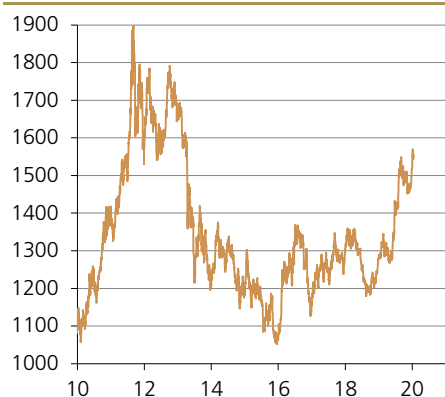


30 January 2020

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	Change against (in percent):		
	(spot)	2 W	3 M	12 M
<b>I. In US-dollar</b>				
Gold	1.581.3	1.2	7.4	19.7
Silver	17.7	-2.1	4.3	10.3
Platinum	963.7	-1.5	9.3	17.6
Palladium	2.267.5	7.1	35.4	68.8
<b>II. In euro</b>				
Gold	1.434.9	2.2	6.3	24.3
Silver	16.1	-1.1	3.2	14.9
Platinum	874.5	-0.5	8.1	22.5
Palladium	2.058.0	8.1	34.0	75.3
<b>III. Gold price in other currencies</b>				
JPY	172.088.0	0.6	8.2	19.6
CNY	10.968.2	1.5	4.2	24.0
GBP	1.217.3	1.8	1.7	20.8
INR	113.127.2	1.9	8.8	20.7
RUB	99.633.7	4.5	4.4	15.4

Source: Thomson Financial; calculations by Degussa.

## OUR TOP ISSUES

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

## DO NOT THINK THE ERA OF BOOM AND BUST CYCLES HAS ENDED

At the 2020 World Economic Forum in Davos, Bob Prince, co-chief investment officer at Bridgewater Associates, attracted attention when he suggested in a news agency interview that the boom and bust cycle, as we have come to know it in the last decades, might have ended. This viewpoint may well have been encouraged by the fact that the latest economic upswing (“boom”) has been going for around a decade, and that an end is not in sight as suggested by incoming macro- and micro-economic data.



Bridgewater Co-CIO Prince Calls the End of the Boom-Bust Cycle

133.723 Aufrufe · 22.01.2020

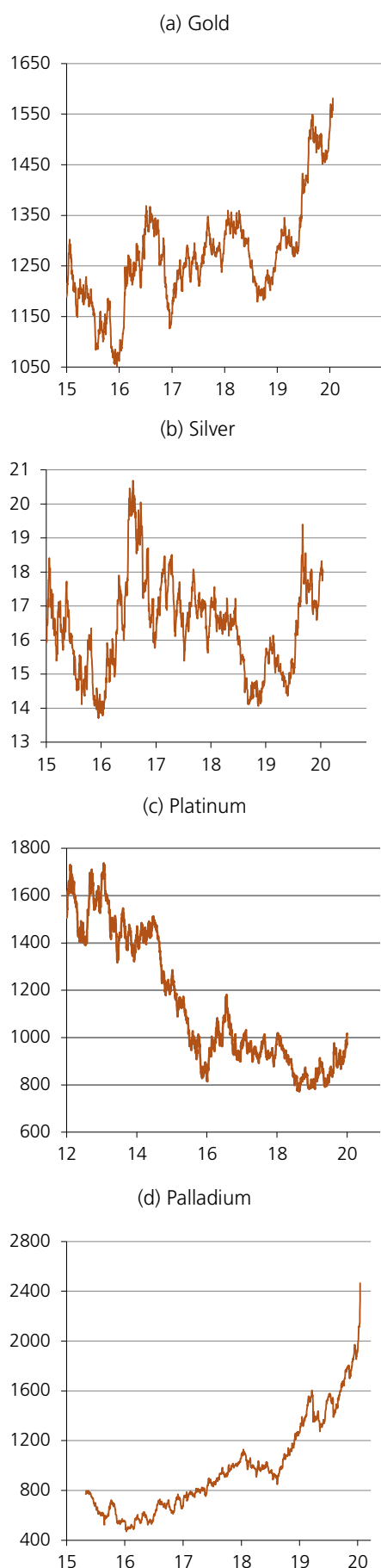
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But would that not reject the key insight of the Austrian Business Cycle Theory (ABCT), which says that a boom, brought about by artificially lowered market interest rates and injections of new credit and money produced “out of thin air”, must eventually end in a bust? In what follows, I will remind us of the key message of the ABCT and outline the “special conditions” which must be taken into account if the ABCT is applied to interpret real-world developments. Against this backdrop, we can then also form a view about how the next crisis might look like.

