

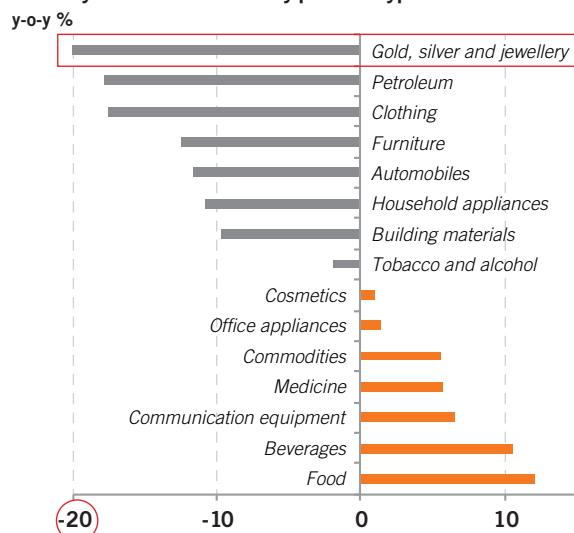


MARKET SPOTLIGHT

Chinese speculative buying leaves little upside for platinum in H2

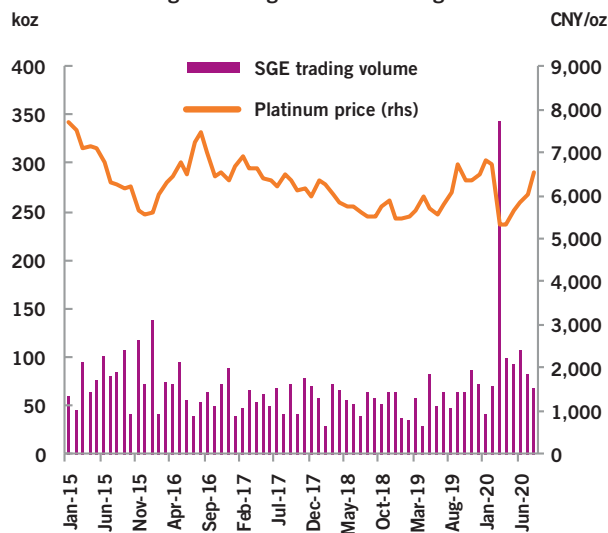
Chinese jewellery fabricators tend to hold limited stock, but low prices have attracted additional demand. In the first half of the year, platinum purchases by jewellers on the Shanghai Gold Exchange increased modestly, making it the first year-on-year gain for H1 since 2015. Demand from industrial users and banks also jumped while the price was low and has since tailed off in line with higher prices. It is likely that purchasing by jewellery fabricators was speculative restocking incentivised by a low price more than a result of increased consumer demand. Jewellery retail sales started to improve in Q2 after plummeting in the first three months of the year, but jewellery is still the worst performing retail industry of the year to date. The surge of platinum buying while the price was low in March is likely to be enough to keep inventories topped up, even as demand improves in H2.

Jan-July China retail sales by product type



Source: National Bureau of Statistics of China

Platinum trading via Shanghai Gold Exchange



Source: SGE, Bloomberg

Platinum jewellery fabrication in China returned to positive growth in Q2, albeit by just 1% year-on-year, but a marked improvement from the -56% in Q1 (source: Platinum Guild International). Most retailers are seeing demand for platinum jewellery gradually return, with growing interest in new designs and collections moving into H2. As China's economy rebounds, spending on platinum jewellery and other luxury items is expected to improve. However, platinum jewellery sales this year are still likely to be significantly down on 2019 levels, continuing the downward trend of previous years. In the medium term, platinum jewellery demand can recover some ground in China, as the economy continues to expand and consumers adjust to life after the pandemic.

Reduced jewellery demand and weak diesel vehicle sales owing to Covid-19 have led to considerable reductions in platinum demand this year and the market is forecast to remain oversupplied. Investment demand was able to balance the market last year but will need to improve significantly to offset the fundamental surplus forecast for 2020.



PRECIOUS METALS REVIEW

79 Au Gold

	Close	Weekly change	High	Date	Low	Date
\$/oz	1,921	-2.40%	1,993	01/09/2020	1,916	04/09/2020
€/oz	1,625	-1.75%	1,663	01/09/2020	1,623	04/09/2020

More central bank action could support gold. Central banks have an inflation problem – it is not high enough for them – and that could lead to more action if the economic rebound stalls amid rising Covid-19 cases. In Europe, inflation in August came in at -0.2% year-on-year and it has rarely been near 2% since Mario Draghi’s “whatever it takes” comment in 2012. In the US, the Federal Reserve is now looking at targeting average inflation of 2%, implying it would allow faster inflation than that, but here too PCE (personal consumption expenditure) inflation has rarely been above 2% since

2012. However, central banks are running out of options, with interest rates already very low and asset purchases pumping up their balance sheets to unprecedented levels, so they may need to be even more creative.

