Degussa

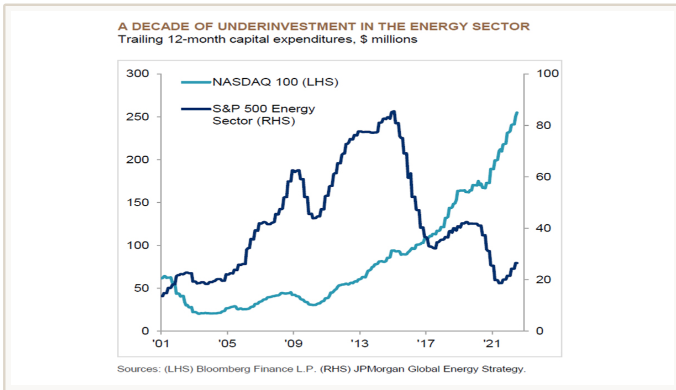
GOLD AND SILVER.

Market Report

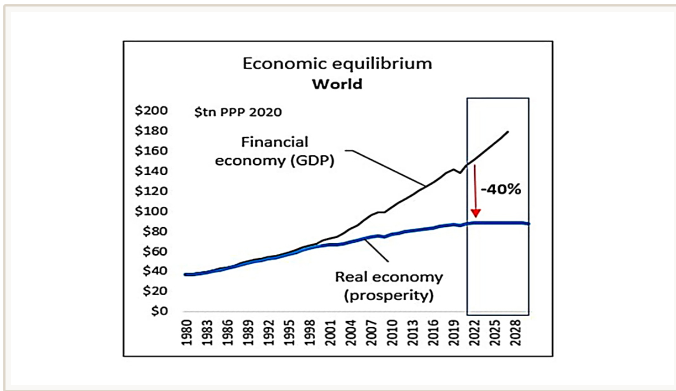
October, 2022

The housing market bubble 2.0 is reaching the bursting point, while developments in the geopolitical landscape and the economic battle being waged between East and West make a strong case for pulling out of Western investments in favour of gold.

Highlights



Due to the political "green" energy initiatives, there has been a massive underinvestment in the energy sector over the past several years, with the result that we currently have insufficient production capacity. A problem which will take years to resolve.



Since the turn of the century, the real economy (based on tangible growth and prosperity) has lagged grossly behind the financial economy (based on GDP that relies on money-printing, giving a faulty illusion of growth). This has created a large divergence that would require a 40% drop to close the gap.

Precious Metals & Commodities

Oil prices are expected to rise, with increased prices being the longer-term trend. Commodities are expected to remain flat, on the other hand, due to the geopolitical landscape, gold prices are expected to rise as nations begin to return to gold as a standard.

