

# HERAEUS PRECIOUS APPRAISAL

Heraeus

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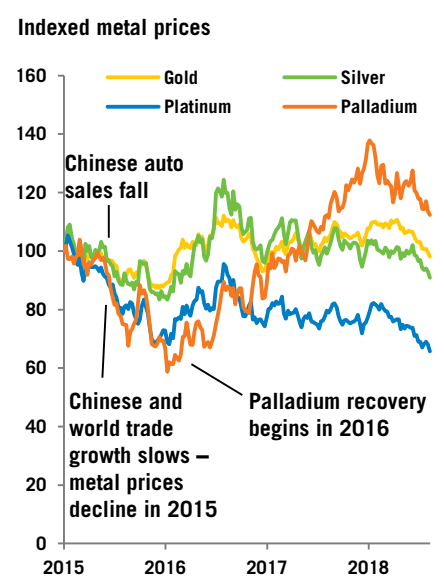
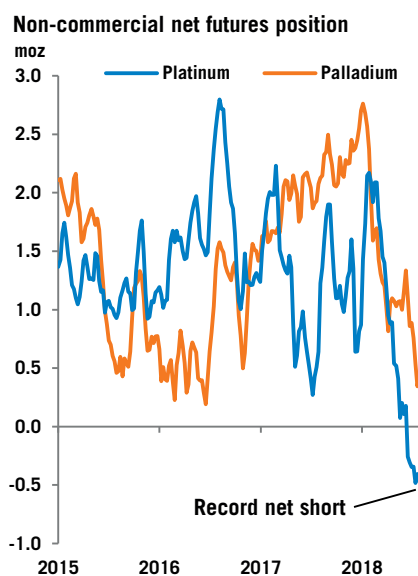
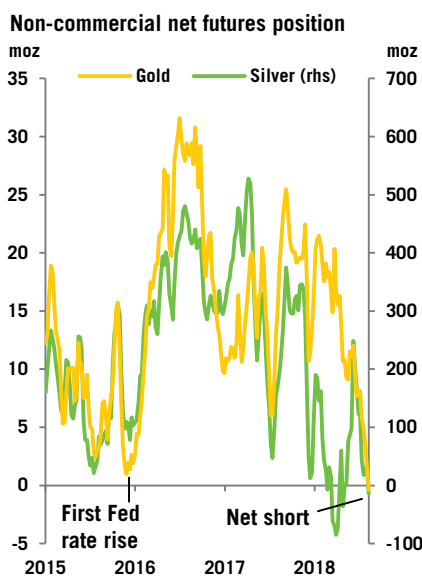
## MARKET SPOTLIGHT

### Will traders be squeezed by their summer shorts?

**Precious metals futures traders are betting on further price declines.** Gold, silver and platinum non-commercial futures traders are net short all three metals at the same time for the first time since 2001, and the short side of those net positions has reached record levels for all three metals.

The positioning is consistent with a bear market, with platinum down 38% since early 2015, silver off 29% from its 2016 peak and palladium being 19% lower than its high earlier this year. Gold is 13% down on its 2016 price high. However, with gold, silver and palladium all being well above their lowest price since 2015, **this looks like overly bearish positioning.**

Non-commercial traders are net short gold futures equivalent to 369 koz, the first time they have been net short since 2002. This consists of 21.2 moz of long positions and a record 21.5 moz of short positions. Silver non-commercial futures traders are net short 14 moz, having been net short earlier in 2018. This consists of a record 481 moz of short positions being mostly offset by 467 moz of long positions. Platinum non-commercial futures traders have been net short for nine weeks and are at a record net short position equivalent to just over 500 koz, which consists of 2.0 moz of long positions and a record level of 2.5 moz short positions. Currently, for palladium the non-commercial futures traders are 201 koz net long, the second-lowest level since 2003, with 1.0 moz of short positions being offset by 1.2 moz of long positions.



Source: SFA (Oxford), Bloomberg

Market sentiment is even more depressed than in late 2015 and prices bounced back then, so a short squeeze could easily trigger a price recovery. A less hawkish Federal Reserve or a slowdown in the US economy would see the dollar pull back, and **any price rally could be fuelled by the significant short positions being closed out.**



# PRECIOUS METALS REVIEW

## 79 Au Gold

	Close	Weekly change	High	Date	Low	Date
\$/oz	1,208	2.57%	1,209	24/08/2018	1,183	24/08/2018
€/oz	1,039	0.67%	1,042	20/08/2018	1,025	23/08/2018

### Trump to the rescue of gold? Let's count the ways.

First, the guilty plea of his former lawyer Michael Cohen implicated Mr Trump in the misuse of campaign funds. This increases the chance of impeachment proceedings – according to predictit.org, **the chance of an impeachment by the end of 2019 is 35%, up 3% from the start of the week** but peaked at 39% on Thursday. This, in turn, raises the significance of the mid-term elections in November. Only a simple majority in the House of Representatives, a prize within the Democrats' grasp, is needed to commence impeachment. An 'impeachment bid' for gold is no longer a fanciful notion.

