

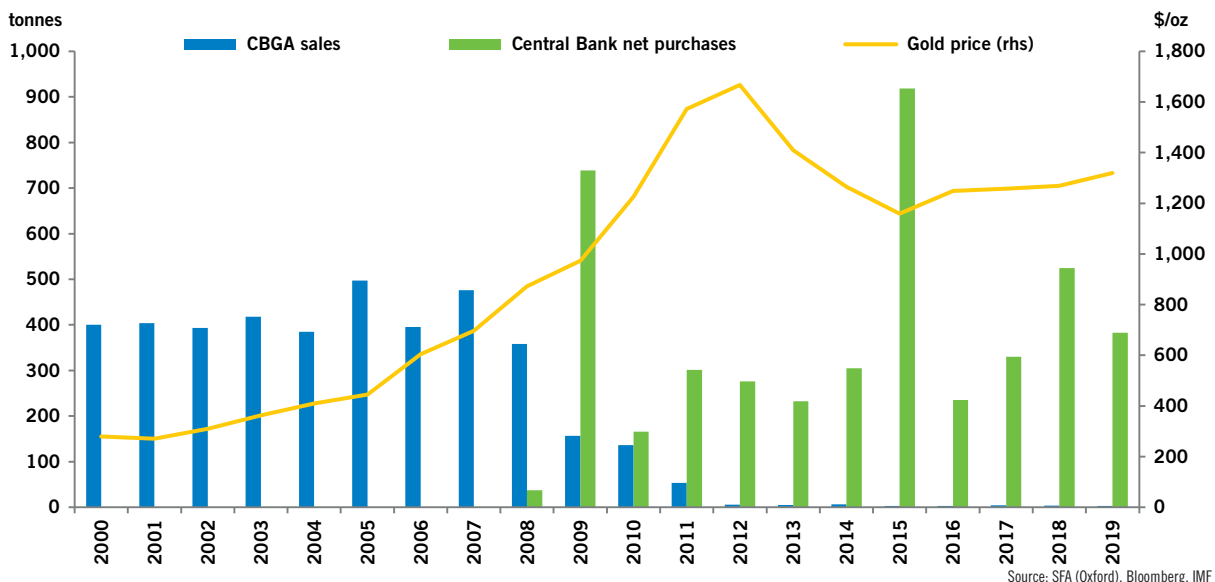
## MARKET SPOTLIGHT

### Is the end of the Central Bank Gold Agreement a sell signal for gold?

**After 20 years the Central Bank Gold Agreement (CBGA) is to end in September.** The first CBGA began in September 1999. Gold had been in a bear market for 20 years and central banks had been selling increasing amounts of gold from their reserves. There was concern that the banks' actions were contributing to the price decline and that the significant sales would continue. Several European central banks along with the ECB agreed to sell only up to 400 t of gold each year for a period of five years to provide more transparency on their operations.

**Central banks have been net purchasers of gold since 2008.** The end of the formal agreement is simply the ECB and European central banks facing the reality that the CBGA is unnecessary. The banks have not sold much gold in the last eight years and they say they do not intend to sell much gold in the future. Most of the gold purchases are now by central banks trying to catch up to developed nations' level of gold reserves and avoid dollar liabilities (China, Russia).

Central bank gold sales & purchases



**Central banks are bad market timers.** The announcement of the first CBGA came one month after the low in the gold price that marked the end of the bear market. Sales under the subsequent CBGAs continued at close to the agreed rate until 2008, by which point the gold price had more than doubled from when the agreement was made. Since then sales under the CBGAs have all but stopped and other central banks have been buying increasing quantities of gold at even higher prices. The gold sold in the first two years under the CBGA would be worth five times more today in US dollars than when it was sold. **As the announcement of the first CBGA came one month after the end of gold's bear market, does the ending of the CBGA mark a top in the gold price?** Gold price direction is discussed in the gold section.



# PRECIOUS METALS REVIEW

## 79 Au Gold

	Close	Weekly change	High	Date	Low	Date
\$/oz	1,447	1.97%	1,448	01/08/2019	1,401	01/08/2019
€/oz	1,302	2.04%	1,307	01/08/2019	1,269	01/08/2019

**Gold demand was up 8% in Q2.** According to the World Gold Council, global gold demand was 1,123 t in Q2, a rise of 8% year-on-year. For the first half of the year demand was up 7.9% to 2,182 t, mostly owing to central bank purchases which increased by over 50%. However, in 2018 buying was much stronger in the second half of the year than the first half. In addition to the Russian and Chinese central banks, the central bank of Turkey also increased its gold reserves in June, acquiring 11.3 t. Jewellery demand was 1.3% higher in H1 year-on-year at 1,062 t. In India, strong demand for the wedding season and festivals in May was followed by a lull as the gold price rose in June. Higher ETF purchases helped investment demand to grow by 2.5% to 585 t in H1, even though bar and coin demand slipped back 6%.

