

PRECIOUS APPRAISAL

No. 23
25th July 2022

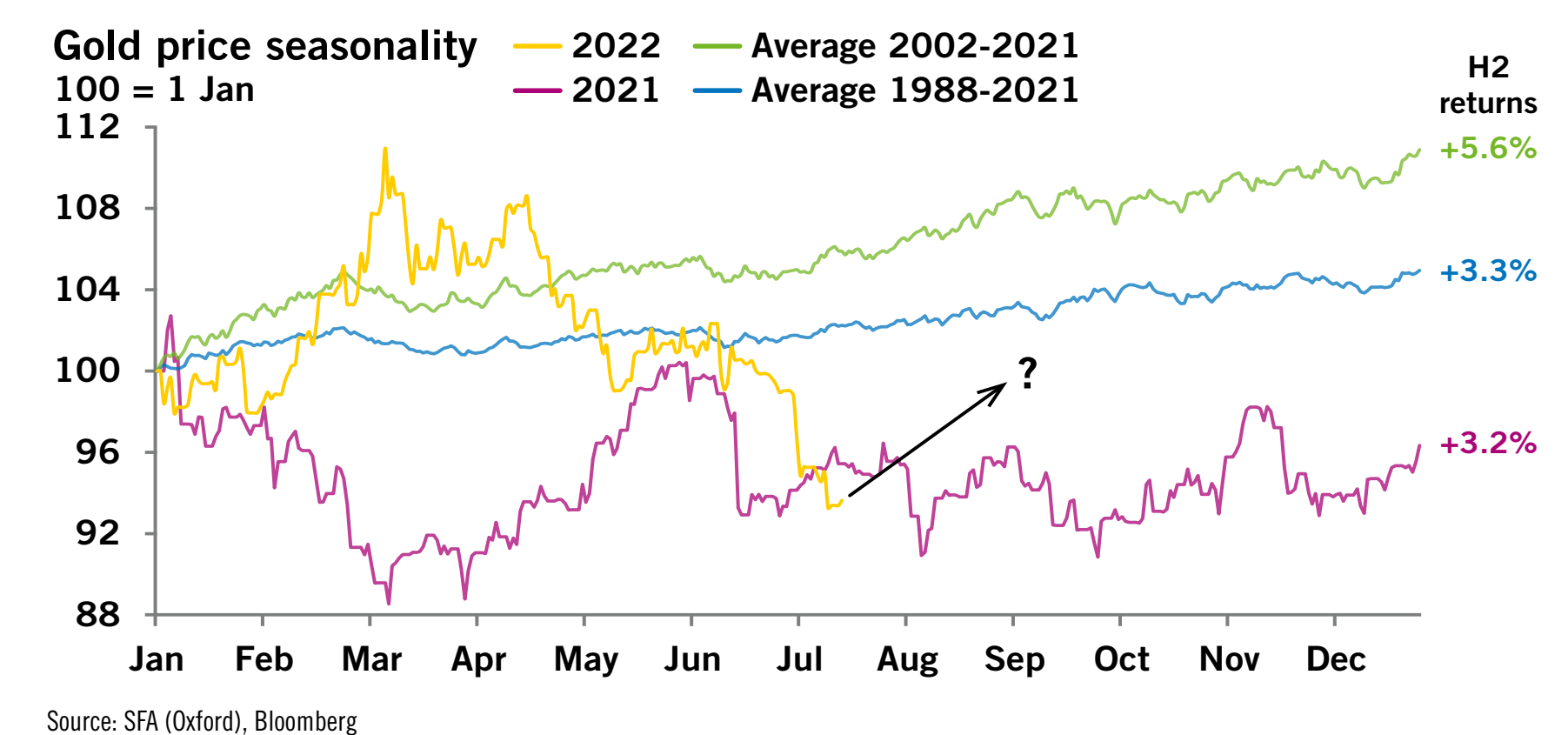
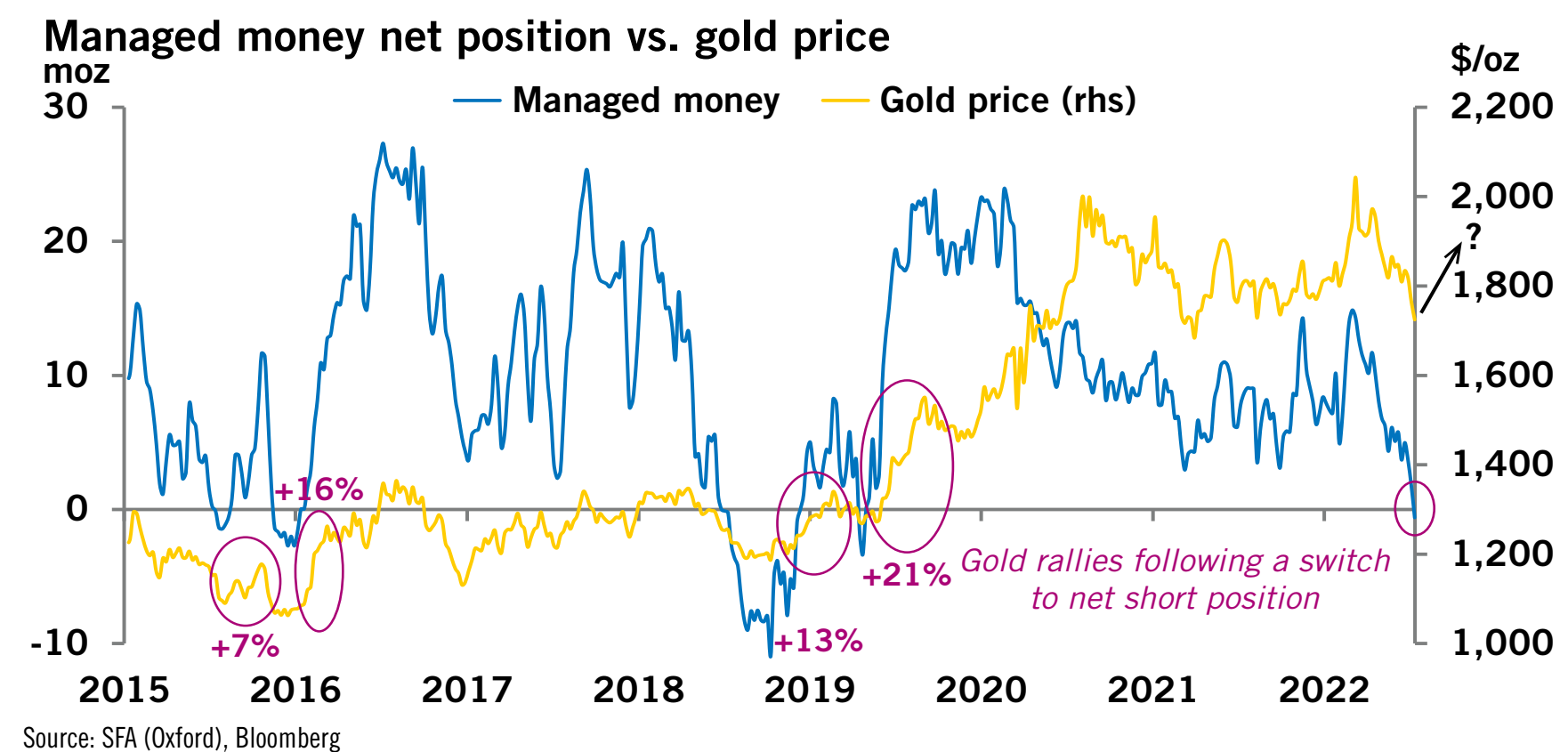