## WHAT THE ABCT SAYS

The ABCT is actually a ‘theory of crisis’, and it explains the broader consequences if and when central banks, in close cooperation with commercial banks, increase the amount of money in the economy through credit expansion

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



– that is an increase in bank lending that is not backed by real savings. The increase in the circulation credit supply initially lowers the market interest rate to below its “natural level”, or: “the ordinary interest rate level”, to use a term of the Austrian School of Economics.

The artificially lowered market interest rate discourages savings, and encourages consumption and investment expansion. The economy enters a boom. However, after the initial injection of new credit and money has had its impact on prices and wages, people start realising that the economic expansion was of a one-off. People return to their pre-boom savings-consumption-investment ratio, which means that the market interest rate finally returns to the higher ordinary interest rate level. This is the very process that makes the boom turning into bust.

To prevent the boom from turning to bust, central banks take action to bring down market interest rates even further. For if and when the market interest rate goes down even more, the production and employment structure can be upheld and the boom can continue. In other words: The development of market interest rates – which is actually expressive of how people allocate their incomes to savings, consumption, and investment – is the crucial issue in the boom-and-bust-cycle. And it is here where central banks have increasingly taken control.

### THE ISSUE OF INTEREST RATE CONTROL

Since the financial and economic crisis 2008/2009, central banks have more than ever before taken control of market interest rates. They do no longer limit themselves to setting short-term interest rates – and, by doing so, hope to also control interest rates with longer maturities. In fact, central banks have started to set long-term interest rates as well through purchasing, say, government bonds, mortgage bonds, corporate bonds, and bank bonds. This way, they do influence directly bond prices and thus bond yields; market interest rates are no longer determined in a ‘free market’.

Market interest rates are not only distorted and have been set at too low a level through central bank policies, they are also kept from returning to economically sensible levels. At least this is what financial market agents seem to think: They assume central banks will continue to take care of the credit market – for they know that if and when market interest rates rise, the boom will undoubtedly turn into bust – something central banks wish to prevent at all costs.

And given the basically unlimited power of central banks in the determination of bond prices and thus bond yields, no investor (in his right mind) will want to bet against the monetary authority. In fact, investors have a great incentive to trade bond prices towards the level they think the central bank would like to establish in the market place. In other words: If the market thinks the central bank does not wish higher interest rates, interest rates will remain artificially low.

### MIND THE ‘SAFETY NET’

By controlling market interest rates, central banks have in fact put a ‘safety net’ under the economies and financial markets. As central banks have signalled to the public that they feel responsible for a healthy economy, and, in particular, that ‘financial market stability’ prevails, investors can put one and one together:

Should the economies or financial markets get to the verge of collapsing, investors can expect central banks to step in fighting the impending crisis. This, in turn, encourages investors to take additional risks, step up their investments, disregard and underestimate risk.

Central banks' 'safety net' is not only a powerful tool to sustain the boom, it is also a rather subtle, stealthy intervention in capital markets. It effectively brings about an entirely rigged financial market: Prices are higher and yields are lower than unhampered market forces justify. The central banks' safety net policies amount to a manipulation of the market system on the greatest scale possible. With basically all prices and all market yields distorted, the economy and financial markets enter a 'hall of mirrors'-regime, where consumers and firms inevitably must get disoriented and make wrong decisions.

