

# PRECIOUS APPRAISAL

No. 2  
31<sup>st</sup> January 2022



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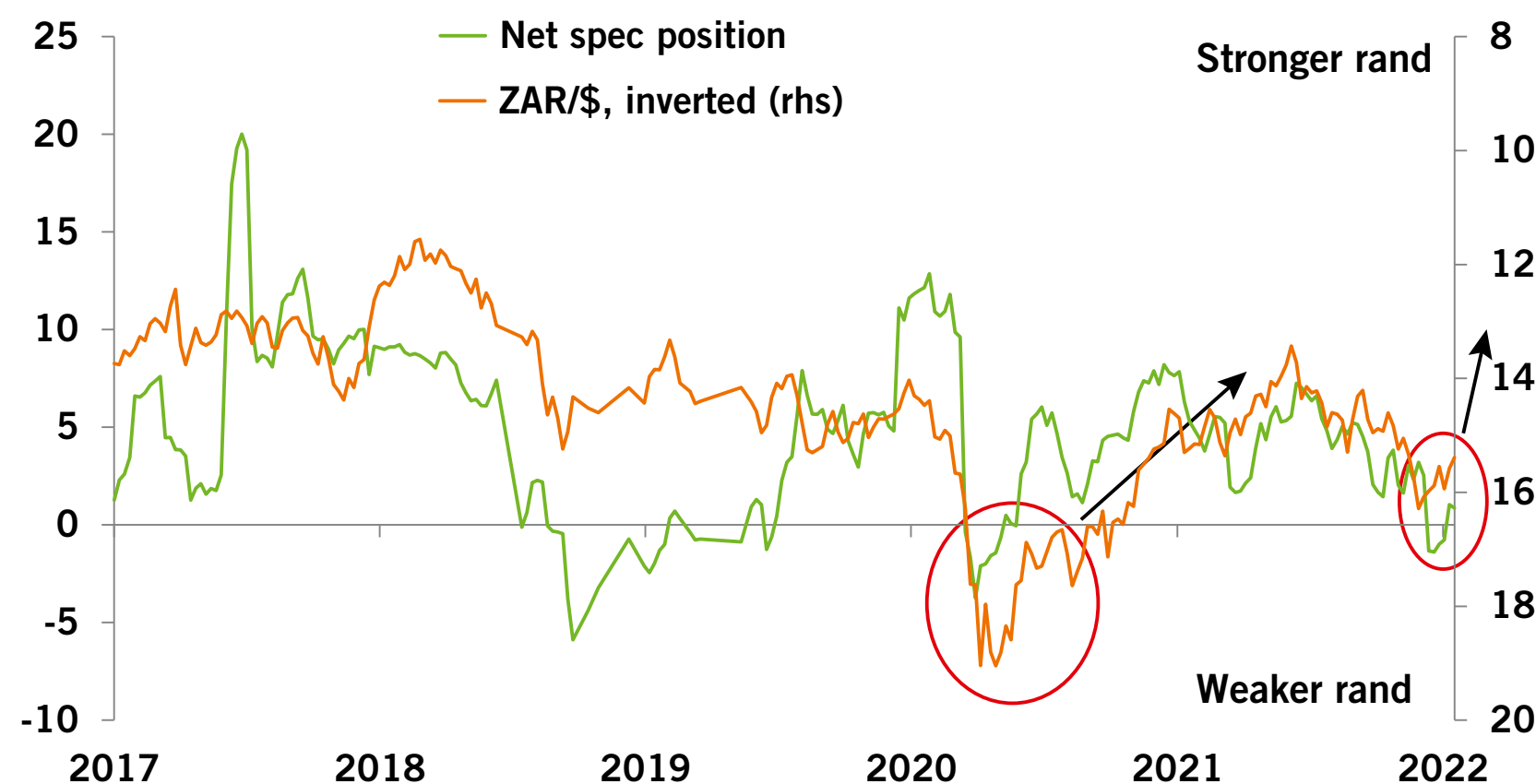
# MARKET SPOTLIGHT

## Rand strength could help lift the platinum price

**The rand could be about to strengthen against the US dollar.** The rand reached its weakest level against the US dollar in the initial market reaction to the pandemic (19.1:US\$). At that point, the speculative FX futures positions were net short the rand. The rand then proceeded to strengthen until mid-2021. With the rand weakening in the second half of 2021, the speculative FX futures positions again became net short, but have just moved to net long. This could signal the end of the trend of rand weakness.

