

HERAEUS PRECIOUS APPRAISAL

Heraeus

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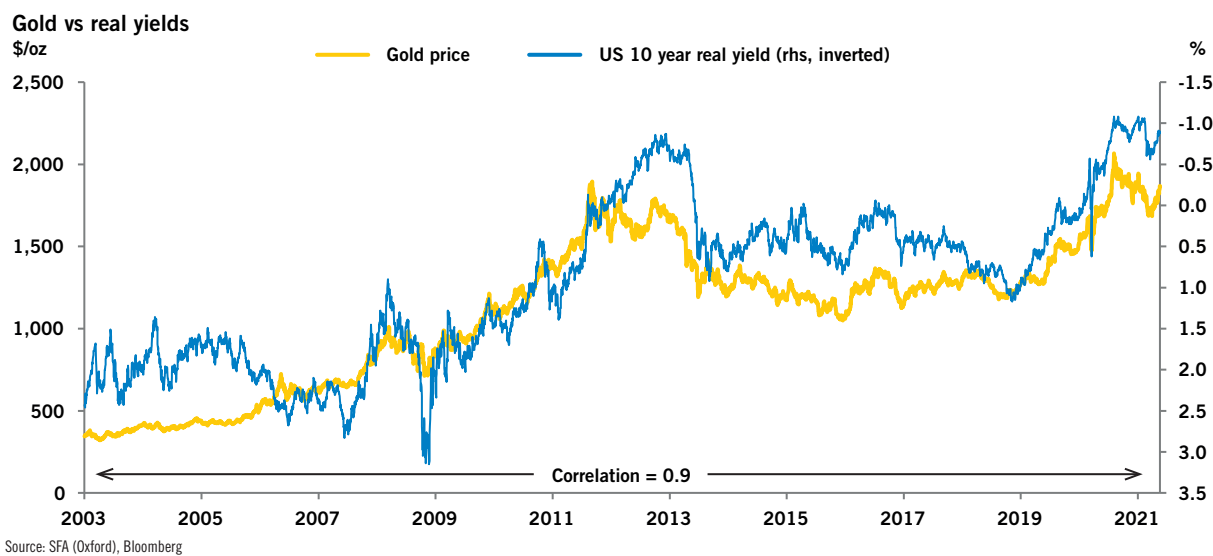
MARKET SPOTLIGHT

Gold and silver poised for gains on inflation fears – transitory or not

Rising inflation is highlighting gold's appeal. The huge amount of fiscal and monetary stimulus that was pumped into advanced economies led to a much faster economic recovery than was anticipated by the end of 2020, and financial market expectations of inflation are rising sharply. In May, the US consumer price index (CPI) increased by 5% (vs. the 4.7% expected) over the past 12 months, the largest annual growth since August 2008 (source: US Bureau of Labor Statistics) and reinforcing concerns that inflationary pressure is building.

Real interest rates are becoming more negative as inflation rises while central banks keep rates on hold, which is positive for gold. In the US, the Federal Reserve has prioritised bringing unemployment down to pre-pandemic levels while keeping interest rates extremely low. The Fed and ECB are expecting the rise in inflation to be transitory. If this is not the case, then central banks risk reacting too slowly, which will benefit gold.

Falling real yields should push gold and silver higher. The bond market also remains sceptical that rising inflation is anything more than transitory, as the Fed has claimed, since bond yields have actually slipped lower over the last few weeks. However, this is good for gold as it means that the real yield is becoming more negative. The silver price has not proved to be as strong as gold which is unusual because it normally outperforms gold in a rising market when inflation is a concern, though it may play catch-up later on.



Gold ETFs are staging a comeback. The World Gold Council reported that gold-backed ETFs recorded inflows of \$3.4 billion last month (+61.3 tonnes) fuelled by ongoing inflation concerns, reversing three consecutive months of net outflows. Large North American and European (UK, German) funds were the primary drivers of inflows during May. Global gold ETF holdings now stand at 101 moz, down from the record levels recorded towards the end of 2020, but rising steadily.



PRECIOUS METALS REVIEW

79 Au Gold

| | Close | Weekly change | High | Date | Low | Date |
|-------|-------|---------------|-------|------------|-------|------------|
| \$/oz | 1,880 | -0.68% | 1,904 | 08/06/2021 | 1,870 | 10/06/2021 |
| €/oz | 1,554 | -0.07% | 1,562 | 08/06/2021 | 1,538 | 10/06/2021 |

Monetary policy remains ultra-easy in the Eurozone. The ECB confirmed it would maintain its low interest rates and continue its asset purchases at its meeting last week. As Eurozone inflation reached only 2% in May, the ECB can justify its stance. However, investors may not be as patient and if inflation continues to run hot then they will look to gold as a safe haven and the price will continue to climb.

