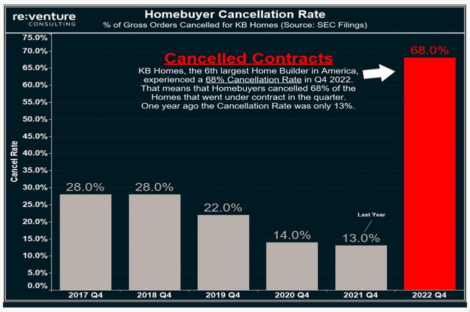
Degussa
GOLD AND SILVER.

Market Report

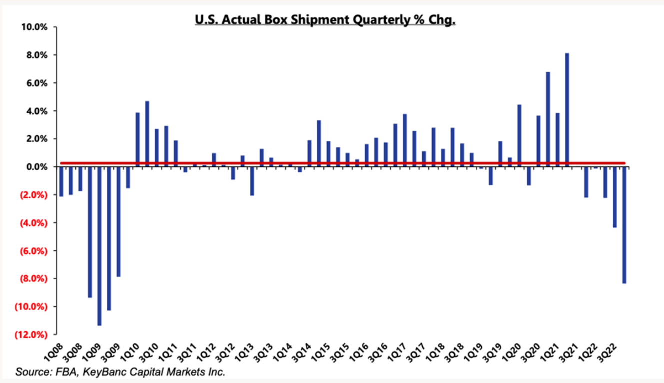
February, 2023

“Not a recession” is the new “transitory inflation” where data is pointing one way and the narrative the other. A compilation of outlooks for 2023 by some of the largest banking institutes provides an overview of what is expected for the coming year. Changes in Chinese policies such as zero-Covid and “three red lines” is putting China in a bullish light, while Sino-Russian efforts toward a rival reserve currency continues to undermine the dollar’s dominance.

Highlights



The latest earnings report from KB Home, one of the US’s largest publicly traded homebuilders, showed a massive 68% buyer cancellation rate in Q4 2022, spiking up from 35% in Q3 and 13% in Q4 2021. A combination of high mortgage rates, persistent inflation, and a shaky economy have made buyers increasingly wary. For context, the cancellation rate surpasses those of the 2008 housing crash, which averaged about 47%.



A drop in cardboard box demand indicates lowered consumer demand. While some of the decline may partly demonstrate a reversion to the mean following the Covid spike, the large drop in Q3 of ‘22 could be a further indication of recessionary pressures.