The gold price is still consolidating its gains, which is typical following a sharp rally. It gained over \$300/oz in just two months to its peak in August. It may trade sideways for a while longer, but ultimately the backdrop is conducive for another push higher.

47 Ag Silver

	Close	Weekly change	High	Date	Low	Date
\$/oz	26.42	-4.08%	28.91	01/09/2020	26.32	04/09/2020
€/oz	22.35	-3.41%	24.11	01/09/2020	22.30	04/09/2020

Silver’s price has remained more volatile than gold’s. The gold:silver ratio had dipped under 70 before silver’s underperformance last week saw it edge higher. If gold rallies further, silver will probably outperform again.

India’s silver imports are likely to fall by more than 40% year-on-year, according to the CEO of one of the country’s largest importers. India imported around 5,626 t of silver last year (source: The Silver Institute), which accounts

for the majority of the country’s demand. However, an increase in secondary supply as investors sell to take advantage of the high price, could see imports slump to just 3,000 t. With silver prices at a seven-year high and consumers’ purse strings tightened, retail sentiment in India is weak. An oversupplied market for one of the world’s largest consumers of silver could weigh on prices in the second half of the year if investment demand loses momentum.

78 Pt Platinum

	Close	Weekly change	High	Date	Low	Date
\$/oz	897	-4.20%	964	01/09/2020	885	03/09/2020
€/oz	759	-3.59%	804	01/09/2020	749	03/09/2020

Covid-19 hit 2020 PGM production in South Africa but 2021 will be higher. Northam Platinum estimated the lockdown in Q2 and phased mine restart reduced its 4E output (Pt, Pd, Rh, Au) by almost 110 koz in FY20 (year ended June 2020). FY21 production guidance was revised down to 650-670 koz 4E, but that still represents a 15% increase over FY20.

South African PGM operations are closing in on full capacity output following the lifting of the Covid-19 lockdown. In Q2, Sibanye-Stillwater’s platinum production

was down over 40% quarter-on-quarter, although it was the least badly affected metal. However, the operations should reach optimal production levels in Q4. South African platinum mine supply is forecast to recover to close to 4.3 moz next year after slipping 18% to 3.6 moz this year. Refined production is expected to be higher than mine output as there are pipeline stocks to be processed. The platinum market is estimated to remain significantly oversupplied which should hold the price down.



PRECIOUS METALS REVIEW

⁴⁶ Pd **Palladium**

	Close	Weekly change	High	Date	Low	Date
\$/oz	2,301	5.61%	2,383	03/09/2020	2,202	31/08/2020
€/oz	1,943	6.04%	2,008	03/09/2020	1,845	31/08/2020

The Covid-19 impact on US palladium output is much smaller than on South African output. Sibanye-Stillwater's US production of palladium was up 10% quarter-on-quarter and 1.8% year-on-year in Q2'20. The effects of Covid-19 were limited but have resulted in a delay of up to 18 months for the Blitz project. In the short term that will mean lower palladium output than expected. Guidance for 2020 is slightly less than before at 480-505 koz. However, the palladium market is now estimated to be close to balance as supply has been less impacted by Covid-19 than demand. Therefore, an 18-month delay would see output grow again at a time when the palladium market could be moving back into deficit. The company's South African operations saw palladium yield tumble by 43% quarter-on-quarter in Q2, with guidance for the year now 405-435 koz. Total South

African palladium mine supply is expected to be down 18% at 2.1 moz this year, but to recover next year to close to 2019 levels.

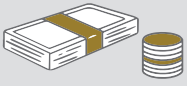
Substitution of some palladium with platinum in gasoline three-way-catalysts (TWCs) is looking increasingly likely as the price premium of palladium over platinum remains over \$1,200/oz. Some substitution in TWCs could begin next year in the US, where vehicles are larger and the cost saving greater. US automotive palladium demand is estimated to fall to 1.5 moz this year and could recover to 1.8 moz in 2021 even with a small amount of substitution. With the market predicted to be close to balance in 2020, the palladium price is expected to pull back from its current level.

