6	-5.2	-1.9	5.1
Palladium	2.775.8	19.8	54.7	79.9
II. In euro				
Gold	1.505.9	5.0	11.0	30.4
Silver	16.5	1.9	1.4	20.2
Platinum	840.0	-4.7	0.5	10.4
Palladium	2.549.0	20.5	58.3	88.0
III. Gold price in other currencies				
JPY	180.936.0	5.0	10.7	23.7
CNY	11.511.6	4.7	8.1	31.0
GBP	1.268.7	4.2	8.6	28.2
INR	117.350.9	1.9	9.3	26.2
RUB	107.035.2	6.3	10.3	23.6

Source: Thomson Financial; calculations by Degussa.

OUR TOP ISSUES

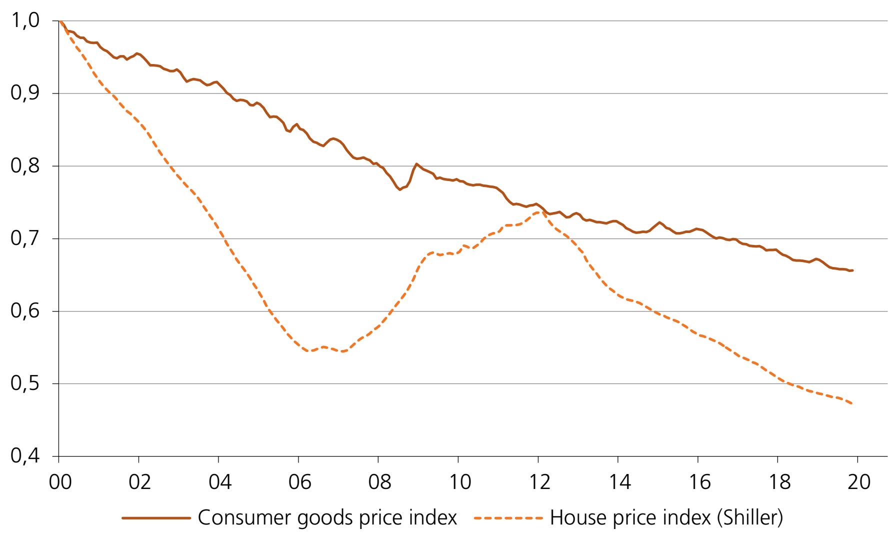
*This is a short summary of our fortnightly **Degussa Marktreport**.*

INFLATION POLICY AND ITS SUPPORTERS

Wherever you look: Prices for consumer goods, real estate, stocks and bonds are on the rise. That means that the purchasing power of money is on the decline. For if, say, stock prices go up, your money unit can buy fewer stocks. What it also means is: While people holding assets, whose prices increase, become "richer", people holding money get "poorer".

You may say: Why bother? Some people are smarter than others. They cleverly go into 'real assets' and refrain from holding money, while others are just too lazy and miss out on their fair chance to profit. One major problem with this kind of thinking is, however, that it ignores the objectionable root cause of generally rising prices: the fiat money system.

