



## MARKET SPOTLIGHT

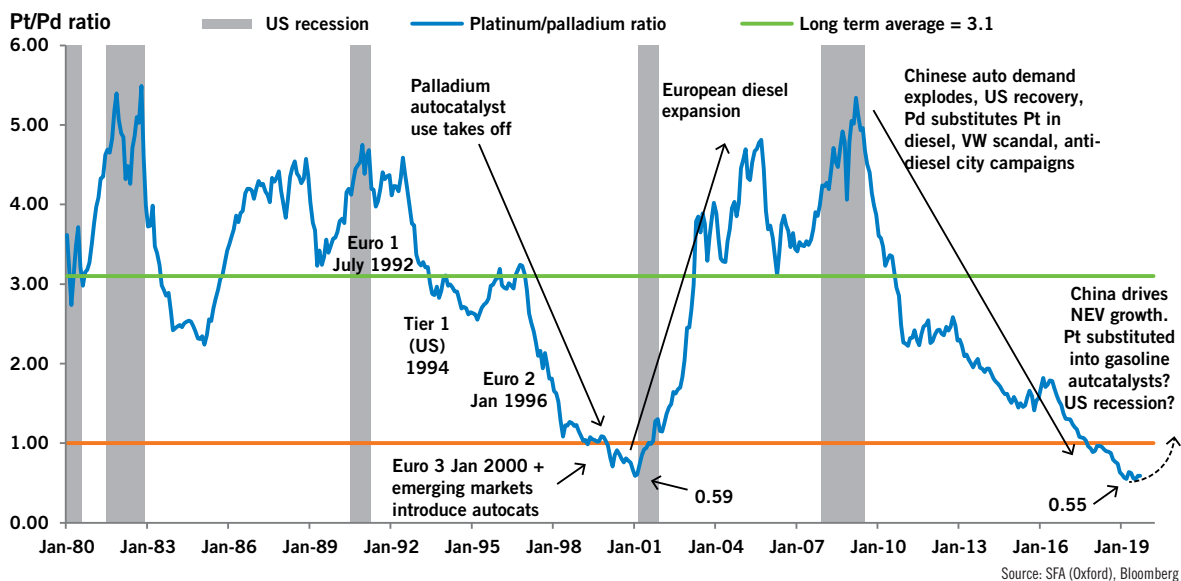
### Do positives for platinum signal a turning point?

**Platinum market fundamentals have been weak for several years**, mainly due to the fall in automotive sector consumption and Chinese platinum jewellery demand halving since 2013. It is perhaps surprising that, despite this, the platinum price has mostly traded between \$1,050/oz and \$800/oz over the last four years.

**That said, investors think platinum is cheap.** It is trading below its average long-term real price (\$992/oz) and at a large discount to both gold (~\$600/oz) and palladium (~\$860/oz). Some investors certainly believe that platinum is a good investment, as platinum ETF holdings are up over 950 koz this year, equivalent to \$809 million of investment.

**Significantly, platinum supply from South Africa peaks in 2019.** Reserve depletion at existing mines is reducing production, which is not being replaced by expansions or new projects. The low platinum price means that many potential greenfield and brownfield projects in South Africa are too capital-intensive and uneconomic, even with the current high palladium and rhodium prices. Platinum recycling growth is also levelling off.

**A recession could be a turning point for platinum relative to palladium.** Autocatalyst use represents 82% of total palladium demand, but just 40% for platinum. Platinum's broad base of industrial uses, in addition to autocatalysts and jewellery, makes it less exposed to a single demand area. Diverse end-uses can keep industrial demand steady for the foreseeable future. The worst of the decline in jewellery and automotive demand is over. In addition, some substitution of platinum back into gasoline autocatalysts may be only a couple of years away.



