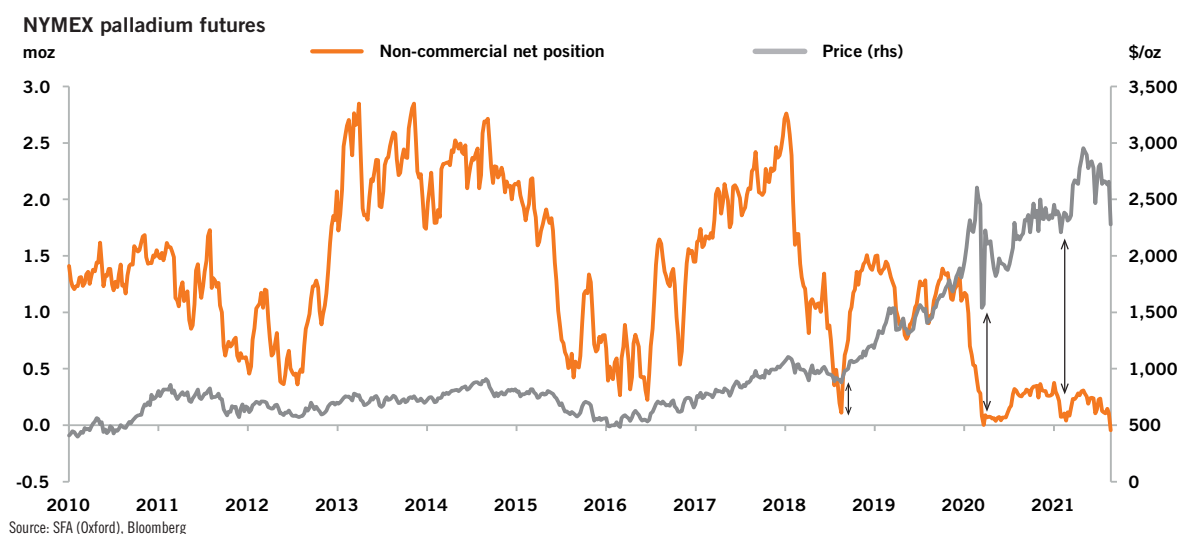




## MARKET SPOTLIGHT

### The palladium price is only as strong as its weakest link

The non-commercial traders' palladium futures position has become net short for the first time in over 15 years. Non-commercial traders are large investment funds speculating on price movements. They can take either a long position, where they profit from a rising price, or a short position, where they profit from a falling price. This is the lowest level since net positions moved close to zero during February 2021, and before then in March 2020, which in both instances preceded a steep rally in the palladium price. **Historically, low points in speculative positioning have served as contrarian indicators and have occurred near the end of a price decline.**



The specs' net long positions have been low since the start of the pandemic in March 2020, when the palladium price dropped from over \$2,500/oz to \$1,540/oz in the space of a week. The price recovered well and has moved back close to \$2,500/oz, but speculative long positioning has not recovered proportionately, a sign that **investors are less confident of higher prices in the near term.**

**So will the traders' bets pay off or is there room for palladium to move higher?** Seasonal trends suggest the palladium price will strengthen in Q4, but ongoing supply chain issues in the automotive industry (chip shortages) and announcements of further vehicle production cuts could keep the price on its current trajectory. The market has already priced in the metal supply constraints associated with Nornickel's operational shutdowns earlier this year, but any delay to the current recovery of palladium production could support the price. The fundamental outlook is for a deficit in the palladium market this year, and while this should be consistent with stronger prices, there is significant downside risk from weakness in the auto market which is expected to persist for the remainder of 2021.



# PRECIOUS METALS REVIEW

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## Au Gold

	Close	Weekly change	High	Date	Low	Date
\$/oz	1,829	0.91%	1,834	03/09/2021	1,802	31/08/2021
€/oz	1,539	0.39%	1,543	03/09/2021	1,523	02/09/2021

**Central banks remain net buyers of gold, but momentum is slowing.** Central banks added a net 30.1 tonnes of gold to official gold reserves in July, which marks the sixth straight month that they emerged as net buyers. Purchasing in the first few months of the year was characterised by several large strategic purchases each month, but activity in July appears to suggest a return to a more modest buying and selling pattern. Gross purchases and sales were both significantly lower in July than June, at 34.4 tonnes (down from 63.1 t) and 4.2 tonnes (down from 33.1 t) respectively (source: World Gold Council). Central banks are expected to remain net

buyers for the remainder of the year, but at the current rate this is unlikely to provide enough support to wholly offset weaker consumer demand, particularly from India, in 2021.