1 The ongoing debasement of the US-Dollar
Purchasing power of 1 US$ in terms of CPI and housing prices



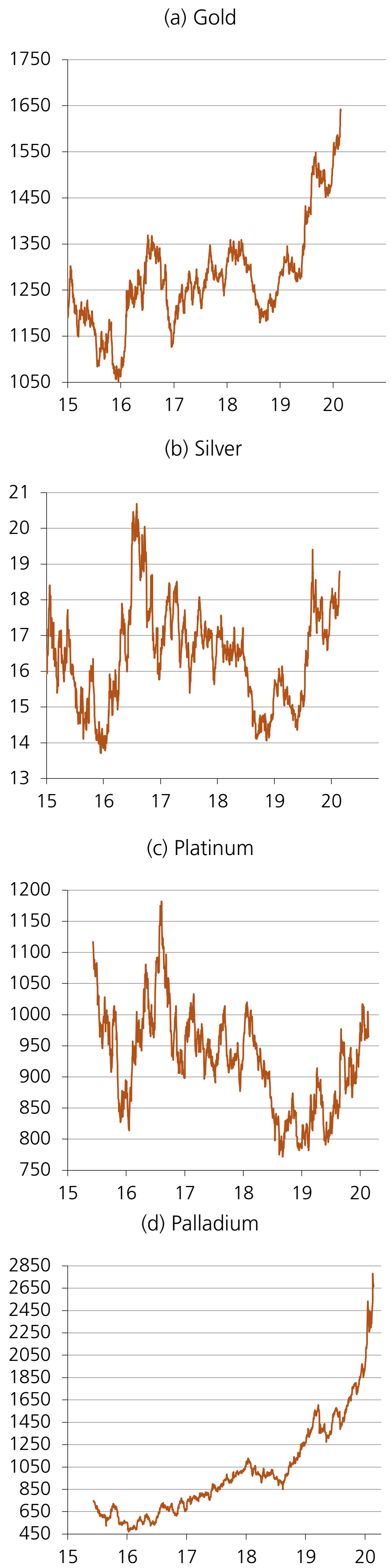
Source: Thomson Financial, World Gold Council; graph Degussa. Series are indexed.

FIAT MONEY REDISTRIBUTES INCOME AND WEALTH

In today's fiat money system, central banks, in close cooperation with commercial banks, relentlessly increase the quantity of money through credit expansion. That is, they extend credit and thereby issue new money, created out of thin air, money that is not backed by real savings.

The first receivers of the new money are of course the beneficiaries: They can exchange their new money against goods and services at unchanged prices. As

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



Source: Thomson Financial; graphs by Degussa.

the new money is passed on from hand to hand, so to say, the demand for vendible items goes up, translating into higher goods prices.

The late receivers of the new money can only buy at already elevated prices. As a result, income and wealth of the early receivers of the new money go up at the expense of the late receivers of the new money – let alone all those people who do not gain anything from the increase in the money supply. The issuance of fiat money creates winners and losers.

It is unlike what happens in a genuinely free market, in which people trade voluntarily with one another, and both parties benefit from such a transaction. In a fiat money regime, in contrast, it is the early receivers of the new money that reap a "windfall profit", which comes at the expense of all those who come later in line.

As things stand, there is no escape from this coercive redistribution of income and wealth – as governments have monopolised money production. People have to use the governments' fiat money. 'Alternative money candidates' have either been outlawed or made uncompetitive by legal tender laws and or subjecting them to capital gain tax and/or VAT.

The issuance of fiat money cannot be, and is not meant to be, beneficial for all but is made to favour some at the expense of others. In general, those who have easy access to bank credit clearly belong to those who benefit: The governments, commercial and investment banks, big business, the financial industry at large.

The disadvantaged are, generally speaking, those groups who do a kind of business that is actually quite remote from central banks' and commercial banks' money production: Businesses that do not receive orders and contracts from the group of the early receivers of the new money, including, of course, their employees.

MISLEADING DEFINITION OF INFLATION

In recent years, mainstream economics has been arguing that inflation is actually a rise in consumer goods prices by more than 2 per cent per year, and many people seem to buy this story. However, it is a rather misleading, deceptive conceptualisation of the 'inflation phenomenon' for various reasons.

