



MARKET SPOTLIGHT

A golden anniversary for gold

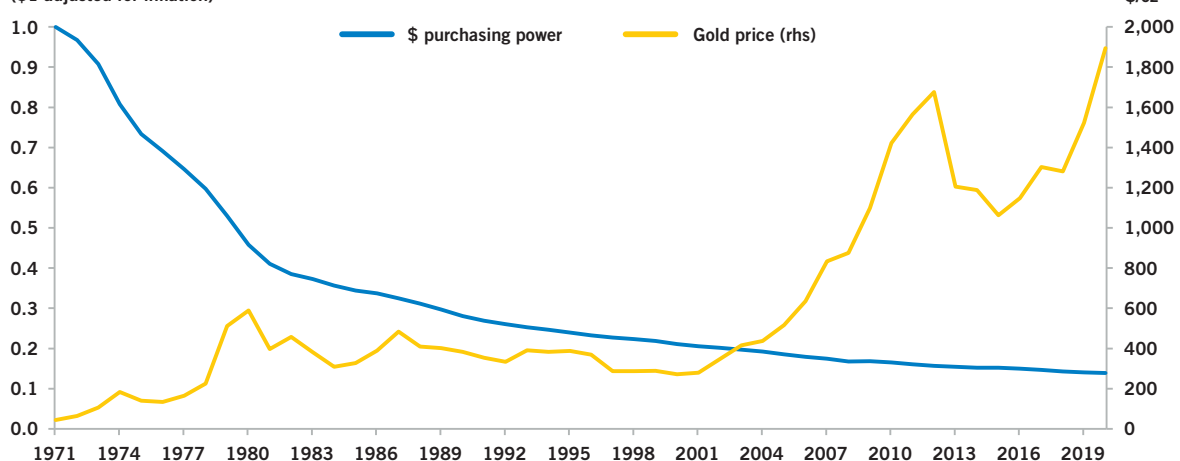
This week marks 50 years since the end of the gold-dollar peg, when US President Nixon temporarily closed the gold window for conversion of dollars into gold. This resulted in the post-war system of fixed exchange rates that was set in place by the Bretton Woods Agreement being replaced by floating exchange rates. Fifty years later the dollar still floats, proving Milton Friedman's aphorism, "Nothing is so permanent as a temporary government program", to be correct.

The economic situation today has some striking similarities to 1971. It was the year after a recession and in August 1971 US unemployment was 6.1%, inflation was 5.4%, and US money supply increased by 13.3%. The most recent data for this year show US unemployment and inflation were both 5.4% in July, and US money supply increased by 12.2% in June.

The difference is in central banks' actions. The Fed has expanded its balance sheet dramatically by purchasing assets and has a negligible interest rate. In 1971, the Fed raised the interest rate to 5.75% just after the gold announcement. This did not ultimately help as inflation continued to be a problem for years. The question is whether the Fed is correct in its assessment that the current rise in inflation is temporary. Even if inflation eases, the problem is that even low inflation reduces the purchasing power of a currency.

US dollar purchasing power since 1971 & gold

(\$1 adjusted for inflation)



Source: SFA (Oxford), Bloomberg

Gold has held its purchasing power well. In 1971, gold was undervalued relative to the US dollar which was one of the reasons for Nixon to break the link. In 1971, a VW Beetle sedan cost \$1,780 or 48 oz of gold. Today, 2021 model Beetle prices start from \$28,475 or ~16 oz of gold. Coincidentally, the current value of a 1971 Beetle in pristine condition is around \$28,000. Gold can hold its purchasing power over the long term, and in the near term a lack of central bank action is resulting in increasingly negative real interest rates which should support a higher gold price.



PRECIOUS METALS REVIEW

79 Au Gold

	Close	Weekly change	High	Date	Low	Date
\$/oz	1,777	0.83%	1,778	13/08/2021	1,718	10/08/2021
€/oz	1,506	0.53%	1,507	13/08/2021	1,467	10/08/2021

Gold lifted as fears on Fed tapering eases. After falling sharply following a strong US payrolls report, the gold price rebounded when the latest inflation data from the US Bureau of Labor Statistics showed CPI rising at a slower pace last month compared to June. This eased concerns that the Fed may taper its economic support sooner than expected. The CPI rose by 0.5% in July month-on-month, which was in line with forecasts but down from the 0.9% rise in June. This marks the largest

easing in month-on-month figures since April 2020, and a sign that inflation may have peaked. Core CPI, excluding food and energy, components that have a tendency to be volatile, rose 0.3% in July compared to 0.9% in June, which was weaker than anticipated. The dollar also fell from its four-month high and US Treasury yields slipped in response to the inflation data, which provided some additional support for gold.