Second, arguably Trump's biggest 'win', **the bull stock market**, set new endurance records this week (over 110 months' rise). The impeachment risk plus natural **doubts about the sustainability of the bull run** see gold primed for a short-covering bounce, as detailed in the Spotlight. Third, **Trump's leaning on the Fed to slow rate rises helps to take the steam out of the dollar.**

In this context, Russia adding 839 koz to its reserves in July, the largest increase since November of last year, and 250 koz above the average monthly increase since 2015, might be seen as 'collusion' to push the gold price higher!

## 47 Ag Silver

	Close	Weekly change	High	Date	Low	Date
\$/oz	14.87	1.31%	14.88	22/08/2018	14.48	23/08/2018
€/oz	12.79	-0.57%	13.00	20/08/2018	12.55	23/08/2018

### Increasing Indian silver imports indicate strong silver demand.

Preliminary data for July show that silver imports into India are up 35% year-to-date on 2017, reaching 4,100 tonnes, according to the Indian Directorate General of Commercial Intelligence and Statistics. In 2017, total Indian silver imports reached 5,500 tonnes,

equivalent to 21% of global mine output, and this is almost entirely from domestic demand as exports were only 29 tonnes. This suggests strong demand growth for jewellery and silverware fabrication (57% of Indian demand); industrial demand accounts for a further 19% of consumption.

## 78 Pt Platinum

	Close	Weekly change	High	Date	Low	Date
\$/oz	793	1.39%	804	21/08/2018	775	24/08/2018
€/oz	683	-0.49%	700	20/08/2018	671	24/08/2018

### Platinum ETF buying in North America suggests platinum may have reached an attractive price for investors.

Total ETF holdings of platinum metal have increased 87 koz since they reached a low on 6 July, shortly after the platinum price dropped below \$850/oz. This level seems to have been significant for American investors who have been the primary contributors to the growth of ETF holdings, adding 85 koz (+15%) to reach 634 koz. Net buying was also seen in South Africa (+21 koz) but Europe declined (-22 koz). This indicates that there is support from the US at this price level.

the single week ending 17 August as the price dropped 5.2%, to CNY186/g, over the course of the week, having traded in a range of CNY194-198/g for the previous three weeks. Average weekly trading volumes in 2018 have been only 13.8 koz but this strong week has pushed year-to-date trade volumes to +1.7% on 2017, having been down -4.8% at the end of July. The Shanghai Gold Exchange is the official channel for all precious metal trading in China and trading on the exchange is a good indicator of demand. Precious metal trading in China is very price sensitive and local price premiums and discounts regularly emerge when there are peaks and troughs in the global price.

**Trading in platinum on the Shanghai Gold Exchange surged as Chinese traders took advantage of the low local price.** Platinum trading reached a total of 30 koz for



# PRECIOUS METALS REVIEW

## <sup>46</sup> Pd **Palladium**

	Close	Weekly change	High	Date	Low	Date
\$/oz	941	3.83%	942	24/08/2018	910	20/08/2018
€/oz	808	1.65%	811	24/08/2018	788	22/08/2018

**Sibanye-Stillwater's US mining operation expanded total PGM output by 4.0% on H2'17 to 294 koz**, of which 78% was palladium, which rose by 4.3% to 228 koz. The recycling business added another 360 koz of PGMs, down 31 koz from a record H2'17 but still strong. With the high palladium price for H1'18, the US region saw a 25% profit margin compared to 15% and 10% for the South African PGM and gold operations respectively. Furthermore, production is expanding in the US as the Blitz project ramps up production, contributing 20 koz to the H1'18 total, and is expected to reach 300 koz of production by 2021. This is estimated to reduce the all-in sustaining cost to \$550/oz of PGM from \$653/oz in H1'18. While South African PGM mining operations are being slimmed down across the industry, Sibanye-Stillwater's US operation is proving to be successful.

**Palladium ETF holdings have increased by 43 koz over the last four weeks, the biggest gain since August of last year.** That gain in ETFs then ended when the price climbed above \$930/oz, but the recent gain occurred during a period when the palladium price had dropped below that level. It seems investors may now be viewing palladium as a little oversold given that the year-to-date price performance has been similar to that of platinum but the market fundamentals are much stronger. This may also explain why palladium experienced a much stronger recovery from the recent metal commodities price decline which has seen platinum drop below \$800/oz.

**Palladium lease rates are still at double digit percentages**, sustained by low liquidity in the market. This should help to support the price and could lead to further increases in its premium over platinum.