Australian gold output catches up with China's. Gold production from Australia was 74 tonnes during Q1'21 (source: Surbiton Associates), inching closer to output from the world's largest producer, China, which produced

74.4 tonnes in the same period. Chinese output has been falling for the past four years and, if the trend continues, is likely to be overtaken by Australia or Russia where production is growing. Overall supply contracted by 4% to 1,096.2 tonnes in the first three months of the year, as recycled gold supply fell by 8% year-on-year owing to weaker gold prices. The recent uptick in prices is likely to have incentivised trade-in activity during Q2'21, however, so supply is expected to improve quarter-on-quarter. Q1 is also generally the weakest quarter of the year for mine output due to seasonal fluctuations in some key gold-producing countries.

47 Ag Silver

| | Close | Weekly change | High | Date | Low | Date |
|-------|-------|---------------|-------|------------|-------|------------|
| \$/oz | 28.03 | 0.68% | 28.28 | 11/06/2021 | 27.47 | 10/06/2021 |
| €/oz | 23.17 | 1.30% | 23.31 | 11/06/2021 | 22.58 | 10/06/2021 |

Silver holds steady amid higher-than-expected US inflation data. The US inflation rate (CPI) increased by 5% year-on-year in May, exceeding the industry expectation of 4.7%. Bond yields recorded a modest uptick after the rise was reported, which is likely to

be weighing on the silver price right now, although the trend over the past few weeks has actually been a steady decline in bond yields. It seems that the implications of rising inflation are yet to be priced in for silver, suggesting further upside in the near future.

78 Pt Platinum

| | Close | Weekly change | High | Date | Low | Date |
|-------|-------|---------------|-------|------------|-------|------------|
| \$/oz | 1,153 | -1.24% | 1,180 | 08/06/2021 | 1,132 | 10/06/2021 |
| €/oz | 953 | -0.64% | 968 | 08/06/2021 | 931 | 10/06/2021 |

Car sales in Europe rebound in May from a low base. The largest European car markets all recorded strong year-on-year growth in new car registrations compared to the low base of 2020. However, in the year-to-date, registrations across the region are 25% below the same period pre-pandemic (source: LMC Automotive) and remain well below the long-term average. The selling rate will need to significantly improve in H2'21 to offset the subdued demand of H1. The full-year forecast for the region's car sales in 2021 is 11.88 million units (source: LMC Automotive), up from 10.79 million last year, but still down 17% on 2019. Platinum autocatalyst demand

in Western Europe is forecast to be around 780 koz this year, keeping its position as the largest platinum auto market. Strong growth boosts demand in China to an estimated 720 koz this year. The market share of light-duty diesel cars in Europe is forecast to shrink further in 2021, while tightening emissions legislation for heavy-duty vehicles in China will generate strong demand for platinum. The impact of substitution of some palladium in light-duty autocatalysts is anticipated to lift platinum demand only modestly this year. The market is predicted to have a large surplus (ex. investment) and the price is therefore expected to continue to trade sideways to lower.



PRECIOUS METALS REVIEW

⁴⁶ Pd **Palladium**

| | Close | Weekly change | High | Date | Low | Date |
|-------|-------|---------------|-------|------------|-------|------------|
| \$/oz | 2,784 | -1.98% | 2,848 | 08/06/2021 | 2,741 | 10/06/2021 |
| €/oz | 2,301 | -1.38% | 2,343 | 07/06/2021 | 2,262 | 10/06/2021 |

High palladium prices keep greenfield projects in the spotlight. Russian Platinum has secured funding for the development of its palladium-rich Chernogorskoye mine. Russian banks VTB and VEB.RF have concluded a memorandum of intent with Russian Platinum on project financing of the Montenegrin deposit (Chernogorskoye open-pit mine) in the Taimyr region in Russia. The first stage of development will include the construction of a mining and processing complex at a cost of 190 billion rubles (\$2.6 billion). The mine is scheduled to begin production in 2024 and could

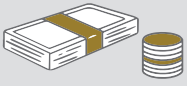
produce >500 koz palladium per year at steady state. Following the development of Chernogorskoye, Russian Platinum intends to advance its second asset in the region, the southern part of the Norilsk-1 deposit, which is directly south of Nornickel's South Cluster expansion project. Production from Russian Platinum's projects have the potential to increase palladium output significantly by the end of the decade. Although down from its record highs, the palladium price is holding above support and the price is expected to remain firm owing to the disruption to Nornickel's supply in Russia.