⁴⁵ Rh ⁴⁴ Ru ⁷⁷ Ir **Rhodium, Ruthenium, Iridium**

	Rhodium	Ruthenium	Iridium
Reporting week	\$13,450/oz	\$295/oz	\$1,650/oz
Previous week	\$12,350/oz	\$295/oz	\$1,650/oz

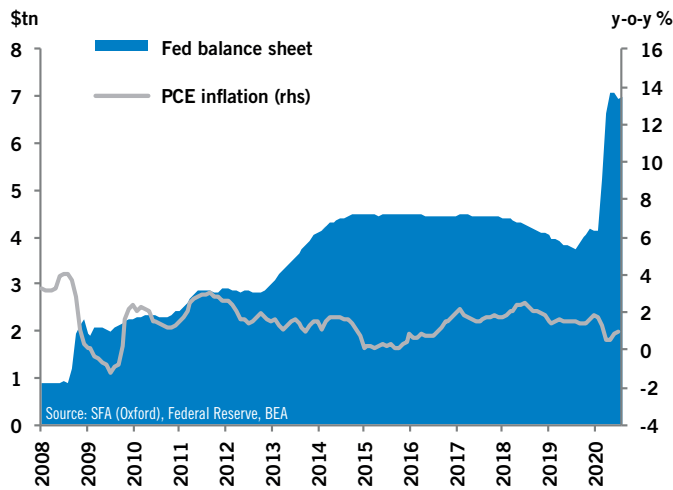
Small PGM production was hit harder than platinum or palladium in Q2'20. Sibanye-Stillwater reported a quarter-on-quarter reduction in output of 49% for rhodium, 47% for ruthenium and 46% for iridium. Overall South African rhodium output is estimated to fall by 19% this year. However, South African mines are now operating at 80-90% of full capacity. As mines approach full operating capacity in Q3, small PGM production is recovering.

Rhodium ETF holdings have dropped by 1 koz in South Africa on profit-taking as the price has exceeded ZAR200,000/oz for only the second time. The rhodium price has continued to climb and is back above \$13,000/oz, while the ruthenium and iridium prices held steady.

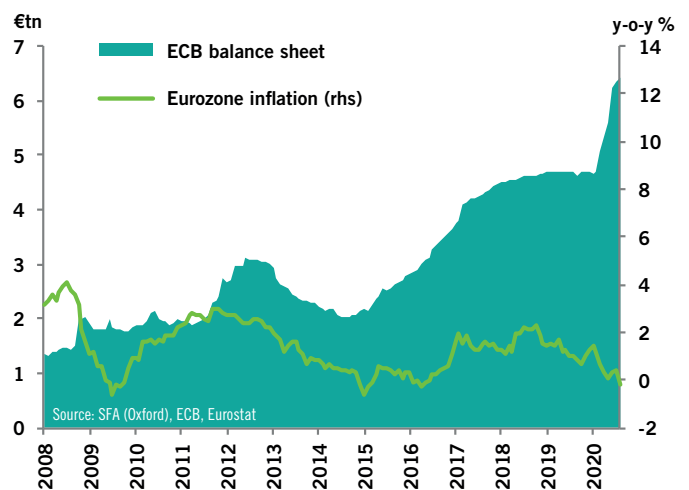


TRENDS AND INVESTMENTS

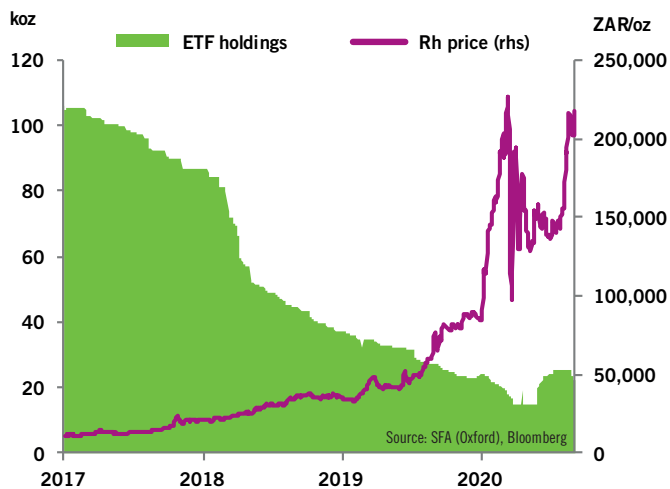
Federal Reserve balance sheet



ECB balance sheet



Rhodium ETF holdings



Gold price



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

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

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

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SFA (Oxford) Ltd
United Kingdom
Phone: +44 1865 784366
www.sfa-oxford.com



The Oxford Science Park, Oxford,
United Kingdom, OX4 4GA

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