Heraeus

PRECIOUS APPRAISAL

No. 10

11th March 2024

MARKET SPOTLIGHT

It's safe-haven vs. speculation as gold hits new highs

Record highs in both defensive (gold) and speculative (stocks/crypto) assets imply the gold price rally is not simply the result of a rise in 'risk-off' sentiment. Gold pushing to new all-time highs in dollar and euro terms last week appears at first glance to have been part of a wider 'buy-everything' phase in financial markets. However, shifting expectations for US interest rate cuts to occur later are not supportive of a higher gold price. This presents an issue in identifying the drivers behind the sharp move higher, but clearly gold has been able to find willing buyers.

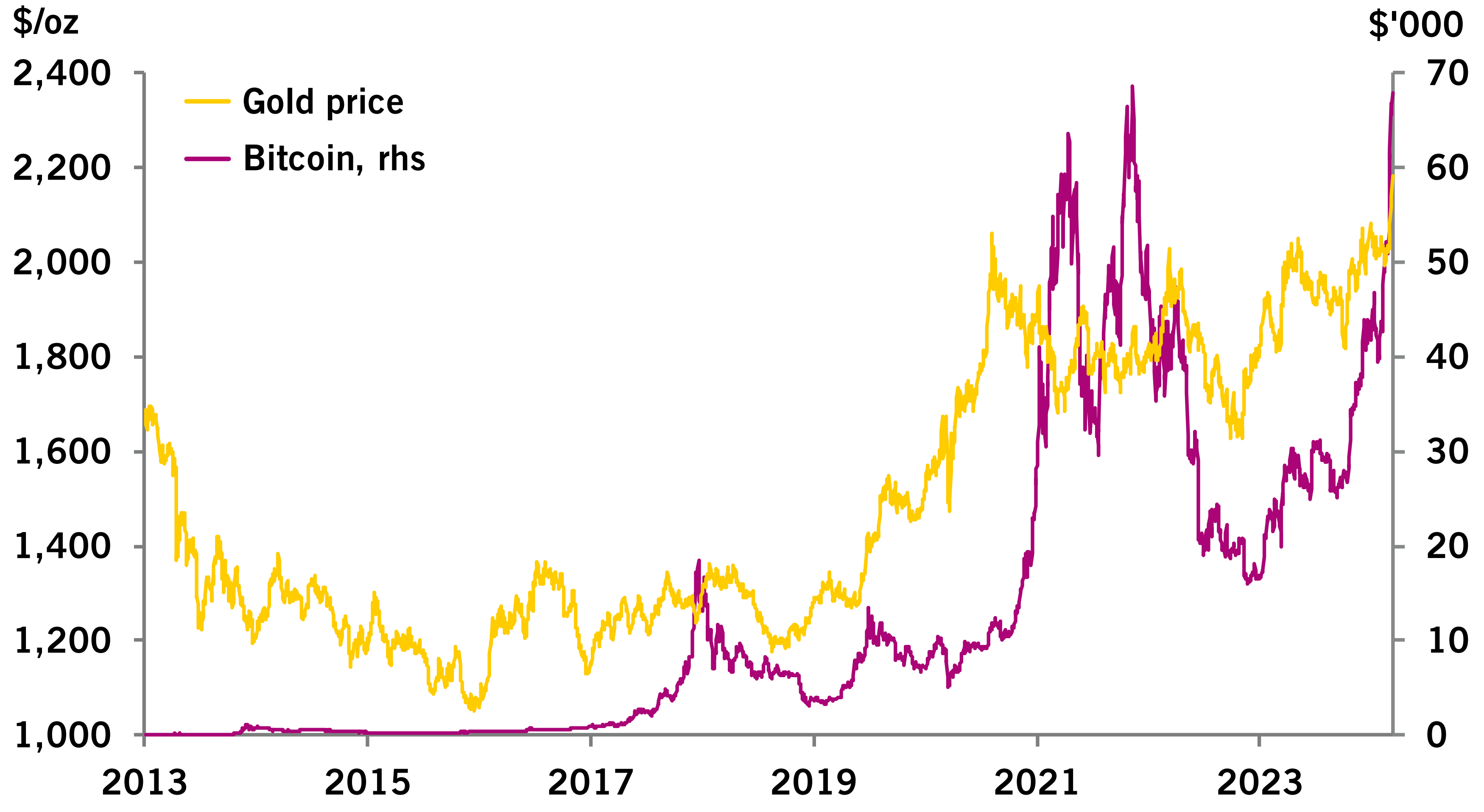
This rally is missing the typical drivers of a weaker dollar, lower rates, and ETF inflows. US bond yields fell to below 4.6% following US February PCE core inflation data coming in line with expectations and a weaker than expected US manufacturing PMI, which may have been a moderate tailwind for the rally. Inflation is receding in the US, weakening the 'inflation hedge' argument for gold allocations, and the dollar is yet to offer much bullish support for gold, given the US dollar index is up >2% year-to-date.