**Fed cuts rates, gold drops.** For gold it was a case of 'selling the fact'. Once the Fed announced it was reducing its interest rate by 25 bp (as widely expected), spot gold fell by \$10/oz in an hour, giving up all of the week's gains. Counterintuitively, the US dollar strengthened, with the dollar index reaching a new high for the year. This is also a headwind for gold, which fell to a low of \$1,401/oz earlier in the week before strongly recovering and closing the week at \$1,447/oz. Short term there may be some further downside. However, with demand remaining robust, the gold price is expected to move higher in the medium term.

## 47 Ag Silver

	Close	Weekly change	High	Date	Low	Date
\$/oz	16.29	-0.61%	16.61	30/07/2019	15.92	01/08/2019
€/oz	14.66	-0.54%	14.89	30/07/2019	14.43	01/08/2019

**Silver hit more than gold by the Fed.** Having rallied faster, silver was significantly more overbought than gold and so it gave up more of those gains, losing 8.5% in an hour

after the Fed's announcement. In the near term while prices consolidate, silver could underperform gold, but once the rally resumes silver should take the lead again.

## 78 Pt Platinum

	Close	Weekly change	High	Date	Low	Date
\$/oz	852	-1.06%	883	29/07/2019	842	02/08/2019
€/oz	766	-1.08%	792	30/07/2019	759	02/08/2019

**Nornickel's platinum production was up 16% in H1.** Globally, Nornickel is the fourth-largest producer of platinum. In the first half of the year Nornickel produced 388 koz of platinum despite Q2 output dipping 9% quarter-on-quarter to 185 koz. Some seasonal work-in-progress inventory was released and high PGM content matte was processed in Q1, helping to boost output. The company reaffirmed its guidance of 646-670 koz of platinum production, which suggests platinum output could be 100 koz lower in H2 than in H1. However, that

is unlikely to be the case. Nornickel has a history of producing more than half its full-year guidance in H1 and then exceeding guidance as H2 production is only slightly lower than that in H1.

**The drop in precious metals prices caught platinum too.** However, as the metal with the weakest fundamentals, platinum's price is expected to decline over the rest of the year.



# PRECIOUS METALS REVIEW

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## Pd Palladium

	Close	Weekly change	High	Date	Low	Date
\$/oz	1,420	-7.16%	1,561	29/07/2019	1,384	02/08/2019
€/oz	1,277	-7.06%	1,400	29/07/2019	1,247	02/08/2019

**The palladium price has finally reacted to weak demand fundamentals.** After trading back up to \$1,600/oz in July the palladium price took a big fall last week. It seems that the somewhat weaker demand outlook following poor auto sales figures for Europe, the US and China in the first half of the year has finally hit the price. The third quarter is also a seasonally weaker period for palladium demand. The palladium market is still set to be in deficit this year and next, so once the current price correction has run its course, the price is expected to recover.

**Reduced forecast for China's auto sales could still be too optimistic.** The China Association of Automobile Manufacturers (CAAM) cut its forecast for car sales in China to 26.68 million units, a decline of 5% year-on-year. Previously, CAAM had predicted that there would be no growth in sales for this year. However, that assumes a fairly strong recovery in the second half of the year. During the first six months of the year car sales fell by 12.4% to 12.3 million units, so sales in the second half need to be 14.4 million units to reach CAAM's forecast.

This requires sales growth of 17% during the second half of the year (vs. H1'19). If CAAM's forecast proves to be correct then palladium demand in China will drop by 50 koz this year to 2.0 moz, instead of increasing.

**Nornickel's palladium output was up 10% in H1.** Nornickel, the largest palladium miner in the world, produced 764 koz of palladium in Q2'19, a slight drop from Q1'19. For the first half of the year palladium production was up 10% year-on-year at 1,533 koz owing to the processing of work-in-progress inventory at the Krasnoyarsk Precious Metals Refinery and high-PGM-content nickel matte being processed at Harjavalta in Q1. The company's guidance is for 2,770-2,800 koz of palladium output this year. This suggests that palladium production in the second half of the year could be as much as 300 koz lower than in H1 at 1,240-1,270 koz. However, Nornickel typically maintains guidance at the half-year point and then exceeds it as H2 production is normally only marginally lower than that in H1.