Precious Metals & Commodities

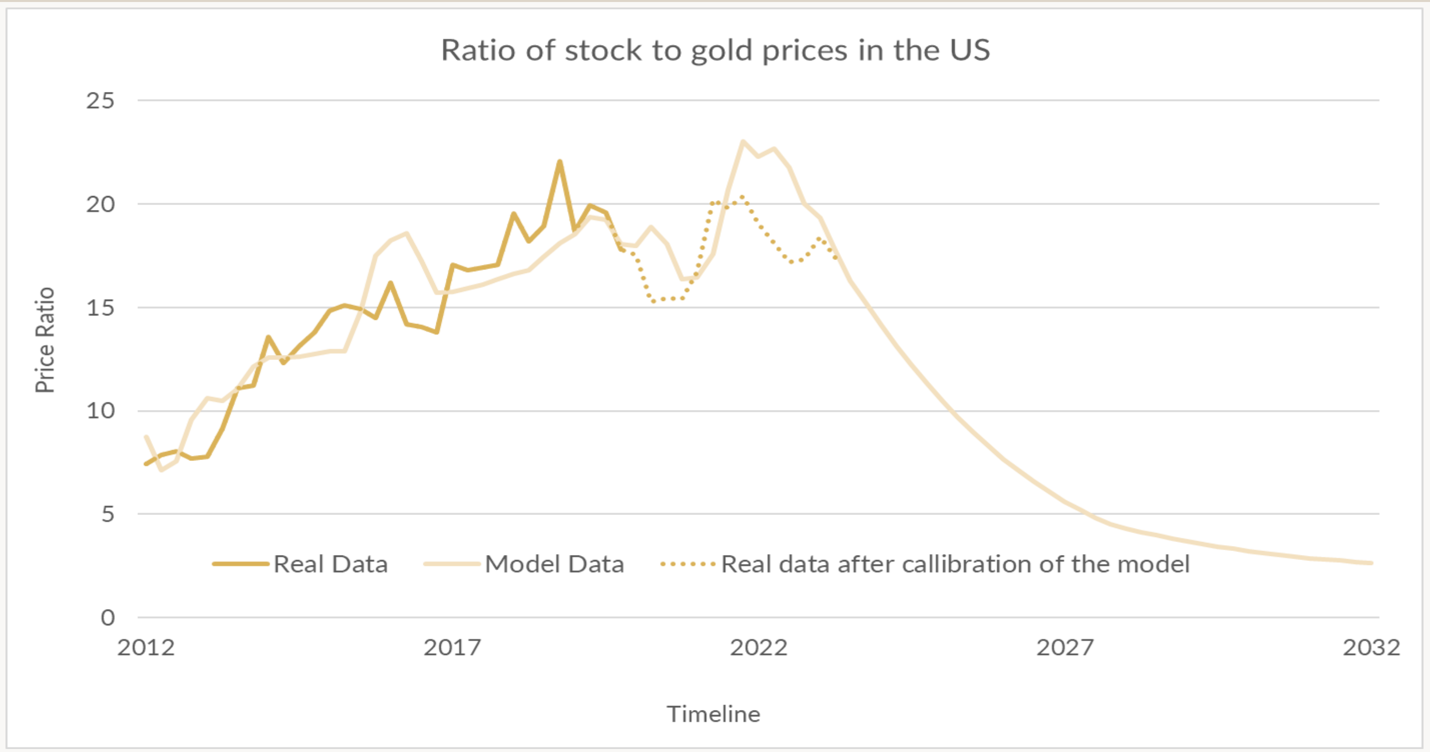
Commodities are expected to remain flat in the short and mid-term, but maintain a upward long-term trend. Oil, gold, and silver will likely continue to rise as the global economic and geopolitical landscape propel their upward movement.

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

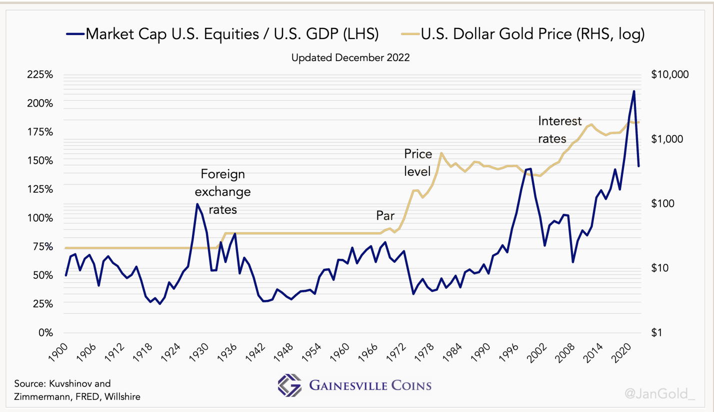
Prediction Model Gold or Stocks?

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



The price of gold is determined by four main drivers:

-Exchange rates: When the price of gold is adjusted in one currency others must follow suit or risk a maladjustment of exchange rates and subsequent capital flows into gold.

-Face Value (Par): When the monetary supply is expanded, the demand for value money (ie. gold) increases, therefore central banks must adjust the price of gold to protect their reserves.

-Price level (inflation): Since gold, as the most valuable currency historically, is not subject to monetary devaluation, gold's price reacts accordingly to any changes in the price level.

-Interest rates: The interest rate is regarded as the future value of money. If the interest rate level decreases, the current value of money increases and, accordingly, so does the price of gold.

When looking at the stock market, it can be seen that the value of money changes with each peak in the stock market. This has to do with the fact that after an exaggeration phase in each case the equilibrium is calibrated again by the system. The expected calibration in this cycle should be driven by interest rate adjustments and inflation, and the price of gold should stabilize to a new corresponding level. According to Credit Suisse's Zoltan Pozsar or Saxo's Ole Hansen, this level could reach new heights, which may be between $3000 and $3600 per ounce of gold.