However, under such conditions the boom can be kept going much longer compared to a scenario in which free market forces are allowed to do their job – that is establishing financial asset prices as well as inflation, credit, and liquidity premia according to real-world realities. However, today's environment is rather different: Central banks, in their attempt to prevent the current boom turning into another bust, have effectively corrupted the vital roles financial markets and market interest rates have to play in a free market system.

## **THE ROLE OF THE ORIGINARY INTEREST RATE**

It would be a mistake to conclude that a boom could be upheld indefinitely if and when central banks beat down the market interest rate to zero, or even push it into negative territory. In fact, without a positive market interest rate (in real terms), the modern type of economy, which rests on the division of labour and complex 'roundabout production' processes, could not exist. This is an insight derived from the Austrian's time preference theory of the interest rate. In a nutshell, time preference means that acting man values earlier satisfaction of a want higher than the satisfaction of the same want at a later time.

The manifestation of time preference is the 'originary interest rate'. It denotes the value discount a good that is available in the future suffers compared to the same good that is currently available. Acting man's time preference and thus his originary interest rate are, for logical reasons, always and everywhere positive. They may well approach zero, but can never hit zero, let alone become negative. This is a significant insight, as it tells us what would happen if the market interest rate were to drop to zero: The modern market economy would disintegrate. And this is why:

Every acting man carries, so to speak, a positive originary interest rate in himself. So if the market interest rate is zero, no one would put their savings in time-consuming production processes any longer. People would not be willing to offer their savings for replacement investments and new investments. They would simply hoard their savings 'under their mattresses'. Capital consumption would set in. In other words: By bringing the market interest rate down to zero, central banks would actually destroy the market economy with its division of labour as we know it today.

## **THE END GAME**

In recent years, most central banks have concentrated on policies pushing down selected types of market yields, in particular, those in the funding mar-

kets for government debt, mortgage debt, and bank debt. However, the consequences of such actions are increasingly felt in other asset markets. In a search for yields, investors increasingly use their funds to purchase, say, stocks and real estate. As a result, these asset prices rise, thereby lowering their future returns. In other words: The zero interest rate policy of the central banks drags down basically all kinds of yields with it. This may go on for quite a while.

But once all market interest rates hit zero, the real trouble starts: the boom turns into bust. Credit markets would shut down, borrowers could no longer roll over their maturing debt, and no investor would be willing to lend new funds. To prevent credit defaults and the debt pyramid from collapsing, central banks would presumably step in as a 'lenders of last resort', refinancing basically all kinds of borrowers in need. An outright inflation policy begins. Nevertheless, capital consumption and economic regression will set in. Peoples' living standards would nosedive, many would be thrown into outright misery.

Employing the ABCT to real-world developments yields the following insights: Central banks have done nothing to put an end to the boom and bust cycle. Instead, their unscrupulous interventions in credit markets just prolong the boom. However, it would be mistaken to assume that by bringing market interest rates to zero, a perpetual boom could be created. Such a policy is self-defeating: Once all market interest rates have been dragged down to zero, the capitalistic economic system collapses. Then – at the latest – the boom will definitely turn into bust.

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## Precious metals prices

In US-Dollar per ounce

	Gold		Silver		Platinum		Palladium	
<b>I. Actual</b>	<b>1581.5</b>		<b>17.7</b>		<b>963.4</b>		<b>2265.8</b>	
II. Gliding averages								
10 days	1554.8		18.0		990.4		2259.0	
20 days	1541.3		18.0		976.4		2097.9	
50 days	1498.4		17.4		935.3		1945.4	
100 days	1497.9		17.6		926.6		1817.4	
200 days	1439.9		16.6		885.0		1629.0	
<b>III. Estimates, end 2020</b>	<b>1695</b>		<b>25</b>		<b>1256</b>		<b>1536</b>	
(1)	7		40		30		-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>
	1459	1931	19.8	28.8	1020	1492	1300	1772
(1)	-8	22	12	62	6	55	-43	-22
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

