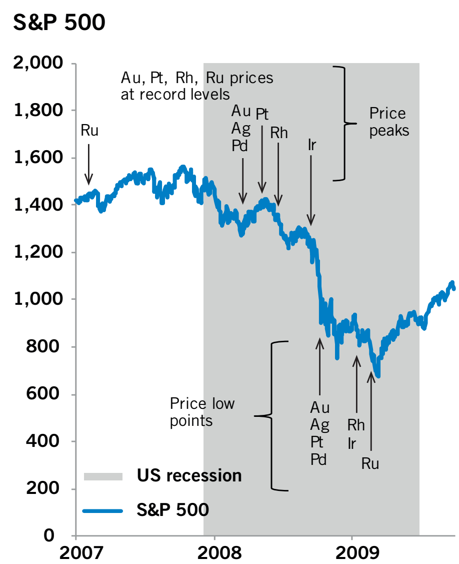
MARKET SPOTLIGHT

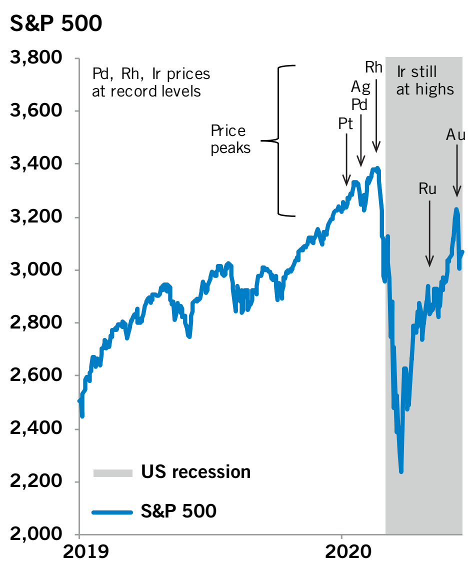
Precious metal prices vulnerable to further declines

PGM and precious metal prices tend to reach their highest levels in the run-up to a recession and then fall during the recession. During the last recession, commodity prices peaked in the early months but fell quickly to reach their low points before the recession ended. Commodity prices peaked over a period of two years prior to the onset of the recession in 2001 and reached their lows after the nine-month recession had ended. Post-World War 2 recessions in the US averaged 11 months. We are now experiencing a much larger economic shock than occurred in the financial crisis of 2008/09 and that recession lasted for 19 months.

If the recession continues, commodity prices could have further to fall. Stock prices decline during recessions as the business environment deteriorates. Based on its forward price-to-earnings (P/E) ratio, the S&P 500 Index is as overvalued now as it was during the dot-com boom in 2000. The economic situation does not warrant stocks trading at these levels. The IMF has revised down its economic outlook and noted significant uncertainty about the recovery. The economic contraction this year looks set to be the worst since the Great Depression. The recession could last for many more months and that would mean that the March low in the stock market will not be the end of the bear market. If that is the case, then stock and commodity prices have not reached their lows yet.

Precious metal prices dropped significantly in March, but it is unlikely that the lowest prices have already been seen. The time taken to go from a peak, in some cases a record, price to the low was a matter of only a few weeks. Even in 2008, which saw some very rapid price declines, it took from four to seven months for metal prices to fall from their peaks to their low points. In addition, gold and ruthenium made new price highs after March and iridium has not even dropped from its record high price. The iridium price held up longest in 2008, but finally succumbed to the reduced demand in the recession, so it looks like the price risks are to the downside.





Source: SFA (Oxford), Bloomberg, Heraeus

PRECIOUS METALS REVIEW

79 Au Gold

	Close	Weekly change	High	Date	Low	Date
$/oz	1,767	1.39%	1,780	24/06/2020	1,742	22/06/2020
€/oz	1,575	1.16%	1,577	26/06/2020	1,550	23/06/2020

Gold achieved its $1,750/oz breakout last week, rallying to an intraday high of $1,779/oz mid-week before pulling back and closing 1.39% up at $1,767/oz. Investors turned more risk averse and sought shelter in gold's safe haven as stocks fell sharply on reports of rising COVID-19 cases in the US and Asia. Gold ETFs saw 812 koz of inflows last week, taking total global holdings to a record 106.4 moz. Equity valuations look stretched, so if stock market volatility picks up, as happened in March, there are downside risks for gold despite its safe-haven status.

India's consumers seek quick cash for gold. As recycling hubs and jewellery stores remain shuttered across most of the country, consumers and small businesses are resorting to gold loans from banks and non-banking finance companies (NBFCs) in order to meet liquidity needs, i.e. loans backed by gold as collateral. Consumers will need to prioritise repaying the loan before buying more gold. India's gold consumption could fall by up to 50% to 350-400 t this year, according to the All India Gem and Jewellery Domestic Council, down from 690.4 t in 2019 (source: World Gold Council). Demand in Q1 dropped by 36% year-on-year to 101.9 t, and Q2 is expected to have fared even worse owing to the timing of the national lockdown (~ 14 weeks from 24 March).