47 Ag Silver

	Close	Weekly change	High	Date	Low	Date
\$/oz	23.81	-2.07%	24.05	09/08/2021	23.01	12/08/2021
€/oz	20.19	-2.38%	20.45	09/08/2021	19.62	12/08/2021

Silver fared worse than gold in the sell-off at the start of August and has failed to recover as well since. The price has also underperformed in the year to date (down -15% compared to gold's -10%). However, silver ETF holdings have held up relatively well, with net inflows of 75 moz (+7.3%) in the year to date, compared to net outflows of 8 moz (-7.2%) for gold in the same period. Moving forward, slowing economic growth linked to the

spread of the highly infectious Delta variant of Covid-19 across several leading global economies threatens to add further pressure to the silver price in H2'21. Silver is near the lower end of its trading range, but further downside cannot be ruled out in the short term. Longer term, the price is expected to follow gold higher but further investor buying may be needed.

78 Pt Platinum

	Close	Weekly change	High	Date	Low	Date
\$/oz	1,034	4.86%	1,035	13/08/2021	970	09/08/2021
€/oz	876	4.55%	877	13/08/2021	825	09/08/2021

Medical sector usage for platinum is estimated to rebound to ~240 koz this year (+6.3% year-on-year), with steady annual growth forecast thereafter, aided by growth in Europe, China and the US. The growing prevalence of chronic health conditions, including cancers and cardiovascular diseases, is expected to increase platinum use in the medical industry globally over the medium term, supported by gradually changing demographics (older populations), unhealthy lifestyles and urban air pollution in many regions. Heraeus began building an additional production line for potent platinum-based highly active pharmaceutical ingredients (Pt hAPIs) at its headquarters in Hanau at the end of 2018 owing to higher demand for cancer drugs, and it is now running at full speed. Heraeus is the leading supplier of Pt hAPIs used in cancer therapies worldwide. Platinum has managed to bounce

back above \$1,000/oz, but now the price is in a resistance zone it may prove harder to recapture \$1,100/oz.

Electricity supply is an ongoing concern for South Africa's PGM producers. An explosion at one of Eskom's coal-fired power stations is likely to add pressure to the country's already stretched electricity supply this year. The incident affected two of the six units (accounting for 720 MW each) at Medupi Power Station in South Africa's Limpopo Province. While this alone is unlikely to weigh too heavily on the country's electricity supply, a combination of further unplanned outages and planned maintenance increases the likelihood of load-shedding. This is an ongoing risk for PGM producers in South Africa given the energy intensity of mining and refining processes.



PRECIOUS METALS REVIEW

⁴⁶Pd Palladium

	Close	Weekly change	High	Date	Low	Date
\$/oz	2,653	0.17%	2,667	10/08/2021	2,597	10/08/2021
€/oz	2,247	0.00%	2,273	11/08/2021	2,216	10/08/2021

China's new light vehicle sales contracted for the third straight month in July, falling 7% year-on-year to 1.55 million units. Overall sales (cars plus commercial vehicles, such as trucks and buses) in July fell by 12% year-on-year to 1.86 million units (source: CAAM), as the semiconductor chip shortage continues to weigh on the automotive market. Anecdotal evidence suggests that domestic manufacturers are faring better than foreign brands in China after reacting faster when the chip shortage began to emerge in late 2020. However, automakers (both domestic and foreign) are likely to

have been impacted by the recent flooding in some areas of China. Overall, car sales are still predicted to record year-on-year growth in 2021 which, combined with higher loadings to meet China 6 and RDE standards, is forecast to lift China's autocatalyst palladium demand to 2.3 moz this year. China is one of the only markets expected to record growth in 2021 compared to pre-pandemic levels. The chip shortage has cut automotive demand for palladium, but with reduced supply from Russia the market still looks likely to be in deficit this year which is supporting the price.

⁴⁵Rh ⁴⁴Ru ⁷⁷Ir Rhodium, Ruthenium, Iridium

	Rhodium	Ruthenium	Iridium
Reporting week	\$20,450/oz	\$770/oz	\$5,750/oz
Previous week	\$20,450/oz	\$795/oz	\$5,850/oz

