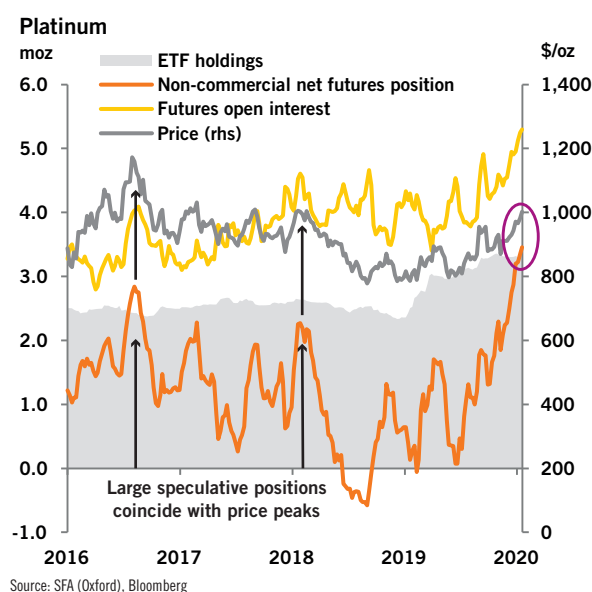
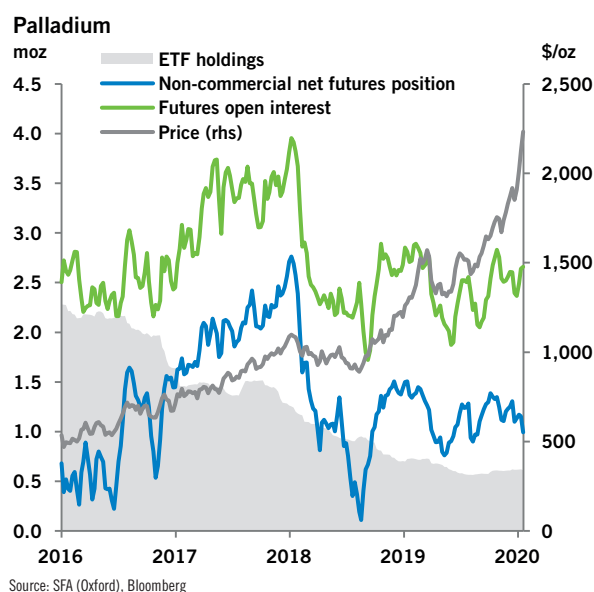




## MARKET SPOTLIGHT

### Palladium's outperformance over platinum to continue in 2020

The palladium market is predicted to have a large deficit this year owing to strong automotive demand following the implementation of tighter emissions legislation. ETF investors have been taking profits and providing metal to the market. ETF holdings fell by 87 koz in 2019, for a fifth consecutive annual decline. This was a much smaller drop than in previous years and left global holdings at just 617 koz. However, speculative futures positions did not follow the palladium price higher last year. There is a shortage of palladium ingot which considerably tightened the market, taking short-term lease rates to over 30% and the spot price to over \$2,500/oz. While the extreme market tightness has eased and the palladium price has pulled back, **the fundamental picture is still supportive of a high price.**



**Fundamentally, the platinum price has little upside.** With a further decline in automotive and jewellery demand expected in 2020, the platinum market is predicted to have an industrial surplus of over 1 mozt again. ETF investors bought 960 koz of platinum in 2019. At the start of last year platinum was particularly cheap, trading at less than \$800/oz, and 692 koz of ETF investment occurred in Q1. Some investment may have been in anticipation of platinum being used as a substitute for some palladium in autocatalysts, although that is still some way off. Even at closer to \$1,000/oz, platinum is cheap relative to palladium and gold, so those with a longer-term view might still want to add to their holdings.