47 Ag Silver

	Close	Weekly change	High	Date	Low	Date
$/oz	17.8	0.44%	18.08	24/06/2020	17.37	24/06/2020
€/oz	15.87	0.17%	16.03	22/06/2020	15.43	24/06/2020

Silver's summer. Price seasonality shows that the silver price tends to climb steadily through July and August with a peak in early September. While COVID-19 caused a strong reversal in the price trend in the first half of the year, now industrial demand for silver is starting to pick up again there could be room for higher prices over the next few months, providing gold continues to climb too.

78 Pt Platinum

	Close	Weekly change	High	Date	Low	Date
$/oz	803	-2.92%	840	22/06/2020	793	25/06/2020
€/oz	716	-3.19%	746	22/06/2020	707	24/06/2020

South African supply is making a strong recovery. Impala Platinum (Implats), the second-largest platinum producer last year, has reported better-than-expected production performance in the final quarter of FY2020 (April-June). Its South African operations have surpassed the regional average in reaching 85% of mining capacity by mid-June. The group's Zimbabwean mines have operated uninterrupted throughout the year, and the Lac des Iles mine in Canada is expected to return to full production in Q1 FY2021. Refined metal and sales volumes are estimated to exceed concentrate production in FY2020, owing to the processing of excess inventory during the lockdown when smelters and refineries were permitted to operate. Refined production for FY2020 has been revised to 2,770-2,795 6E oz (around 1,221-1,232 Pt oz) from its April guidance of 2,600-2,900 oz. Implats has stated that much of FY2021 will be characterised as 'business as usual' for its operations. South African platinum mine supply is forecast to drop by around 17% this year but recover to close to 2019 levels in 2021.

Europe's car sales slashed by 25% this year. ACEA has downgraded its 2020 forecast for passenger car sales to just 9.6 million units (-25%), the steepest year-on-year drop on record for the region. Automakers are expecting Europe's recovery from the impact of COVID-19 to extend into 2022. As Europe is the largest diesel car market, platinum is most vulnerable to a prolonged period of weak autocatalyst demand in the region. Platinum's fundamentals are weak, with demand forecast to shrink by around a fifth (>1 moz) this year, so softer prices can be expected.

PRECIOUS METALS REVIEW

46 Pd
Palladium

	Close	Weekly change	High	Date	Low	Date
$/oz	1,876	-2.07%	1,963	23/06/2020	1,835	25/06/2020
€/oz	1,672	-2.29%	1,736	22/06/2020	1,640	26/06/2020

China's NEV quotas supportive for palladium-rich hybrids. China has confirmed the extension of new energy vehicle (NEV) quotas beyond 2020, when hybrid cars will have a higher 'rating' than in previous years. The scheme will come into force from 1 January 2021, and functions as a points system; positive points from electric vehicles will be offset by negative points from internal combustion cars. From next year, hybrids will receive fewer negative points than before owing to their low fuel consumption. All hybrid cars in China are gasoline, so this is supportive for palladium (and rhodium) demand. Manufacturers will be required to accumulate NEV points worth 14% of their production volume in 2021, increasing to 16% in 2022 and 18% in 2023. The Chinese auto market is the largest gasoline market in the world, accounting for 2,284 koz of palladium last year (26% of global auto demand). While Chinese palladium demand in 2020 is expected to be lower year-on-year, a rebound back to near 2019 levels is predicted for 2021.

The palladium price dropped back below $1,900/oz last week after trading sideways for most of June. It is now below the price at the start of the year and could slip further, as the market is forecast to be close to balance this year.

