HERAEUS PRECIOUS APPRAISAL

Heraeus

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MARKET WATCH

South Africa is restarting mining activity; at least 6% of PGM output lost this year. Minerals Council South Africa and the Department of Mineral Resources agreed last week that there will be a phased recall of mineworkers to enable the restart of mines. Most South African mines were placed on care and maintenance from midnight on 26 March after a national three-week lockdown was announced. All mines placed on care and maintenance for the 21-day lockdown period are estimated to have lost at least 6% of their annual output. The lockdown was subsequently extended until the end of April, but mining operations have been given permission to reopen at a reduced capacity of 50%, with protocols in place to protect employees from the spread of COVID-19 and ensure this critical sector of the South African economy is able to operate.

There is likely to have been a significant economic impact from the lockdown on South Africa's mining sector (gold, platinum, coal, diamonds), as well as the wider economy. Mining has some of the highest fixed costs of all sectors (51% on a weighted average), which would have been unavoidable during the 21-day lockdown period. Mining is also a significant source of income for the South African economy, employing around 454,900 people and accounting for 8.1% of GDP in 2019.

Mines are likely to require at least three weeks to ramp up production, on the assumption that a reduced labour workforce, who will be practising social distancing as well as abiding by a rigorous screening and testing protocol, will impact output. There is still a significant risk of further supply disruption if there is a confirmed case of COVID-19 in the mining community, which would call for the temporary closure of any associated operations. The output rate of South Africa's PGM mining sector this year is unlikely to match the level of 2019. The expected cut in South African production is likely to bring global supply (mine supply plus recycling) closer to balancing the drop-off in demand from a severely impacted auto industry this year.

Some car production is restarting, but will consumers buy it? Toyota and VW, two of the largest car manufacturers in the world, are among those which have reopened or are preparing to restart production. As of 13 April, factory shutdowns in Europe as a result of COVID-19 had resulted in lost vehicle production amounting to 1.9 million units (10% of output) (source: ACEA). It remains to be seen whether the EU's strict new CO_2 emission targets will be relaxed once restrictions are lifted, in order to ease the financial burden on automakers this year. There is a further risk to platinum demand if the targets are eased, as automakers may be less inclined to push sales of cleaner diesel models. In China, most car plants have resumed production. The China Association of Automobile Manufacturers maintains that in H2'20 the domestic market should be able to recover to the level in the same period as last year but will be unlikely to recoup first-half losses. The major PGM's prices slumped in March, then rebounded, along with other assets. More price volatility is likely and in the short term another bout of market weakness could hit the PGMs too.

Investor demand sees gold at all-time highs in most currencies, apart from the US dollar. The unprecedented fiscal and monetary stimulus initiated by governments and central banks around the world has boosted investment demand for gold, as liquidity floods the financial markets. Global gold ETFs have risen to an all-time high in terms of volume at 97.3 moz. The gold spot price is still lagging behind the futures price by around $10/oz, with concerns over a shortage of CME deliverable bars such as 100-oz or 1 kg bars. In other regions (Europe, US) demand for investment products is exceeding production capacities resulting in higher premiums. Swiss refineries have reopened but the ramp-up to full capacity will take time and air travel is still limited. Physical demand elsewhere remains mixed, as India (the second-largest consumer market) remains in lockdown and the local gold industry draws to a standstill. In China gold trading volumes on the Shanghai Gold Exchange totalled 335 t in March, which was 39% lower year-on-year but 130% higher than in February. Business is dominated by liquidation of long positions resulting in local discounts of 3–4%. Investor demand should continue to offset weaker jewellery demand in the near term. Silver has tagged along with gold's rise and managed to outperform on the rebound last week but will likely underperform again if prices pull back.

PRICE REVIEW

79 Au Gold

	Close	Weekly change	High	Date	Low	Date
$/oz	1,689	0.31%	1,747	14/04/2020	1,680	13/04/2020
€/oz	1,553	0.91%	1,597	16/04/2020	1,537	13/04/2020

47 Ag Silver

	Close	Weekly change	High	Date	Low	Date
$/oz	15.15	-0.66%	15.84	14/04/2020	15.03	17/04/2020
€/oz	13.90	-0.22%	14.38	14/04/2020	13.90	13/04/2020

78 Pt Platinum

	Close	Weekly change	High	Date	Low	Date
$/oz	771	3.24%	797	16/04/2020	739	13/04/2020
€/oz	709	3.46%	731	16/04/2020	678	13/04/2020

46 Pd Palladium

	Close	Weekly change	High	Date	Low	Date
$/oz	2,160	-1.29%	2,301	14/04/2020	2,127	13/04/2020
€/oz	1,986	-0.14%	2,097	13/04/2020	1,951	13/04/2020