Speculative net long positions in platinum futures are at a record high, as is open interest. Although the price broke through \$1,000/oz, it did not climb above the price highs set in 2017-2018 around \$1,030/oz, which represent a region of chart resistance. Each of those price peaks was accompanied by a large net long futures position and followed by a fall in the price. **The platinum market needs investors to buy up the surplus again this year, but it may not help the price.**



# PRECIOUS METALS REVIEW

## 79 Au Gold

	Close	Weekly change	High	Date	Low	Date
\$/oz	1,583	0.65%	1,589	31/01/2020	1,563	29/01/2020
€/oz	1,428	0.13%	1,439	27/01/2020	1,419	29/01/2020

**Chinese consumer gold demand is likely to be weak in the first quarter of 2020** owing to the effects of the coronavirus outbreak. On top of the travel restrictions which are in place across 20 Chinese cities, businesses in Shanghai have been instructed to remain shut for a further week (beyond the Lunar New Year). The outbreak comes at a time of high gold prices and prevailing weak consumer sentiment; consumer purchasing has the potential to be seriously affected. Q1 has historically been a seasonally strong period for Chinese consumer gold sales, with demand in Q1'19 reaching 254.8 t (30% of annual demand). News of the coronavirus saw safe havens such as gold and bonds gain as traders reduced exposure to riskier assets and equity markets sold off. While that situation remains, gold can keep climbing.

**Annual gold demand declined by 1% in 2019 to 4,355.7 t** (source: World Gold Council). Strong investor demand was outweighed by poor consumer sentiment, particularly in the largest jewellery markets of China and India. Annual jewellery demand slumped by 6% to 2,107 t year-on-year and was heavily affected by the high gold price and a slowing economy causing a lack of consumer demand. Indian demand fell by 9% to 544.6 t (-53.4 t), while Chinese demand was down by 7% to 637.3 t (-49 t). In addition to economic factors, the changing tastes of younger generations reduced demand for traditional heavier (higher gold content) jewellery in China. Slow economic growth and a high gold price mean consumer demand may not see much improvement on last year.

## 47 Ag Silver

	Close	Weekly change	High	Date	Low	Date
\$/oz	18.01	-0.22%	18.34	27/01/2020	17.35	29/01/2020
€/oz	16.26	-0.72%	16.64	27/01/2020	15.77	29/01/2020

**Silver supply falls short of guidance from the world's largest producer.** Fresnillo's annual silver production in 2019 was 54.6 moz, an 11.6% decrease from the previous year, and has been attributed to lower ore grades and a lower volume of ore being processed. At the start of 2019, production guidance was 58-61 moz, but was reduced to 55-58 moz after Q2. Fresnillo is the world's largest primary silver producer, accounting for around

7% of global silver mine supply. Other key producers have also reported lower than expected silver production for last year, which suggests that 2019 is likely to be the fourth consecutive year of declining mine supply. The silver price has been volatile, but it lost ground on gold last week and is expected to continue that underperformance.

## 78 Pt Platinum

	Close	Weekly change	High	Date	Low	Date
\$/oz	960	-4.54%	998	27/01/2020	957	31/01/2020
€/oz	866	-5.04%	906	29/01/2020	865	31/01/2020

**The European car market is set to shrink in 2020.** Europe's auto industry is likely to contract by 2% this year (source: ACEA), the first downturn in car sales in seven years. The market grew by 1.2% in 2019 to 15.34 million units. However, new CO2 emission regulations that came into effect in January are expected dampen demand in 2020. The EU has limited the amount of CO2 that car fleets can emit on average to 95 g/km (down from around 120 g/km last year), or face steep fines. As a result, battery electric vehicle (BEV) demand is expected to increase by 32% this year (source: BloombergNEF). There is an opportunity for automakers to push sales

of new diesel cars this year in order to meet the new emissions target. Diesel demand will also be supported by the growing sales of SUVs which have limited electrified variants. However, the market share of diesel car sales in Western Europe is still forecast to decline slightly this year. The region represents the largest autocatalyst demand sector for platinum, at around 1 moz annually, although this is forecast to weaken in line with demand in Western Europe. With global demand (excluding investment) predicted to shrink again this year, the platinum price is expected to weaken further.



