Degussa

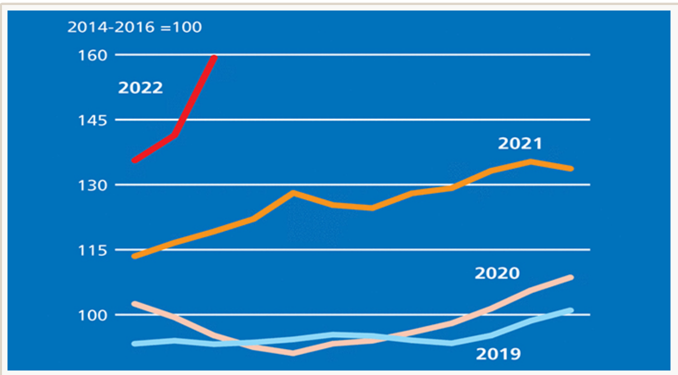
GOLD AND SILVER.

Market Report

May , 2022

China and Russia are considering a commodity and gold based currency, as years of misguided monetary policies coupled with weaponization is making the dollar and its reserve status less attractive. Governments are seizing greater control over markets, while applying policies which may cause some unease to investors who wish to ensure they retain the rights to their assets. Many continue to turn to safe havens to escape Western markets' volatility. Concerns continue to grow around food shortages over the coming year as aggregate events are worsening the crisis.

Highlights



The FAO Food Price Index has jumped more than 12% since February. While some increase in consumer prices was expected as a result of unrestrained fiat printing, the near vertical rise we're now seeing is due to a combination of factors. Natural disasters (bird flu, fires, drought), conservation reserve programs which have reduced farmland, and China's export ban are exacerbating the flow of the food supply chain which was already compromised due to the war in Ukraine.

Japan's economic development is important to observe so as to anticipate the devaluing effect money printing may have in other nations like the EU and US. Given Japan's high debt to GDP ratio, the devaluation of the yen was expected based on the theory of the marginal effect of capital to GDP growth. A comparison to the dollar is typically used, but considering the dollar is part of the monetary expansion club, it may make more sense to compare with gold, a historically proven asset with a limited supply.

Precious Metals & Commodities

With the Ukraine conflict potentially easing, commodity prices may stabilize in the short term, while the long-term trend remains bullish due to the knock-on effect of the war. Gold and sliver continue to indicate upside potential in both the short and long term.

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

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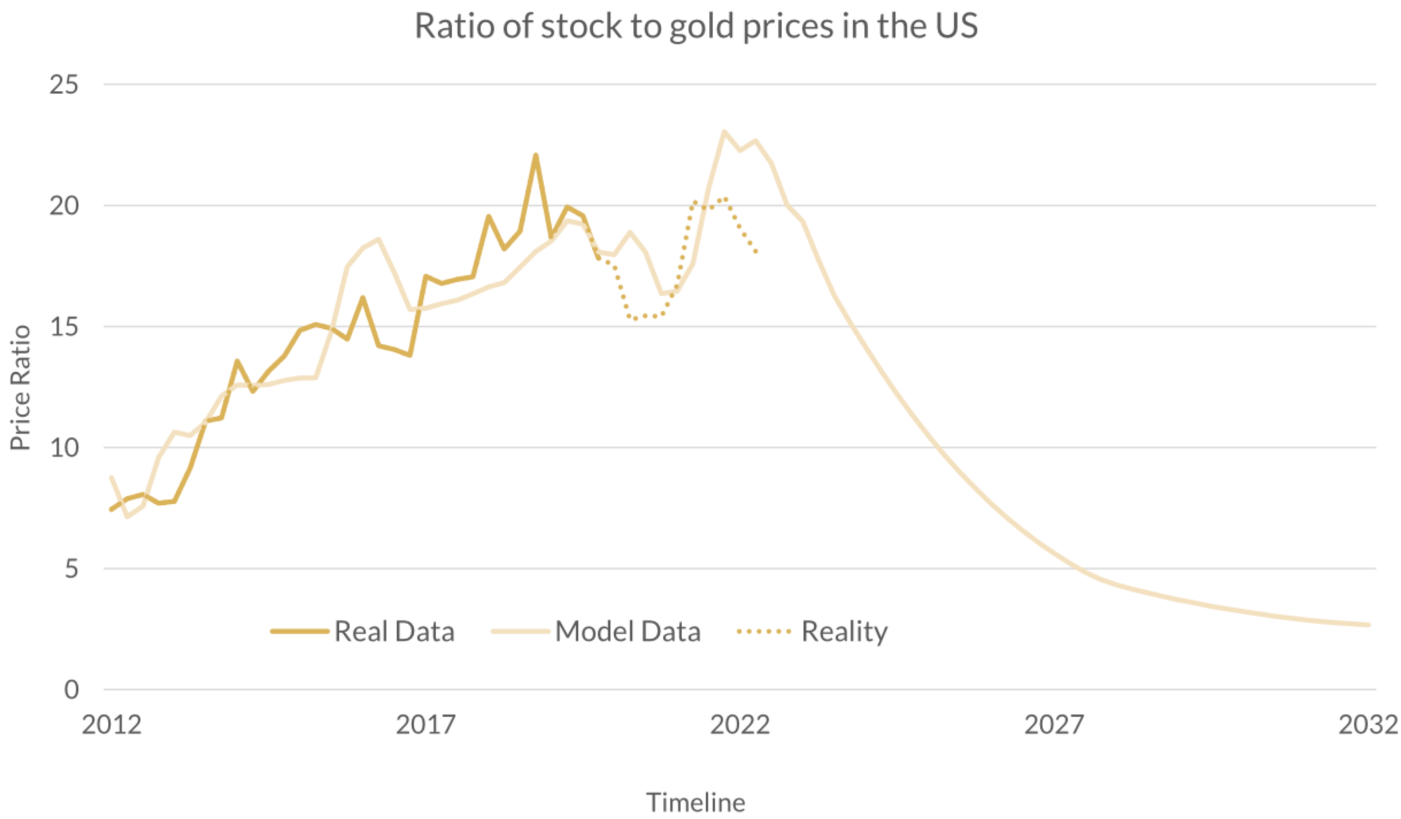
Prediction model Gold or Stocks?

The current level of debt compared to production of the real economy is similar to the situation in England or Germany before the world wars, and the situation in France before the French Revolution. The chances of a deleveraging process are increasing, and this process can be observed through a Stock-Gold Model created by SIM Research, which predicts, based on a cause-effect model, the turning point at which gold begins to perform better than stocks.

Based on the latest numbers fed into the model, the peak at which economic activity assets 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.



Conclusion

Over the last decade markets have become increasingly dependent on quantitative easing with central banks intervening at every risk of tremor, resulting in a system that is incapable of self-correcting. A system disproportionately dependent on only a few, yet highly influential, participants (in this case, central banks) comes with higher risk.

At the moment, there is enough stability for continued investment in the stock market, and stocks will likely benefit from additional quantitative easing in the near future. However, the Fed's objective to begin quantitative tightening, coupled with monetary and geopolitical instability has caused market risk to increase, therefore diversifying assets is strongly advised. Last year we saw a rotation from growth stocks to value stocks, it makes sense for this year to have a percentage of one's assets invested into real assets.