



## MARKET SPOTLIGHT

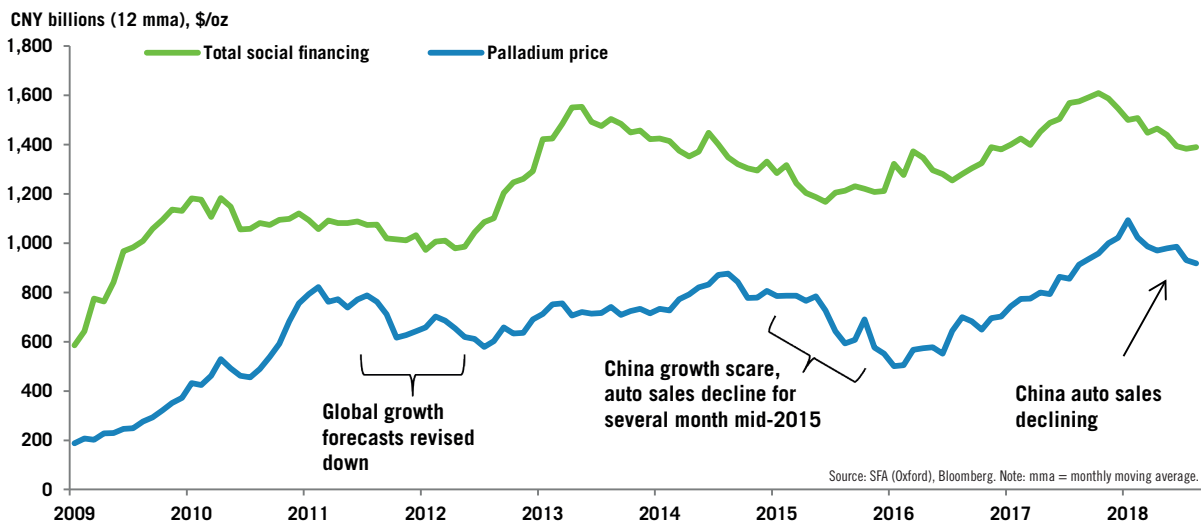
### China auto sales drop, but credit trend to lead Pd price higher?

There is a good correlation (0.73) between the amount of total social financing (credit) in the Chinese economy and the palladium price, even though changes in total social financing clearly lead the palladium price. The last two slowdowns in social financing occurred around a year ahead of the palladium price peak. However, most recently the amount of total social financing peaked in October last year with the palladium price peaking in January.

The Chinese government has been trying to reduce financial excesses while maintaining economic growth. The government has cracked down on lending outside the main financial system (shadow banking and peer-to-peer lending), resulting in a reduction of credit from these sources and, although the central bank has eased banks' reserve requirements enabling them to increase lending, the total credit in the economy has been reduced.

Chinese auto sales declined 7.4% to 1.76 million units in August (source: China Passenger Car Association). That follows a 5.4% drop in July, and brings the year-to-date growth to 0.8%. One possible reason for the downswing is the decrease in peer-to-peer lending which has been used as a source of finance for car purchases.

China credit vs Palladium price



The Chinese government has again resorted to a fiscal stimulus to keep the economy growing at the desired rate after becoming concerned over the summer about the impact of US tariffs on economic growth. Besides cutting some taxes, the pace of local government bond issuance will be accelerated, with the aim of increasing infrastructure investment. Only 15% of the roughly \$200 billion available was used in the first half of the year. **If increasing infrastructure spending leads to improved confidence in the economic outlook and higher lending activity then a higher palladium price could follow.**



# PRECIOUS METALS REVIEW

## 79 Au Gold

|       | Close | Weekly change | High  | Date       | Low   | Date       |
|-------|-------|---------------|-------|------------|-------|------------|
| \$/oz | 1,193 | -0.30%        | 1,204 | 24/09/2018 | 1,181 | 28/09/2018 |
| €/oz  | 1,026 | 0.71%         | 1,027 | 28/09/2018 | 1,012 | 27/09/2018 |

**The Federal Reserve has indicated a willingness to continue with rate rises, a negative for the gold price.** On Wednesday, the Federal Reserve raised the target policy rate range to 2-2.25%, the third hike of the year, with 12 of the 16 officials favouring another increase this year. The mildly hawkish announcement was supportive of predictions made on the futures market where the likelihood of three rate rises by June next year has climbed from 15% to 27% in September. High interest rates are negative for gold as it raises the opportunity cost of holding gold and tends to strengthen the dollar.

**Barrick Gold's merger with Randgold will form the world's largest gold miner by production.** In 2017, Barrick and Randgold produced 5.3 moz and 1.3 moz

of gold, respectively, which combined was 6% of global mine supply. Barrick produced 7.6 moz of gold in 2011, but has been selling off non-core assets to reduce debt, so Randgold's cash balance will help in this regard. The mining assets of the two companies are not physically close and the potential for operational synergies is small. The major attraction of Randgold appears to have been its management team which has delivered some of the better returns in the sector. Randgold's CEO, Mark Bristow, will become CEO of the new group and is planning to review the asset base, possibly selling more non-core assets and focusing on its Tier One gold assets, of which the new company owns five of the top ten.