# PRECIOUS METALS REVIEW

46

## Pd Palladium

	Close	Weekly change	High	Date	Low	Date
\$/oz	2,299	-5.09%	2,396	27/01/2020	2,251	28/01/2020
€/oz	2,075	-5.79%	2,178	27/01/2020	2,046	30/01/2020

**Nornickel provides temporary relief to the palladium market.** Spot palladium traded at over \$2,500/oz on 20 January as a shortage of ingot drove up short-term lease rates to over 30%. The start of the Chinese New Year holiday may have eased some of the buying pressure as the price has pulled back and lease rates have dropped. Nornickel's subsequent announcement that its Global Palladium Fund would deliver 3 t (~96 koz) of palladium ingots to the market from its current stock will also offer further short-term relief. The company also intends to increase the proportion of ingot in its output this year. Nornickel maintained its production guidance of 2.7 moz of palladium for 2020. The company is the world's largest producer of palladium, accounting for around 38% of global mine supply. While sufficient ingot is available the price could correct further in the near term, but the market is forecast to have another sizeable deficit this year which will keep the price trading at a high level.

**The coronavirus outbreak will have a negative impact on economic activity in China** given the travel bans, and potentially on other countries too. It is too early to be

sure of the overall impact, but car sales and possibly metal demand could be subdued for a while if it takes some time to bring the virus under control. Once that happens, activity should rebound as purchases that were delayed can finally be made, so the impact over the whole year might not be very large. China is the largest auto market with sales of 21.4 million passenger cars in 2019 accounting for 22% of global palladium demand. Even with stagnant car sales China's palladium usage is projected to rise by around 15% this year since tighter emissions legislation requires higher catalyst loadings. If passenger car sales were to fall by 25% in China this year the palladium market would still be in deficit.

**Anglo American Platinum increased palladium production by 12% last year.** The company's total refined PGM production (expressed as 5E + Au) was 4,480.7 koz in 2019, an 11% rise year-on-year. This included 12% growth in refined palladium output to 1,428 koz. Refined palladium output for 2020 is likely to be between 1.2 and 1.4 moz.

## Rh Rhodium, Ruthenium, Iridium

	Rhodium	Ruthenium	Iridium
Reporting week	\$10,750/oz	\$260/oz	\$1,510/oz
Previous week	\$10,450/oz	\$260/oz	\$1,510/oz

**Electricity supply problems in South Africa hinder rhodium output.** Anglo American Platinum's full-year refined PGM (5E + Au) output was 4.48 moz, after 216 koz was held up due to load-shedding-related events throughout the year. As a result, 89 koz of PGMs has built up in work-in-progress inventory and will be refined in 2020, including an estimated 6 koz of rhodium. Amplats is the second largest producer of rhodium in the world, accounting for almost a quarter (184 koz) of global

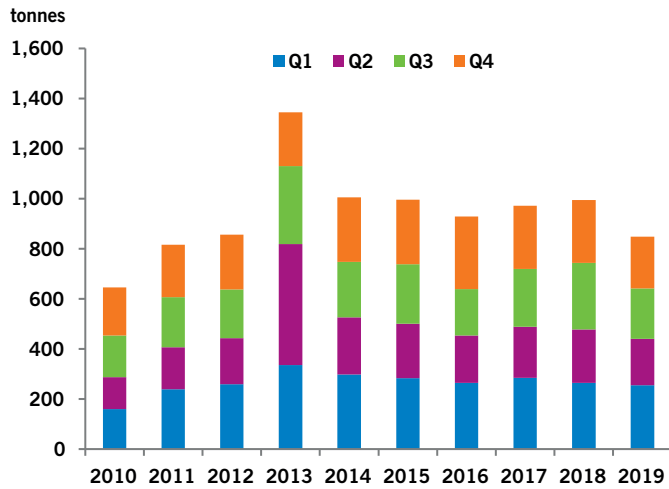
mine supply in 2018. The lack of Chinese buyers has not yet translated into a lower rhodium price and while the metal continues to be sought after, the price can remain at a very high level.