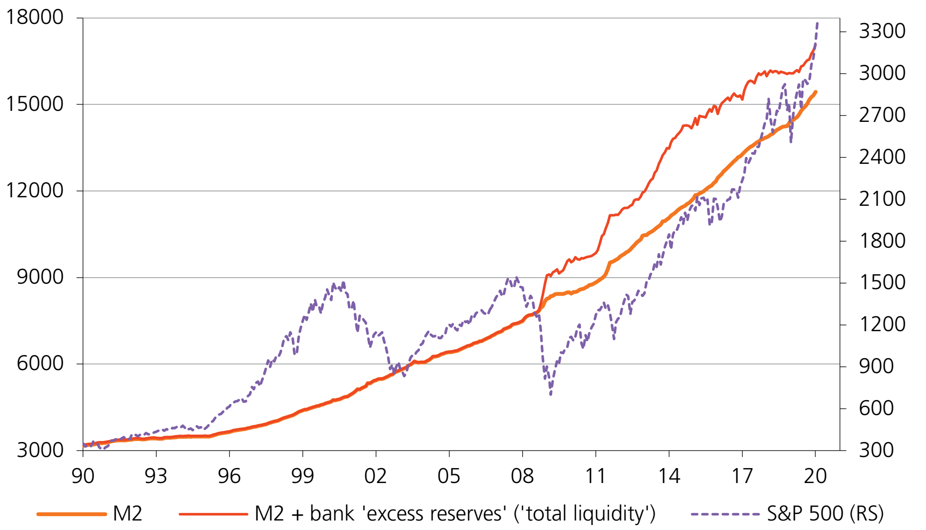
The increase in fiat money does not only show up in consumer goods prices, but it also affects 'asset prices': the prices of, say, stocks, bonds, real estate, art, etc. In the last decades, central banks' inflationary policies have shown up predominantly in rising asset prices and not in overly sharp increases in consumer prices.

It should be clear, however, that a rise in asset prices erodes the purchasing power of money just as effectively as does an increase in consumer goods prices. Nevertheless, central banks, with the intellectual support of mainstream economics, defend the idea of measuring inflation by changes in consumer goods prices but not asset prices.

There is good reason to believe that the actual loss in purchasing power of money is (much) higher than is suggested by consumer goods price statistics. For instance, in the period 2000 to 2019, the US dollar (if and when kept as cash) has lost 35% of its purchasing power compared to consumer goods prices.

In the same period, it has lost 53% of its purchasing power in terms of housing. In other words: People have to spend more than double the amount of money for a house today compared to 20 years ago (other things being equal), or they have to save twice as long or borrow twice as much as two decades ago.

2 Rising liquidity, rising asset prices
US monetary aggregates (US$ bn) and S&P 500



Source: Thomson Financial; calculations Degussa.

BOOM AND BUST

An additional consequence of the issuance of fiat money is the artificial boom is sets into motion. The increase of credit supply not backed by real savings pushes the market interest rate down to an artificially low level. This, in turn, discourages savings, increases consumption, and it also fuels additional investment.

The painful news is that the boom brings overconsumption and malinvestment. People live beyond their means. They consume more and save less – compared with a situation in which the market interest rate had not been artificially lowered. Firms engage in investments which, under 'unhampered market conditions', are actually not profitable.

However, as long as the market interest rates remain artificially lowered by injections of fiat money issued through credit expansion, the boom is upheld. If the inflow of additional credit and money dries up, however, and the market interest rate returns to its 'normal level', the boom will turn into bust.

People enjoy the boom, and they loathe the bust. So, once they have initiated the boom, central banks can count on support from politicians, banks, industrial firms, unions, employees, and even pensioners to take all kinds of measures to keep the boom going because no one wants to pay the bill run up by the boom.

As a result, the central bank brings interest rates to ever lower levels and pumps ever more credit and money into the system to keep the boom going. The chances are that under such a policy, the deceptive economic expansion can be kept going for a while. But it will take ever more 'aggressive measures' to keep it going.

It does not take much to understand what this 'corrupt incentive structure' brings: Central banks will keep inflating. In the first step, they will try to keep inflating asset prices – as it supports the boom and they get away with it: People do not complain about 'asset price inflation', and they do not blame central banks' monetary policies for it.

That said, the lesson to learn is this: Fiat money – be it US dollar, euro, Chinese renminbi, British Pound, Swiss Franc, etc. – will most likely continue to lose its purchasing power over time. Some perhaps faster, some maybe less quickly. But people should be aware that fiat money is no reliable store of value.

There might be a point in time when the fiat money system crashes altogether – for inflation is a policy that cannot last. However, we do not know when the death knell of the fiat money regime will ring. That said, the minimum advice is this: Do not entrust your life savings to fiat currency; and do not expect the crash too soon.

***

.