## Rh Rhodium, Ruthenium, Iridium

	Rhodium	Ruthenium	Iridium
Reporting week	\$3,625/oz	\$250/oz	\$1,460/oz
Previous week	\$3,550/oz	\$250/oz	\$1,460/oz

**Profit-taking continues in rhodium ETFs.** The total amount of rhodium held in ETFs fell by 4 koz or 13% in July, leaving 27.6 koz in ETFs.

The rhodium price has continued to climb, adding \$75/oz last week. Rhodium's rise is a little unusual given the

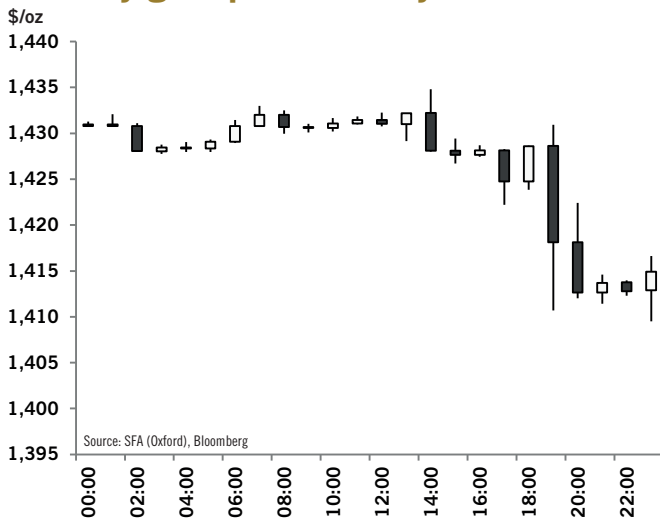
large fall in the palladium price and considering that both metals are mostly used in petrol autocatalysts.

The ruthenium price has been flat since early June and the iridium price has been \$1,460/oz since February.

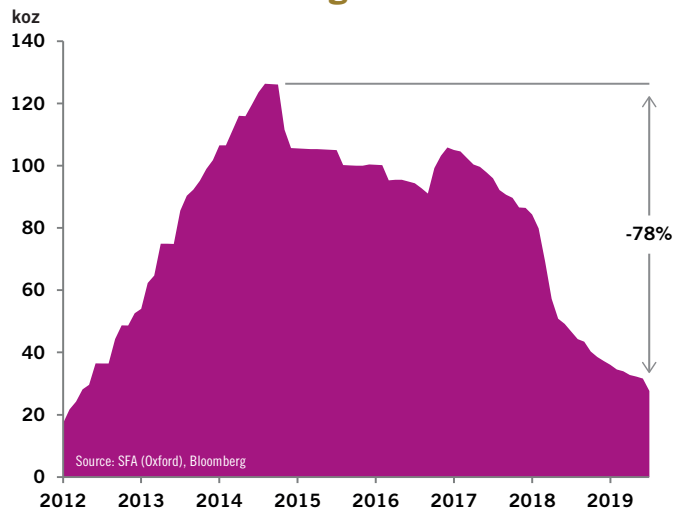


# TRENDS AND INVESTMENTS

## Intraday gold price 31 July



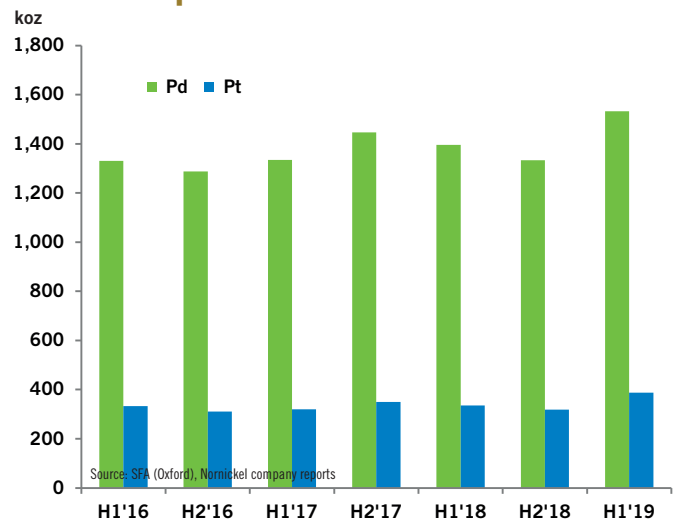
## Rhodium ETF holdings



## Palladium price



## Nornickel production



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