Rhodium continued its spectacular rally, gaining another \$300 (+2.8%) to close the week at \$10,750/oz. Iridium and ruthenium remained unchanged.



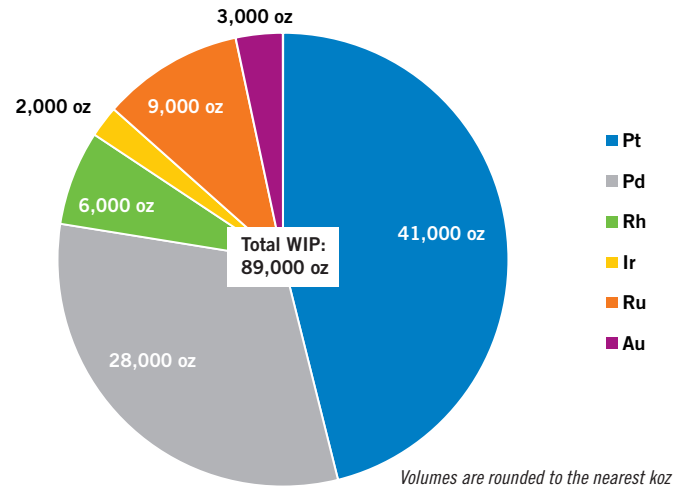
# TRENDS AND INVESTMENTS

## China consumer gold demand



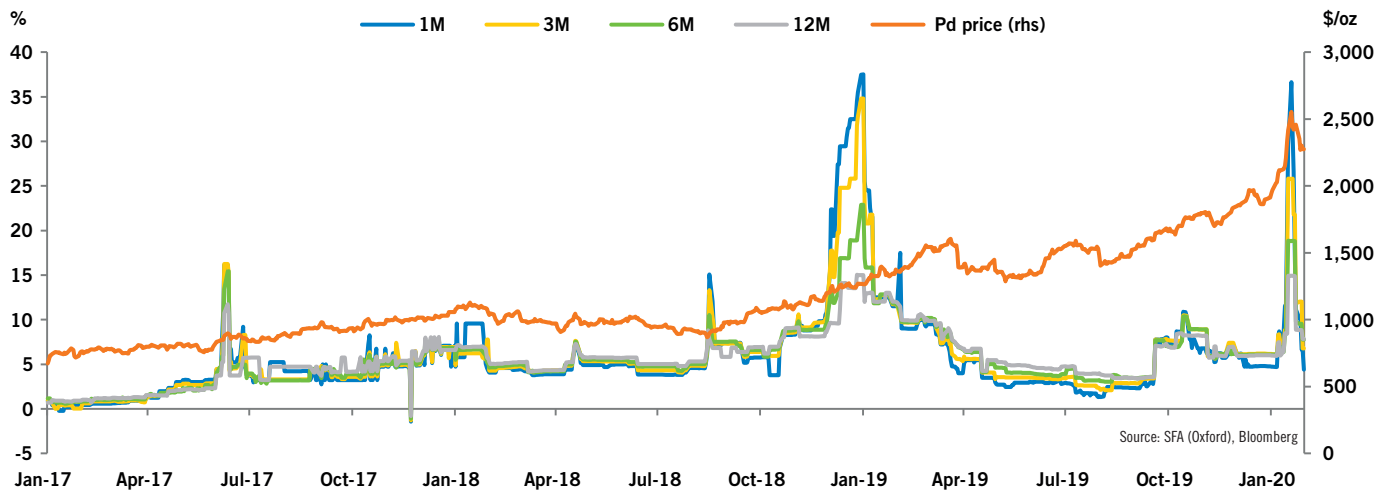
Source: SFA (Oxford), World Gold Council

## AAP 2020E work-in-progress stock



Source: SFA (Oxford), Anglo American Platinum

## Palladium lease rate indicator



Source: SFA (Oxford), Bloomberg

## 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



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.