

HERAEUS PRECIOUS APPRAISAL

Heræus

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MARKET SPOTLIGHT

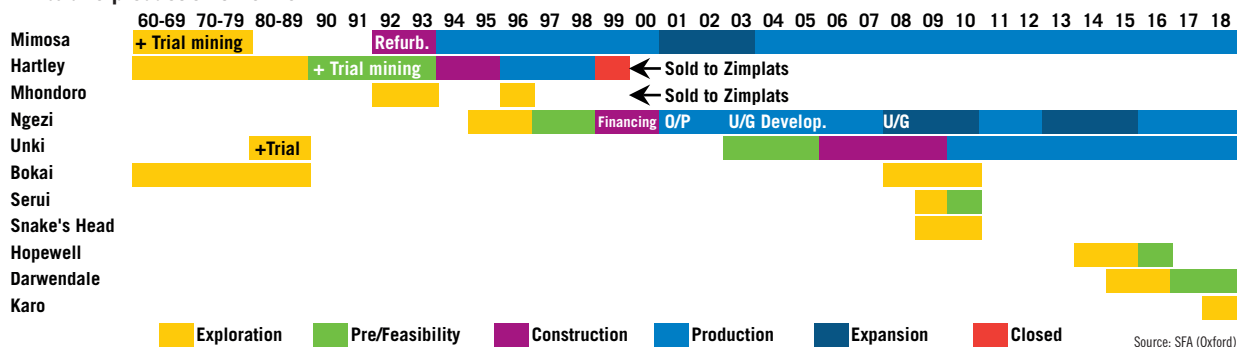
Investment the loser in Zimbabwe election?

Free and fair elections were a vital component in establishing a platform for growth in Zimbabwe. However, Western observer groups have said that while the parliamentary election was relatively free, it was marred by abuses and there was extreme media bias for the ruling Zanu-PF party, which won 69.0% (145/210) of parliamentary seats and a narrow victory in the presidential election, receiving 50.8% of the popular vote. The new government now has much work to do to gain credibility, although the opposition is likely to challenge the election results.

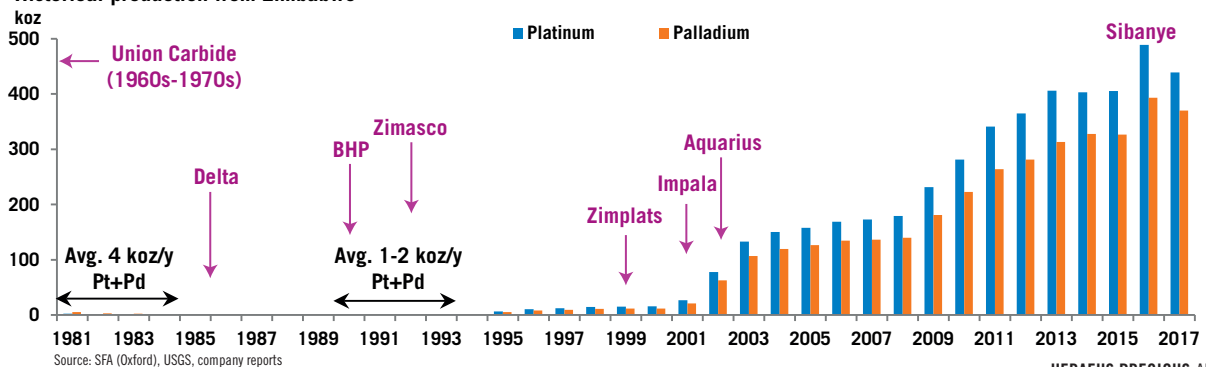
If the new government can improve confidence in the economy and provide clear legislative guidelines for mining companies then investment will follow. Settling the issue of transferring business ownership to the local population is key to providing future stability in the PGM sector. In addition, resolving land ownership claims, ensuring realistic royalty rates for producers, and lifting quotas on the export of unrefined PGMs will remove the stumbling blocks that prevented earlier investment.

In PGM terms, the Great Dyke in Zimbabwe is second only to the Igneous Bushveld Complex in South Africa in terms of contained metal. Zimbabwe's PGM-bearing Main Sulphide Zone boasts a particularly favourable mix of PGMs (51% Pt, 45% Pd, 4% Rh) that aligns closely to the consumption mix expected in the 2030s. Platinum production from existing mine expansions and currently active projects has the potential to grow to 1 moz by 2030 and palladium production would be almost as much. If further investment is not made then Zimbabwe's PGM production will begin to decline in the 2020s.

Zimbabwe production timeline



Historical production from Zimbabwe





PRECIOUS METALS REVIEW

79 Au Gold

	Close	Weekly change	High	Date	Low	Date
\$/oz	1,218	-0.72%	1,229	31/07/2018	1,205	03/08/2018
€/oz	1,050	-0.18%	1,053	03/08/2018	1,037	31/07/2018

A robust economy supports the US interest rate outlook and the dollar, creating a headwind for the gold price.