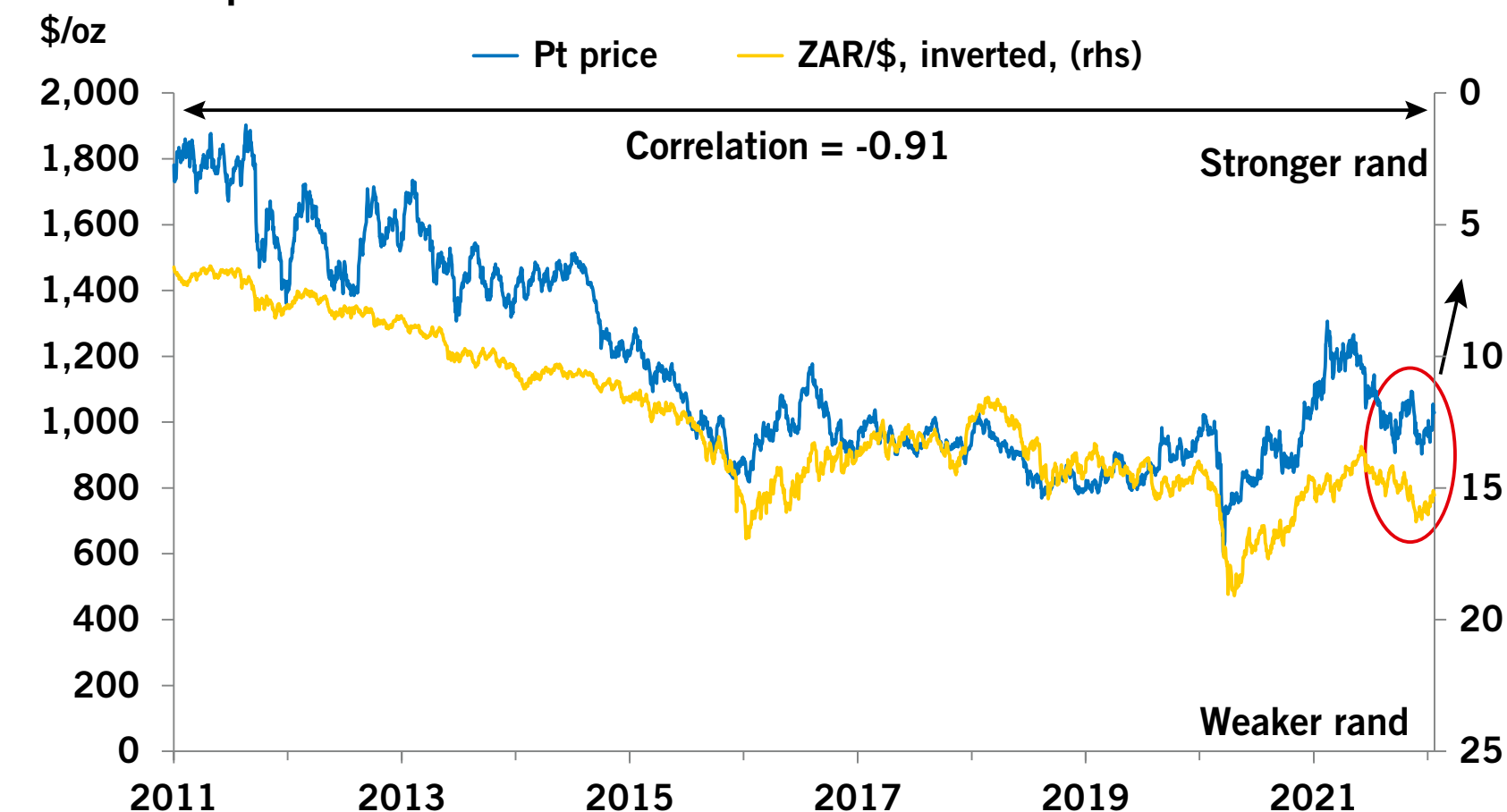
**A stronger rand versus the dollar should support a higher platinum price.** The rand exchange rate and the price of platinum have a strong inverse relationship.