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

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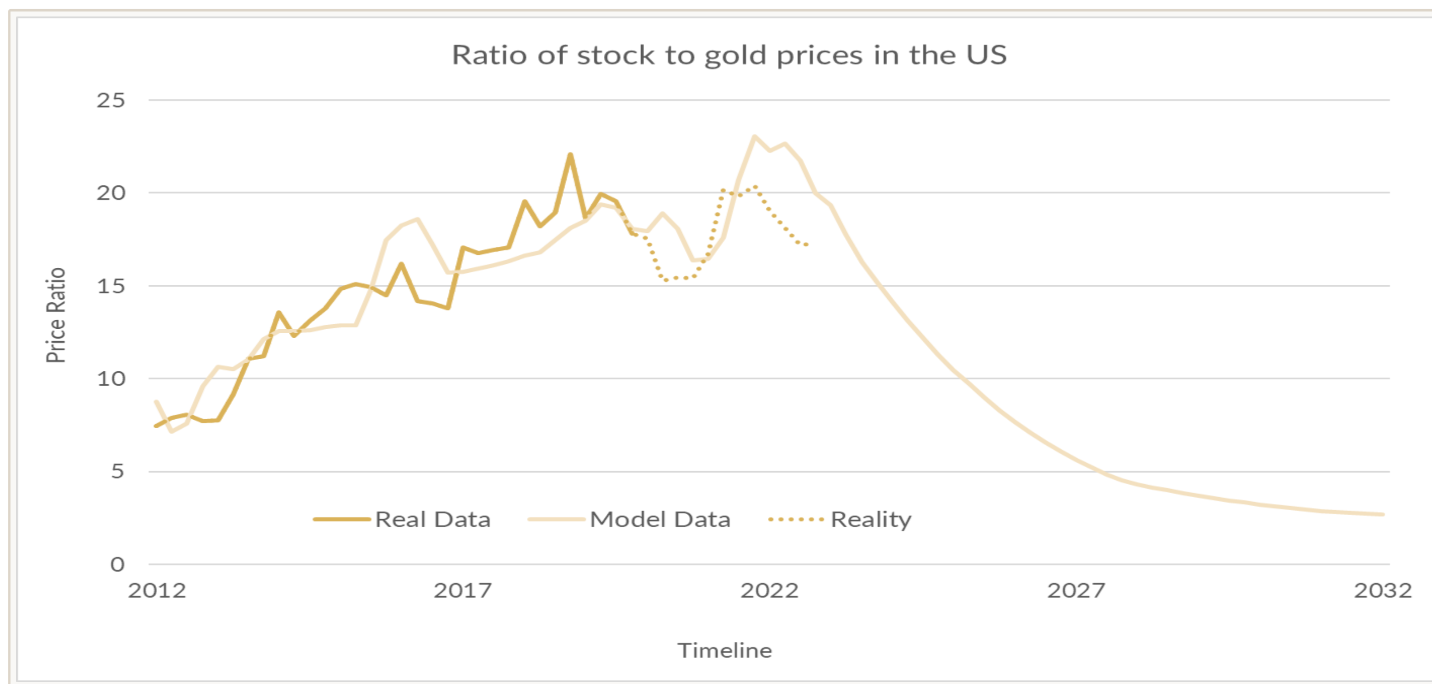
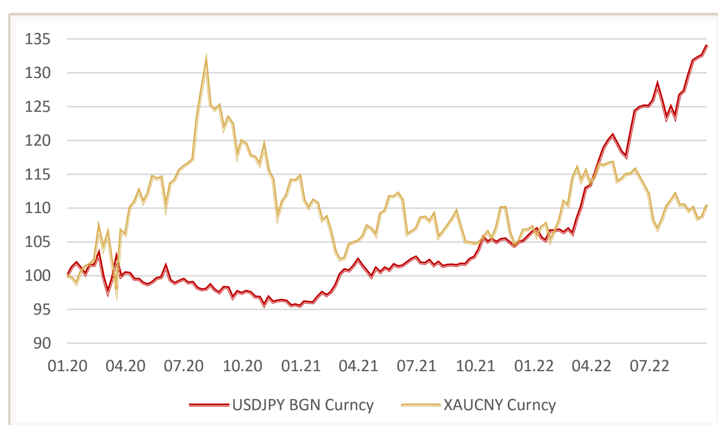
Prediction Model Gold or Stocks?

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.

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



Stagflation is generally characterized by slow economic growth coupled with high unemployment or economic stagnation, simultaneously accompanied by rising prices. Alternatively, it can be defined as a period of inflation amidst a decline in GDP. However according to Ian Macleod, who coined the term, stagflation is a mixture of falling productivity on the one side and rising wage inflation on the other. In previous stagflationary environments (US 1970's), interest rates needed to be raised as high as nearly 20% to combat inflation.

The biggest difference that sets our current environment apart from the 1970's is a more globalized economy, tied into similar rate policies and management methods. The current inflation is spread far more broadly than has been the case previously at a time when debt in the system has been pushed to critical levels due to stabilization policies during the pandemic crisis. Raising rates now would absorb even larger portions of GDP, leaving less for recovery. The only solution would be to change the debt to GDP ratio. The easiest method would be to inflate fiat and respectively devaluate everything financial to the level of the real economy and real assets such as gold.

However, much like in the 1970s, a significant revaluation of the gold price could recapitalize the current system and provide stability to central banks' balance sheet. As the currency whose nation is farthest along in its capital cycle, Japan's yen is already showing signs of collapse, and while gold pricing is currently being suppressed due to its rivalry to fiat currencies, once fiat currencies truly being to fail, policy makers will be forced to secure their currencies with a tangible-value backing, which will likely boost gold in a similar manner to the 1970s.

Source