PRECIOUS METALS PRICES

In US-Dollar per ounce

	Gold		Silver		Platinum		Palladium	
I. Actual	**1640.3**		**17.9**		**915.1**		**2776.8**	
II. Gliding averages								
10 days	1601.7		18.1		974.1		2542.1	
20 days	1586.2		17.9		973.0		2437.7	
50 days	1554.3		17.9		971.3		2236.1	
100 days	1516.4		17.6		937.6		2012.1	
200 days	1476.1		17.0		898.2		1757.9	
III. Estimates, end 2020	**1695**		**25**		**1256**		**1536**	
(1)	*3*		*39*		*37*		*-45*	
Band width	*Low*	*High*	*Low*	*High*	*Low*	*High*	*Low*	*High*
	1459	1931	19.8	28.8	1020	1492	1300	1772
(1)	*-11*	*18*	*11*	*61*	*11*	*63*	*-53*	*-36*
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	
I. Actual	**1506.3**		**16.4**		**840.3**		**2549.9**	
II. Gliding averages								
10 days	1476.8		16.7		898.1		2344.1	
20 days	1451.8		16.4		890.5		2231.9	
50 days	1407.7		16.2		879.6		2026.8	
100 days	1371.6		15.9		848.0		1821.0	
200 days	1330.0		15.3		809.4		1585.0	
III. Estimates, end 2020	**1610**		**24**		**1190**		**1460**	
(1)	*7*		*44*		*42*		*-43*	
Band width	*Low*	*High*	*Low*	*High*	*Low*	*High*	*Low*	*High*
	1390	1840	18.9	27.5	970	1420	1240	1690
(1)	*-8*	*22*	*15*	*67*	*15*	*69*	*-51*	*-34*
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.

(1) On the basis of actual prices.

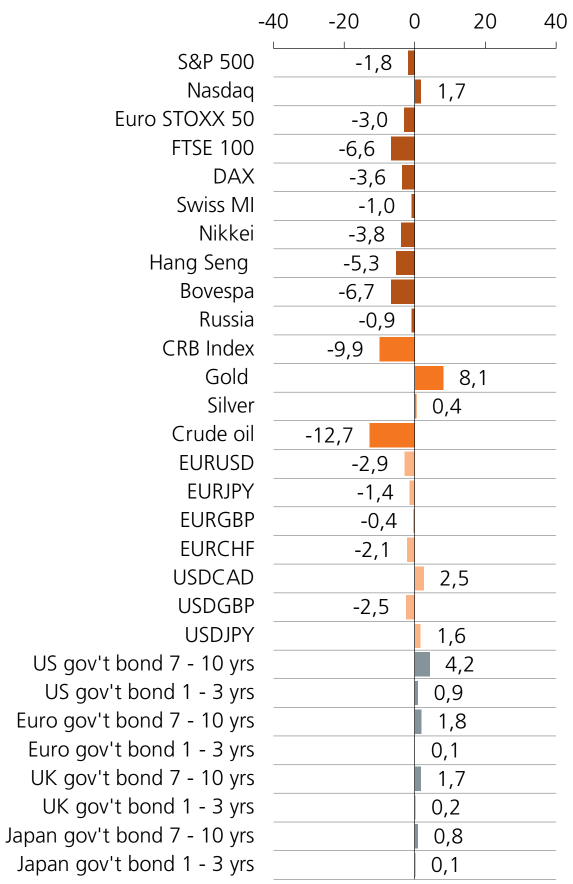
BITCOIN, PERFORMANCE OF VARIOUS ASSET CLASSES