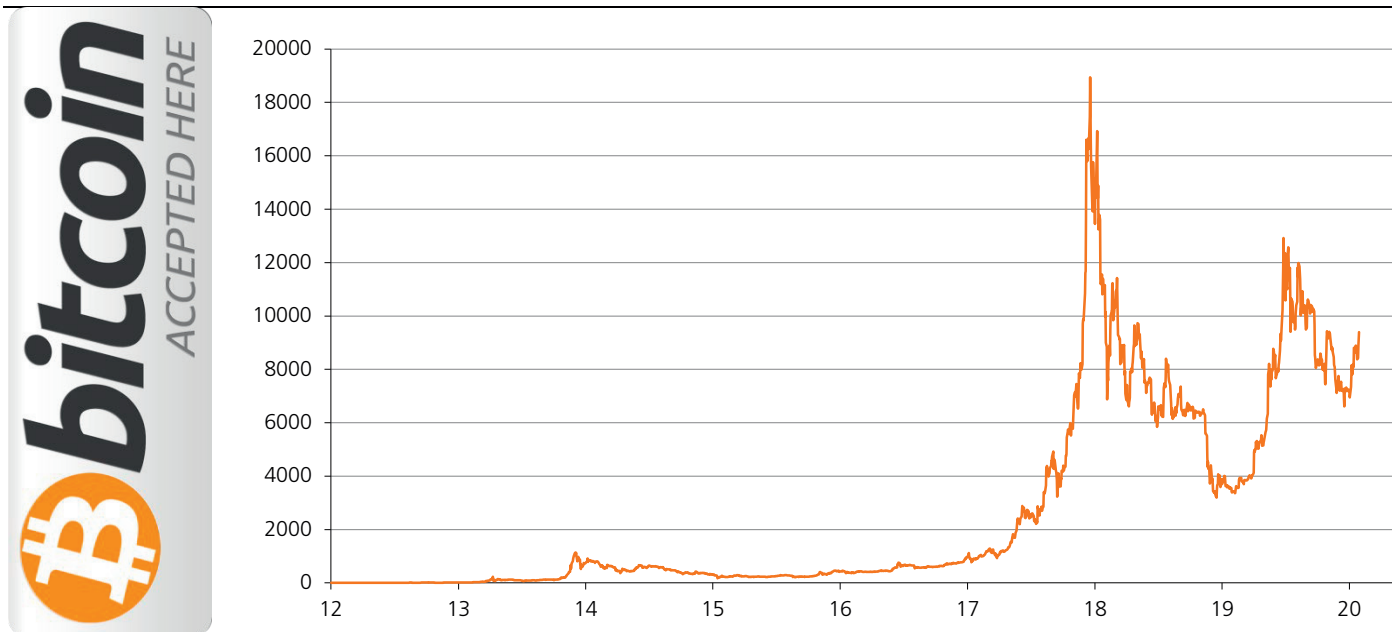
	Gold		Silver		Platinum		Palladium	
<b>I. Actual</b>	<b>1435.7</b>		<b>16.1</b>		<b>874.6</b>		<b>2056.8</b>	
II. Gliding averages								
10 days	1398.7		16.2		891.0		2032.4	
20 days	1383.3		16.1		876.3		1883.1	
50 days	1349.8		15.7		842.5		1752.3	
100 days	1353.0		15.9		836.9		1641.1	
200 days	1293.6		14.9		795.1		1463.7	
<b>III. Estimates, end 2020</b>	<b>1610</b>		<b>24</b>		<b>1190</b>		<b>1460</b>	
(1)	12		47		36		-29	
<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
(1)	-3	28	17	71	11	62	-40	-18
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