MARKET SPOTLIGHT

Price seasonality + extreme speculators' position = gold rally?

The managed money segment of COMEX traders is now net short gold. The gold price has fallen by 14% since March, and hedge funds have now become net short equivalent to 613 koz. For them, being net short gold is a relatively infrequent occurrence – the current bearish turn being only the fifth time since 2006. As the hedge funds are typically market trend followers, this gives an indication of the sentiment towards gold reaching a significant low point in terms of price optimism, and a proxy for the gold investment market as a whole.

The non-commercial long positions are the lowest for three years. The previous time the futures position was at this level in 2019 (and before that in 2015 and 2018) it coincided with a price low, followed by a rally in the gold price. Total non-commercial positions are still net long but are approaching an extremely low position. At such positional extremes, small changes in market conditions could result in a rally as most of the selling has already played out.



The dollar's rise has stalled, and this week's Fed rate hike is already priced in. Higher and faster rate hikes are being priced in by the markets for 2022, while the peak of rates and then cuts are forecast to be ever earlier next year. The Fed would probably start to cut rates if its policy were resulting in an economic slowdown. Second-quarter US GDP data is forecast to be negative when released this week, which would signal a technical recession, and the currently inverted yield curve also points to this outcome. Cuts to the federal funds rate are likely to result in a weakening dollar, and consequently boost the price of gold. The European Central Bank raised rates for the first time in 11 years last week, which should pressure dollar strength in H2'22. A recession and weaker dollar could be catalysts for a swing in sentiment towards gold.

Even if the Fed keeps fighting inflation, gold still has seasonality on its side. The gold price tends to rally in the third and fourth quarters after a seasonal decline into mid-summer. Since 2002, on average gold has gained more than 5% in the third quarter. If the net specs' position changes direction, the gold price's second-half gains could be larger than average.

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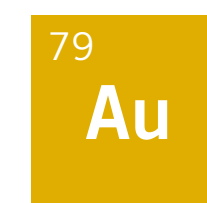
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Gold



	CLOSE	WEEKLY CHANGE	HIGH	DATE	LOW	DATE
\$/oz	1,731	1.55%	1,739	22/07/2022	1,681	21/07/2022
€/oz	1,693	0.21%	1,701	22/07/2022	1,645	21/07/2022

Barrick, the world's second-largest gold miner, lifts production in Q2.

Gold produced across Barrick's mines grew 5% to 1.04 moz in the second quarter, from 990 koz produced in the first. This puts the last quarter on par with the same period in 2021. At current yearly production guidance of 4.2-4.6 moz, Barrick will remain the second-largest gold miner in the world after Newmont. All-in sustaining costs are expected to be 3-5% higher on average in Q2 than Q1. This would result in costs of around \$1,220 per ounce of gold mined. The recent move down in the gold price will squeeze the profitability of miners as inflation pushes up the cost of inputs, particularly energy.

Decision time coming up for gold.

Gold is approaching the key support level of \$1,675/oz that has provided the bottom of the trading range since Q2'20, and gold is also currently oversold. If the support holds, the gold price could rally, but if the decline persists through this level with few other support levels, it could fall as far as \$1,450/oz, the low in March 2020.

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Silver



	CLOSE	WEEKLY CHANGE	HIGH	DATE	LOW	DATE
\$/oz	18.78	0.62%	19.10	20/07/2022	18.24	21/07/2022
€/oz	18.36	-0.71%	18.75	18/07/2022	17.86	21/07/2022

Hochschild Mining contributes to Peru's decreasing mine output. The South American silver miner is lagging last year's production in its latest results. Total attributable production for the first half of the year was 5.1 moz, compared to 5.9 moz in H1'21. Production of 2.6 moz in Q2 improved on the 2.4 moz in Q1. However, this could not make up losses from Covid-related labour shortages and lower than expected silver grades at two of the company's three operating mines which jointly account for 72% of attributable silver production. Hochschild's two Peruvian mines accounted for 9% of the country's supply in 2021.

Despite price volatility, the silver price remained relatively unchanged last week. A steady decline on Wednesday and Thursday preceded a jump of around \$0.40/oz on the news that the European Central Bank will raise interest rates for the first time in 11 years and by 50 bp. The dollar index initially reacted to the downside, sending the silver price higher. Similarly to gold, the specs' net position on silver futures is near neutral on COMEX, with short positions at their largest since November 2019, and thus could rally if speculator attitude reverses.

