HERAEUS PRECIOUS APPRAISAL

Heraeus

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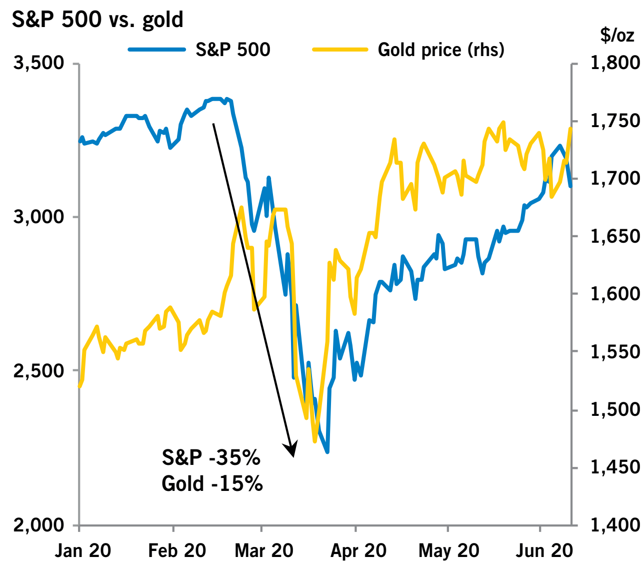
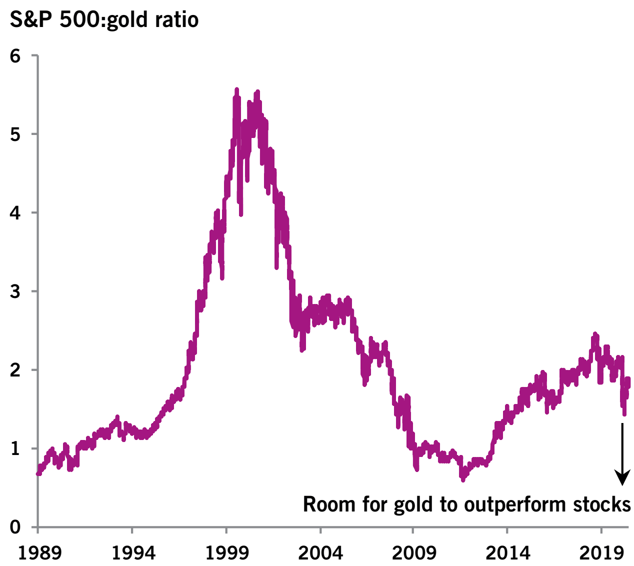
MARKET SPOTLIGHT

Stock markets' recovery – opportunity or danger for gold?

Stock markets have rallied strongly in Q2. March saw the sharpest decline ever in stock markets as concerns about the impact of the coronavirus were priced in. The recovery has been almost as fast, with the tech-heavy NASDAQ in the US making a new all-time high in June and the DAX and other US markets not far behind.

Investor optimism is at odds with the underlying economic reality. The World Bank has released its latest economic outlook and global GDP is now predicted to fall by 5.2% this year. The recession could be the worst since the Second World War. Certainly, lockdowns are being eased and central banks and governments have pledged huge sums of money to support their economies. However, the economic recovery will take quite some time and stock markets do not seem to be anywhere near close to reflecting the damage this will inflict on companies' profits.





Source: SFA (Oxford), Bloomberg

The gold price has held up better than other traditional safe havens such as US Treasury bonds or the yen. The gold price made new highs for the year in April and again in May, whereas bond yields did not fall to new lows and the yen did not strengthen past its March highs. Is this a sign that the rally in gold has moved ahead of itself and might also stall, or could it continue?

The gold price could hit new highs, but volatility could also return. Stocks are overbought and are very over-valued, so another stock market sell-off is possible which could help to propel gold higher. However, if market liquidity dries up, as happened in March, then gold, as a liquid asset, could be sold off again. If that happens, silver could fare even worse as it suffered a larger decline in March than gold. Whatever happens, gold is likely to continue to outperform.

PRECIOUS METALS REVIEW

79 Au Gold

	Close	Weekly change	High	Date	Low	Date
$/oz	1,734	3.33%	1,745	11/06/2020	1,687	08/06/2020
€/oz	1,541	3.70%	1,548	12/06/2020	1,492	08/06/2020

Lockdown in India halted the gold market in May. Gold imports were minimal as the whole country was under lockdown. This situation is being eased slightly in June and jewellery shops in some parts of India have re-opened. However, physical demand remains weak and gold dealers are offering discounts to attract buyers. The financial strains of the lockdown and the high gold price are likely to reduce consumer interest in the near term. Jewellers are stuck with existing stock so imports could take a while to recover. Consumer demand in India was 690 t last year (source: World Gold Council) and it could fall well short of that this year.

Gold rallied last week but failed to make a new high. The dot plot from the Federal Reserve showed that the FOMC members think interest rates will not be raised until 2023. With short-term rates at 0-25 bp and the US CPI easing to 0.1% year-on-year in May, real interest rates are turning positive which is less supportive of gold.