If these factors align later in the year, gold could go even higher. While the gold price has been rising since the middle of February, ETF investors have yet to back the rally. Bullion-backed ETFs have seen steadily reducing holdings of gold for more than year. However, the longer that gold trades at current levels, the more likely it is that trend-chasing investors will begin buying which may be an important positive stimulus. A dovish Fed is the most obvious, and possibly influential, catalyst for a gold bull-run. Last week, Jerome Powell's comment that rate cuts are "likely" this year indicate the Fed is open to cuts, but keen not to rush. Nevertheless, the market expects three or more interest rate cuts this year, which should be gold price supportive.

Robust physical demand underpins a strong gold price. Physical gold demand is expected to remain relatively robust in China and India this year, and net positive demand from central banks appears to be extending into this year, with central banks adding 39 tonnes of gold in January (source: World Gold Council).

Now in overbought territory, gold could see a correction and momentum could be arrested if US CPI comes in hotter than expected tomorrow. Despite any short-term volatility, the ingredients for longer-term gold price strength should be in place for later in 2024.

Speculation vs. safe-haven



Source: SFA (Oxford), Bloomberg

PRECIOUS METALS REVIEW

Gold

	CLOSE	WEEKLY CHANGE	HIGH	DATE	LOW	DATE
$/oz	2,181	4.81%	2,186	08/03/2024	2,081	04/03/2024
€/oz	1,993	3.76%	1,994	08/03/2024	1,918	04/03/2024

Central bank gold buying sustained into the New Year. The latest data from central banks shows that in total they added 39 tonnes of gold to reserves globally in January. The six banks that added more than 1 tonne of gold to their reserves to start off the year are all banks that have been regular buyers over the last 12-18 months. Turkey added the most gold, 12 tonnes, in January, lifting total gold reserves to 552 tonnes. The People's Bank of China (PBoC) has been a consistent buyer since October 2022 when it resumed public gold purchases following a 32-month hiatus. The latest data for February shows the PBoC also bought 12 tonnes of gold during February, bringing the country's total reserves to 2,275 tonnes. The strong start to central bank gold buying in 2024 suggests that these institutions, particularly those in emerging markets, will continue to accumulate gold at a similar rate to that in the last two years. Central banks have been skewed towards net purchases for more than 15 years. Since 2010, emerging market economies have accumulated 4,937 tonnes of gold, while developed economies have accumulated just 452 tonnes.

The gold price rose to a new record high last week in a number of currencies. In dollar terms, it reached an intra-day high of $2,186/oz on Friday, supported by what was considered by the markets to be a 'dovish' tone from Jerome Powell in his testimony to Congress, and downward revisions to US January payroll numbers on Friday. Although Powell said nothing new, he did still caution against cutting interest rates too soon. Some market participants might be thinking that the Fed may be too late to cut rates, in the same way, as some see it, that the Fed was too late to begin hiking rates, and the US economy is in danger of a contraction.

