HERAEUS PRECIOUS APPRAISAL

Heraeus

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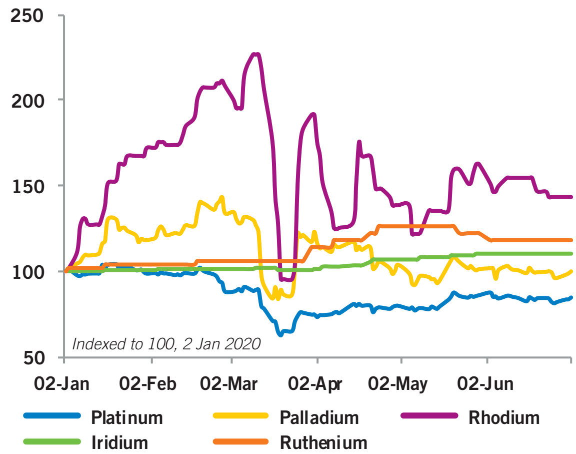
MARKET SPOTLIGHT

Fast and furious: rhodium outperforms in H1 with market tightening in H2

Rhodium outperformed the other PGMs in the first half of the year, climbing 126% to a record high of $14,150/oz in March. The COVID-19-induced sell-off saw it plummet 58% in a week, followed by rapid price swings. The price has now settled at a historically high level. The market remains tight so any supply shortfall could see it jump, but for the price to remain firm automotive demand also needs to be maintained.

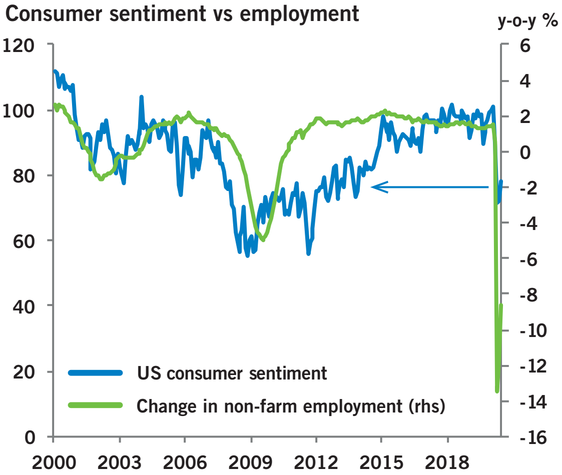
End-user demand held up and supported ruthenium and iridium prices. While other metals' prices gave way to the supply and demand shocks associated with COVID-19, ruthenium and iridium held steady and are up 18% and 10% respectively. Despite the risks of slower economic growth, certain applications (such as electrochemical production of chlorine for disinfectant) for ruthenium and iridium have performed better than expected in the year to date.

Indexed PGM price performance



Source: SFA (Oxford), Heraeus

Consumer sentiment vs employment



Source: SFA (Oxford), Bloomberg, BLS, University of Michigan

Balanced palladium market puts price at risk of further falls. The palladium price is down slightly since the start of the year (-1.5%), but 31% below its record level in February. However, the outlook has changed from a deficit to a balanced market so further price weakness is expected. China has recovered to pre-virus levels of vehicle sales, but the US and Europe are in a much more precarious state. Emergency financial aid programmes have cushioned the economic impact of unemployment so far, but they are only temporary. In the US, consumer confidence is still relatively high despite the huge increase in unemployment. When additional support payments expire at the end of July, consumer confidence could drop further. In the past when consumer confidence has fallen sharply (1990 and 2007), auto sales and PGM demand followed it lower.

Platinum underperformance likely to continue in H2. Platinum underperformed all the other PGMs in the first half of the year (-15%). This was expected because platinum had the weakest fundamental outlook at the start of the year. Even though investors took advantage of the low price to stock up on bars and coins in H1, the events of the first half have not changed platinum's outlook and so the price is likely to continue to decline.

PRECIOUS METALS REVIEW

79 Au Gold

	Close	Weekly change	High	Date	Low	Date
$/oz	1,775	0.48%	1,789	01/07/2020	1,758	02/07/2020
€/oz	1,579	0.22%	1,596	01/07/2020	1,560	02/07/2020

Can India's monsoon season whet consumers' appetite for gold? Historically, a good rainy season boosts demand for gold in the second half of the year as rural spending is increased by high agricultural output. This also coincides with Diwali and the wedding season. Around two-thirds of India's gold demand comes from rural areas. India saw 18% more rainfall than average in June with the arrival of the monsoon season two weeks earlier than usual, and elevated rainfall is also forecast for July (source: India Meteorological Department). While this would ordinarily signal healthy gold demand, India's economy is fragile and consumer spending is low. Consumer confidence collapsed in May, with the Current Situation Index (CSI) reaching a record low of 63.7 and the 1-year Future Expectations Index (FEI) also recording a sharp drop. While consumer gold demand may pick up modestly in Q4, it is unlikely to offset the damage sustained in the first half of the year (India's consumer demand fell by 36% to 101.9 t in Q1, with greater losses forecast in Q2). As a result, India's gold demand for 2020 is expected to be lower year-on-year (690.4 t in 2019).