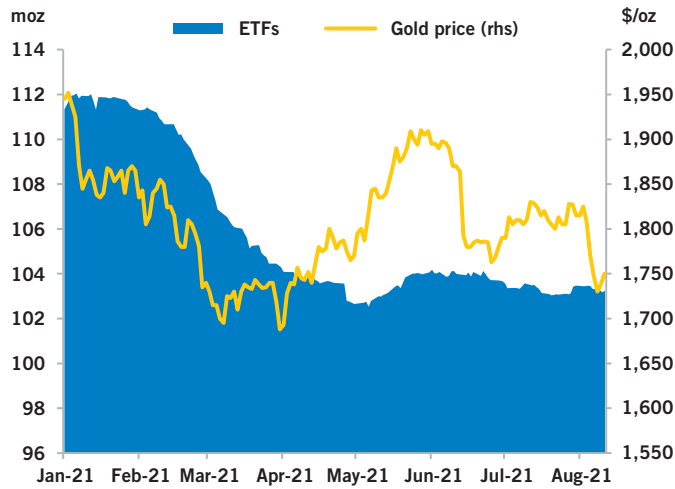
The chip shortage has brought the rhodium market closer to balance this year, compared to pre-pandemic forecasts. An overall weaker automotive market (chip shortage plus the lingering effects of the pandemic on demand) is predicted to reduce the deficit for rhodium to around -50 koz in 2021. While the rhodium price has

eased back slightly already this year, demand is set to remain strong in the near to medium term, which will keep the market tight and prices elevated. The ruthenium and iridium prices slipped slightly last week, whereas rhodium held steady.



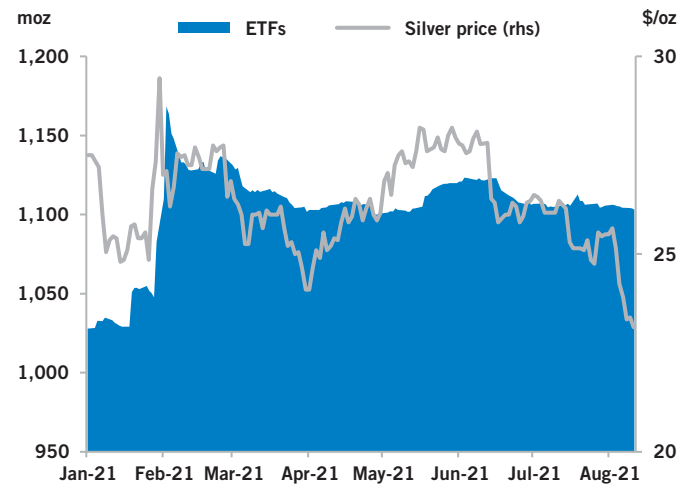
TRENDS AND INVESTMENTS

Gold ETFs



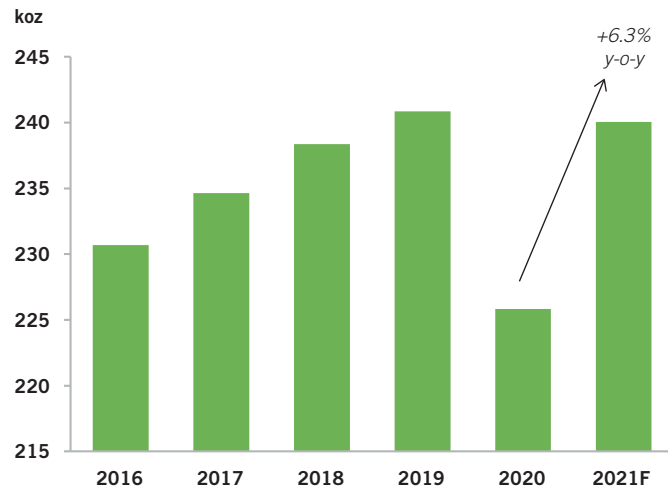
Source: SFA (Oxford), Bloomberg, Heraeus

Silver ETFs



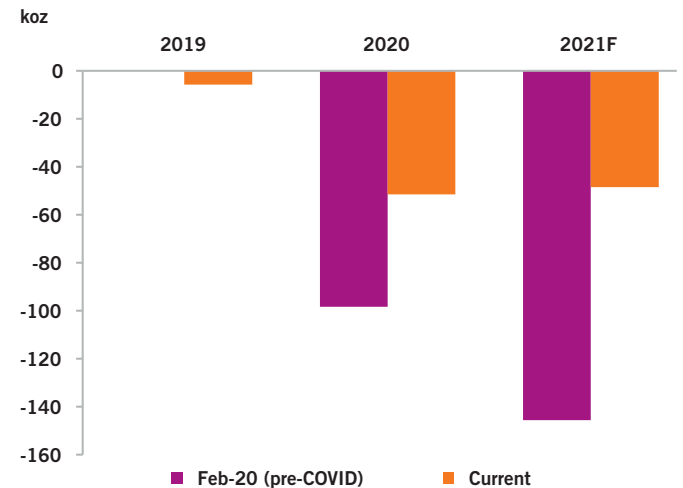
Source: SFA (Oxford), Bloomberg, Heraeus

Platinum medical demand



Source: SFA (Oxford)

Rhodium market balance



Source: SFA (Oxford)

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