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Federal banks busy printing money

Is gold about to have a comeback?

The printing presses are running at full speed. The result: more and more paper money. By contrast, the global gold supply is hardly increasing at all. Opportunities for prices to come back up again? Three expert opinions.

teleboerse.de: Many investors view gold as a currency. There are more and more Euros, Yen and Renminbi. The American FED might also be about to print more dollars. Doesn't this create a perfect environment for a fixed gold price?

Thomas Wukonigg: After the FED increased interest for the first time, in the end interest for US government bonds in fact dropped. This pushed real interest even further into the negative and made gold more attractive again.



Thomas Wukonigg is e.g. responsible for portfolio management at Capital-Forum AG.

Carsten Riehemann: Past interest increase cycles have at least not harmed the gold price. Especially against the background of a weakening US dollar coupled with higher inflation, gold might actually surprise us positively in 2016.



Carsten Riehemann is Managing Shareholder at Vermögensverwaltung Albrecht, Kitta & Co.

Uwe Günther: In 2014, gold was a good investment for Euro investors with a performance of around twelve percent. And at currently unchanged levels, 2015 was also not really bad. But the federal banks view gold as the biggest and the only competitor to unsecured paper money. That's critical.



Uwe Günther is a founding member and Managing Director of BPM - Berlin Portfolio Management GmbH. www.berlin-pm.com

teleboerse.de: In 2015, gold did not really respond to any crisis: neither to the terror attack in Paris nor to the factual bankruptcy of Greece and the war in the Middle East. What else do we need for this precious metal to go up in value again?

Günther: Gold is measured using the units of paper money currencies. So if the vast amount of money should enter the real economy at some point after all, one important condition has been met.

Wukonigg: If the FED and/or other large federal banks were to start, or noticeably expand, their bond purchasing programmes again, gold should profit.

Riehemann: As we said, especially a change in trends for the US dollar and fears of inflation should mobilise gold again.

teleboerse.de: It is interesting that the Russian federal bank has purchased gold at the same time while Russia joined the fight against IS terrorists. Does Wladimir Putin know something we don't?

Riehemann: No. As we experienced in the past years, gold is no longer purchased as a safety net for geopolitical crises.

Wukonigg: The Russian federal bank is only using this to secure its balance sheet after the rubel fell drastically due to the economic sanctions.

Günther: I also don't see a political connection. Many federal banks buy gold or consider it.

teleboerse.de: **Let's discuss crude oil. Iran is returning to the global market as a major producer with great power. At the same time, fracking is experiencing lower and lower prices. How low can oil fall, or have we already reached the bottom?**

Günther: Most recently, a weak global economy encountered increasing supply - with vast financing conditions for many oil producers. The adjustment process will take a while yet.

Riehemann: On the futures markets, oil futures with longer terms currently attract higher prices than those with shorter terms. This situation means that this isn't the time to invest. Current rolling losses over one year are at more than 20 percent.

Wukonigg: I take a slightly different view. The current demand is allegedly the highest ever recorded. Producing countries like Venezuela or Saudi Arabia are at times facing enormous problems because of their budget deficits. That's why a reduction in supply by OPEC is likely in 2016. This would result in sharp price rises. But since this closely involves politics, timing is almost impossible.

Where else can you identify opportunities in the commodities sector?

Riehemann: We are going with palladium. Its use in the automotive industry in manufacturing Otto-Engines should benefit from the economic invigoration in Europe and Asia. It also looks like this precious metal might stabilise at 530 after losing more than 30 percent in the year. We are investing for our clients with a built in risk buffer of 40 percent.

Wukonigg: Restructuring commodities multinationals are especially interesting at the moment. A possible collapse of a major multinational along the lines of Glencore could act like a cleansing thunderstorm.

Günther: Not a lot. Given the globally limited growth, we can see hardly any interesting risk-return ratios. But this might well change from mid-2016 after the sell-out and a market adjustment.

teleboerse.de: **Large pricing bubbles have burst on the commodities markets. In the bond markets, we have been waiting for this for years now. Will this happen in 2016?**

Riehemann: We are very aware that investing in fixed income becomes more and more difficult.

Wukonigg: I could imagine that there could be some serious adjustments just like in the course of 2015. The risk premiums for high-yield bonds in the USA have already gone up. But we think it's unlikely that government bonds will burst.

Günther: The federal banks will defend the market for government bonds with all they've got. The next thing is good corporate bonds, then lower-ranking debts from well-placed debtors and finally at the bottom of the food chain we find high-yield securities by weak debtors. Credit collapse will then work the other way round. The time is still unspecified - but the fact stands in my opinion.

teleboerse.de: The federal banks are artificially keeping interest low in order to take pressure of state budgets regarding debts. Is noticeably higher interest even a possibility given the increase in debts across the world?

Günther: Definitely not, so long as the federal banks keep the situation under control.

Riehemann: I take a similar view. We will continue to see very low interest in the next few years.

Wukonigg: Even though higher interest would be justified from an economic perspective in a small number of countries, including Germany, it is highly unlikely that the federal banks will make any significant changes to the money printing process. This will keep a lid on interest levels.

teleboerse.de: If shares are too risky, gold is out and no longer generate any income – what alternatives are left?

Wukonigg: A buy-and-hold strategy alone is no longer sufficient to achieve satisfactory results in any of the asset classes. Active management alongside consistent risk management are more important than ever.

Günther: Cash is one alternative, e.g. in Euros, US dollars and Swiss francs, or as gold and silver coins. Clear alternative strategies, such as long/short equity, are becoming more important. I also recommend reading books about the history of the financial markets and the current monetary policy.

Riehemann: In addition to shares, we are relying on total return investments. This gives investors the opportunity to generate positive earnings without the need for the stock and bond markets to grow per se.