

HERAEUS PRECIOUS APPRAISAL

Heraeus

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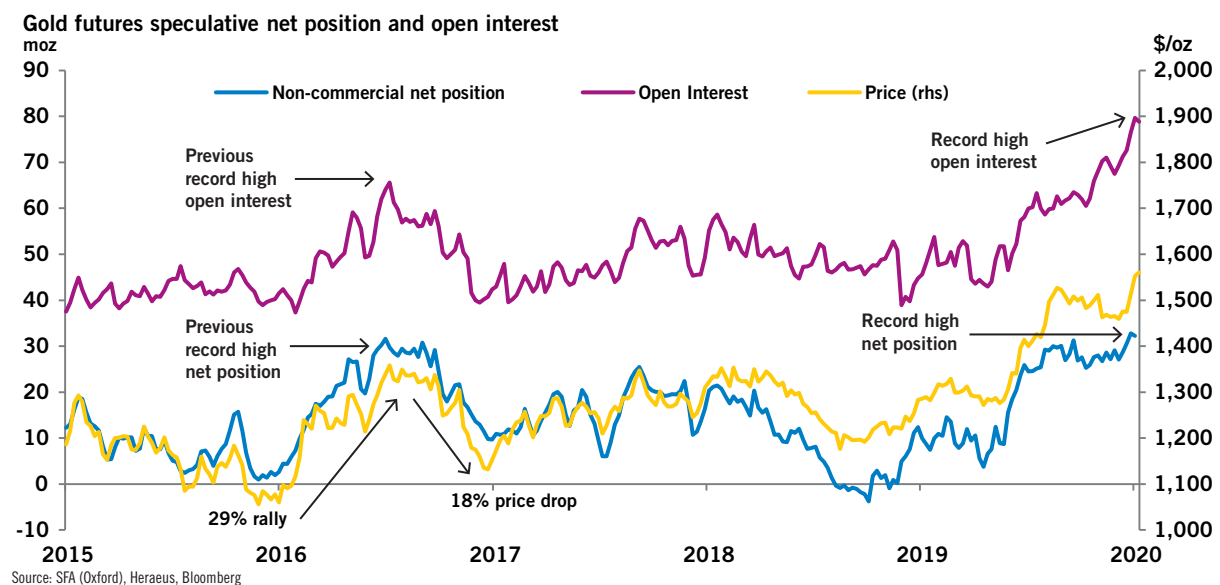


MARKET SPOTLIGHT

A lot of risks are already priced in for gold

The last time gold futures open interest and the speculative net long position reached record highs the gold price fell 18% over the next five months. NYMEX futures open interest was equivalent to 79.7 moz at the beginning of January, 21% higher than the previous record in 2016. Additionally, the non-commercial traders' net long position reached 32.8 moz, 4% above its previous high point. Trends can persist for some time with prices and the speculative net long position still rising, but such high open interest and significant commitment by traders to being long gold is a sign that bullishness has reached an extreme and a top in the gold price is near.

The gold price rose by 39% from the low in 2018 to its peak this month, as it jumped on the news that the US had assassinated an Iranian general. The subsequent retreat in the gold price shows that individual events do not usually move the price for long. However, a number of factors have combined to encourage safe-haven purchases of gold. Increasing political and economic uncertainty, more monetary easing from the Federal Reserve, falling bond yields and huge quantities of negative yielding debt have all played a part.



A great deal of uncertainty is already priced in, but there are still some potential drivers for a higher gold price in the medium term. In the US, the presidential election in November will increasingly become the focus. With China-US trade talks having reached an initial agreement, attention is turning to the EU. Whether or not that is a positive move could depend on whether President Trump thinks his re-election chances are better if he closes another trade deal or he continues to take a firm stance and raise tariffs. If economic growth remains weak then further monetary policy easing is likely and bond yields could fall further. This would take real interest rates into negative territory which would be positive for gold.



PRECIOUS METALS REVIEW

79 Au Gold

	Close	Weekly change	High	Date	Low	Date
\$/oz	1,558	-0.14%	1,561	17/01/2020	1,536	14/01/2020
\$/oz	1,405	0.10%	1,405	17/01/2020	1,379	14/01/2020

The urgency of safe-haven gold purchasing has eased. After the US and Iran stepped back from further confrontation, the gold price has given back some of the gains made following the US missile strike that killed an Iranian general. A more time-consuming correction is possible before gold attempts to reach new highs.

Physical gold demand in China was down 20% in 2019 (year-on-year). Gold withdrawals from the Shanghai

Gold Exchange (SGE) in December were 158.5 t, taking the annual total for the year to 1,642 t, a 20% decline from 2018. SGE withdrawals are considered a proxy for Chinese physical gold demand. Chinese consumer gold demand (jewellery, bars and coins) accounts for around 22% of global demand (source: World Gold Council). High gold prices, a rising cost of living, as well as a slowing economy will most likely continue to hinder consumer gold demand in China this year.