US GDP rose 4.1% in Q2'18 (annualised rate), up from 2.2% (revised from 2.0%) in Q1. An acceleration in sharp contrast to the Eurozone, which saw annualised growth of 1.2% and 1.6% in Q2 and Q1 respectively. So, while the Fed indicates at least one more rate hike this year, the ECB shows no inclination to tighten. Over the end of January the dollar has appreciated about 7% against the euro. Meanwhile large speculators reduced their net long position by almost 1 moz to just under 5 moz. This is the smallest net speculative long since January 2016, suggesting much of the above bad macro news is already priced in and primed for a bounce.

Physical gold demand is running at its lowest level in almost a decade.

According to the World Gold Council's 'Demand Trends', demand in H1'18, at about 1,960 tonnes, was the lowest since 2009. While the 30%+ rise in the dollar price since 2009 must account for some of the demand fall, the WGC notes that ETF inflows (which usually move with price) have also been weak. ETF inflows in H1 were the lowest since 2015 when the price was almost 10% less than H1'18. In India, the biggest gold jewellery market, gold imports were up a remarkable 22% in the financial year ending in March. But, this was mainly due to special factors, notably issues with the new Goods and Services Tax reducing demand from small jewellers in the previous financial year. In Q2, the WGC estimates Indian jewellery demand was down 8% year-on-year as the rupee price has risen.

47 Ag Silver

	Close	Weekly change	High	Date	Low	Date
\$/oz	15.51	-0.15%	15.61	31/07/2018	15.25	03/08/2018
€/oz	13.38	0.40%	13.42	03/08/2018	13.13	31/07/2018

Technically and geopolitically challenged. The silver price broke below what had been strong support at \$15.60 on 17 July.

This support is now a ceiling, which if not broken soon would provoke chart-based selling down to \$15. An unappetising technical outlook could be made ugly by Washington's announcement of possible 25% tariffs on \$200 billion of Chinese imports. It was thought

that the previous tariff threat of 10% could be partially absorbed and even offset by a weaker yuan (down 8% since the US announced steel/aluminium tariffs on March 23). But a 25% tariff, if enforced, has the potential to hurt silver's main demand sector - electronics. Though the gold:silver ratio has yet to move above the level set in March when the tariffs were first announced.

78 Pt Platinum

	Close	Weekly change	High	Date	Low	Date
\$/oz	837	0.65%	844	31/07/2018	813	02/08/2018
€/oz	722	1.23%	727	03/08/2018	698	01/08/2018

Impala Platinum is reducing production estimates for 2021 by 230 koz which will help rebalance the market and support platinum prices.

Implats has released plans to close half of its 12 mining shaft at Rustenburg by 2021 in an effort to reduce costs. This will lead to platinum production reducing from 656 koz in FY2017 to 520 koz in FY2021, down from previous expectations of 750 koz in 2021. The need for production cuts due to the low platinum price and surplus market has been highlighted in previous spotlights. Impala Rustenburg has some of the highest costs in the industry so the weak rand platinum price, which set a new 8-year low last week of ZAR10,687/oz, has been particularly painful for them. However, these cuts reduce the downside risk to the platinum price although more will be needed for a sustained rally.

Platinum demand is being supported by European commercial vehicles sales.

The ACEA has reported that commercial vehicle sales in the EU have increased year-on-year by 7.3% in June, to 247,000 vehicles, and 4.7% in H1'18 to reach 1.3 million vehicles. Light commercial vehicle sales gained the most in H1'18 at 5.1% but heavy goods vehicle sales also grew well at 3.9% for the period. If sales continue at this rate in H2'18 then platinum demand will be higher than is currently forecast. Commercial vehicles platinum demand was 32% of total EU automotive platinum demand, despite being only being 14% of sales, as they are all diesel powered and have high platinum loadings. Commercial vehicle sales are expected to continue to increase offsetting some of the decline in platinum demand from lower diesel passenger cars sales.



PRECIOUS METALS REVIEW

⁴⁶ Pd **Palladium**

	Close	Weekly change	High	Date	Low	Date
\$/oz	917	-1.45%	940	31/07/2018	909	02/08/2018
€/oz	791	-0.81%	801	31/07/2018	783	02/08/2018

Nornickel, the largest producer of palladium at 39% of global supply in 2017, lifted production of palladium in H1'18. Palladium output in the first half of the year grew to 1,396 koz, an increase of 5% year-on-year. Nornickel has maintained its guidance for 2018 at 2,630-2,725 koz which indicates a slight decrease in production

year-on-year. An increase in production for 2018 cannot be ruled out though, as in Q2'17 guidance for the full year was 2,636-2,732 koz but final production ended up being 2.74 moz. However, the large deficit in the palladium market means that such a surprise to the upside would be unlikely to dent the palladium price.