The ECB meeting this week may give a hint as to when asset purchases might start to slow. Eurozone inflation was 3% year-on-year in August, its highest rate since 2011. The Federal Reserve has been ignoring higher inflation and the ECB may well do the same, which should ultimately benefit gold.

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## Ag Silver

	Close	Weekly change	High	Date	Low	Date
\$/oz	24.71	3.04%	24.87	03/09/2021	23.76	01/09/2021
€/oz	20.79	2.27%	20.91	03/09/2021	20.08	02/09/2021

**Semiconductor problems restrict electronic demand growth for silver this year.** On the plus side, smartphone sales volumes continued to rebound in Q2'21. However, the chip shortages suffered by the automotive industry

and some other electronics segments mean that while higher electronic demand of around 315 moz is expected this year, the recovery has not been as strong as initially predicted.

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## Pt Platinum

	Close	Weekly change	High	Date	Low	Date
\$/oz	1,024	1.38%	1,031	03/09/2021	994	02/09/2021
€/oz	862	0.63%	868	03/09/2021	839	02/09/2021

**South African producers are increasing PGM production.** Refined 6E<sup>1</sup> production from Implats grew by 16% year-on-year to 3.27 moz during the year ending in June 2021 (FY'21), including 1,516.6 koz of platinum (+12% year-on-year). In FY'20 (ending June 2020), refined output was negatively affected by the impact of South Africa's nationwide lockdown on mining operations, although there were lingering effects throughout the most recent reporting period too. The Group's smelting and refining operations were negatively affected by Covid-19-related delays to scheduled maintenance at processing facilities during the second half of the year, which was complicated

further by Eskom-related load-shedding. This resulted in a build-up of ~80 koz 6E concentrate, which is expected to be refined by the end of FY'22. Implats' refined 6E production is estimated to be 3.3-3.56 moz in FY'22, a slight improvement on FY'21. Global platinum supply is forecast to return comfortably to pre-pandemic levels in calendar year 2021, increasing by 24% year-on-year to 6.1 moz. The platinum price is struggling to hold above \$1,000/oz and further weakness is possible near term.

<sup>1</sup>6E production refers to platinum, palladium, rhodium, iridium, ruthenium and gold.



# PRECIOUS METALS REVIEW

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

	Close	Weekly change	High	Date	Low	Date
\$/oz	2,423	0.66%	2,504	30/08/2021	2,390	03/09/2021
€/oz	2,039	-0.08%	2,122	30/08/2021	2,013	03/09/2021

**Chip shortage squeezes automakers' most profitable (and palladium-rich) models.** Ford has extended production downtime for America's best-selling vehicle, the F-150 pick-up truck, as well as scaling back production of some of its other larger and most-profitable models owing to the ongoing semiconductor chip shortage. Pick-ups are a critical market in the US, accounting for 20% of light-vehicle sales each year and making up a significant proportion of automakers' profits. As they are larger

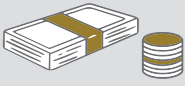
vehicles with more metal in their catalysts, pick-ups are also a key segment for palladium demand. In the first half of 2021, 37% of Ford's lost volume was accounted for by the pick-up segment, and as a result has been one of the hardest hit manufacturers in the US by ongoing supply chain difficulties. The impact of the chip shortage on vehicle production is currently estimated to account for around 500 koz of lost palladium demand this year.

