

# HERAEUS PRECIOUS APPRAISAL

Heraeus

Ed. 26  
27<sup>th</sup> July 2020



## MARKET SPOTLIGHT

Gold rallied to a record high in US\$ terms this morning on continued safe haven buying as the US-China relationship deteriorated further with the closure of a US consulate in Chengdu.

### Silver's momentum takes gold...for now

The silver price pushed above \$22/oz last week to its highest level in seven years, though it remains a long way off its 1980 record (\$49.45/oz). After lagging gold for most of the year, silver has finally taken a run and is up more than 75% since the low in March, compared to 24% for gold. It seems retail investors are now chasing the rally which has seen silver outperform gold for the past four weeks and the gold:silver ratio (GSR) fall to 83, after extending to 125 in March.

Gold and silver price performance  
Indexed to 100, 2 Jan 2020



Source: SFA (Oxford), Heraeus

Historical silver price performance



Source: SFA (Oxford), Bloomberg, LBMA

There have been record inflows into silver ETFs this year, suggesting investors are increasingly enthusiastic about silver's prospects. ETF volumes have grown by 39% this year, reaching a record high of 991 moz, compared to a 29% increase into gold funds. Silver futures positions are also rising but remain below the record high, leaving room for further upside, whereas non-commercial speculators on COMEX have reduced their bullish positions in gold. Silver coin and bar demand has also been strong, with retail sales climbing by around 60% year-on-year in H1'20 (source: The Silver Institute).

However, while gold moved to a new all-time high this morning on safe-haven demand, the silver price is still down more than 50% from its 1980 and 2011 highs. Historically, silver's outperformance has correlated with a strong economy. The price has fallen during recessions owing to its industrial uses such as electrical and electronic manufacturing, chemical production and photovoltaics. This therefore raises uncertainty over the sustainability of silver's current price rally, as the global economy faces one of the sharpest and deepest recessions in modern history. A similar disconnect has emerged in equity markets, with investors increasing activity in popular momentum stocks with no regard for the fundamentals.

Now the price has broken out to new highs for the year, momentum could carry silver higher in the near term, but a weak economic outlook dictates high prices are unsustainable. Silver is cheap compared to gold, and low or negative interest rates will continue to provide support. The GSR is still high by historical standards (the long-term average is 58), so there is room for the silver price to move higher. Ultimately, however, further price gains will be determined by how quickly the global economy returns to pre-pandemic levels.



# PRECIOUS METALS REVIEW

## 79 Au Gold

	Close	Weekly change	High	Date	Low	Date
\$/oz	1,900	4.95%	1,907	24/07/2020	1,808	20/07/2020
€/oz	1,633	3.19%	1,643	24/07/2020	1,579	20/07/2020

**A weakening dollar supported gold's rally last week**, as it climbed closer to the 2011 record of \$1,920/oz. Strong buying interest in Asia this morning took the price to a new record in US\$ terms. The dollar index, which tracks the US currency against a basket of six others, fell below 95 last week, extending the dollar's recent slide. This

is the lowest level since early March and 7% below the peak from later that month. Gold had already recorded record highs in every other major currency this year, and, now the dollar record has been broken, \$2,000/oz could be the next target.

## 47 Ag Silver

	Close	Weekly change	High	Date	Low	Date
\$/oz	22.64	16.98%	23.27	22/07/2020	19.29	20/07/2020
€/oz	19.46	14.96%	20.09	22/07/2020	16.86	20/07/2020

**The world's largest silver miner reported strong production in Q2'20.** Fresnillo produced 13.6 moz of silver from April-June, a 2.8% increase from Q1, but still 5.7% lower than in Q2'19. Silver production in the first half of the year was 26.8 moz, down 2.7% from H1'19. Nevertheless, the company maintains its full-year guidance of 51-56 moz for 2020. Fresnillo accounted for 51.8 moz or 6% of global mine supply last year. Contrary to Fresnillo's results, silver is considered to be one of the hardest hit metals by Covid-19 owing to the concentration of supply from Central and South America, which have

been badly affected by the pandemic. Around two-thirds of silver supply was on hold during the height of the lockdown in April, compared to 20% of platinum and 9% of gold (source: GlobalData). As a result, mine production is likely to be lower year-on-year in 2020.