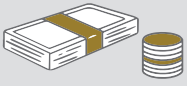
⁴⁵ Rh ⁴⁴ Ru ⁷⁷ Ir **Rhodium, Ruthenium, Iridium**

	Rhodium	Ruthenium	Iridium
Reporting week	\$2,325/oz	\$270/oz	\$1,425/oz
Previous week	\$2,325/oz	\$270/oz	\$1,425/oz

NGK Spark Plug's Q2'18 results suggest that PGM demand from spark plug production remains strong.

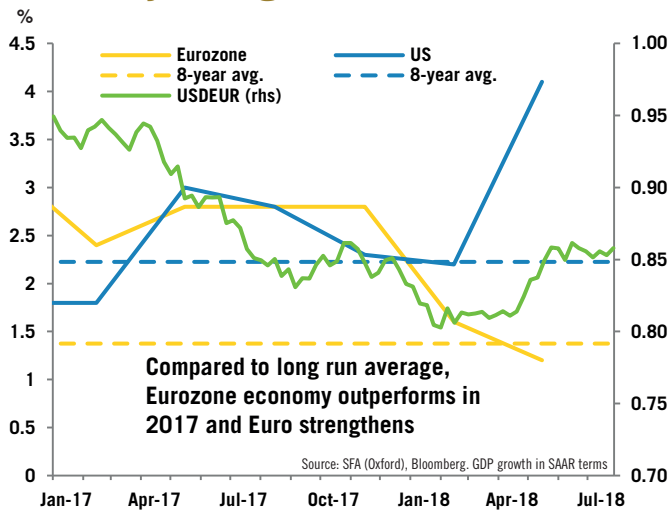
The Japanese company reported an increase in spark and glow plugs of 7.3% year-on-year in Q2'18 to ¥54.2 billion. Spark plugs use platinum and iridium tips as they can tolerate the extreme conditions in car engines and provide better durability than conventional metals. Sales of automotive sensors, which have some platinum content, grew by 9.9% to ¥36.5 billion. Spark plugs' contribution to demand is only small, but it is a notable amount for iridium which is the smallest market of the PGMs at a quarter of a million ounces.

Selling of rhodium early in the week led to a small price decline but it recovered later on as the market remains tight and buyers are nervous. Rhodium saw a high volume of trade last week and the price dropped \$15/oz on Monday, but the available metal was bought up quickly. Impala's announcement of production cuts could have a greater impact on rhodium than platinum as the market is multiples smaller, the fundamentals are tighter, and supply is more concentrated to South Africa.



TRENDS AND INVESTMENTS

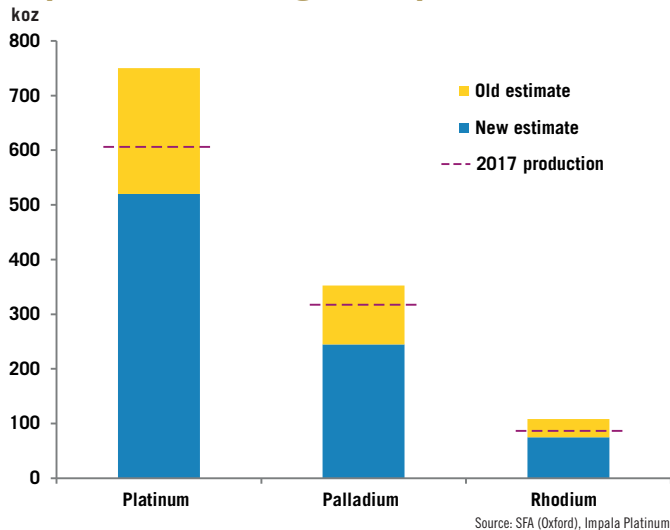
Quarterly GDP growth and USDEUR



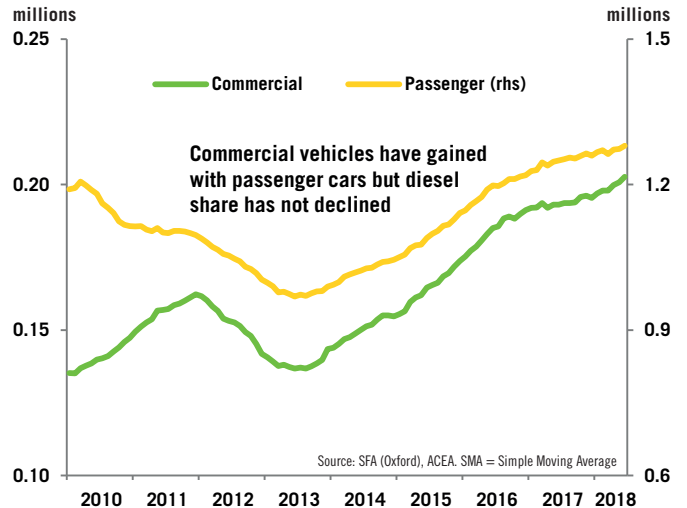
Silver price



Impala Rustenburg 2021 prod. estimates



EU vehicle sales 12-month SMA



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