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Platinum

⁷⁸ Pt	CLOSE	WEEKLY CHANGE	HIGH	DATE	LOW	DATE
\$/oz	883	3.75%	892	22/07/2022	852	21/07/2022
€/oz	863	1.46%	873	22/07/2022	833	21/07/2022

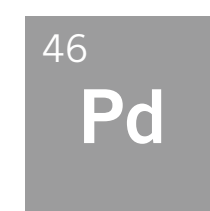
Amplats brushes off lower Q2 production and stands by guidance for the year. Refined production of platinum at Amplats' operations fell by 4% year-on-year to 600 koz in the second quarter, from 626 koz in Q2'21. This is despite improving refined production significantly from the 334 koz produced in the first quarter of the year. Q1'22 had lower than expected output due to heavy rains disrupting mining operations at Mogalakwena's open-pit operations. Refined production guidance for the year was downgraded to 2.4-2.6 moz of platinum, from 2.5-2.8 moz at the time, and the company has maintained this even with 14% lower platinum production year-on-year in H1. Amplats will produce approximately 30% of South Africa's platinum supply for the year, at the reduced guidance. The reduction is equivalent to a 3% loss to South

African production. The platinum market was forecast to be in a surplus of ~650 koz (ex. investment) this year. This reduction in expected yield will contribute to lowering the surplus – a potential positive for the platinum price, although without more investor interest the price will likely remain subdued. South Africa has already experienced significant power supply issues in Q3 and keeping to guidance will hinge on any further impacts from this. Maintenance at the Polokwane smelter and Mogalakwena South Concentrator in Q3 is already factored in and should not affect forecast refined production.

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Palladium



	CLOSE	WEEKLY CHANGE	HIGH	DATE	LOW	DATE
\$/oz	2,029	10.25%	2,054	22/07/2022	1,846	21/07/2022
€/oz	1,985	8.76%	1,995	22/07/2022	1,806	19/07/2022

New US PGM-nickel supply is one step closer to becoming reality. The Duluth Complex in Minnesota contains undeveloped nickel-copper-PGM sulphide deposits similar to those mined by Norilsk in Russia. The development of projects has been slow owing to the complex metallurgy of the ore and relatively low grade. Canadian diversified miner Teck and Polymetal Mining (majority owned by Glencore) have agreed to form a 50/50 JV to progress projects held in the region by both companies. The aim of the JV is to maintain permits, undertake detailed engineering and update feasibility studies for the potential mines. Time will tell if this new venture finally progresses the NorthMet (first drilled in 1969) and Mesaba (discovered in 1957) projects past this stage, as solving the base metal recovery issues is the key to development. Currently, Stillwater in Montana is the only primary palladium-producing mine in the US. Output of palladium in 2021 was 440 koz, only 6% of global production. Bringing more supply online would align with the US’s goal of becoming more self-sufficient in critical metals. However, action to block permits this year has so far undermined this.

European car sales see worst June in decades; is the chip shortage or demand loss to blame? Petrol and diesel new car registrations in the UK fell by 28% and 47% year-on-year, respectively, in June, the weakest performance for June since 1996. In total, 140,958 vehicles were registered, compared to 186,128 in June 2021. The reduction is largely attributable to vehicle supply shortages caused by semiconductor supply issues, but consumer demand destruction is also likely to be now adding to the fall in sales. A decline in consumer demand is possible as economic growth slows in the US and EU, and consumers reduce their spending as other costs increase. In addition, the rising cost of borrowing negatively affects the affordability of new vehicles, as most are bought using credit.

EU passenger car registrations also contracted in June, falling by 15% to 886,510 units – also the worst June since 1996. In a double blow to palladium demand, BEVs have managed to capture more market share from petrol and diesel cars. In the first half of the year BEVs accounted for 10% of all new registrations across the EU, up from a 6.6% market share in the same period last year. In terms of vehicle production, Western Europe is the third-largest region after China and the US. In 2021, autocatalyst demand accounted for 1.2 moz Pd, 660 koz Pt and 210 koz Rh. This is forecast to grow modestly this year, after numerous downgrades muted the expected recovery from the pandemic.

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Rhodium, Ruthenium, Iridium



	RHODIUM	RUTHENIUM	IRIDIUM
Reporting Week	\$16,750/oz	\$580/oz	\$4,850/oz
Previous Week	\$15,350/oz	\$595/oz	\$5,000/oz

Many of Europe's materials firms are investing in fuel cell manufacturing.