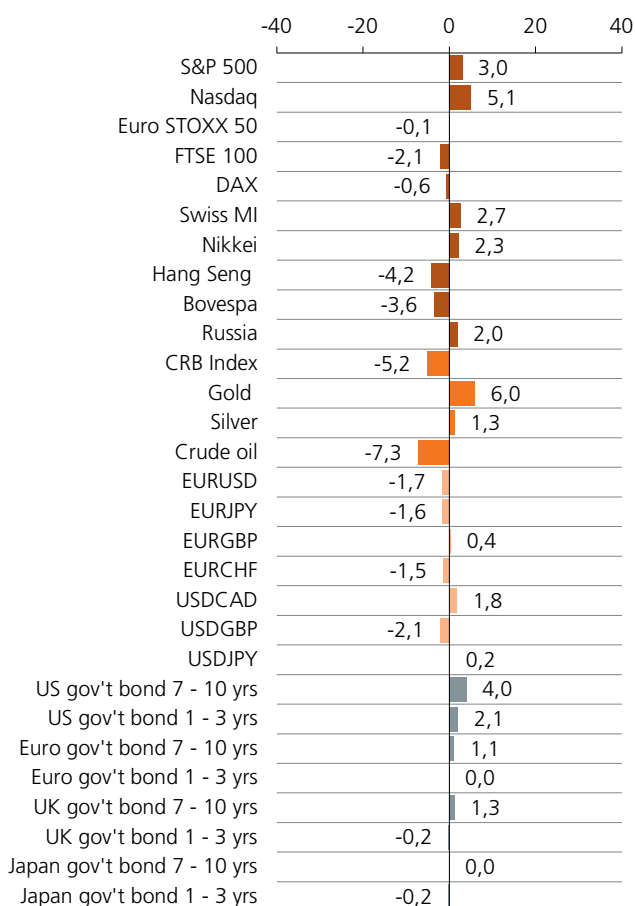
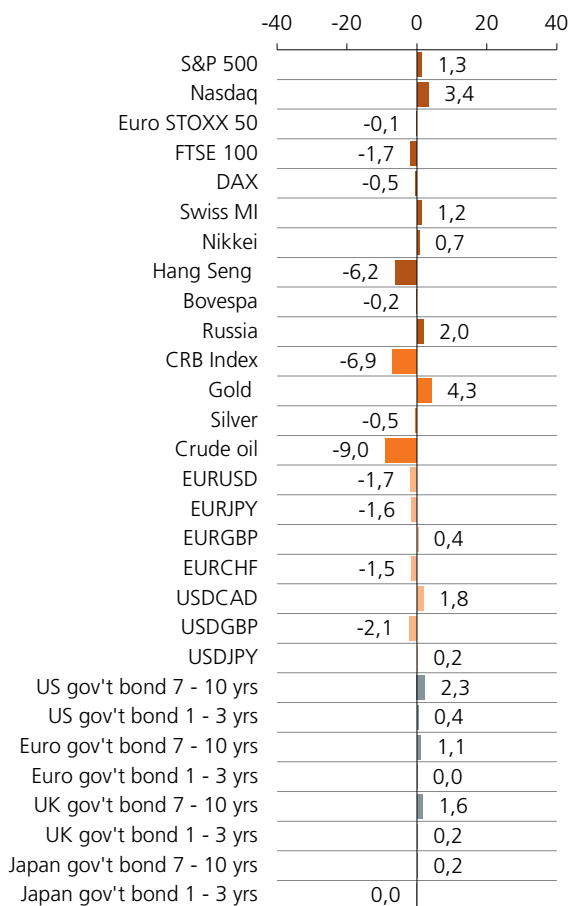


Source: Thomson Financial; graph by Degussa.

## 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
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
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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
22 June 2018	Euro-Banks In Trouble. A Case for Gold

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**Editor in chief:** Dr. Thorsten Polleit

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### Frankfurt Headquarters

Kettenhofweg 29 · 60325 Frankfurt

Phone: 069-860 068 – 0 · [info@degussa-goldhandel.de](mailto:info@degussa-goldhandel.de)

### Retail buying and selling outlets in Germany:

**Augsburg** (shop & showroom): Maximiliansstraße 53 · 86150 Augsburg  
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