HERAEUS PRECIOUS APPRAISAL

Heraeus

Ed. 23
15th July 2019

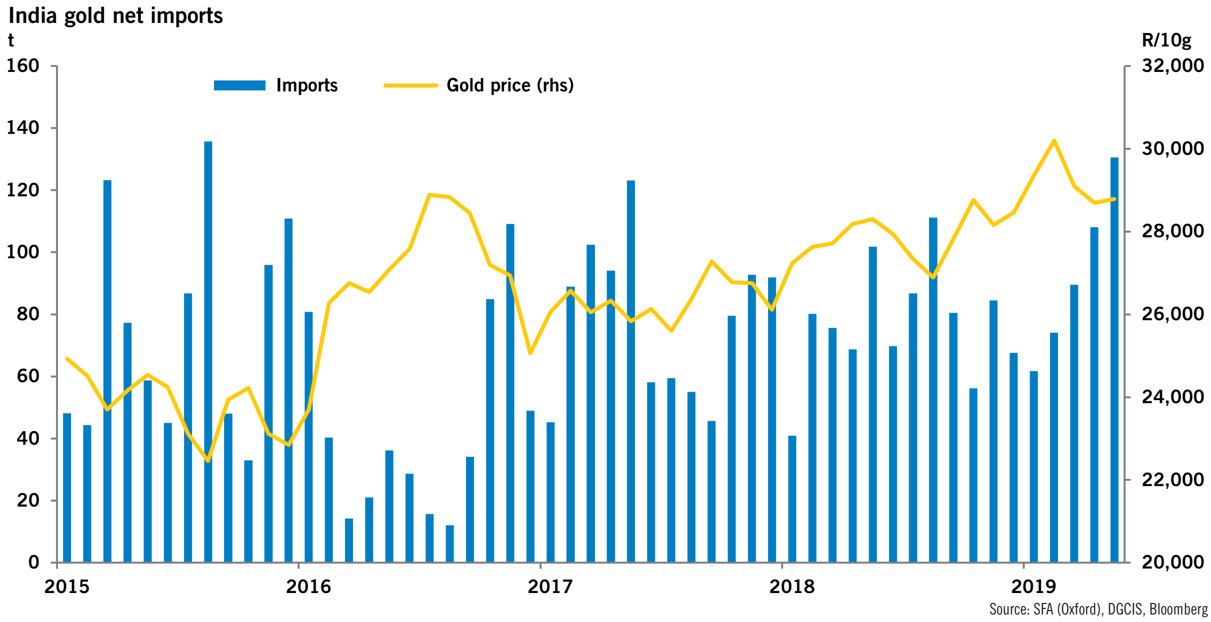
MARKET SPOTLIGHT

A taxing time for gold in India

Lower gold demand is likely in India in the second half of the year, as higher prices and lower rural incomes could combine to constrain purchases.

Higher import duty will crimp gold demand. The Finance Minister announced an increase in the import duty to 12.5% from 10% in the recent budget. The Indian government has raised the duty payable on gold imports several times over the years, and changed other regulations, to try to reduce the trade deficit, as most of the gold used in India is imported. While officially reported demand might fall, the increase in import duty will encourage smuggling.

The gold price is near a record high. Gold imports into India were up 26% year-on-year through May as the price fell from the highest level seen in more than five years in February. Retail demand was strong during the Akshaya Tritiya festival in May because of the lower price. India is the second-largest gold market and last year the country's demand was 760 t (source: World Gold Council). Almost 80% of that was jewellery demand, with the balance being bars and coins. Any similar pullbacks in the price will see jewellery fabricators take advantage to add to stocks at a lower price ahead of Diwali in October, which is an auspicious time to buy gold, and the wedding season. However, **with the gold price expected to keep climbing, demand will struggle to reach 2018's level.**



Poor rains mean lower rural gold demand. Around two-thirds of India's gold demand comes from rural areas. Rural incomes depend heavily on agriculture and the monsoon rains are important to provide irrigation for crops. The onset of the monsoon was a week later than usual and, so far, over half the country has had 12% lower than normal rainfall. A slightly below average monsoon season is expected this year. If crop yields are impacted then rural incomes will be reduced and spending on gold will fall.

PRECIOUS METALS REVIEW

79 Au Gold

	Close	Weekly change	High	Date	Low	Date
$/oz	1,408	0.80%	1,427	11/07/2019	1,386	09/07/2019
€/oz	1,251	0.47%	1,267	11/07/2019	1,237	09/07/2019

Gold recovers on rate cut expectations. With the gold price trading at its highest level in six years some physical investors have been taking profits. Retail investor demand has eased and gold ETFs have added only 0.1 moz in the last two weeks. However, looser monetary policy should be supportive of a higher gold price. A statement to Congress on Wednesday by Federal Reserve chairman Jay Powell reinforced the idea that the Fed will cut interest rates at the end of the month. The dollar weakened and gold recovered most of the previous Friday's losses, which followed the strong jobs report. With short-term Treasury yields well below the Fed's target rate, a cut is inevitable. Inflation is clearly not running hot either, easing to 1.6% in June, so the Fed will make a 25 bp cut and call it pre-emptive to keep the economic expansion going.