47 Ag Silver

	Close	Weekly change	High	Date	Low	Date
\$/oz	18.04	-0.49%	18.17	17/01/2020	17.68	14/01/2020
€/oz	16.26	-0.26%	16.36	17/01/2020	15.88	14/01/2020

Silver is likely to continue to follow gold's lead. The silver price has underperformed gold slightly and the gold:silver ratio is now above 86.

Silver mine production forecasts continue to slide. Hochschild, one of the top ten silver producers, has set a

production target of 36 million silver equivalent ounces in 2020, which is 6.9% less than the company produced in 2019, and 11.5% less than in 2018. Hochschild's total silver production in 2019 totalled 38.7 million silver equivalent ounces.

78 Pt Platinum

	Close	Weekly change	High	Date	Low	Date
\$/oz	1,021	4.00%	1,042	16/01/2020	964	13/01/2020
€/oz	921	4.28%	933	16/01/2020	867	13/01/2020

The platinum price surged above \$1,000/oz for the first time in two years last week. However, the price is in a region of strong resistance from \$1,000/oz to \$1,050/oz which could cap the upside. The fundamentals are poor and so the price is expected to trade lower in the medium term.

Hong Kong's luxury market begins to shut up shop. Chow Tai Fook, the second-largest jeweller in the world by market value, intends to close around a fifth of its Hong Kong stores, following seven months of protests across the city. This marks the first major retrenchment by a luxury retailer in Hong Kong. Chow Tai Fook's same-store sales in Hong Kong (and Macau) for the three months ending December 2019 fell by 35% from a year earlier. The near-term outlook for China's platinum jewellery

market remains challenging, and demand is likely to decline further this year.

Platinum imports grow in India. India's platinum imports increased by 175% year-on-year in value terms to \$119.7 million in the period April-December 2019, compared to growth of less than 5% for gold (source: Gem and Jewellery Export Promotion Council). Platinum Guild International has added two new platinum jewellery collections to the Platinum Evara and Platinum Days of Love ranges in India, which targets young consumers in the fastest growing platinum jewellery market. It is the only market expected to see significant growth this year (albeit from a low base), while demand elsewhere remains sluggish.



PRECIOUS METALS REVIEW

⁴⁶ Pd **Palladium**

	Close	Weekly change	High	Date	Low	Date
\$/oz	2,468	16.59%	2,539	17/01/2020	2,111	13/01/2020
€/oz	2,227	16.86%	2,291	17/01/2020	1,895	13/01/2020

Hopes of a rebound in India's auto sector in 2020.

Palladium demand in India is estimated to increase by more than 10% (+~30 koz) this year, largely due to the implementation of the Bharat Stage VI emissions legislation from April which requires higher autocatalyst loadings. However, compliance costs have already caused price hikes to vehicles which, along with other macroeconomic headwinds, have impacted sales. Passenger vehicle sales in India declined by 12.8% to 2.9 million units last year (source: Society of Indian Automobile Manufacturers). Loans for expensive items such as cars were still difficult to obtain, and slow

economic growth weighed on demand. Disposable income was also restricted after a late monsoon season caused a surge in food prices. However, the economy is forecast to grow faster this year and, with further interest rate cuts expected from the Royal Bank of India (RBI), this should be positive for consumer purchasing and the auto sector.

The structural deficit over years has resulted in extremely poor liquidity, which was met by fresh buying at the beginning of the year, driving prices to an extreme. The palladium spot price hit \$2,539/oz last week and short-term lease rates surged as the market tightened.

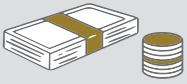
⁴⁵ Rh ⁴⁴ Ru ⁷⁷ Ir **Rhodium, Ruthenium, Iridium**

	Rhodium	Ruthenium	Iridium
Reporting week	\$9,450	\$260	\$1,510
Previous week	\$7,950	\$255	\$1,500

Auto demand is driving rhodium's rally. Rhodium has gained more than \$3,200/oz so far in 2020 (+51.2%). The Chinese automotive industry now accounts for around 15% of global demand for the metal, out of a market of a little over 1 moz. With emissions legislation tightening, the Chinese have been consistent buyers of rhodium (as well as palladium). In a small market such as rhodium, market tightness can result in much sharper