Speculators' net futures position in rand  
Contracts, 000s



Source: SFA (Oxford), Bloomberg

Platinum price vs rand



Source: SFA (Oxford), Bloomberg

**More than just the rand could move in platinum's favour.** The platinum market may be oversupplied but the surplus is starting to shrink as the auto sector recovers and there is an expansion in the use of gasoline autocatalysts that contain some platinum, as some substitution of platinum for palladium is occurring. A rising oil price is contributing to inflation as constrained supply meets improving demand as the world moves beyond the worst of Covid-19, which also bodes well for platinum (see chart on p4). With inflation remaining a concern, investors may look to real assets as a hedge and that could benefit platinum as well as gold. Platinum priced at around \$1,000/oz is still cheap compared to gold and palladium, so there could be upside from current levels.

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## PRECIOUS METALS REVIEW

### Gold



	CLOSE	WEEKLY CHANGE	HIGH	DATE	LOW	DATE
\$/oz	1,786	-2.68%	1,854	25/01/2022	1,780	28/01/2022
€/oz	1,600	-1.08%	1,643	25/01/2022	1,596	28/01/2022

**Investors in gold are returning to the market.** SPDR Gold Shares, the largest bullion-backed exchange-traded fund, recorded its biggest rise in dollar terms since it was introduced in 2004. Worth \$1.63 billion, in tonnage terms Friday 21st's net inflow was 27.6 tons, reversing the major decline of 2021, a year when gold prices traded broadly sideways. At its meeting last week, the US Federal Reserve decided to keep US interest

rates where they are (at close to zero) but indicated its readiness to raise them at the next meeting in March 2022. Despite this being expected, gold sold off as the dollar rallied and bond yields rose. The market is pricing in four rate hikes this year, which could dampen investment demand for gold, but there is plenty to support the price in the shape of the Ukraine crisis, rising consumer inflation and volatile equity markets.

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## PRECIOUS METALS REVIEW

### Silver



	CLOSE	WEEKLY CHANGE	HIGH	DATE	LOW	DATE
\$/oz	22.26	-8.61%	24.27	24/01/2022	22.15	28/01/2022
€/oz	19.95	-7.07%	21.44	24/01/2022	19.85	28/01/2022

**Covid is impacting some silver mining in Mexico.** Fresnillo, the world's largest primary silver producer, has already reduced its production guidance for 2022, owing to a combination of changing labour laws and increasing Covid cases reducing worker availability. The company now expects between 50.5 moz and 56.5 moz will be produced this year (inc. Silverstream). Last year, production was 53.1 moz (inc. Silverstream), slightly below guidance. Mexico is the largest producer of silver with output of 178 moz in 2020.

**The silver price fell following the Fed meeting,** but the price was already showing some weakness ahead of the meeting, unlike gold whose price had held up. Perhaps it is a case of 'sell the rumour, buy the fact', and when the Fed actually raises rates, the pressure might come off silver.

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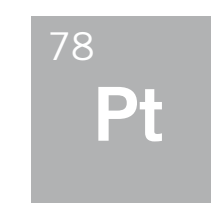
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## PRECIOUS METALS REVIEW

### Platinum



	CLOSE	WEEKLY CHANGE	HIGH	DATE	LOW	DATE
\$/oz	1,008	-3.32%	1,066	26/01/2022	994	28/01/2022
€/oz	903	-1.82%	944	26/01/2022	891	24/01/2022

**Investor sentiment towards platinum seems firm at present.** ETF holdings worldwide are up 45 koz so far in January to 3.64 moz and speculative long positions in platinum on NYMEX reached 646 koz last week, up from a low of 386 koz in mid-December 2021. In 2021, the US Mint reported sales of American Eagle platinum coins of 75 koz, up by 34% from the 2020 total of 56 koz and up by 87.5% on the 2019 figure of 40 koz.