47 Ag Silver

	Close	Weekly change	High	Date	Low	Date
$/oz	17.54	1.28%	18.19	10/06/2020	17.40	12/06/2020
€/oz	15.58	1.66%	15.96	10/06/2020	15.42	12/06/2020

Tough times in India dent silver demand. India is by far the largest market for silverware and silver jewellery. Last year, demand for Indian silverware was 1,282 t and for jewellery it was 2,148 t, which combined represented about 11% of total global demand (source: The Silver Institute). Clearly, closed shops, as a result of the lockdown, will mean lost sales. Silver is much cheaper than gold, which is supportive, but the difficult economic situation will weigh on silverware and jewellery sales. They are likely to drop this year and that will drag down global silver demand. Silver's rally appears to be running out of momentum as the price has moved up but failed to hold at $18/oz. The price needs to make a new high for the year to show that the rally is more than a rebound from very oversold conditions in March.

78 Pt Platinum

	Close	Weekly change	High	Date	Low	Date
$/oz	817	0.29%	849	10/06/2020	801	12/06/2020
€/oz	726	0.69%	747	10/06/2020	710	12/06/2020

Green hydrogen receives government support. In Germany, the government has announced its national hydrogen strategy. It aims to have generator production capacity of 5 GW by 2030. Of the recently announced €130 billion economic stimulus package, €7 billion will be aimed at creating a demand-driven market for hydrogen. The measures include support for renewable energy and expanding the hydrogen fuelling infrastructure for vehicles. In Australia, the government is providing A$70 million in funding for renewable hydrogen projects as part of its goal to achieve 'H2 under $2' – hydrogen produced at under A$2/kg. Applications worth a combined A$3 billion were received, showing the high level of interest. The funding aims to support two or more large-scale projects with electrolysers of a minimum 5 MW, but preferably 10 MW or larger. Currently, platinum requirements for fuel cells and electrolysers amount to a few tens of thousands of ounces, but with long-term government support this number will grow.

Even with some supply disruption in South Africa and lower recycling this year, the drop in demand for platinum means that the market is oversupplied by around 1.5 moz (ex. investment) and the price should fall further.

PRECIOUS METALS REVIEW

46 Pd Palladium

	Close	Weekly change	High	Date	Low	Date
$/oz	1,943	-1.80%	2,034	08/06/2020	1,901	11/06/2020
€/oz	1,727	-1.26%	1,798	09/06/2020	1,673	11/06/2020

COVID-19 is a catalyst for change. Unsurprisingly, considering that auto production could drop by 20% this year, autocatalyst production is also being impacted. Vehicle manufacturers have announced job cuts and now catalyst manufacturer Johnson Matthey has followed suit. Automotive demand for palladium could fall by as much as 1.6 moz this year.

Another interruption to PGM processing in South Africa. The water leak, and resultant work stoppage, at Anglo's Converter Plant that was announced last week is not as serious as the previous incident. Anglo has now clarified that it will require about a week to repair so there should only be a short-term hiatus in metal processing. The one reservation is that the company also said that there would need to be ongoing intermittent stoppages for inspections. However, guidance for total refined output is unchanged this year at 3.1-3.6 moz (6E). This equates to about 1 moz of palladium output at the lower end of guidance.

China's new vehicle sales rose by almost 12% year-on-year in May (source: CAAM). The rebound was supported by dealer discounts and some pent-up demand as the country returns to normal. Cumulative sales for the first five months of the year are down by 23%. Results from the next couple of months will show if that momentum can be maintained, and they may be more useful in gauging how sales for the year as a whole will turn out. A decline of around 10% is currently anticipated.

The palladium market is projected to move into surplus this year, as a result of the large drop in automotive demand outweighing supply disruptions. This is a significant change from the view at the start of the year when a deficit of around 900 koz was expected. That makes palladium look expensive, with the price trading at around $1,900-$2,000/oz, and further downside is likely.

77 Ir 44 Ru 45 Rh Rhodium, Ruthenium, Iridium

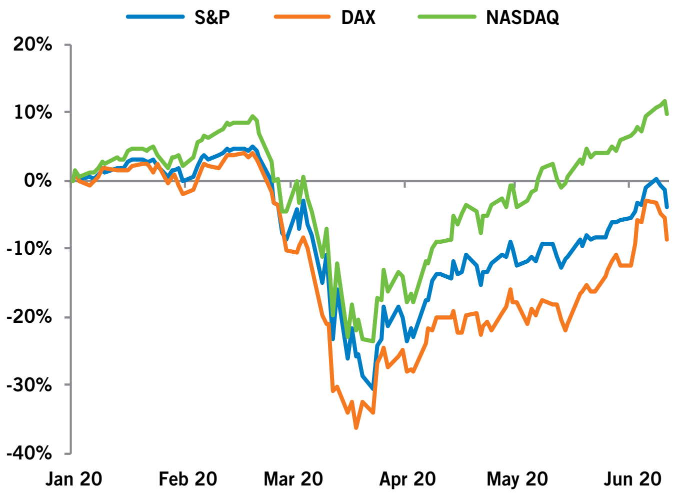
	Rhodium	Ruthenium	Iridium
Reporting week	$9,650/oz	$295/oz	$1,650/oz
Previous week	$9,350/oz	$295/oz	$1,650/oz