45 Rh Rhodium

	Reporting week	Previous week	Weekly change
$/oz	10,450	7,825	33.55%

44 Ru Ruthenium

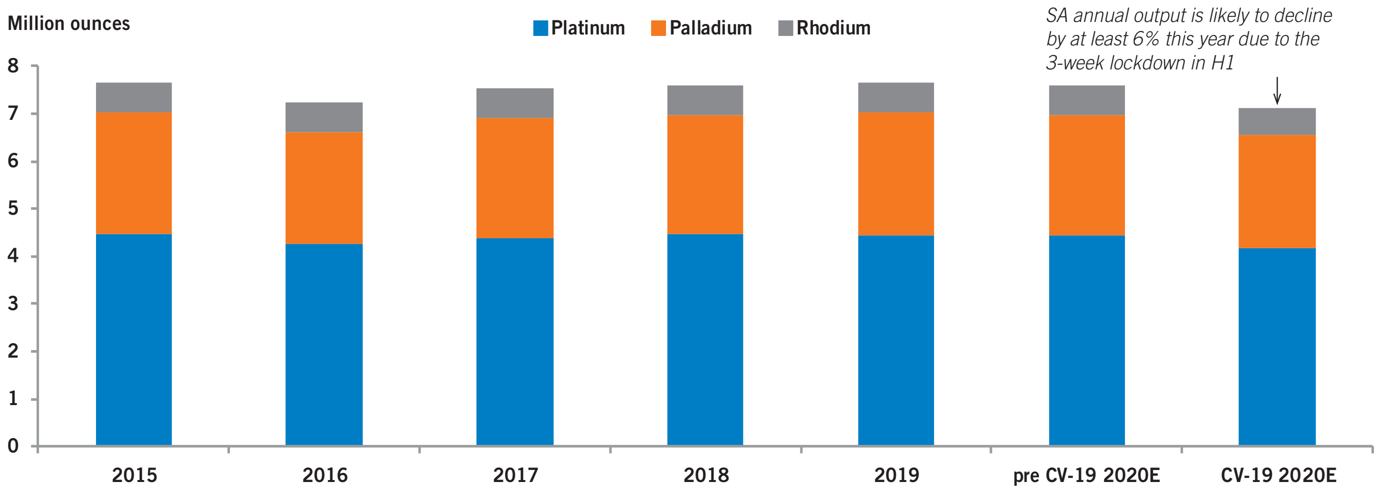
	Reporting week	Previous week	Weekly change
$/oz	295	295	0%

77 Ir Iridium

	Reporting week	Previous week	Weekly change
$/oz	1,550	1,540	0.65%

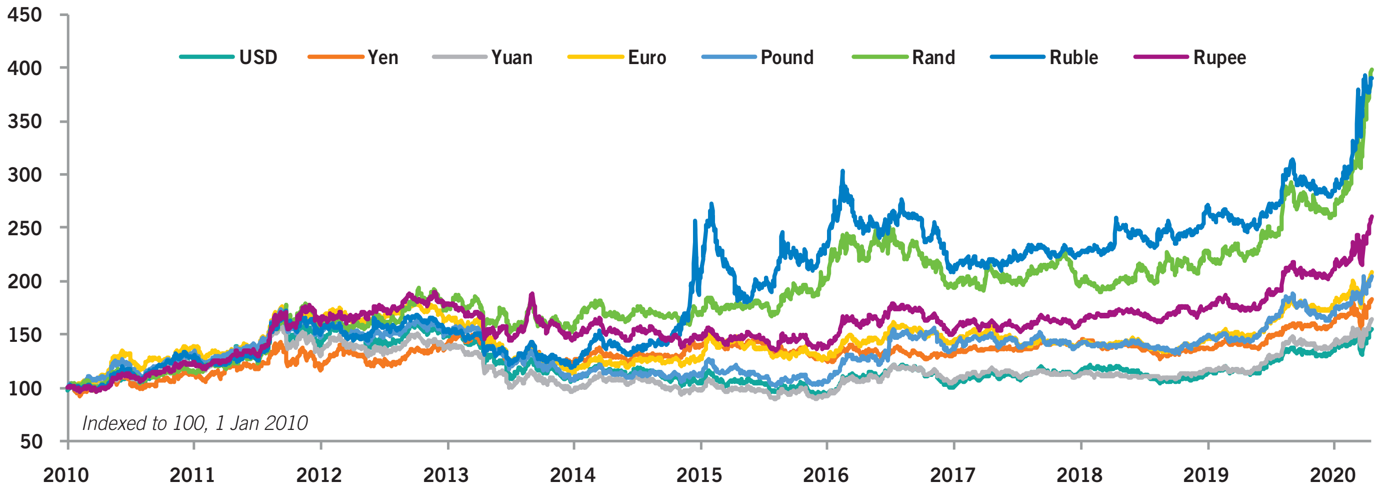
TRENDS

South Africa annual PGM output



Source: SFA (Oxford)

Gold price in different currencies



Source: SFA (Oxford), Bloomberg

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