## 47 Ag Silver

|       | Close | Weekly change | High  | Date       | Low   | Date       |
|-------|-------|---------------|-------|------------|-------|------------|
| \$/oz | 14.67 | 2.42%         | 14.71 | 28/09/2018 | 14.18 | 27/09/2018 |
| €/oz  | 12.62 | 3.43%         | 12.71 | 27/09/2018 | 11.83 | 27/09/2018 |

**Strong expectations for mobile phone demand in India are positive for silver demand.** Samsung, India's second-largest supplier of smartphones, is expecting to outperform the total Indian mobile phone sales market which it foresees as expanding by 20-25% in the upcoming festive season. According to the International

Data Corporation (IDC), India was the third-largest smartphone market in 2017 at almost 10% of global sales and the fastest growing of the top 20 at +14%. In 2017 1.5 billion smartphones were shipped worldwide, which is estimated as accounting for approximately 15 moz of silver demand (1.5% of global total).

## 78 Pt Platinum

|       | Close | Weekly change | High | Date       | Low | Date       |
|-------|-------|---------------|------|------------|-----|------------|
| \$/oz | 821   | -0.61%        | 835  | 24/09/2018 | 807 | 28/09/2018 |
| €/oz  | 707   | 0.46%         | 711  | 27/09/2018 | 692 | 27/09/2018 |

**The publication of a new Mining Charter in South Africa provides policy certainty but is still onerous on miners.** The Minister of Mineral Resources, Gwede Mantashe, released details of the new charter on Thursday after it had been approved by the Cabinet during the previous week. The new charter lifts the requirement for Black Economic Empowerment shareholders from 26% to 30% but existing mining rights will only have to increase BEE ownership on renewal. Previously, this ownership was fulfilled by black entrepreneurs but now 20% is comprised of black entrepreneurs and the other 10% is to be a free "carried interest" split between employees and local communities. However, a drafted requirement for 1% of profit to be paid to the employees and commu-

nities if no dividends are paid has been dropped from the final charter. The Minerals Council South Africa, a mining industry employers' organisation, commented on a previous draft of the charter that "a requirement of 10% 'free carry' on new mining rights...would render uneconomic a significant proportion of potential new projects". There are also additional requirements aimed at increasing the representation of black people and women among management, increasing investment in skills development, and supporting communities and employees. There is the potential for investment to grow as policy and regulatory certainty has been established, but there is a risk to long-term future supply as costs will rise and projects will require higher metal prices to be incentivised.



# PRECIOUS METALS REVIEW

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

|       | Close | Weekly change | High  | Date       | Low   | Date       |
|-------|-------|---------------|-------|------------|-------|------------|
| \$/oz | 1,085 | 2.99%         | 1,096 | 28/09/2018 | 1,048 | 24/09/2018 |
| €/oz  | 934   | 3.92%         | 946   | 28/09/2018 | 894   | 24/09/2018 |

**Porsche's plans to stop selling diesel cars and BMW's profit warning highlight the difficulties facing automakers.** Porsche had stopped production of diesels, which constituted 12% of sales in 2017, in February while an investigation was conducted on illegal engine software that led to a recall of 60,000 diesel cars. Now, in response to declining demand for diesels, Porsche has announced it will not resume production and instead focus on electric, hybrid and gasoline vehicles. This is a sign of the times for European diesel vehicles as the region's automotive demand shifts from platinum back to palladium.

**BMW Group's 2018 profit expectations are now for a decline rather than no change.** The disruption caused by the introduction of the WLTP emissions regulations has led BMW to reduce its planned production volumes. BMW also cited the trade war as "aggravating the market situation" and creating "pricing pressure in several automotive markets", one of which will be China as it is a major importer of BMW's American-made SUVs which will be primarily gasoline powered. Total turnover has also been revised lower, indicating weaker sales, a negative sign for automotive palladium and platinum demand. Especially as the market felt these issues were not exclusive to BMW, the stock prices for Daimler and VW also fell after BMW's press release.