PRECIOUS METALS REVIEW

Silver

	CLOSE	WEEKLY CHANGE	HIGH	DATE	LOW	DATE
$/oz	24.34	5.41%	24.63	08/03/2024	23.09	04/03/2024
€/oz	22.25	4.34%	22.46	08/03/2024	21.29	04/03/2024

Perth Mint silver coin sales' start to 2024 is the worst in five years. Sales of silver minted products from the Perth Mint rose 31% month-on-month to 1.006 moz in February, the most in four months. However, total sales of 1.78 moz in the first two months of 2024 have been the lowest since 2019. The retail bullion investment market appears to be subdued at present. Silver coin sales from the US Mint saw a significant drop month-on-month in February, with weakness also spreading to gold coin sales which fell below 20 koz in February for the first time in four years. Perth Mint's silver coin sales have been on a downward trend since mid-2022. Recent price strength in silver and gold could result in less buying from price-sensitive coin purchasers, and therefore March sales could also be relatively weak.

Silver rallied along with gold last week, though it was the underperformer of the two. By the end of the week, silver had broken above, and was holding above, $24/oz – a year-to-date high. Nonetheless, with gold making new highs, sub-$25/oz for silver looks cheap versus its sister metal gold, at a gold:silver ratio of 89.6.

PRECIOUS METALS REVIEW

Platinum

	CLOSE	WEEKLY CHANGE	HIGH	DATE	LOW	DATE
$/oz	913	3.29%	928	08/03/2024	882	05/03/2024
€/oz	834	2.23%	851	07/03/2024	812	05/03/2024

Platinum miners cancel spending with delayed impact on supply. Producer responses to the PGM price rout have been largely focused on cost-cutting while maintaining production where possible. Sibanye-Stillwater has cut ~ZAR2.1 billion from capital expenditure and deferred projects at its PGM operations. Northam Platinum is delaying development at Booysendal and Eland mines. Anglo American Platinum expects to reduce stay-in-business CAPEX by ZAR5 billion in 2024. In recently released results, Impala Platinum has flagged the largest potential for production downgrades over the next few years, though most of the impact on platinum supply is a result of deferred growth projects rather than closures of operating shafts. Implats intends to defer the Phase II expansion at Marula mine and the decline extension at Mimosa, with minimal impact on platinum supply, and delay the Merensky expansion at the Two Rivers mine. This expansion would have added ~90 koz of platinum production from 2025. It is projected that there is more headroom for cost-cutting above-ground before miners are forced to close out production, though this space is shrinking. South African platinum supply is forecast to remain flat at 3.9 moz this year but the risk is low that PGM prices eventually force production cuts.

Platinum posted three strong daily gains late last week to finish the week at $913/oz as the rand strengthened, though it remains 7.6% lower than where it started the year.

PRECIOUS METALS REVIEW

Palladium

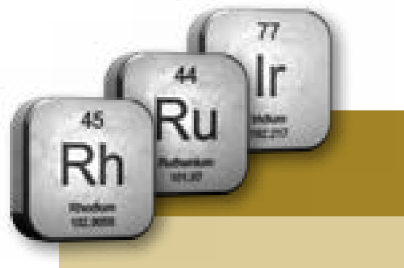
	CLOSE	WEEKLY CHANGE	HIGH	DATE	LOW	DATE
$/oz	1,026	6.92%	1,067	06/03/2024	933	05/03/2024
€/oz	939	6.02%	978	06/03/2024	861	05/03/2024

A quarter of North American palladium supply is potentially at risk from 2026. Impala Platinum confirmed in its annual report that the first round of restructuring and cost-cutting at the Lac des Iles mine in Canada has been completed, and reduced costs from $1,300/oz to $1,050/oz, with the next milestone of $950/oz. Based on current PGM prices, the mine's 2E PGM basket price is approximately $1,040/oz. In addition to restructuring the operation and efforts to improve average ore grades, the life-of-mine has been shortened from eight years to 2-4 years if the palladium price remains depressed. If the mine closes as early as FY26, ~225 koz could be removed from global palladium supply, or approximately 4% of forecast production and 30% of North American production in 2024. Sibanye-Stillwater intends to keep the Stillwater mine open in the US, though it has postponed expansion projects. The mine produced 330 koz of palladium in 2023 and is forecast to produce 340-355 koz this year. A reduction in expected palladium output from North America in the next few years is potentially supportive for the palladium price. However, recycled palladium supply growth is forecast to outweigh this revision to North American palladium supply, which could keep the pressure on palladium once recycling volumes pick up from the depressed levels of 2023.

