Degussa

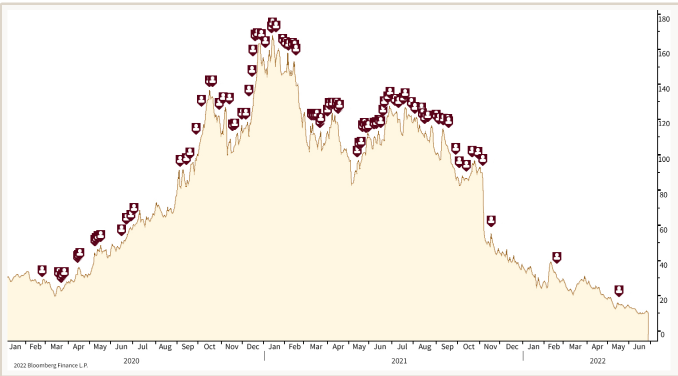
GOLD AND SILVER.

Market Report

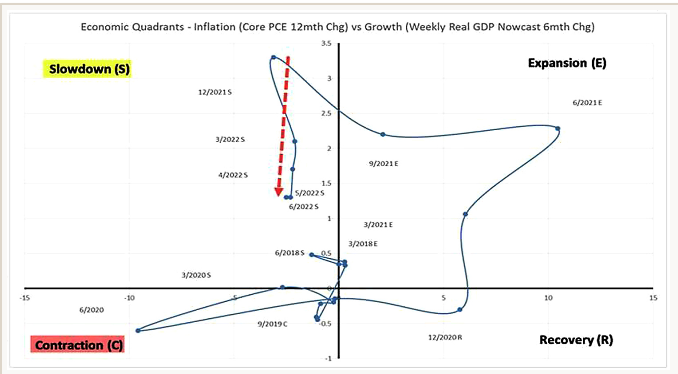
July, 2022

Markets decidedly entered a bear market this month, while bitcoin and bonds also saw blood-red. Energy was the best performing asset of 2022 thus far, and remains, with a few caveats, an interesting option. Japan is exploring the downsides of loose monetary policy as the its central bank works frantically to pick up the pieces. Foreseen social, political, financial, and real economy crises create the ideal mise en scène for a coming great reset.

Highlights



A purchase invariably requires someone else to be selling. This concept is crucial for retail investors to keep in mind, particularly when the sellers are corporate insiders or smart money. The chart shows Peloton's stock price and insider transaction history since Jan 2020. Over the last two years insiders sold over 6 million shares, with its CEO selling a million shares for over $100/share. The stock price is currently trading at under $10. Smart investors watch and emulate smart money's movements. Source



Central banks' inability to control supply is appearing as a "revelation" that should have been obvious all along, and gives weight to recessionary predictions. The economic quadrant trajectory corroborates quite well with our risk signal, which pre-empted the slow down and the coming contraction. This indicates that recovery is not yet here and explains why smart money is not yet back to buying. Source

Precious Metals & Commodities

Promising harvests and some resolution in the Ukraine conflict may ease the pressure on the agriculture sector. Recession indications lead will put pressure on oil and copper. Gold and silver display strong upside potential in the short and long term.

Indicator	Gold	Silver	Copper	Oil	Agriculture
Current	↗	↗	→	→	→
Outlook	↗	↗	→	↗	→
Trend	↗	↗	↗	↗	↗