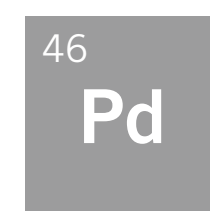
**Total South African output of platinum is expected to be flat year-on-year at 4.5 moz this year.** Anglo Platinum reported full-year production of platinum from both its own mines and purchases of concentrate, at 2.4

moz, double the total in 2020 (when South African mining was badly affected by the Covid-19 pandemic). Sales of platinum in 2021 rose by 98% to 2.37 moz. Refined output was boosted by the processing of smelter matte which had built up due to outages at Anglo's converter plants during 2020. It was expected that Anglo would process half of its backlog in 2021 and the rest in 2022, equivalent to around 115 koz of platinum each year. It is now estimated to have just 80 koz of extra platinum left to refine in 2022 and, as a result, the company's refined production this year will revert to around 2.0 moz.

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# PRECIOUS METALS REVIEW

## Palladium



	CLOSE	WEEKLY CHANGE	HIGH	DATE	LOW	DATE
\$/oz	2,375	12.26%	2,395	27/01/2022	2,103	24/01/2022
€/oz	2,126	14.00%	2,148	27/01/2022	1,859	24/01/2022

**Tensions over Ukraine have lifted the palladium price.** The palladium price has risen by 25% in the last fortnight to its highest level in four months and lease rates have jumped as tension mounts between Russia and the West over Ukraine. The metal has moved rapidly into backwardation, signalling tighter availability. Traders may be concerned that supplies could be disrupted in the event of an outbreak of hostilities and punitive sanctions being imposed on Russia by the US and Europe as a result. The crisis has found futures speculators heavily short, with short positions on NYMEX at their highest since 2018. The inclusion of palladium supplies in a new sanctions’ regime seems unlikely because Western sanctions on Russia have not previously targeted Nornickel or PGMs. For the moment, the Ukraine crisis has captured the market’s attention rather than the downbeat short-term outlook for palladium demand arising from the global shortage of semiconductor chips which is still impacting car manufacturing – Toyota has reduced its February production level. Palladium’s price rally may therefore be temporary.

**The Marathon Project in Canada may finally be developed.** Canada’s Generation Mining has a 100% interest in the Marathon Project, an undeveloped palladium-copper mineral deposit in north-western Ontario.

A feasibility study released in March 2021 estimated that a mine could start production in the second half of 2023 and supply an average of 146 koz of palladium and 36 million lbs of copper per year over a 13-year mine life, at a cash cost of US\$687 per palladium-equivalent ounce. Marathon has been a known palladium resource for over 60 years but was never brought into production owing to inadequate metals prices. Now, with the elevated value of palladium and the increasing global need for copper in the future low carbon economy, its time may finally have come.

**Nornickel’s 2021 palladium production was much higher than expected,** which increases last year’s market surplus. After being beset by output problems in the early part of last year due to flooding at two of its mines and a concentrator accident, Nornickel’s affected sites were restored to full production by December, leading to a strong output of PGMs in the fourth quarter. Although palladium production for the year at 2,616 koz was down by 7% compared to 2020, the total was over 200 koz higher than the company’s upper production target. Nornickel typically exceeds its production guidance, which for 2022 has been given as between 2,451 koz and 2,708 koz. With higher automotive demand anticipated this year, the market is expected to be closer to balance.

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### Rhodium, Ruthenium, Iridium



	RHODIUM	RUTHENIUM	IRIDIUM
Reporting Week	\$18,300/oz	\$575/oz	\$4,150/oz
Previous Week	\$18,050/oz	\$575/oz	\$4,150/oz

**Growth in the hydrogen economy supports iridium demand but raises questions for material supply.** In a new report, Geopolitics of the Energy Transformation: The Hydrogen Factor, the International Renewable Energy Agency (IRENA) discusses the global supply of raw materials, including iridium and platinum, which are essential to the production of PEM electrolyzers. It states that while geological supplies of most minerals and metals are presently sufficient, markets are bound to tighten with rapidly rising demand and long lead times in mining and refining projects. Iridium supply, in particular, is limited and highly concentrated, with 85% originating from South Africa.