Gold ETF holdings are at a record 107 moz following inflows of 21 moz in H1. Gold remains in demand as a safe haven and the price made a new high for the year last week. While a safe haven is needed the price can keep climbing, but stocks look overvalued and a repeat of the March sell-off could drag gold down too.

47 Ag Silver

	Close	Weekly change	High	Date	Low	Date
$/oz	18.05	1.39%	18.45	01/07/2020	17.69	29/06/2020
€/oz	16.05	1.17%	16.45	01/07/2020	15.69	29/06/2020

Silver struggling to hold above $18/oz. Despite limited price movement in June, silver ETF demand was buoyant, with global holdings reaching a new record of 921 moz by the end of the month. Inflows in the first half of the year were 205.9 moz, compared to just 4.1 moz in the same period last year. After a promising start to July which saw the silver price reach $18.15/oz, it is now trading closer to $18/oz. The gold:silver ratio has widened to 99 and silver is forecast to continue to underperform.

78 Pt Platinum

	Close	Weekly change	High	Date	Low	Date
$/oz	813	1.22%	839	01/07/2020	807	29/06/2020
€/oz	722	0.91%	747	01/07/2020	717	29/06/2020

Global industry slowdown will crunch platinum demand this year. Industrial platinum demand is estimated to decline by around 9% year-on-year in 2020 owing to reduced petroleum and chemical catalyst and equipment top-up requirements, compared to the modest growth that was forecast at beginning of the year. The construction of fewer glass manufacturing facilities, as well as fewer expansions in Europe and the RoW, is set to reduce new metal buying in the glass industry. Similarly, slower expansion of oil-refining capacity is expected to weaken petroleum demand. Reduced global vehicle production means that automotive platinum demand for sensors and plugs will also decline. Industrial end-users accounted for 27% of total platinum demand last year (~1,900 koz). Platinum closed $10/oz higher (+1.2%) last week, but with weak fundamentals lower prices are still anticipated.

PRECIOUS METALS REVIEW

46 Pd

Palladium

	Close	Weekly change	High	Date	Low	Date
$/oz	1,930	2.90%	1,959	30/06/2020	1,876	29/06/2020
€/oz	1,716	2.63%	1,737	30/06/2020	1,668	29/06/2020

The effects of COVID-19 hit US auto sales in Q2'20, with the country's largest automakers reporting year-on-year declines ranging between -28% and -50%. General Motors, the largest US automaker, saw a 34% sales drop while FCA reported a 39% decline attributed to weak fleet demand. The seasonally adjusted sales rate was 12.6 million in June, a slight improvement from the 12.2 million forecast in May, but still a 26% decline year-on-year (source: Cox Automotive). Low dealership inventory is likely to impede sales over the next few weeks, after demand for some vehicles (SUVs, pick-ups) in late May and June rebounded faster than production due to generous 0% financing deals. New waves of coronavirus outbreaks in states such as Florida, California and Texas imply a risk of further lockdowns and closures, which is a significant headwind facing the industry. As the US is the second-largest gasoline car market, palladium and rhodium are particularly vulnerable to further demand cuts there. North American autocatalyst palladium demand is forecast to shrink by around 500 koz this year.

The palladium price pushed above $1,900/oz last week and managed to hold there despite a sell-off mid-week, closing 2.9% higher (+$54/oz).