Palladium experienced a sharp price spike on Wednesday last week, possibly owing to short-covering, which accelerated once previous price highs were taken out. The non-commercial speculators' gross short position in palladium futures was close to a record of 2 moz as of 27 February, with open interest of 2.2 moz. The previous resistance level at $1,000/oz may now become support for palladium, though time will tell if a new trading range will be established.

PRECIOUS METALS REVIEW

Rhodium, Ruthenium, Iridium



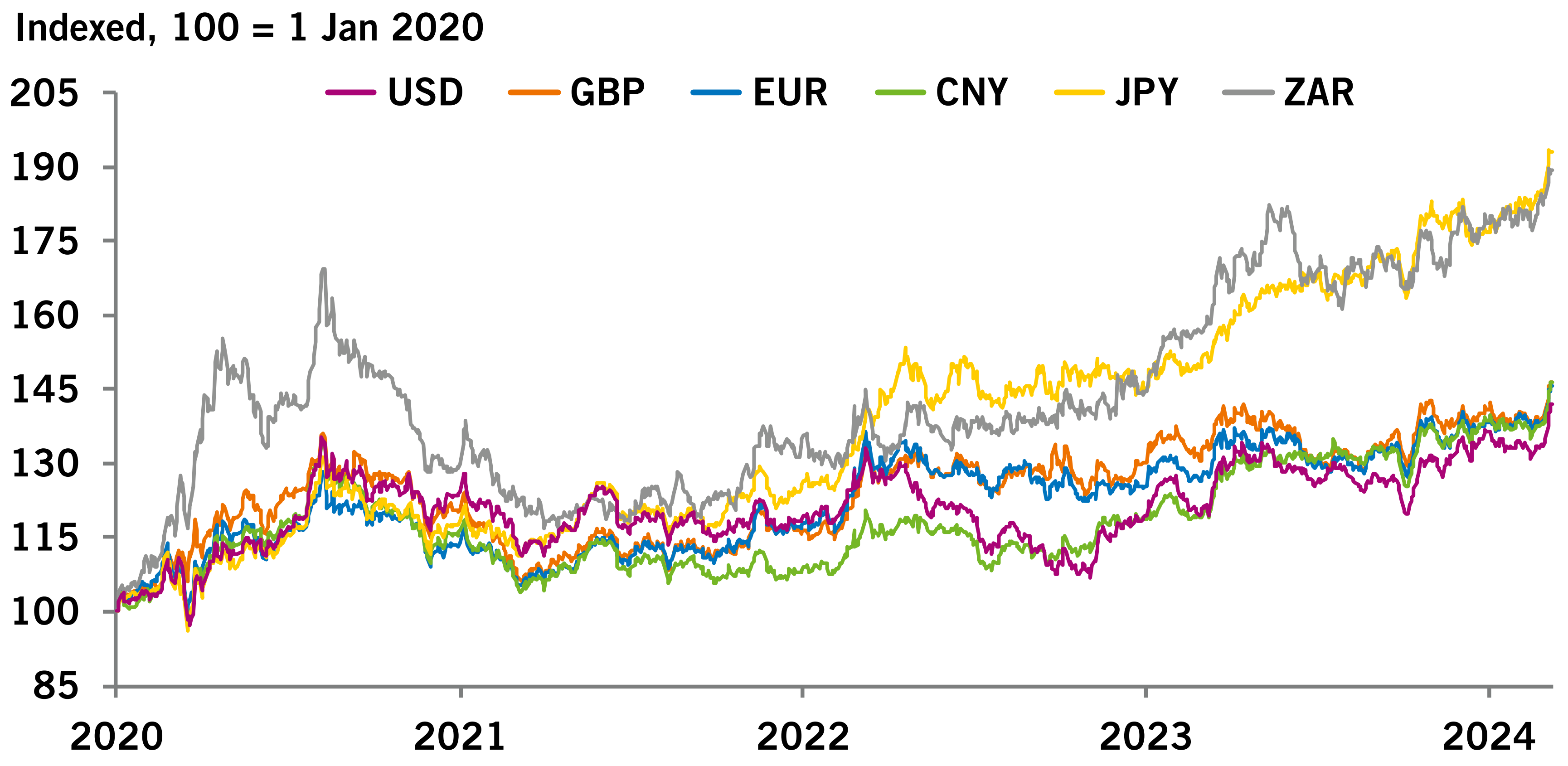
	RHODIUM	RUTHENIUM	IRIDIUM
Reporting Week	$5,000/oz	$455/oz	$5,400/oz
Previous Edition	$5,000/oz	$455/oz	$5,400/oz