The silver price continued its rally last week, pushing through \$22/oz and closing the week 17% higher despite its weak fundamentals. Retail investors appear to be fuelling the price momentum, with record ETF holdings on track to reach 1,000 moz by the end of the month.

## 78 Pt Platinum

	Close	Weekly change	High	Date	Low	Date
\$/oz	920	9.19%	934	23/07/2020	838	20/07/2020
€/oz	790	7.39%	806	22/07/2020	733	20/07/2020

**Platinum benefited from the precious metal rally last week**, moving above \$900/oz for the first time since February. While demand is gradually picking up (from peak-lockdown lows), South Africa's mines are edging closer to full capacity. The outlook remains poor with a significant surplus expected (ex. investment), which suggests platinum could struggle to hold above \$900/oz.

**Global truck sales are estimated to fall 20-25% this year**, with the North American market forecast to shrink by almost half (source: LMC Automotive) owing to

the unfolding situation of Covid-19 in the US. Global medium- and heavy-duty vehicle platinum demand is forecast to decline by more than 200 koz this year. However, a strong rebound in 2021 is anticipated, supported by a recovery in sales and stricter emissions regulations which require higher loadings of PGMs. A recovery in platinum demand for light vehicles is forecast to be more drawn out and will be curbed by the shrinking market share of diesel cars in Europe. Medium- and heavy-duty trucks accounted for 23% of platinum autocatalyst demand last year (~650 koz).



# PRECIOUS METALS REVIEW

## <sup>46</sup> Pd **Palladium**

	Close	Weekly change	High	Date	Low	Date
\$/oz	2,218	8.61%	2,224	24/07/2020	2,008	20/07/2020
€/oz	1,905	6.70%	1,912	24/07/2020	1,755	20/07/2020

**Nornickel to support Arctic Palladium project outside of joint venture.** Norilsk Nickel (Nornickel) will provide Russian Platinum with access to its infrastructure and facilities as part of an operational partnership to develop the Chernogorskoye PGM deposit in Russia, as well as a future off-take agreement. Nornickel withdrew from the Arctic Palladium joint venture in March owing to opposition from Nornickel's shareholders, which reduced the total size of the project to around a third of its original size. Depending on the final scope of the project, Chernogorskoye could account for several hundred koz of palladium a year once in operation. However, first production will not occur until the mid-2020s. Norilsk is the largest palladium producer in the world, accounting for 40% of global mine supply last year (2.9 moz) and is

planning to increase its output by around 25% by 2025. Nornickel and Russian operations are not expected to be affected by the Covid-19 outbreak this year owing to their remote locations, although Nornickel is conducting necessary maintenance work at its Nadezhda smelter this year which is anticipated to result in a ~100 koz drop in refined output.

The palladium price gained \$176/oz (+8.6%) last week so it slightly underperformed platinum. Given that demand is forecast to drop much more than supply in 2020, the market is now close to being balanced after eight years of deficit. In the short term the rally could continue, but at over \$2,000/oz palladium looks expensive, so ultimately lower prices are anticipated.