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

| | Rhodium | Ruthenium | Iridium |
|----------------|-------------|-----------|------------|
| Reporting week | \$23,450/oz | \$820/oz | \$6,250/oz |
| Previous week | \$23,450/oz | \$845/oz | \$6,550/oz |

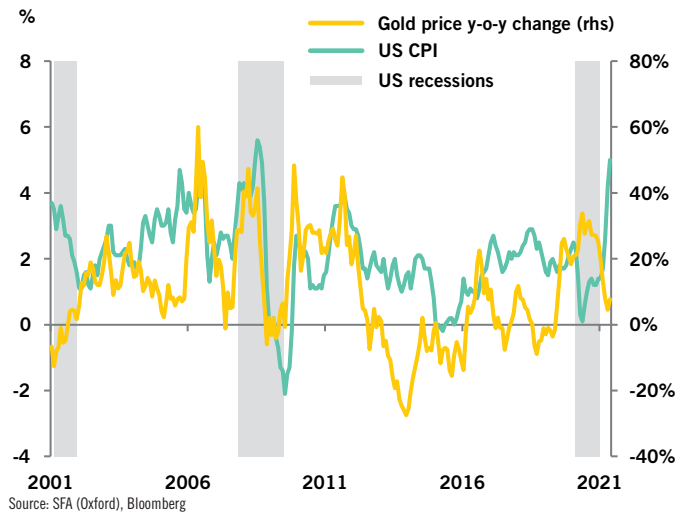
Small PGM supply is forecast to improve moving into the second half of the year. Once the rebuild of Anglo American Platinum's ACP Phase B unit is completed in H2'21, further drawdown of the Group's build-up of stock from last year is expected, which should boost refined output. Importantly, this is likely to correlate with lower

refined production from Nornickel later in 2021 following concentrator and mining incidents earlier this year. The prices of the small PGMs have already pulled back from record highs: rhodium, ruthenium and iridium are down 26%, 13% and 7% respectively from the peak in May, as metal availability continues to improve.

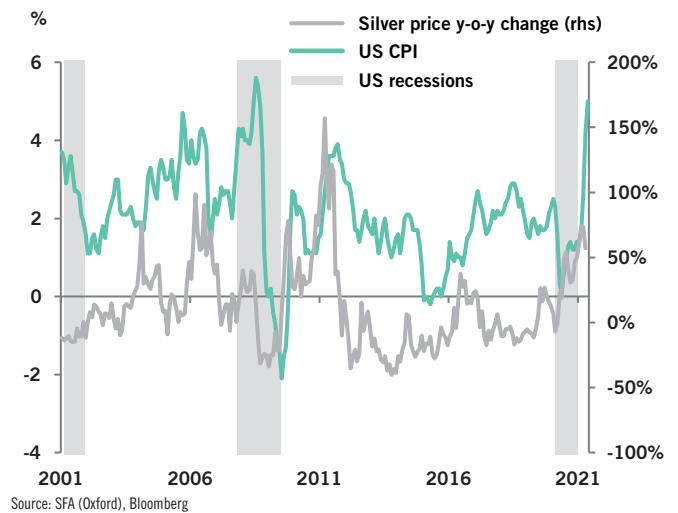


TRENDS AND INVESTMENTS

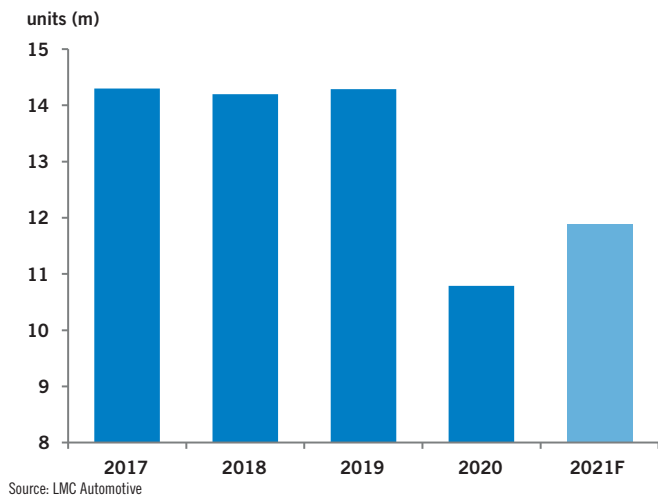
US inflation vs. gold



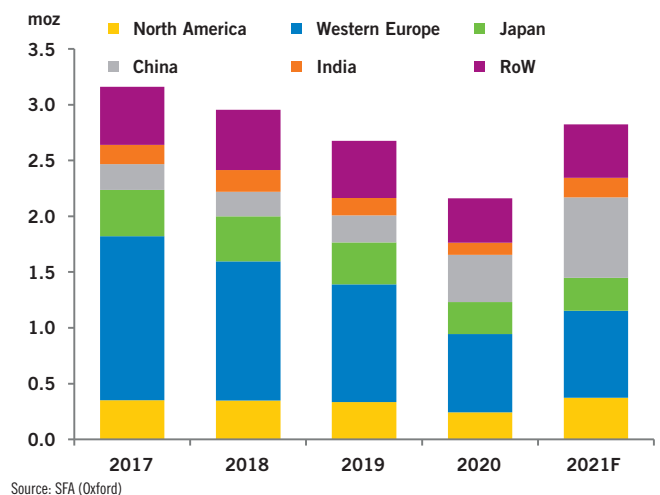
US inflation vs. silver



Western Europe car sales



Platinum auto demand



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