77 Ir 44 Ru 45 Rh

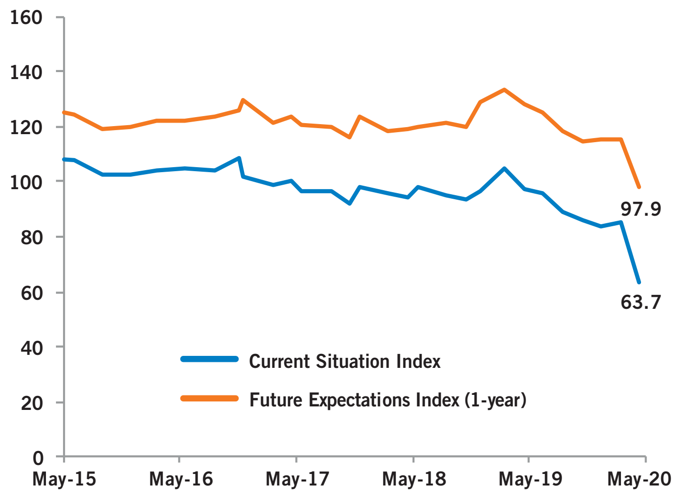
Rhodium, Ruthenium, Iridium

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

Rhodium mine production is likely to be impacted more than platinum or palladium this year due to the concentration of supply from South Africa. The country accounted for 81% of global rhodium supply in 2019, compared to 72% of platinum and 35% of palladium. Following lockdowns, from 1 June South African mines were permitted to operate at full capacity. However, with the implementation of social distancing and other hygiene protocols, underground operations are unlikely to reach this level. A significant proportion of global rhodium mine production (44% in 2019) comes from conventional labour-intensive operations on the Western Limb in South Africa, which are much less likely to reach 100% capacity this year compared to open-pit or mechanised mines. South African mine supply is estimated to be around 20% lower year-on-year in 2020, a loss of around 130 koz. Global rhodium supply is forecast to fall more than demand this year, pushing the market into a wider deficit and providing support for the price.

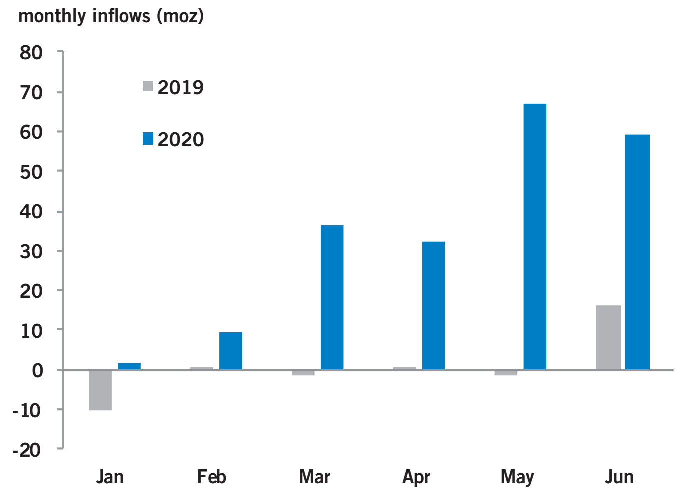
TRENDS AND INVESTMENTS

India consumer confidence indices



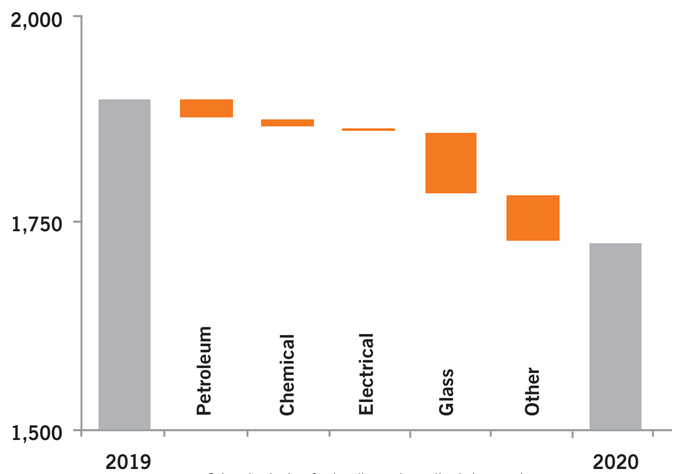
Source: SFA (Oxford), Reserve Bank of India

Silver ETFs



Source: SFA (Oxford), Bloomberg

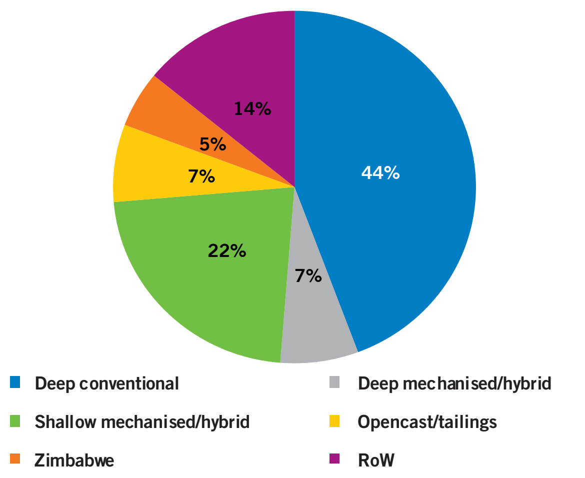
Industrial Pt demand



Other includes fuel cells and medical demand

Source: SFA (Oxford)

Rh supply by mining type



Source: SFA (Oxford)

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