HERAEUS PRECIOUS APPRAISAL

Heraeus

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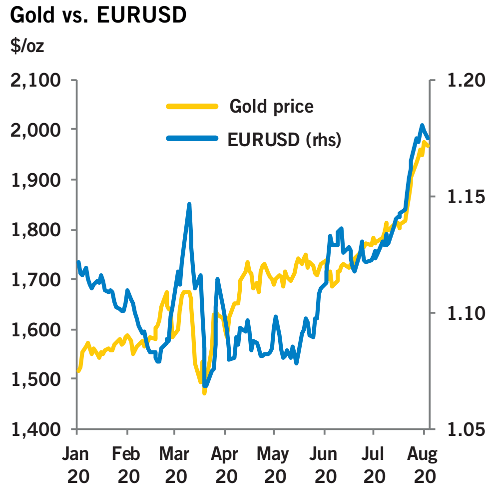
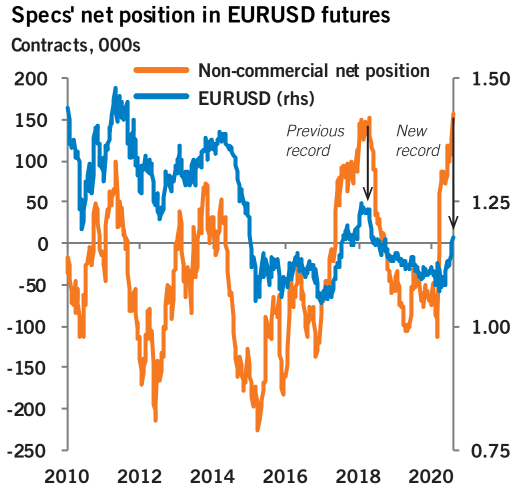
MARKET SPOTLIGHT

Is it time to take profits in gold?

Momentum may have carried gold too far. Since the market turbulence ended in March, the gold price has been making new highs and breached $2,000/oz. However, other safe havens have not moved as far. The 10-year US Treasury yield has only just moved to a new low and the yen has not strengthened beyond its level in March. In addition, the economic recovery that has taken place following the easing of lockdowns is not enough to justify the current level of stock markets in the US or Germany. Another bout of market volatility could see gold sell off again, as happened in March.

Dollar weakness could reverse and then gold would struggle. The dollar has been weakening against the euro for some time and this has helped gold's rise. However, speculative futures contracts long the euro, and therefore short the dollar, have just reached a record level. Previous extremes have occurred around turning points. This suggests that the dollar's weakness could soon reverse and that would be a headwind for gold.





Source: SFA (Oxford), Bloomberg

Central bank monetary policy is not inflationary. The ECB has been matching the Fed euro for dollar in expanding its balance sheet, with both now over $7 trillion. When gold reached its previous record high in 2011, the Fed was in the middle of QE2 (Quantitative Easing 2), having expanded its balance sheet from $900 billion in 2008 to $2.9 trillion in 2011. Meanwhile, the Eurozone was dealing with the Greek debt crisis. However, inflation has not increased. US core CPI (excluding changes in energy and food prices) has been less than 2.5% since 2008, as has the EU's Harmonised Index of Consumer Prices (HICP). Inflation is showing up in financial asset prices, not CPI.

Bond yields near historical lows demonstrate more concern about deflation than fear of inflation. Real interest rates are negative which tends to boost gold. However, the Fed has said it will not move to negative interest rates, and should inflation turn into deflation then the real interest rate will rise which would also be a headwind for gold. Buying gold at these levels offers much less of a margin of safety.

PRECIOUS METALS REVIEW

79 Au Gold

	Close	Weekly change	High	Date	Low	Date
$/oz	2,028	2.81%	2,075	06/08/2020	1,961	03/08/2020
€/oz	1,723	3.26%	1,749	06/08/2020	1,671	04/08/2020

Total gold supply declined by 2% in the first half of 2020 to 2,192 t. Mine production slipped 5% to 1,604 t (the lowest half-year level since 2014), and recycling dropped by a similar amount (source: World Gold Council). The global impact of Covid-19 was most significant in Q2, with some key gold-producing nations such as Mexico, Peru and South Africa badly affected by national lockdowns. Supply from China, the largest producer, fell 12% year-on-year in Q1 but was recovering by Q2. Remarkably, Russian supply increased 15% year-on-year as production stabilised at new projects, and operations were largely unaffected by the effects of Covid-19. Despite lockdowns now easing around the world, the disruption seen in H1 is likely to have a lasting impact on supply this year.