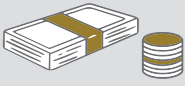
## <sup>45</sup> Rh <sup>44</sup> Ru <sup>77</sup> Ir **Rhodium, Ruthenium, Iridium**

	Rhodium	Ruthenium	Iridium
Reporting week	\$2,380/oz	\$270/oz	\$1,425/oz
Previous week	\$2,360/oz	\$270/oz	\$1,425/oz

**Rhodium supply from Sibanye-Stillwater's South African mines fell 13% half-on-half to 44 koz**, more than the 5.3% and 6.5% drop in platinum and palladium supply, respectively. This contributes to the tightness already present in the market. The rhodium price gained another \$20/oz last week and has now increased by \$70/oz since the start of August. Rhodium ETF holdings have

held level for the last two-and-a-half weeks, the longest stretch since February, and given the continued tightness in the market, the rhodium price looks as if it could continue to move higher.

Iridium and ruthenium prices did not change and have now been stationary for five and eight weeks respectively.



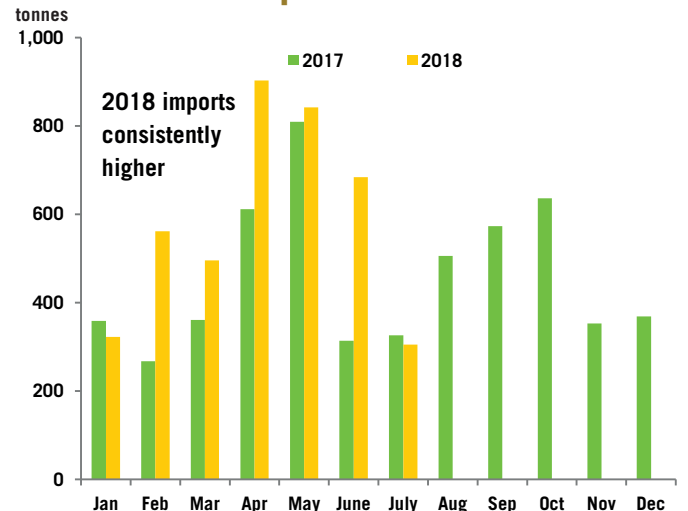
# TRENDS AND INVESTMENTS

## Russian gold reserves monthly increase



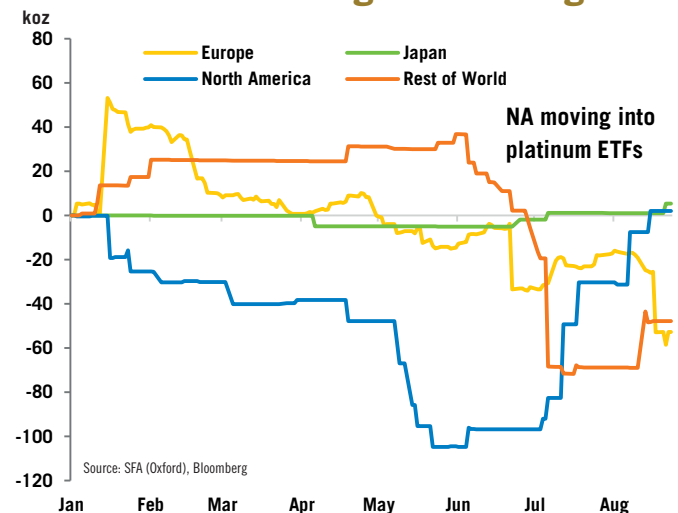
Source: SFA (Oxford), IMF

## Indian silver imports



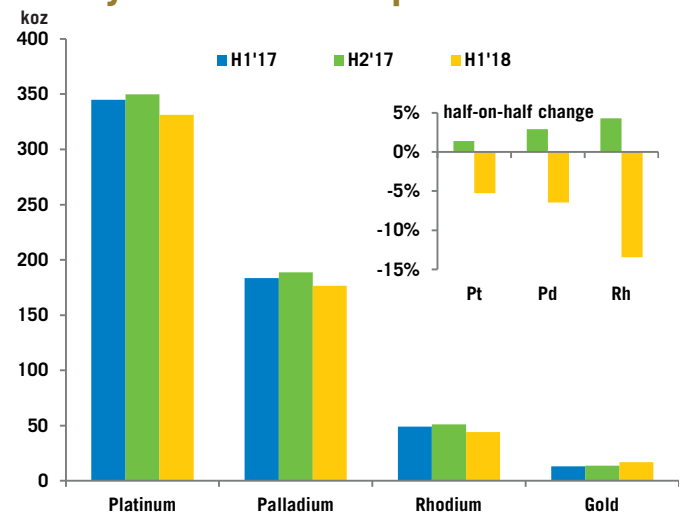
Source: SFA (Oxford), DGCIS. July data is preliminary.

## Platinum ETF holdings YTD change



Source: SFA (Oxford), Bloomberg

## Sibanye-Stillwater SA production



Source: SFA (Oxford), Sibanye-Stillwater

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