The platinum price has shown resilience, with support from the metal's precious aspect and cheapness relative to gold. **At current levels, the platinum price appears to have less downside risk in a recession than the palladium price.**



# PRECIOUS METALS REVIEW

## 79 Au Gold

	Close	Weekly change	High	Date	Low	Date
\$/oz	1,504	0.85%	1,518	25/10/2019	1,481	22/10/2019
€/oz	1,357	1.52%	1,367	25/10/2019	1,328	22/10/2019

**The gold price is back above \$1,500/oz and price volatility could pick up further** with the Federal Reserve rate announcement. The Federal Reserve interest rate announcement on 30 October could provide some more price impetus, as the futures market is projecting a 93.5% probability of a rate cut. This could be an overestimation as the 2-year Treasury yield is not as far below the Fed's lower rate boundary as it was for the last two meetings. The unemployment rate is still very low and inflation is moderate. While a cut should be price positive, if the Fed holds rates this would be a negative surprise which could see gold trade lower.

**A high gold price continues to incentivise mine expansions.** Newmont Goldcorp's mill expansion at Ahafo in Ghana has started production. It is expected to increase annual output by up to 20%, to between 550 koz and 650 koz until 2024. Newcrest has also announced the start of the first phase of expansion at the Cadia mine in Australia to increase throughput by 10%. Cadia produced 913 koz of gold in FY19, and is one of the largest gold mines in the world.

## 47 Ag Silver

	Close	Weekly change	High	Date	Low	Date
\$/oz	17.99	2.46%	18.33	25/10/2019	17.44	22/10/2019
€/oz	16.23	3.16%	16.51	25/10/2019	15.53	23/10/2019

**Silver production likely to decline this year.** Four of the world's top ten silver producers, Fresnillo, Hochschild, Polymetal and Buenaventura, which together account for 15% (130 moz) of global mine supply, have suffered, on average, an 18% drop in production in Q3 from a year earlier. Year-to-date production at Fresnillo, the number one silver producer, was 11.8% lower than in 2018 at 40.8 moz. It looks unlikely that even the lower end of production guidance for 2019, which has already been reduced by 3 moz this year to 55-58 moz, will be achieved based on current performance.

**Silver price starting to outperform gold.** Silver's price rise at the end of last week has reduced the gold:silver ratio to 83 and this could fall further if the rally continues. As for gold, the Fed's interest rate announcement on Wednesday could be key for silver price direction in the near term. The futures market expects a rate cut which should be positive for the silver price, but if the Fed holds rates then the silver price could follow gold lower.

## 78 Pt Platinum

	Close	Weekly change	High	Date	Low	Date
\$/oz	929	4.36%	939	25/10/2019	885	22/10/2019
€/oz	839	5.10%	847	25/10/2019	794	21/10/2019

**Anglo American Platinum (Amplats) is on track to meet annual guidance this year.** Although third-quarter results showed a 1% decrease in platinum output to 527 koz (mined plus purchased concentrate), year-to-date production is over 1.5 moz. Production guidance for the year remains unchanged at 2-2.1 moz of platinum, which makes Amplats the largest platinum producer in the world.

**New orders for heavy-duty trucks have slumped in Europe and North America** (as noted in Spotlights earlier this year). Volvo is cutting production as its new orders for heavy-duty trucks in Q3'19 slumped by 81% in North America and 20% in Europe. Volvo is now projecting a fall in overall sales next year of 100,000 trucks in the US and 45,000 in Europe. This is substantially more than had been anticipated earlier in the year and would result in an additional drop in platinum demand of around 20 koz in both markets compared to earlier forecasts. The platinum market is expected to remain in a substantial surplus (before investment) next year which limits price upside and suggests the price should trade lower.



# PRECIOUS METALS REVIEW

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

	Close	Weekly change	High	Date	Low	Date
\$/oz	1,773	1.16%	1,786	25/10/2019	1,734	23/10/2019
€/oz	1,601	1.86%	1,610	25/10/2019	1,559	23/10/2019

### **Palladium spot price has hit a new high at \$1,786/oz.**

This is a little surprising since market tightness has eased slightly. Lease rates edged lower, moving back into single digits last week and the level of backwardation in the futures market has also reduced.