## <sup>45</sup> Rh <sup>44</sup> Ru <sup>77</sup> Ir **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

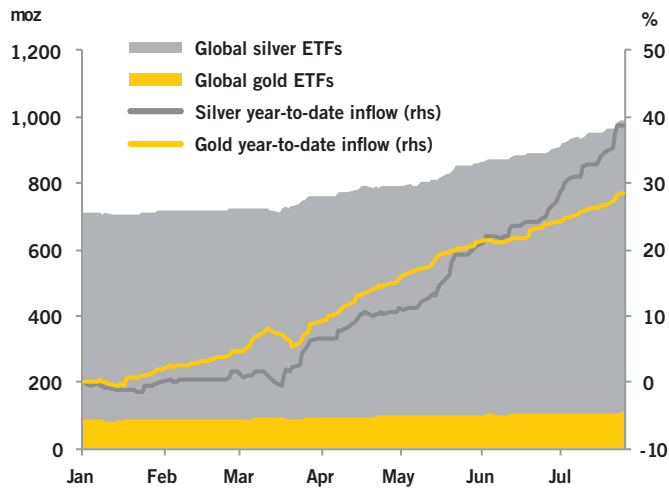
**Rhodium didn't join the precious metals rally last week.** After volatile price swings at the start of the year, rhodium has been trading steadily around the \$9,000/oz mark for nearly two months now, and iridium and ruthenium have remained largely unchanged. Higher prices could be expected in the second half of the year, however, owing to a possible impact on supply from the drawdown of

pipeline stock in Q1 and Q2. Despite the ramping up of mining capacity, there will be a delay until metal reaches the market, which will be more noticeable in smaller, tighter markets such as rhodium (~1 moz), ruthenium (~1 moz) and iridium (~250 koz).



# TRENDS AND INVESTMENTS

## Gold and silver ETF holdings (YTD)



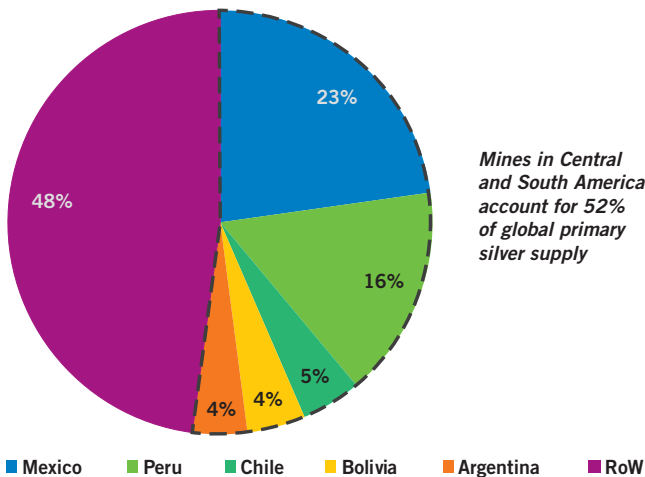
Source: SFA (Oxford), Bloomberg

## Gold silver ratio



Source: SFA (Oxford), Bloomberg

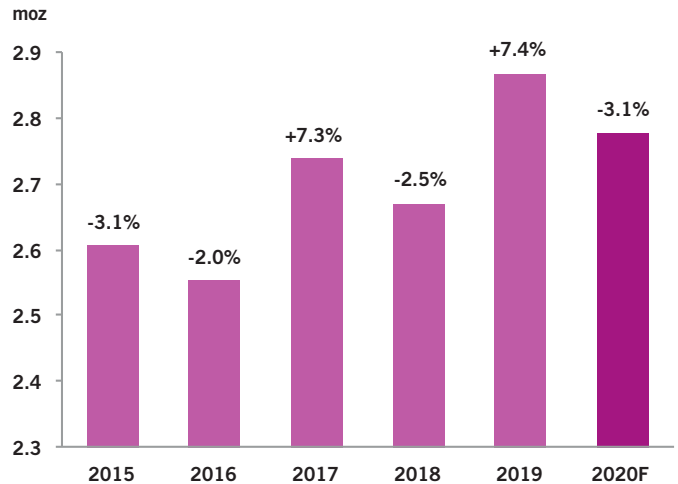
## Silver mine supply



Mines in Central and South America account for 52% of global primary silver supply

Source: Silver Institute

## Russia palladium supply



Source: SFA (Oxford), company reports

## 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.