## <sup>45</sup>Rh <sup>44</sup>Ru <sup>77</sup>Ir **Rhodium, Ruthenium, Iridium**

	Rhodium	Ruthenium	Iridium
Reporting week	\$18,500/oz	\$730/oz	\$5,500/oz
Previous week	\$19,000/oz	\$745/oz	\$5,550/oz

**Producers cash in on high prices with small PGM destocking.** Sales volumes from Impala Refining Services during FY'21 increased by 25% year-on-year to 1.81 moz 6E, with a drawdown in rhodium, iridium and ruthenium inventory to take advantage of high prices. Small PGM sales across the South African producers were elevated during the first half of the year. There was strong demand

from end-users and possibly some speculative activity given the growing excitement around the hydrogen economy (mainly in ruthenium for fuel cells). Prices pulled back slightly during August and could soften further this year as liquidity improves with the continued drawdown of work-in-progress stocks.



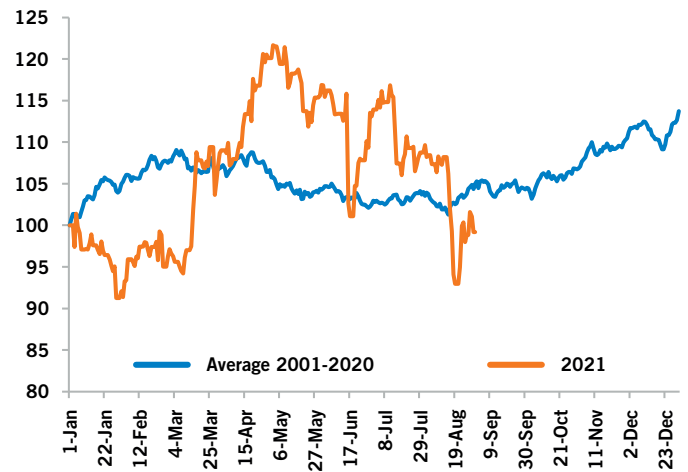
# TRENDS AND INVESTMENTS

## Eurozone inflation



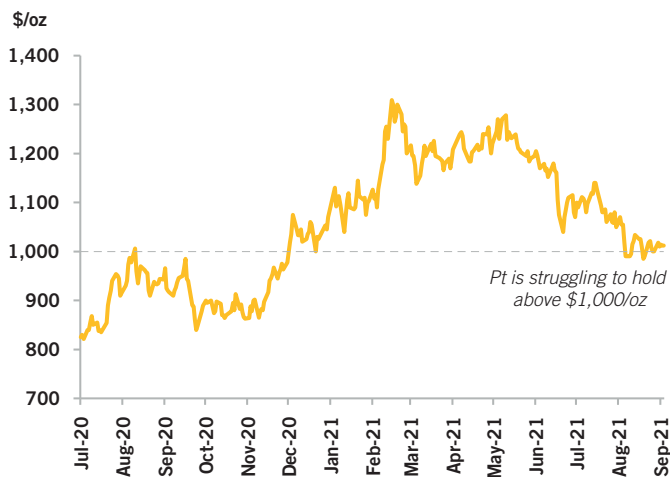
Source: SFA (Oxford), Bloomberg

## Palladium price seasonality



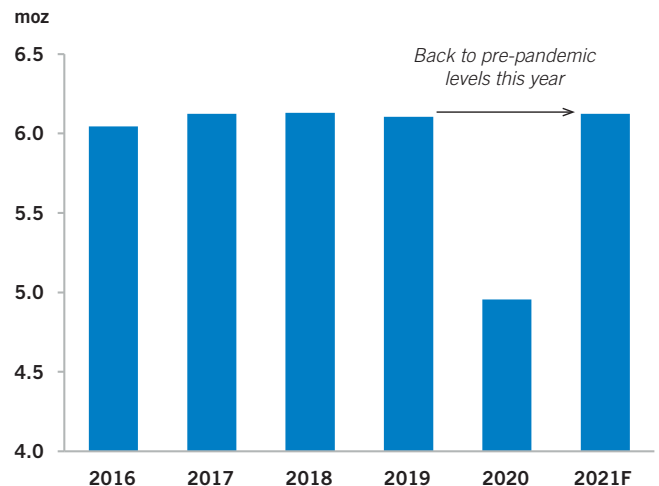
Source: SFA (Oxford), Bloomberg

## Platinum price



Source: SFA (Oxford), Heraeus

## Global platinum mine supply



Source: SFA (Oxford)

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