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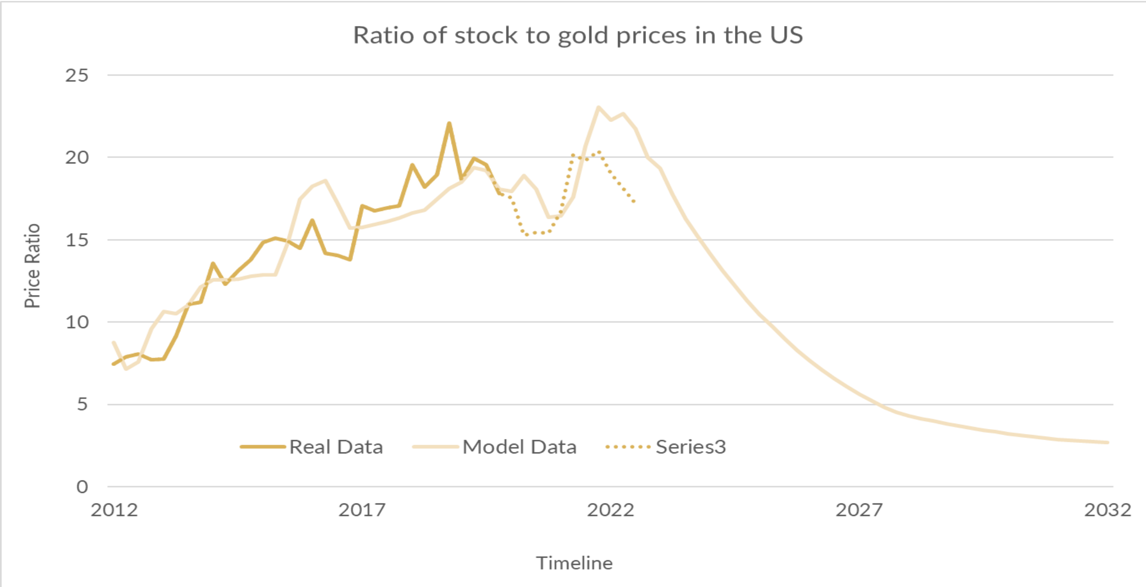
Prediction Model Gold or Stocks?

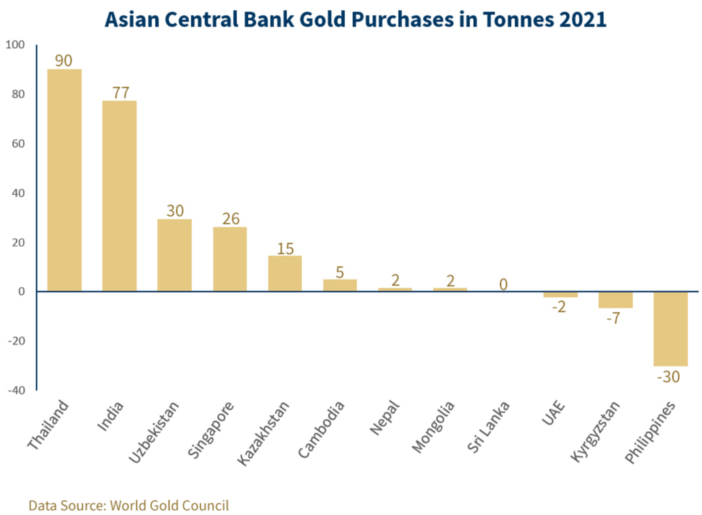
The current level of debt compared to production of the real economy is similar to the situation in the Germanic nations before the world wars in the 1910s, and the situation in France before the French Revolution in the 1790s. In such high debt level scenarios, the likelihood of instability and a deleveraging process is increased. Since gold holdings are normally free from another's liability, the deleveraging process has a far gentler impact on gold prices than, for example, equities.

The upcoming deleveraging process can be modelled using coupled differential equations which leads to the expectation that gold will perform better than stocks from 2022 onwards. The model has been calibrated in 2019, and since then not been adjusted for new input data.

Based on this data, the peak at which economic activity assets (such as equities) will outperform gold is around Q3 2022. From then on, the model predicts a outperformance of gold towards stocks (light line). When looking at the real data of stock to gold price (dotted line), we see the trend of gold outperforming stocks already began early in 2022. Whether we will experience another countermove or not is currently difficult to predict, but the long term trend for higher gold performance remains clear.



Gold Feature



Gold purchases by Asian central banks slumped in the first quarter of 2020, however, demand picked up significantly in 2021, as 7 of the top 10 buyers were from Asian markets, with Thai and Indian central banks purchasing a total of about 167 tonnes. Demand from central banks is expected to remain high, particularly following western sanctions on Russia which are likely to provide strong incentive for China to further increase its gold holdings.

Gold ETFs in China and India have seen a 25% increase YoY and account for the majority of ETF inflows in Asia, with Chinese gold funds holding a record 75.3 tonnes by the end of 2021. However, ongoing increase at these levels is not expected due to Asian investor mentality, in which financial products play a lesser role, while physical gold and jewelry investments are preferred.

Consumer demand increased, with a total of 471 tonnes being purchased by China and India, making them the world's two largest consumers. Rising demand is partly cyclical as wedding and festival season in India and Chinese New Year in China prompt an increase in gold purchases. China's jewelry purchases rose by 63% YoY, while India's rose by 93%, making India reach a 6-year gold consumption high. Source