Central bank gold buying jumped in June as the Polish central bank announced it had acquired 100 t of gold. This, along with the 25.7 t bought in the second half of last year, has more than doubled the bank's gold reserves in the last 12 months. The People's Bank of China has added 10.3 t to its reserves in June, taking its total purchases to 74.1 t in the first half of the year. Central bank gold buying totalled 35.8 t in May (source: World Gold Council). The central banks of Russia (6.7 t), Kazakhstan (4.3 t), China (15.9 t) and Turkey (6.6 t) were responsible for the bulk of the purchases. Globally, purchases in the year to May totalled 254 t. With the large purchase by the Polish central bank in June, central banks are on course to increase their gold holdings by more than last year's 520.8 t.

47 Ag Silver

	Close	Weekly change	High	Date	Low	Date
$/oz	15.16	1.08%	15.32	11/07/2019	14.95	09/07/2019
€/oz	13.47	0.76%	13.60	11/07/2019	13.35	09/07/2019

Silver ETF inflows have been relatively strong for the last few weeks and silver ETF holdings rose by 8.5 moz last week. This followed 8.8 moz of inflows during the previous week, which was the largest weekly addition in over a year. Despite the pick-up in ETF buying, silver barely outperformed gold last week and the gold:silver ratio remains around 93.

While industrial demand for silver overall is lacklustre, China's latest reforms to solar power policy came into effect this month. With clarity restored solar installations should pick up in the second half of the year. Although there will be some thrifting, with global installations expected to exceed last year's 102 GW silver photovoltaic demand should remain solid.

78 Pt Platinum

	Close	Weekly change	High	Date	Low	Date
$/oz	829	2.91%	833	11/07/2019	807	09/07/2019
€/oz	737	2.54%	739	11/07/2019	720	09/07/2019

Diesel share dips in Europe's five largest markets in June. The diesel vehicle share in Germany, the UK, France, Italy and Spain was lower in June than in May. For all five markets combined the diesel market share was 31.9% in June, equalling the previous lowest share seen in March. For the first half of the year the combined diesel market share was 33.2%. The rate of decline in diesel market share is slowing, so platinum demand in Western Europe will fall less this year (-100 koz) than last year (-260 koz). Spain is the only market where the diesel share is currently below expectations and if that is the case over the full year then platinum demand will be a few thousand ounces lower than anticipated. That would still increase the surplus in the market and add to the downward pressure on the platinum price.

Platinum technologies get more backing. The Mirai Creation Fund II, backed by Toyota Motor Corporation and Sumitomo Mitsui Banking Corporation, is investing in AP Ventures Fund II. The Mirai fund wants to contribute to the development of an innovative hydrogen society. AP Ventures Fund II's investments that use platinum are directed towards the hydrogen value chain and fuel cell electric mobility.

PRECIOUS METALS REVIEW

46 Pd Palladium

	Close	Weekly change	High	Date	Low	Date
$/oz	1,543	-1.69%	1,603	11/07/2019	1,533	12/07/2019
€/oz	1,370	-2.00%	1,421	11/07/2019	1,363	12/07/2019

Chinese retail car sales bounced back by 4.9% in June, but high stock levels deterred dealers. Retail sales rose for the first time since May last year, growing by 4.9% year-on-year to 1.8 million units, owing to heavy discounting to sell excess stock (source: China Passenger Car Association). With several regions bringing forward the implementation of China 6 emissions standards to this month, auto dealers had been left with large inventories of China 5-compliant cars. However, sales of passenger vehicles to dealers fell 7.8% in June to 1.7 million units (source: China Association of Automobile Manufacturers). Wholesales have now fallen for 12 consecutive months, with sales in the first half of the year sliding by 14% to 10.1 million units. Even with this contraction, China remains by far the largest car market. A drop of 5% in Chinese auto sales this year would reduce retail sales by 1.4 million units to 26.3 million units and lower expected palladium demand by 140 koz. This is not enough to balance the market, but could take some of the near-term pressure off the palladium price. Sales are expected to improve next year and with the new emissions standards requiring the use of more metal, the palladium market is forecast to remain in deficit.