The gold price pushed through $2,000/oz last week, as it continues to be supported by low interest rates and a weakening US dollar. The price has rallied 35% in the year to date, including 11% in July alone. Such a steep rally suggests a downward correction in the near term is likely (if only partially).

47 Ag Silver

	Close	Weekly change	High	Date	Low	Date
$/oz	27.85	15.62%	29.86	07/08/2020	24.05	03/08/2020
€/oz	23.65	16.07%	25.15	07/08/2020	20.52	03/08/2020

The silver price continued its ascent last week and hit a seven-year high of $29/oz. The price has now rallied by over 140% since an intra-day low in March, with over 34% of gains in July alone, representing one of the best months on record for silver. The gold:silver ratio remains at 73, as gold and silver moved in tandem last week.

As well as strong retail investor demand, silver's price rally is likely being supported by a rebound in industrial activity, which means a sustainable rise above its current price relies on this demand being maintained (and the avoidance of a second wave of lockdowns).

78 Pt Platinum

	Close	Weekly change	High	Date	Low	Date
$/oz	954	4.66%	1,007	07/08/2020	900	03/08/2020
€/oz	810	5.10%	847	07/08/2020	765	03/08/2020

China is the most promising market for sales of platinum jewellery, according to Platinum Guild International's latest Insight report. Over 80% of consumers interviewed in China intend to purchase platinum jewellery both for themselves and as gifts post-Covid, although sales figures in H1'20 paint a different picture. Jewellery sales in China have fallen by 23.6% year-on-year in H1'20, the steepest decline across all major consumer goods (including cars and petroleum). In June, jewellery sales were still down 6.8% year-on-year, compared to a 1.8% decline for the wider retail market (source: National Bureau of Statistics of China). Despite a shrinking market share, China remains the largest consumer of platinum jewellery, accounting for 45% of global demand last year (943 koz), and is forecast to contract by more than 250 koz Pt this year owing to the additional impact of Covid-19 on consumer spending.

Royal Bafokeng Platinum's (RBP) platinum production dropped by 12.8% in H1'20 to 112.7 koz, owing to the shutdown and subsequent ramp-up of operations which culminated in a loss of 45 days production. RBP's BRPM operation was hit particularly hard by the restrictions in H1, recording a loss of 19.9% Pt year-on-year, compared to Styldrift (in ramp-up) which only fell by 1.2%. Looking forward, UG2 output at BRPM South shaft is replacing Merensky (Pt-rich) production, which is steadily depleting. By the end of the year, UG2 (which has a prill split more weighted towards Ir, Ru and Rh), is expected to account for 35% of RBP's overall production.

The platinum price is closing in on $1,000/oz after gaining 4.6% last week and is almost back to pre-pandemic levels. However, with global requirements for platinum still stalling in the wake of Covid-19, the fundamentals point towards lower prices.

PRECIOUS METALS REVIEW

Palladium

	Close	Weekly change	High	Date	Low	Date
$/oz	2,132	1.28%	2,262	06/08/2020	2,079	04/08/2020
€/oz	1,809	1.59%	1,907	06/08/2020	1,764	04/08/2020

Does a rising palladium price signal a temporary squeeze? The palladium price rallied again last week (+7%) to close to $2,250/oz, hinting at tightness in the market. Refined metal output is expected to have been at its lowest between May and June, resulting in a tighter market moving into the second half of the year. Despite the three-week lockdown in South Africa, refineries remained operational and continued to process stocks, thus maintaining some degree of supply. Now those stocks have been drawn down and recycling volumes are low, a potential recovery in autocatalyst demand later in the year could coincide with limited supply. Refined output in the second half of the year is currently forecast to be around 20% lower than demand, although this deficit could be reduced if vehicle sales fail to rebound as quickly as anticipated.