Bitcoin in US dollars

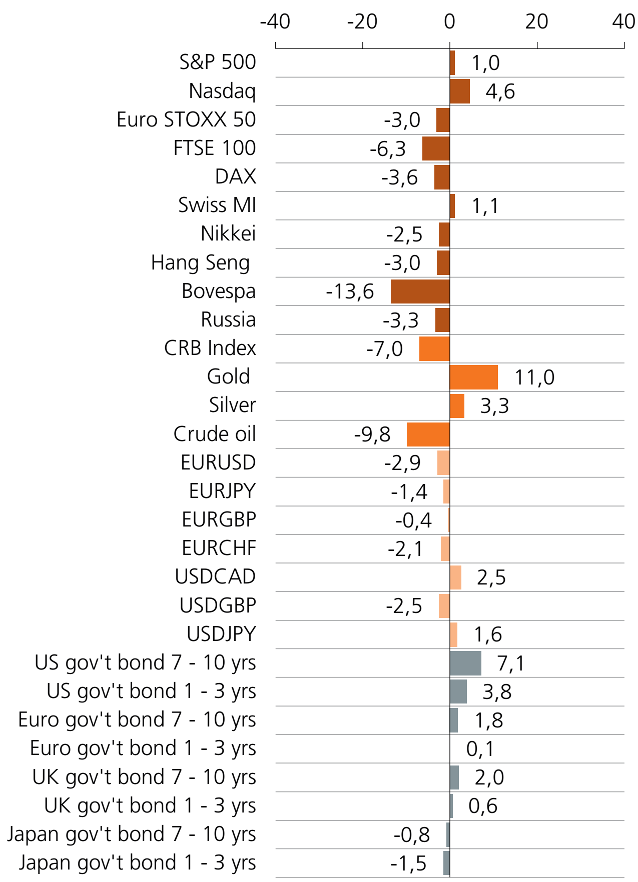
Source: Thomson Financial; graph by Degussa.

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
27 February 2020	Inflation Policy And Its Supporters
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 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?

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

Disclaimer

Degussa Goldhandel GmbH, Frankfurt am Main, is responsible for creating this document. The authors of this document certify that the views expressed in it accurately reflect their personal views and that their compensation was not, is not, nor will be directly or indirectly related to the recommendations or views contained in this document. The analyst(s) named in this document are not registered / qualified as research analysts with FINRA and are therefore not subject to NASD Rule 2711.
This document serves for information purposes only and does not take into account the recipient's particular circumstances. Its contents are not intended to be and should not be construed as an offer or solicitation to acquire or dispose of precious metals or securities mentioned in this document and shall not serve as the basis or a part of any contract.
The information contained in this document was obtained from sources that Degussa Goldhandel GmbH holds to be reliable and accurate. Degussa Goldhandel GmbH makes no guarantee or warranty with regard to correctness, accuracy, completeness or fitness for a particular purpose.
All opinions and views reflect the current view of the author or authors on the date of publication and are subject to change without notice. The opinions expressed herein do not necessarily reflect the opinions of Degussa Goldhandel GmbH. Degussa Goldhandel GmbH is under no obligation to update, modify or amend this document or to otherwise notify its recipients in the event that any circumstance mentioned or statement, estimate or forecast set forth in this document changes or is subsequently rendered inaccurate.
The past performance of financial instruments is not indicative of future results. No assurance can be given that any views described herein would yield favorable returns on investments. There is the possibility that said forecasts in this document may not come to pass owing to various risk factors. These include, without limitation, market volatility, sector volatility, corporate actions, the unavailability of complete and accurate information and/or the circumstance that underlying assumptions made by Degussa Goldhandel GmbH or by other sources relied upon in the document should prove inaccurate.
Neither Degussa Goldhandel GmbH nor any of its directors, officers or employees shall be liable for any damages arising out of or in any way connected with the use of this document and its content.
Any inclusion of hyperlinks to the websites of organizations in this document in no way implies that Degussa Goldhandel GmbH endorses, recommends or approves of any material on or accessible from the linked page. Degussa Goldhandel GmbH assumes no responsibility for the content of and information accessible from these websites, nor for any consequences arising from the use of such content or information.
This document is intended only for use by the recipient. It may not be modified, reproduced, distributed, published or passed on to any other person, in whole or in part, without the prior, written consent of Degussa Goldhandel GmbH. The manner in which this document is distributed may be further restricted by law in certain countries, including the USA. It is incumbent upon every person who comes to possess this document to inform themselves about and observe such restrictions. By accepting this document, the recipient agrees to the foregoing provisions.

Imprint
Marktreport is published every 14 days on Thursdays and is a free service provided by Degussa Goldhandel GmbH.
Deadline for this edition: 27 February 2020
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/