Recent announcements of large proton exchange membrane (PEM) fuel cell component manufacturing and recycling plants in China and the UK have added to European companies' expanding footprint in hydrogen-powered mobility. Hydrogen fuel cell power is seen as a growth area – particularly in China – and although currently small, ruthenium demand in hydrogen application is forecast to double in the next five years. As it is a small volume market, ruthenium component recycling will become increasingly important as a secondary source of metal while the technology permeates into transportation.

This week, the rhodium price performed well, gaining \$1,400/oz, while both iridium and ruthenium declined.

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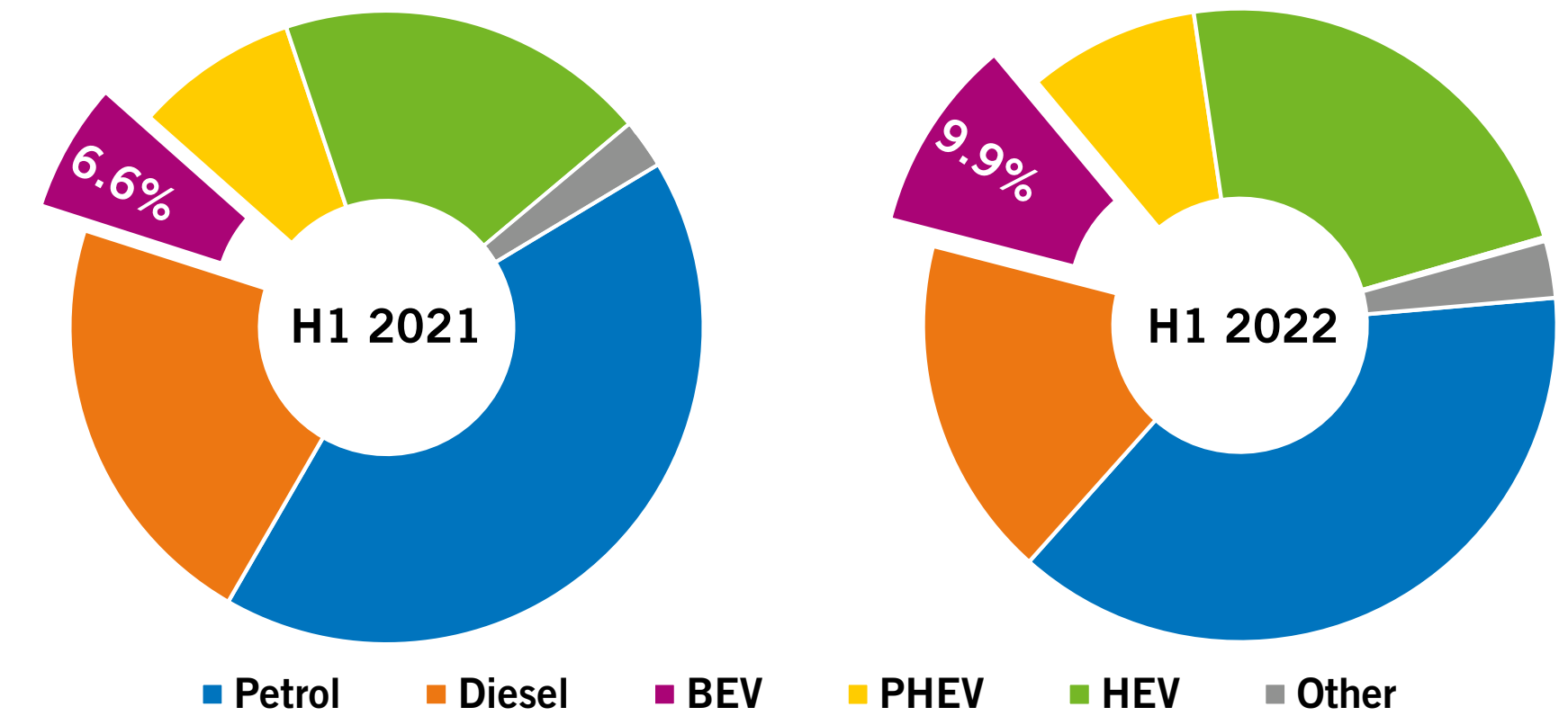
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Gold price