**Consumer insecurity crashes Indian car sales.** New car sales in India fell 27.5% year-on-year in September to 281,783 units. Consumers have been more cautious about making large purchases owing to a slower economy and government efforts to digitise transactions in a traditionally cash economy. In addition, problems in the banking sector have led to tighter credit conditions, meaning fewer potential car buyers have been obtaining car loans. The implementation of tighter emissions legislation in April 2020 may help to lift sales in the first quarter if OEMs offer discounts to clear old inventory ahead of the changeover. Sales could decline immediately afterwards as newly-compliant vehicle prices will increase. India is a large car market, but most sales

are for smaller cars, meaning that if car sales remain lacklustre next year the reduction to palladium demand may be only a few thousand ounces.

**Power cuts start in South Africa.** Eskom, the South African electricity utility, has ongoing operational issues that the government has struggled to rectify. Eskom has so far had to initiate “load-shedding”, which reduces electricity supply, on four days in October. While mining companies should have contingency plans to mitigate the impact on their operations, a prolonged period of load-shedding could ultimately have some negative impact on production.

**Amplats' Q3 palladium production flat at 352 koz year-on-year.** Refined output was up 13% at 362 koz, owing to smelter maintenance in the prior period reducing production. The company expects to meet guidance of 1.3-1.4 moz of palladium output this year.

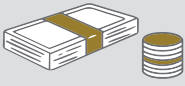
## <sup>45</sup> Rh <sup>44</sup> Ru <sup>77</sup> Ir **Rhodium, Ruthenium, Iridium**

	Rhodium	Ruthenium	Iridium
Reporting week	\$5,450/oz	\$250/oz	\$1,500/oz
Previous week	\$5,600/oz	\$250/oz	\$1,500/oz

**Amplats: producing more but selling less.** Amplats' third-quarter refined production of gold, iridium, ruthenium and rhodium increased 25% to 251.5 koz, compared to Q3 in 2018. However, combined sales of the same metals were only 194.1 koz, reportedly due to falling demand. Since rhodium is in demand and gold is easily

sold, the implication is that most likely some ruthenium stocks, and possibly some iridium stocks, have built up.

The rhodium price has pulled back by \$150/oz, but ruthenium and iridium prices remained unchanged.

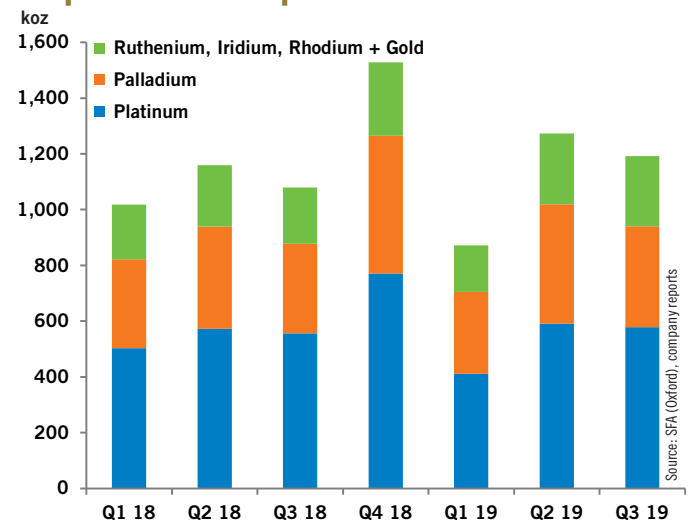


# TRENDS AND INVESTMENTS

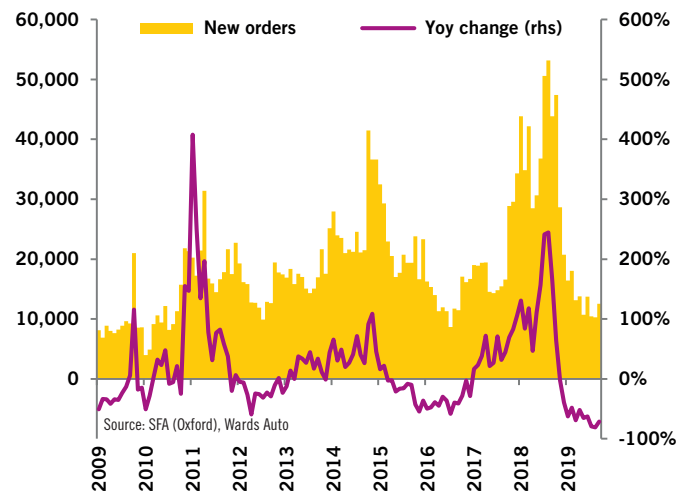
## Fed funds rate less 2 year Treasury yield