77 Ir
44 Ru
45 Rh
Rhodium, Ruthenium, Iridium

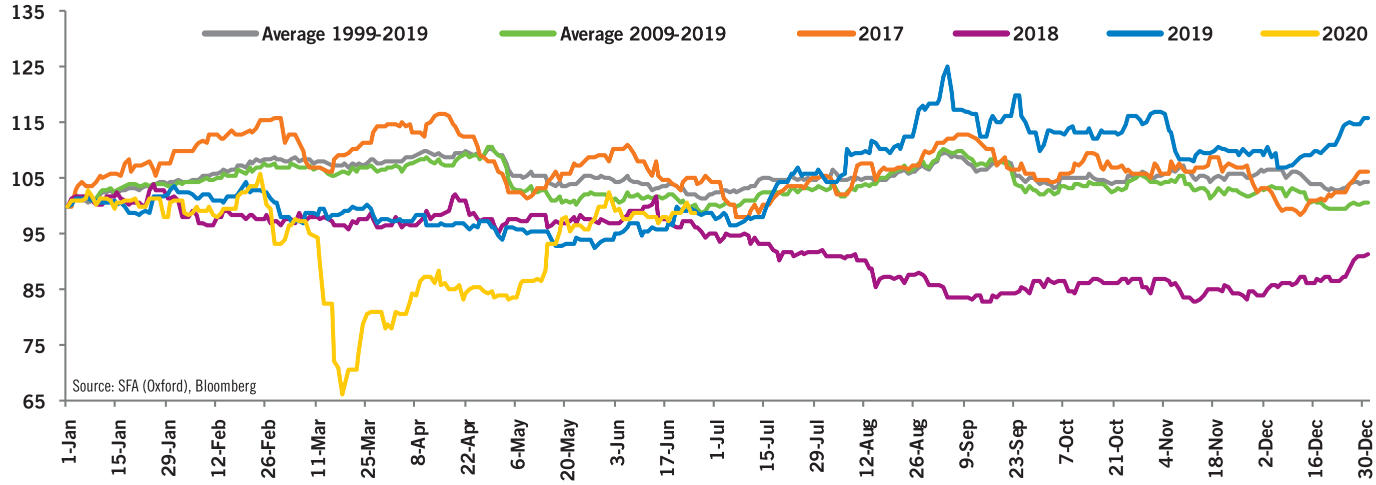
	Rhodium	Ruthenium	Iridium
Reporting week	$8,950/oz	$295/oz	$1,650/oz
Previous week	$9,150/oz	$295/oz	$1,650/oz

The ruthenium market is set to move into a deficit this year, after being close to balance for the past five years. A greater impact on supply than on demand is forecast owing to the effects of COVID-19. Industrial applications for ruthenium such as electrochemical (production of chlorine for disinfectant) and electrical (growth in demand for data storage by consumers and businesses) are expected to perform better than other PGM sectors such as autocatalysts and jewellery this year. Unlike palladium which has a diversified supply base, 90% of the world's ruthenium supply comes from South Africa. As a result, ruthenium mine production is forecast to fall by nearly a quarter in 2020. The ruthenium price gained 18% between March and May owing to the national lockdown in South Africa which shut down mines, reaching a level last seen in 2008. As supply restrictions eased, the price came off but remains up 11% in the year-to-date. The market is vulnerable to any further supply disruption moving forward, leaving potential for higher prices, provided demand holds up.

The iridium price held steady last week while rhodium dropped a further $200/oz (-2.2%).

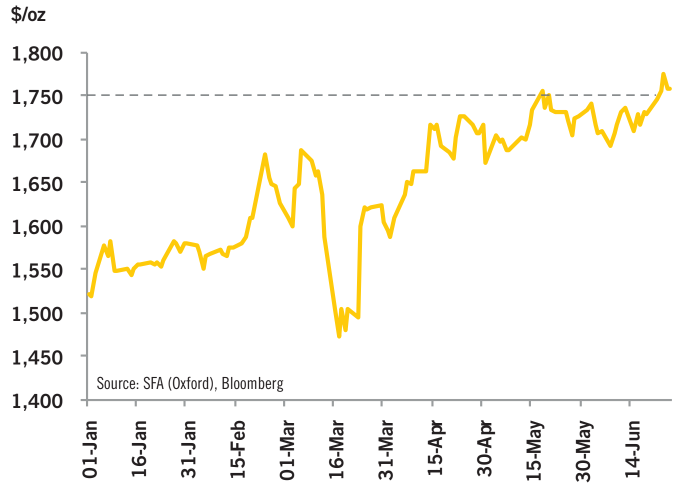
TRENDS AND INVESTMENTS

Silver price seasonality



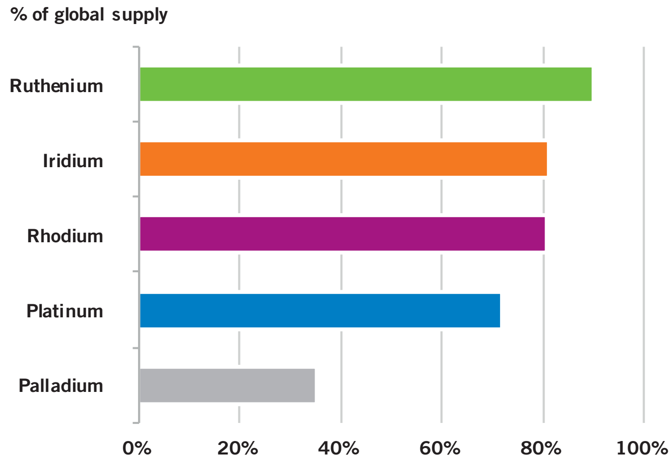
Source: SFA (Oxford), Bloomberg

Gold price



Source: SFA (Oxford), Bloomberg

South Africa PGM production



Source: SFA (Oxford)

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