Furuya Metal Co., a Japanese PGM product manufacturer, expects the market for ruthenium in hard-disk sputtering targets to begin a recovery this year following an extended period of inventory drawdown. Furuya's revenue from the hard-disk sector was down 21.5% year-on-year in H2'23, as hard-disk manufacturers chose to run down large inventories and right-size working capital. Leading indicators suggest that the market may soon resume growth, though some macroeconomic-related concerns continue in major datacentre and storage markets. Ruthenium demand may be supported as the recovery continues, though it could be slow and manufacturers are expected to maintain smaller inventories of PGMs going forward.

There was little price action in the small PGMs last week. All three metals were unchanged week-on-week.

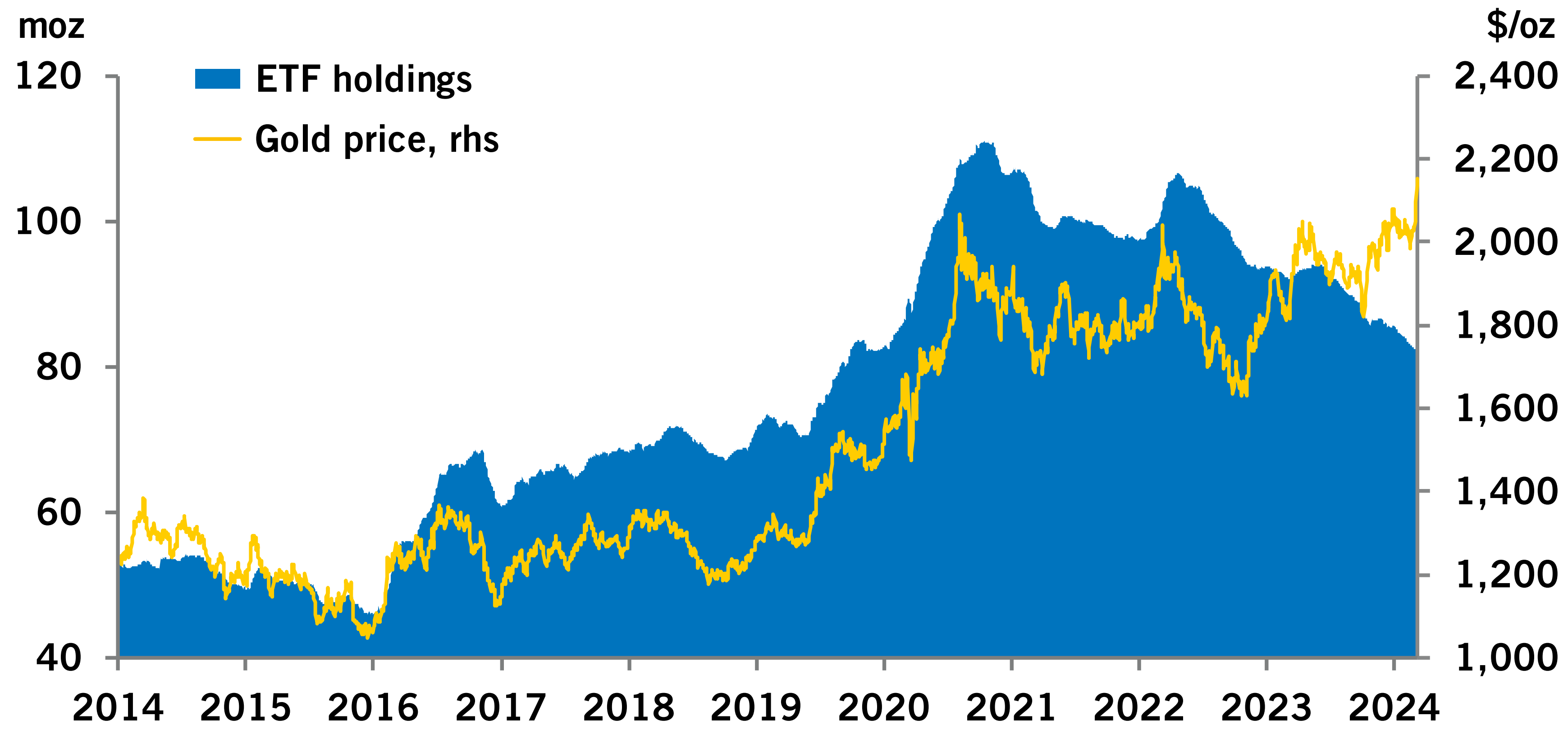
TRENDS AND INVESTMENTS

Gold price performance in different currencies



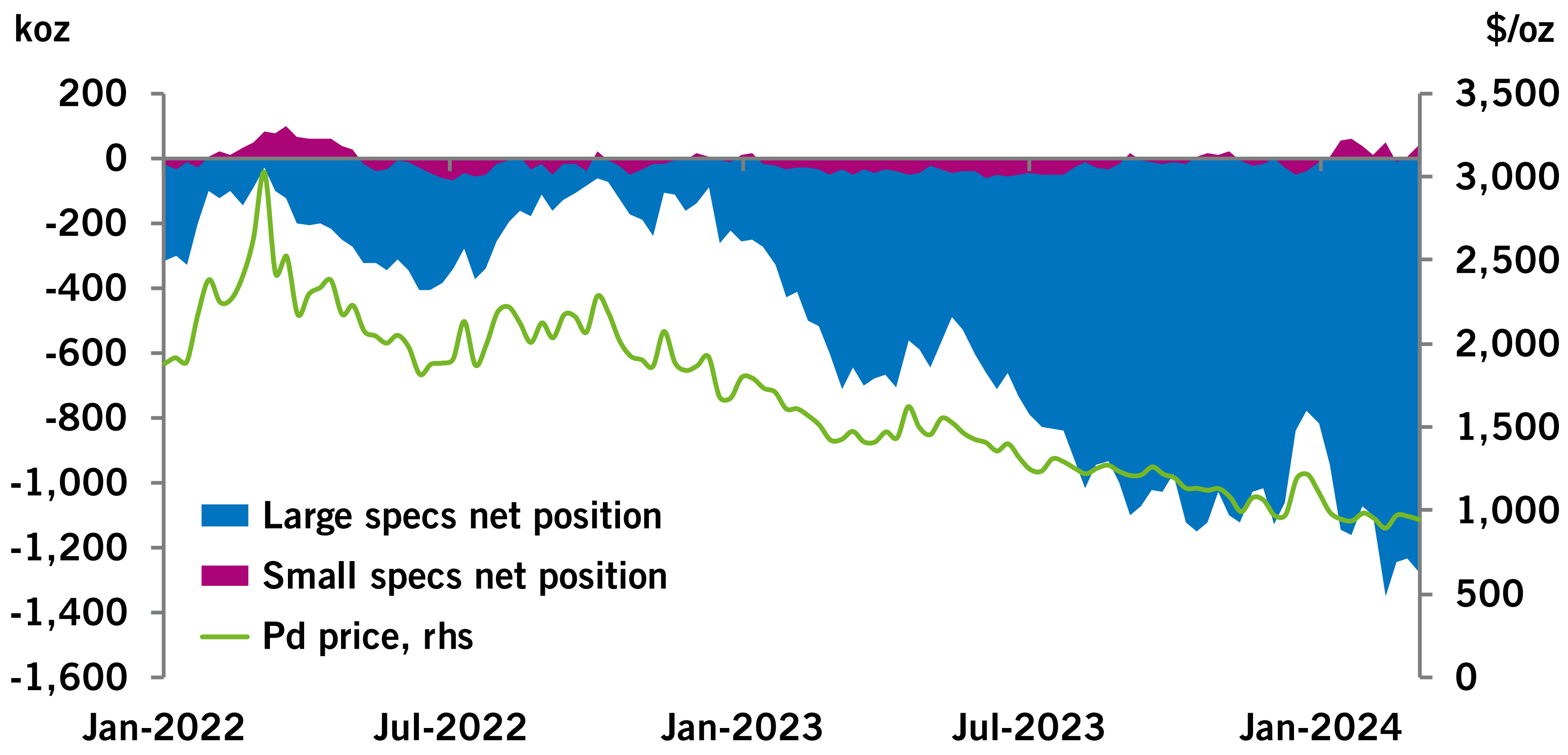
Source: SFA (Oxford), Bloomberg

Gold price vs. gold ETF holdings



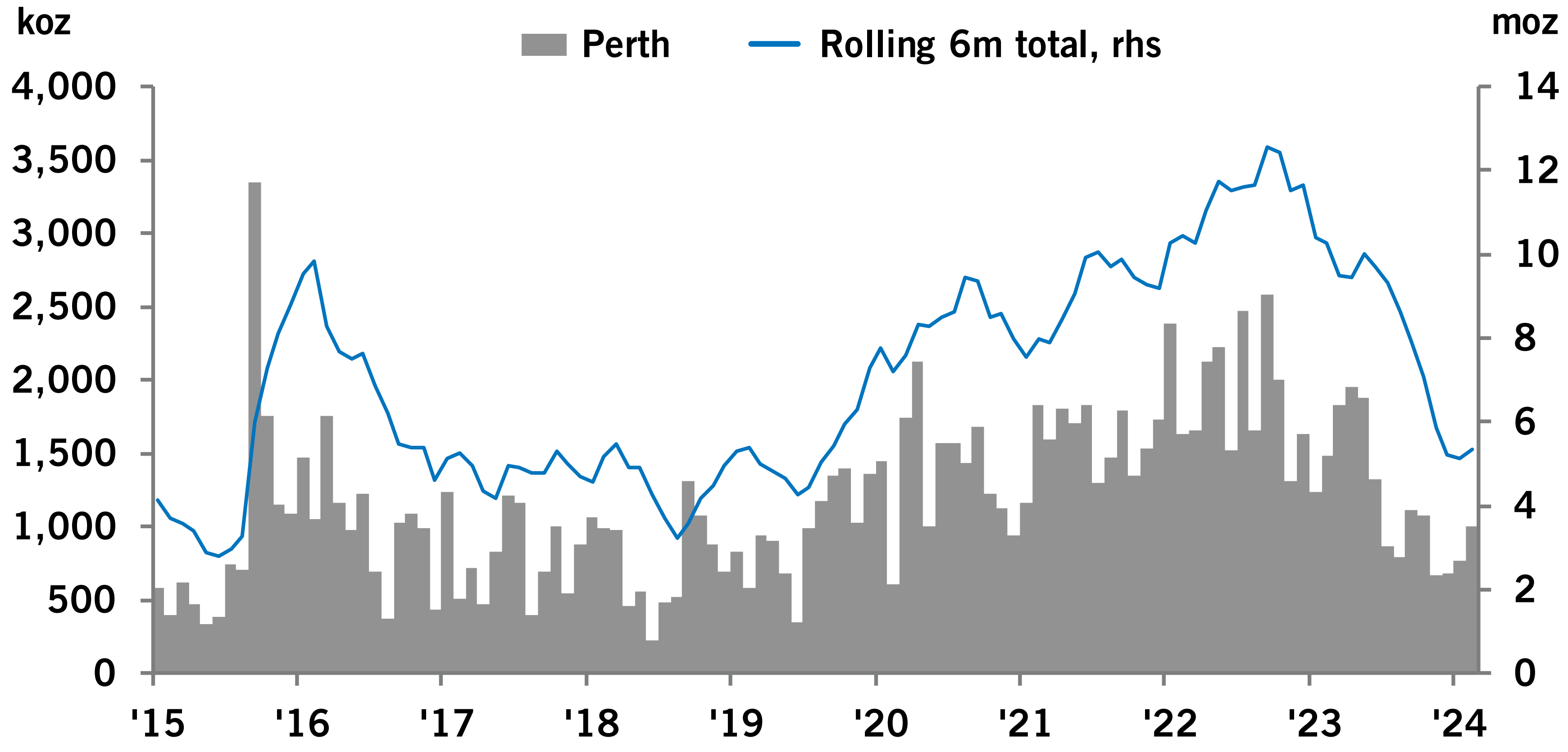
Source: SFA (Oxford), Bloomberg