A few thousand ounces of iridium a year are used in PEM electrolyzers at present, constituting a small percentage of total annual iridium demand. The IRENA report says that in order to limit the increase in global temperature to 1.5°C by 2050, some 5,000 GW of hydrogen electrolyser capacity is needed, up from just 0.3 GW today. Thrifting the levels of iridium in PEM electrolyzers will certainly be necessary. However, the PGM industry can demonstrate an excellent track record of using catalyst surface technology and engineering to reduce PGM loadings on its products while increasing their performance – autocatalysts and fuel cells being prime examples.

The rhodium price was up by \$250/oz last week, whereas the iridium and ruthenium prices held steady.

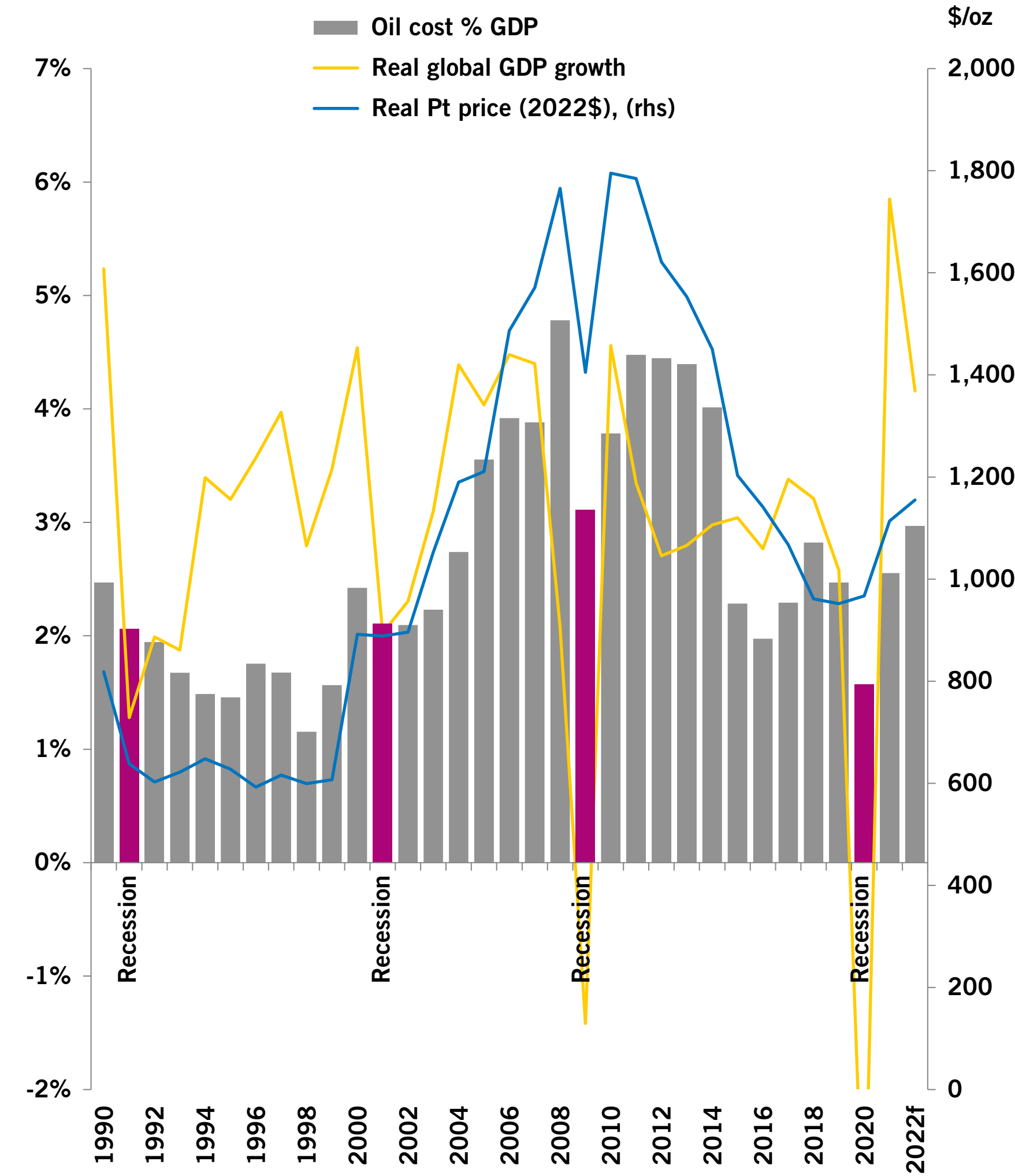
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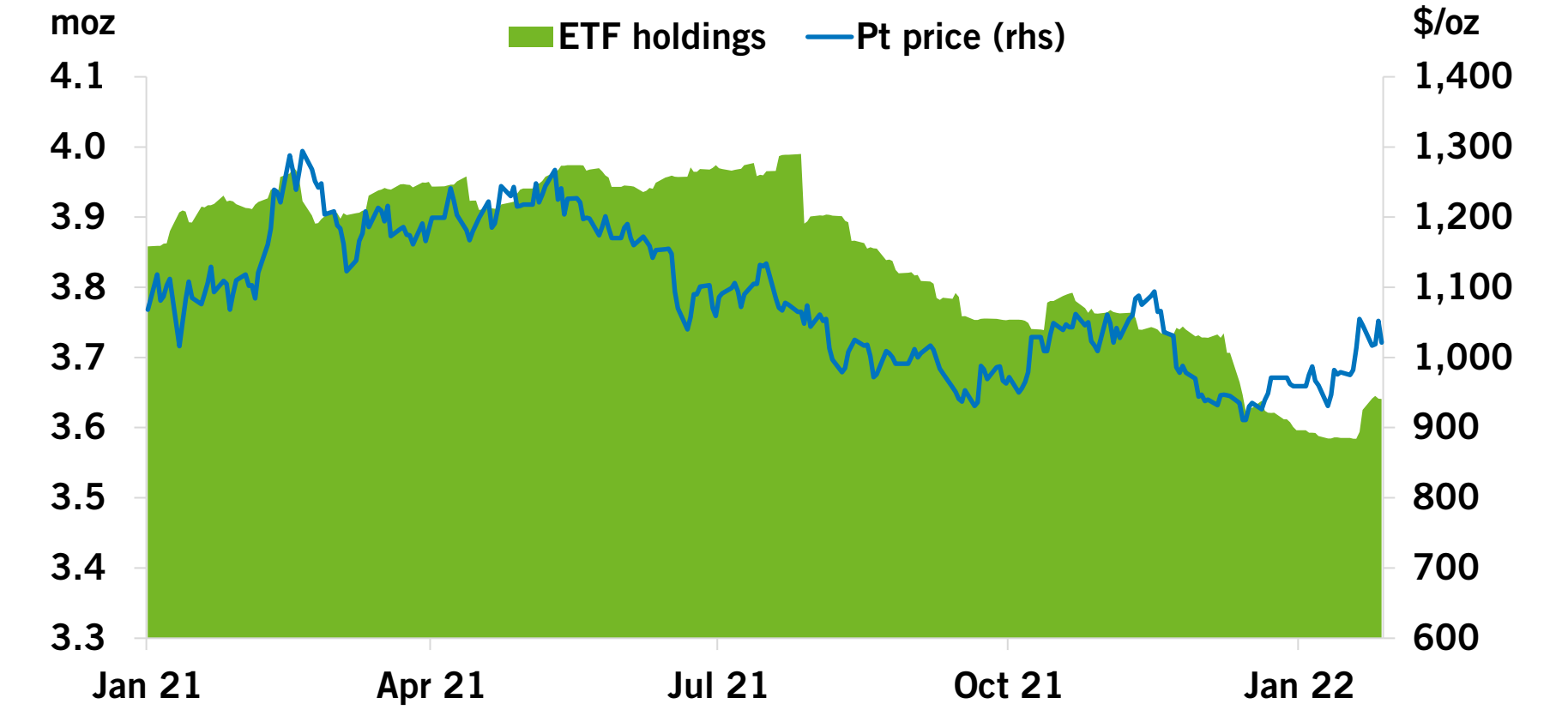
# TRENDS AND INVESTMENTS