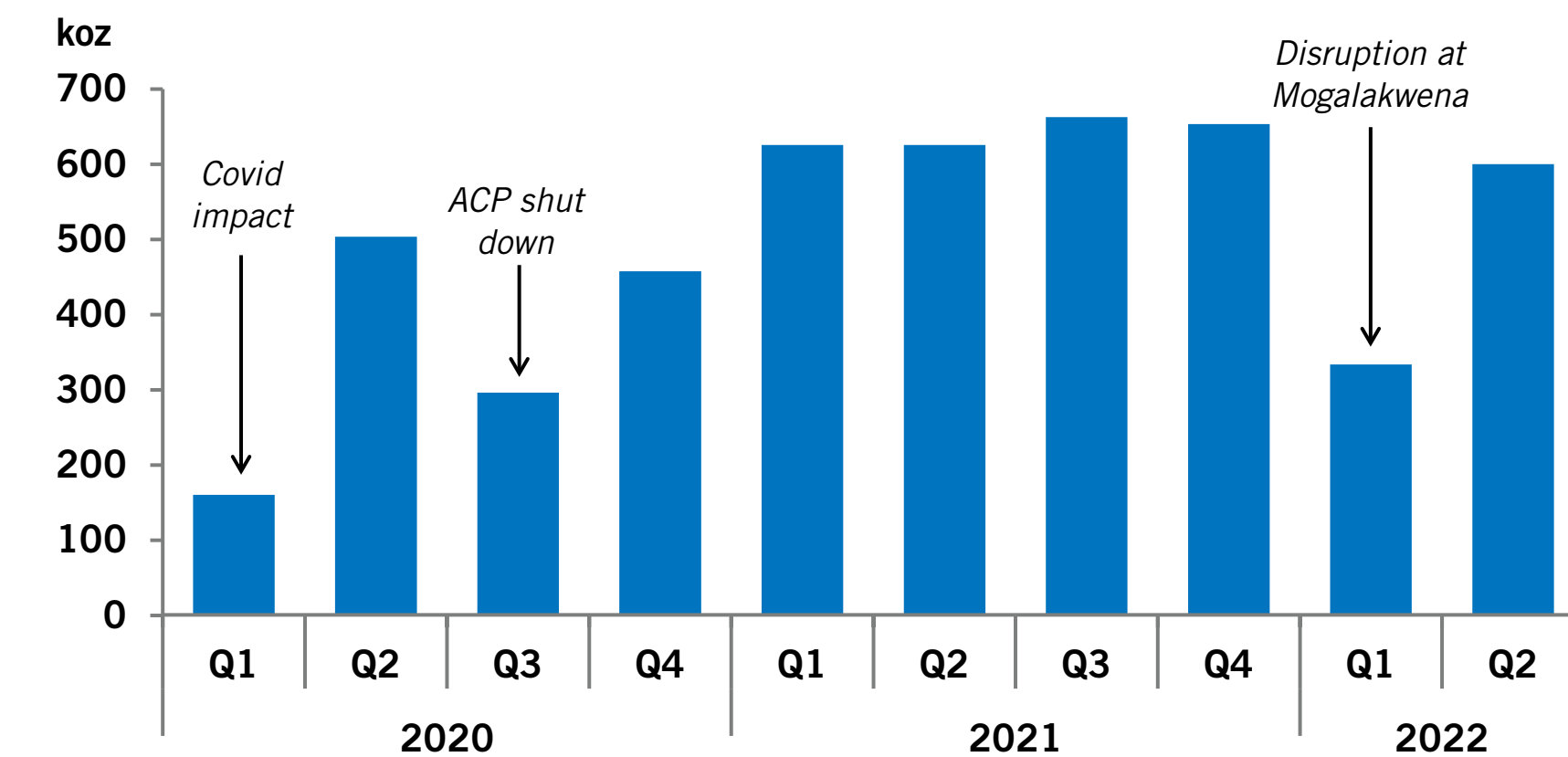
Source: SFA (Oxford), Bloomberg

EU new passenger car fuel types



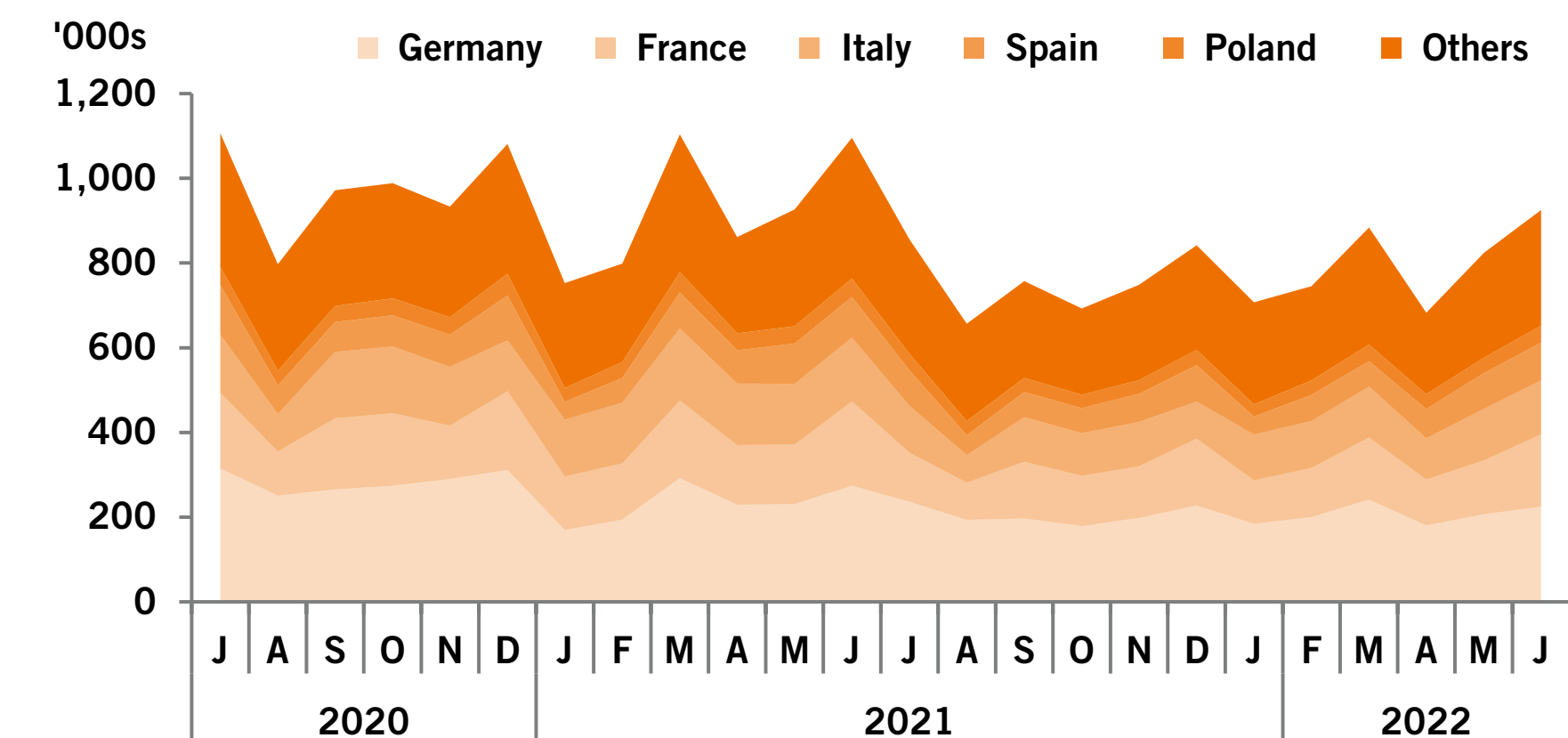
Source: SFA (Oxford), ACEA

Amplats refined platinum output



Source: SFA (Oxford), Anglo American Platinum

New passenger car registrations by country



Source: SFA (Oxford), ACEA

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