Palladium price vs. speculative positioning



Source: SFA (Oxford), Bloomberg

Perth mint silver coin sales



Source: SFA (Oxford), Perth Mint

ABOUT HERAEUS

Learn more about important trends in the precious metals markets on a weekly basis with our Heraeus Precious Appraisal. **Please subscribe: www.herae.us/trading-market-report.**

Heraeus Precious Metals

Europe, Middle East, Africa & other regions
Phone: +49 6181 35 2750
tradinghu@heraeus.com

South East Asia
Phone: +852 2773 1733
tradinghk@heraeus.com

USA
Phone: +1 212 752 2180
tradingny@heraeus.com

China
Phone: +86 21 3357 5658
tradingsh@heraeus.com

The Heraeus Group is a broadly diversified and globally leading family-owned technology company, headquartered in Hanau, Germany. The company's roots go back to a family pharmacy started in 1660. Today, Heraeus bundles diverse activities in the Business Platforms Metals and Recycling, Health, Semiconductor and Electronics as well as Industrials. Customers benefit from innovative technologies and solutions based on broad materials expertise and technological leadership.

Heraeus Precious Metals is globally leading in the precious metals industry. The company is part of the Heraeus Group and covers the value chain from trading to precious metals products to recycling. In addition to gold and silver, it also has extensive expertise in all platinum group metals.

The Heraeus Precious Appraisal is produced in collaboration with:

SFA (Oxford) Ltd
United Kingdom
Phone: +44 1865 784366
www.sfa-oxford.com
The Oxford Science Park,
Oxford, United Kingdom, OX4 4GA

consulting analysts in tomorrow's commodities and technologies

Disclaimer

This document is being supplied to the recipient only, on the basis that the recipient is reasonably believed to be a professional market participant in the precious metals market. It is directed exclusively at entrepreneurs and especially not intended for the use of consumers.

The material contained in this document has no regard to the specific investment objectives, financial situation or particular need of any specific recipient or organisation. It is not provided as part of a contractual relationship. It is not and should not be construed as an offer to sell or the solicitation of an offer to purchase or subscribe for any investment or as advice on the merits of making any investment.

This report has been compiled using information obtained from sources that Heraeus and SFA (Oxford) Ltd ("SFA") believe to be reliable but which they have not independently verified. Further, the analysis and opinions set out in this document, including any forward-looking statements, constitute a judgment as of the date of the document and are subject to change without notice.

There is no assurance that any forward-looking statements will materialize. Therefore, neither SFA nor Heraeus warrants the accuracy and completeness of the data and analysis contained in this document.

Heraeus and SFA assume no liability for any losses or damages of whatsoever kind, resulting from whatever cause, through the use of or reliance on any information contained in this document. However, in so far as a liability claim exists under German law, Heraeus and SFA shall have unlimited liability for willful or grossly negligent breach of duty.