## Oil costs as % of global GDP



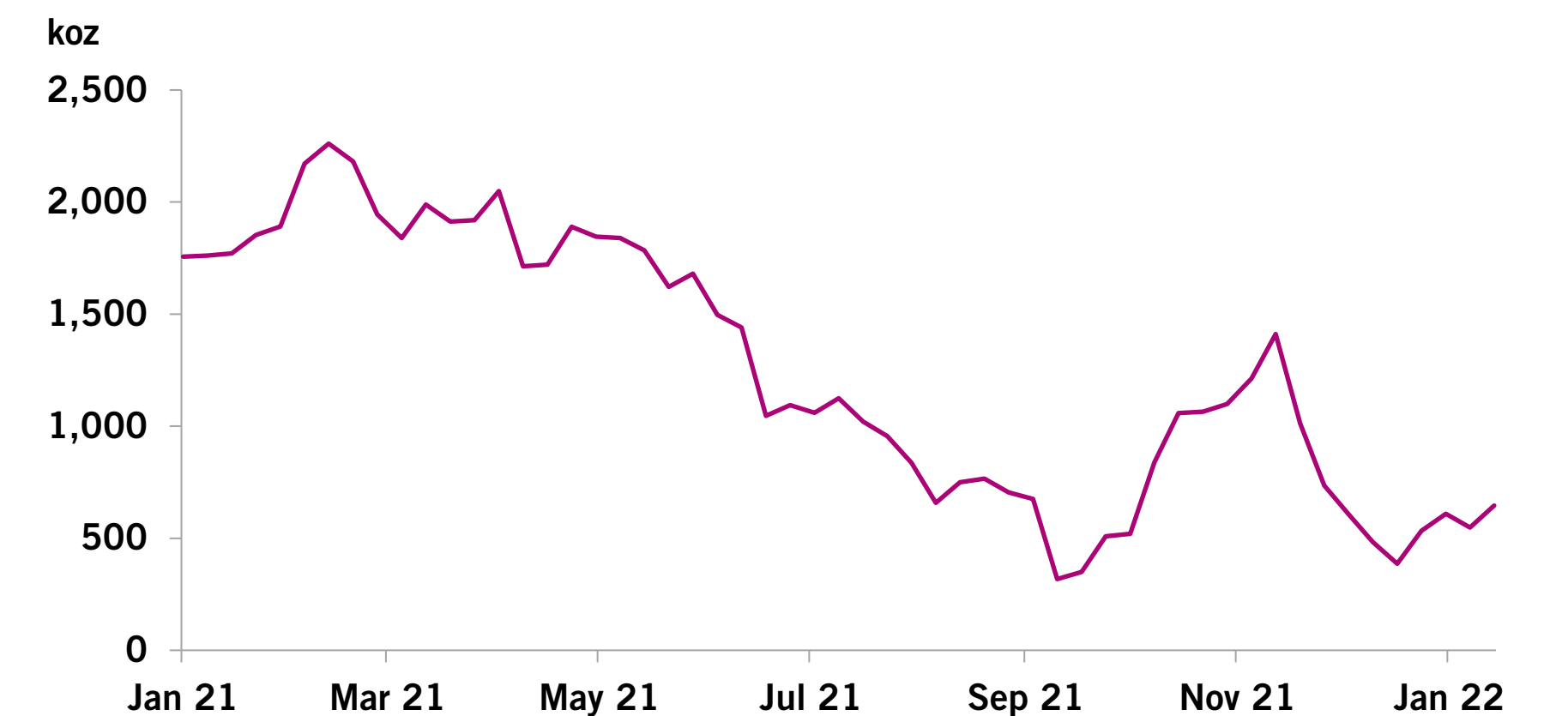
Source: SFA (Oxford), Bloomberg

## Platinum ETF holdings



Source: SFA (Oxford), Bloomberg

## Platinum net spec position



Source: SFA (Oxford), Bloomberg



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