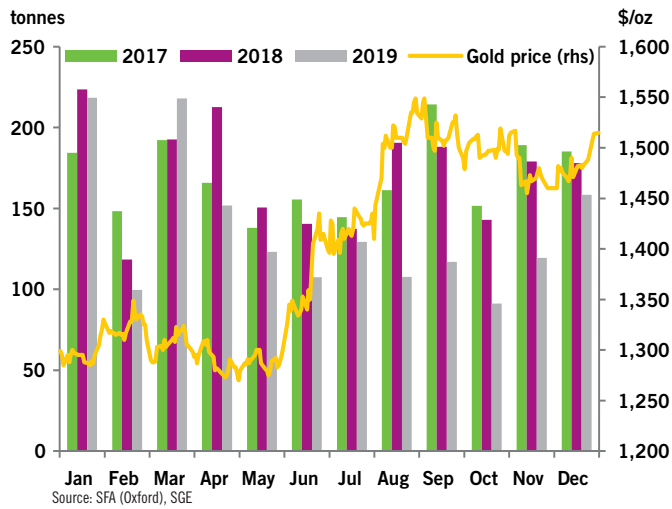
price movements. It is possible that once the Chinese New Year holiday starts, demand will dry up, the market tightness will ease and the price will pull back.

Ruthenium and iridium finally joined the PGM price rally (if only marginally), gaining 1.9% and 0.6% respectively towards the end of last week.

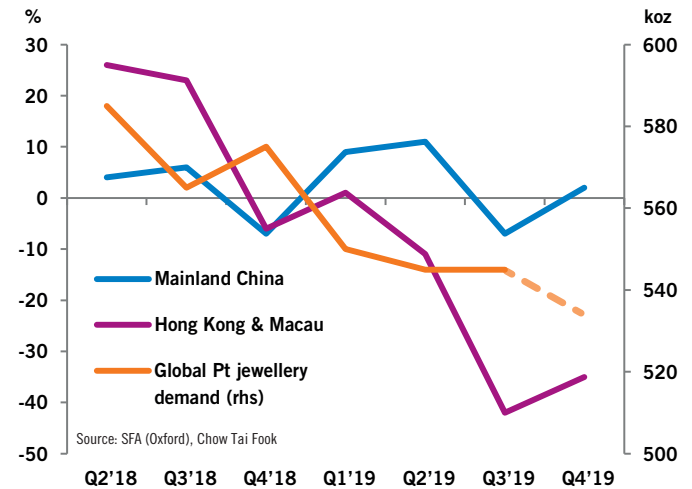


TRENDS AND INVESTMENTS

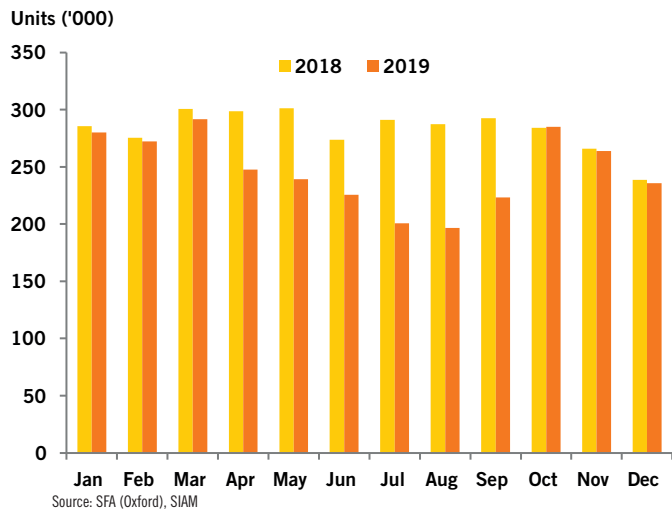
SGE withdrawals



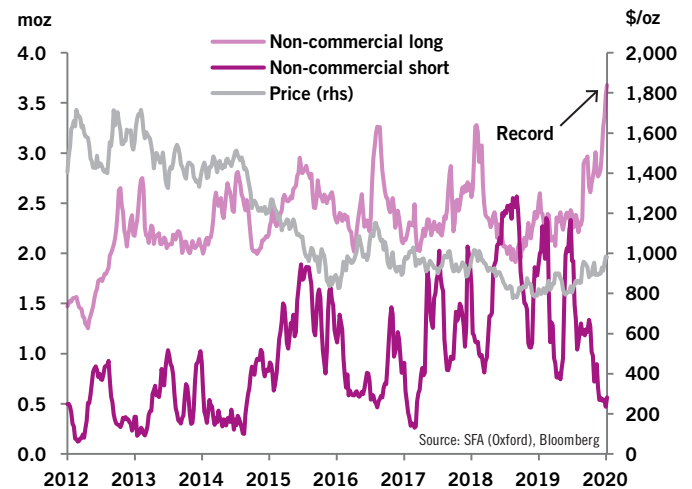
Chow Tai Fook same store sales growth



India passenger car sales



Platinum speculative positions



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