Anglo's Converter Plant problem appears to be a minor incident. The company said the repairs would take about a week and that refined production would not be impacted this year. Despite lower demand this year, the rhodium and ruthenium markets are estimated to remain in deficit, whereas iridium may have a small surplus. However, the price action over the last few weeks suggests that the iridium market is tighter than the ruthenium market. Anglo's intermittent processing stoppages in South Africa do not help metal availability in the near term, particularly for the small PGMs which take longer to process than platinum and palladium. This could see price volatility increase until processing is back on track and metal flows return to normal.

Rhodium has been trading in a narrowing range since March and edged up $300/oz last week. The ruthenium and iridium prices were steady.

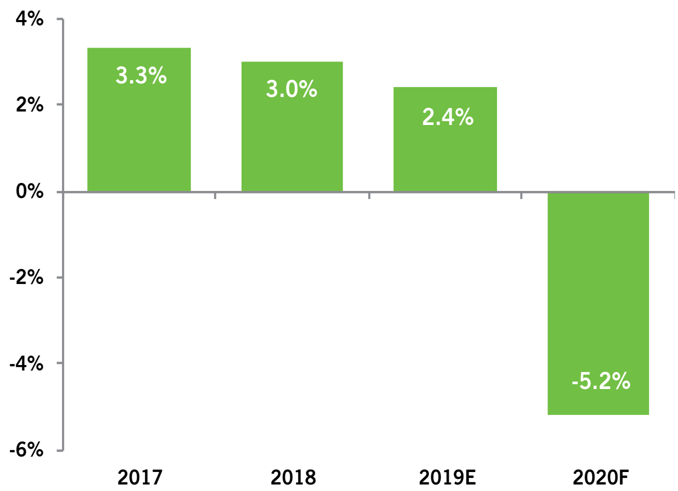
TRENDS AND INVESTMENTS

2020 stock market returns



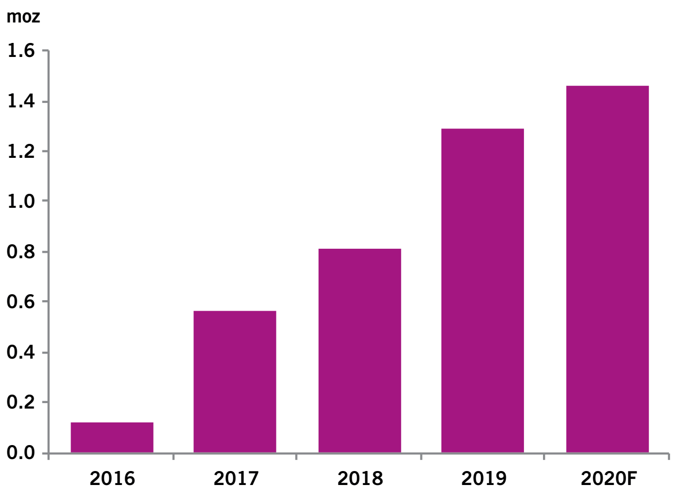
Source: SFA (Oxford), Bloomberg

World real GDP forecast



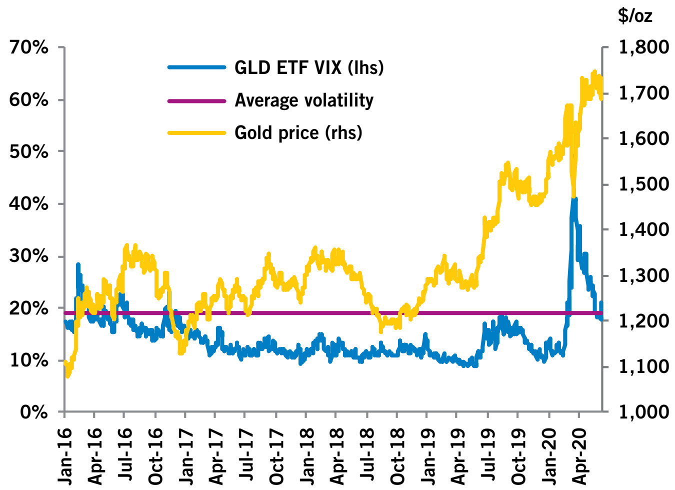
Source: SFA (Oxford), World Bank

Pt market surplus (ex. investment)



Source: SFA (Oxford)

Gold price volatility



Source: SFA (Oxford), Bloomberg

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