Passenger vehicle sales in India fell 17.5% year-on-year in June. There had been some hope that following the general election in May sales would pick up, but this was the eighth consecutive monthly decline (source: Society of Indian Automobile Manufacturers) as consumer sentiment remained subdued and credit conditions were tight. India is the fifth-largest passenger vehicle market globally with sales of 3.4 million units in 2018. Year-to-date passenger vehicle sales are down 10.3% at 1.6 million units. With Indian vehicles typically being relatively small, the impact on palladium demand of a 10% downswing in sales would be a drop of only around 25 koz.

77 Ir 44 Ru 45 Rh Rhodium, Ruthenium, Iridium

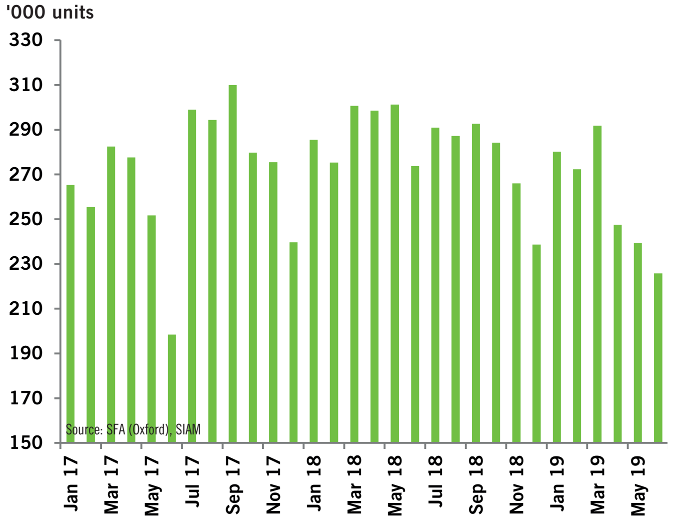
	Rhodium	Ruthenium	Iridium
Reporting week	$3,625/oz	$250/oz	$1,460/oz
Previous week	$3,425/oz	$250/oz	$1,460/oz

Lower car sales in China to hit rhodium demand. Despite the recovery in sales in June, China's car sales look set to fall this year. A 5% drop would cut around 10 koz from rhodium demand. This could ease upside pressure on the price in the near term, but with growth in car sales expected to return in 2020, the market is anticipated to tighten next year.

Rhodium has continued to rally despite the weak auto sales numbers for June, gaining $200/oz to $3,625/oz last week, which has taken it to a new high. Ruthenium and iridium prices remain unchanged.

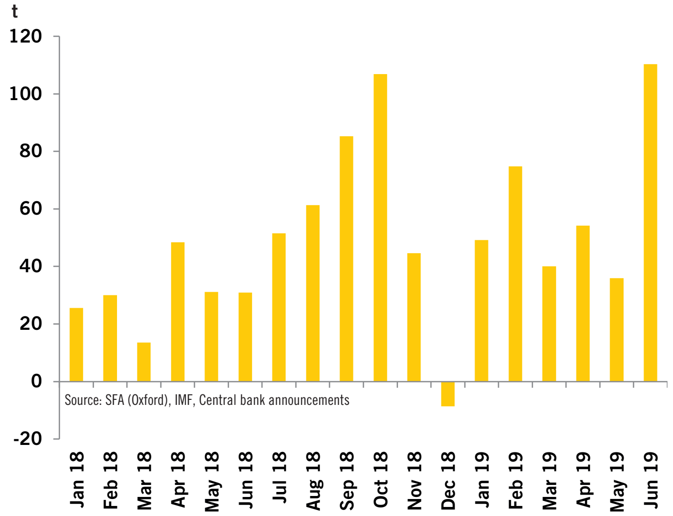
TRENDS AND INVESTMENTS

Indian passenger vehicle sales

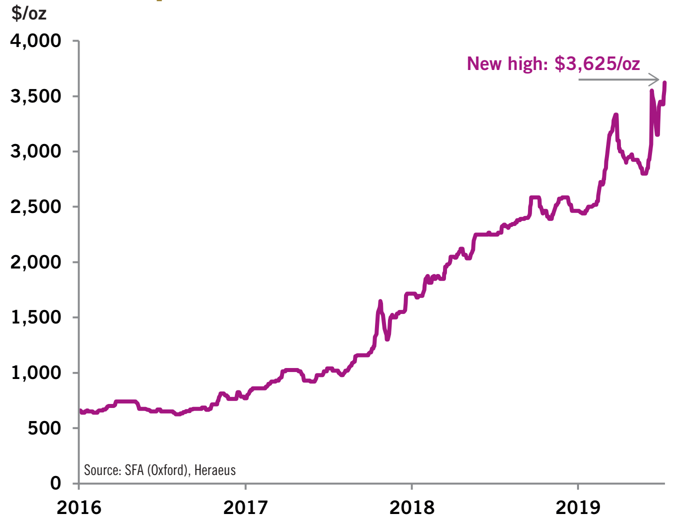


Silver ETF holdings

Net central bank gold purchases



Rhodium price



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