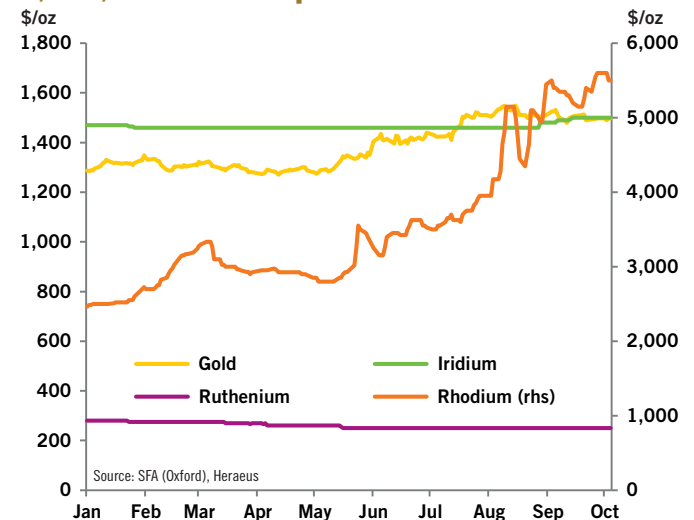
## Amplats refined production 2018-19



## US truck new orders



## Ir, Ru, Rh and Au price



## Heraeus Precious Metals

Europe, Middle East, Africa & other regions  
 Phone: +49 6181 35 2750  
 edelmetallhandel@heraeus.com

South East Asia  
 Phone: +852 2773 1733  
 tradinghk@heraeus.com

[www.herae.us/trading-market-report](http://www.herae.us/trading-market-report)

United States of America  
 Phone: +1 212 752 2180  
 tradingny@heraeus.com

China  
 Phone: +86 21 3357 5658  
 tradingsh@heraeus.com

The HERAEUS PRECIOUS APPRAISAL produced in collaboration with:

**SFA (Oxford) Ltd**  
 United Kingdom  
 Phone: +44 1865 784366  
 www.sfa-oxford.com



consulting analysts in tomorrow's commodities and technologies

The Oxford Science Park, Oxford,  
 United Kingdom, OX4 4GA

## DISCLAIMER

This document is being supplied to the recipient only, on the basis that the recipient is reasonably believed to be a professional market participant in the precious metals market. It is directed exclusively at entrepreneurs and especially not intended for the use of consumers. The material contained in this document has no regard to the specific investment objectives, financial situation or particular need of any specific recipient or organisation. It is not provided as part of a contractual relationship. It is not and should not be construed as an offer to sell or the solicitation of an offer to purchase or subscribe for any investment or as advice on the merits of making any investment. This report has been compiled using information obtained from sources that Heraeus and SFA (Oxford) Ltd ("SFA") believe to be reliable but which they have not independently verified. Further, the analysis and opinions set out in this document, including any forward-looking statements, constitute a judgment as of the date of the document and are subject to change without notice. There is no assurance that any forward-looking statements will materialize. Therefore,

neither SFA nor Heraeus warrants the accuracy and completeness of the data and analysis contained in this document. Heraeus and SFA assume no liability for any losses or damages of whatsoever kind, resulting from whatever cause, through the use of or reliance on any information contained in this document. However, in so far as a liability claim exists under German law, Heraeus and SFA shall have unlimited liability for willful or grossly negligent breach of duty. Unless expressly permitted by law, no part of this document may be reproduced or distributed in any manner without written permission of Heraeus. Heraeus specifically prohibits the redistribution of this document, via the internet or otherwise, to non-professional or private investors and neither Heraeus nor SFA accepts any liability whatsoever for the actions of third parties in reliance on this document. Prices quoted are interbank (offer) prices for gold, silver, platinum and palladium. Rhodium, ruthenium and iridium quotes reflect the Heraeus offer price at the time of writing.