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

|                | Rhodium    | Ruthenium | Iridium    |
|----------------|------------|-----------|------------|
| Reporting week | \$2,585/oz | \$285/oz  | \$1,470/oz |
| Previous week  | \$2,585/oz | \$285/oz  | \$1,470/oz |

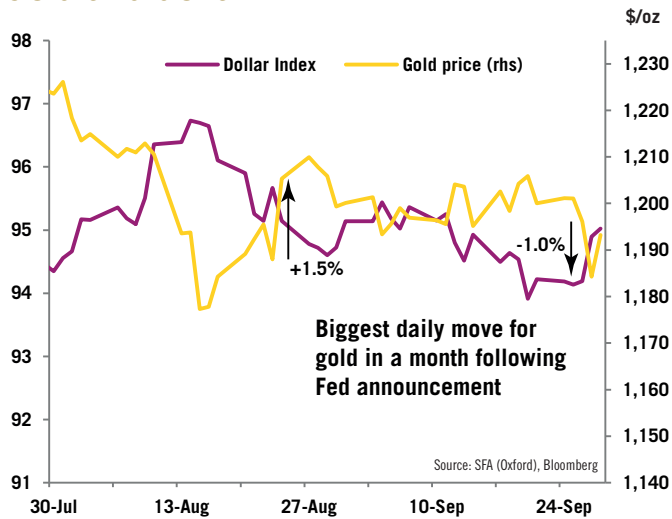
**The rhodium market took a breather last week following the rapid gains of the previous week.** The price rally pushed year-to-date performance of rhodium (+51%) up to match iridium and led to some profit-taking by metal holders. However, availability of metal remains an issue, which is keeping lease rates elevated. Industry buyers are concerned about how they will source their future metal

requirements as it looks likely that the price will continue to climb. Rhodium ETFs holdings appear to have dropped as much as they can at 46 koz as only 800 oz were sold in September. Ruthenium and iridium did not see any price movement last week, but their markets are also quite tight.

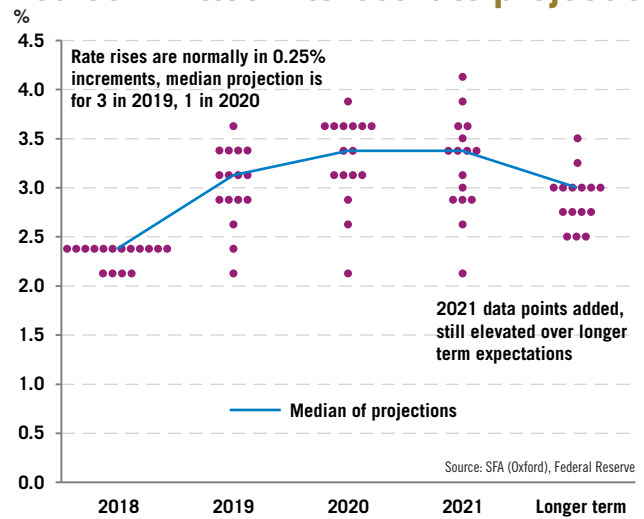


# TRENDS AND INVESTMENTS

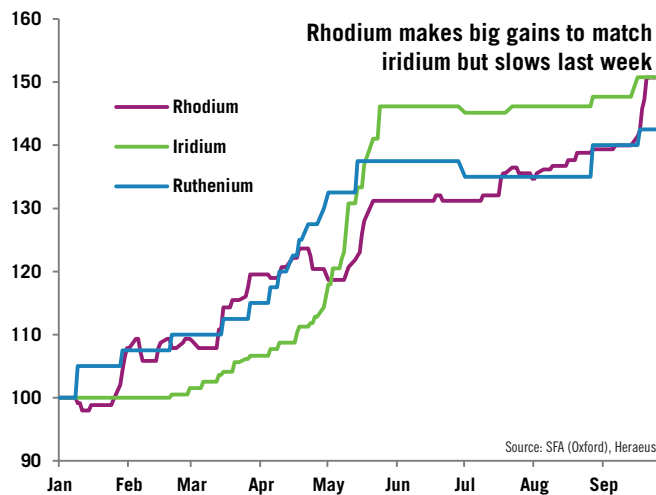
## Gold and dollar



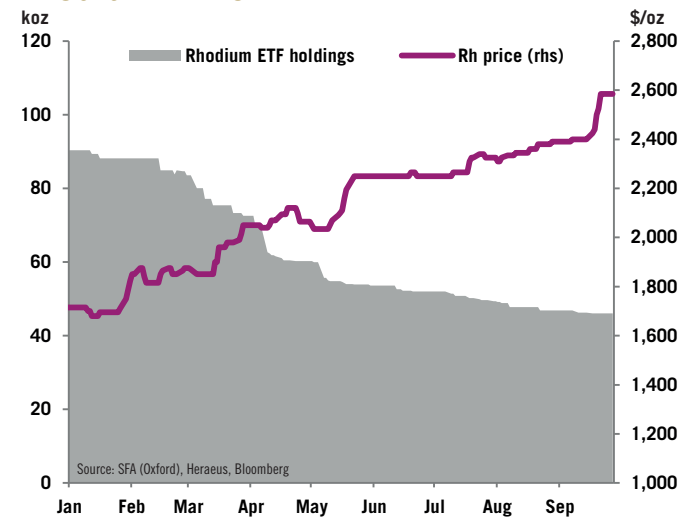
## Fed committee interest rate projections



## Small PGM price performance



## Rhodium ETFs



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