Rhodium, Ruthenium, Iridium

	Rhodium	Ruthenium	Iridium
Reporting week	$10,450/oz	$295/oz	$1,650/oz
Previous week	$9,150/oz	$295/oz	$1,650/oz

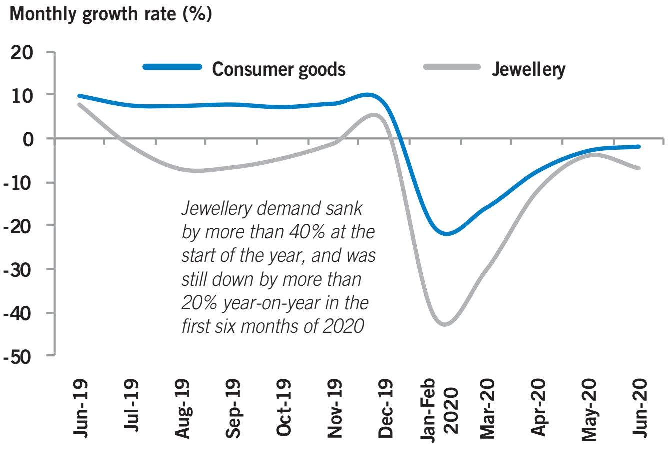
Delayed 5G uptake will curb iridium electrical demand this year. Slowing smartphone sales, particularly those on the new 5G network, are likely to limit potential upside for iridium demand this year. Iridium crucibles are used to help produce surface acoustic wave (SAW) filters for various electronic devices, and improvements in smartphone functionality are increasing the number of SAW filters used per device. The widespread rollout of 5G networks and 5G-enabled smartphones was expected to stimulate smartphone sales (and iridium crucible demand) in 2020. However, the effect of Covid-19 on consumer spending means global smartphone shipments are estimated to fall by 15-17% this year (source: International Data Corporation). Consumer sentiment is expected to remain subdued throughout the year as countries grapple with the economic repercussions of the pandemic. Electrical applications such as crucibles and hard-disk drives are the largest market for iridium, accounting for 30% of total consumption last year (~70 koz).

After several attempts, rhodium broke through $9,000/oz last week and is now trading above $10,000/oz. The move was triggered by a recovery in automotive demand and reduced availability of refined metal owing to Covid-19. It seems that the fundamentals for ruthenium and iridium are already priced in, as prices remained unchanged for another week.

TRENDS AND INVESTMENTS

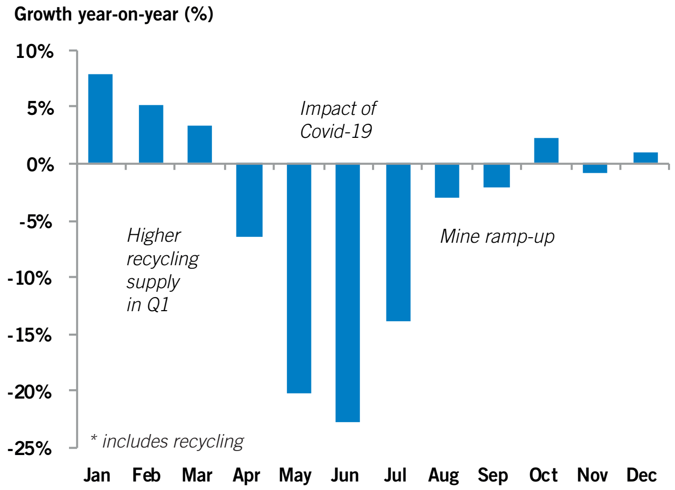
Silver price

China jewellery sales



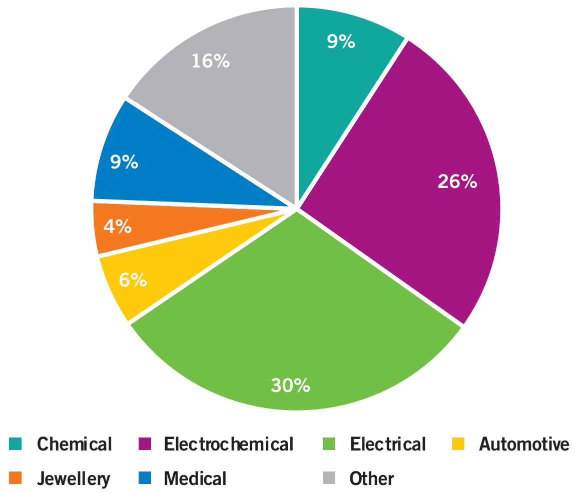
Source: SFA (Oxford), National Bureau of Statistics of China

2020 3E PGM supply* vs. 2019



Source: SFA (Oxford)

Iridium demand 2019



Source: SFA (Oxford)

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

United States of America
Phone: +1 212 752 2180
tradingny@heraeus.com

China
Phone: +86 21 3357 5658
tradingsh@heraeus.com

www.herae.us/trading-market-report

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