

# HERAEUS PRECIOUS APPRAISAL

Heraeus

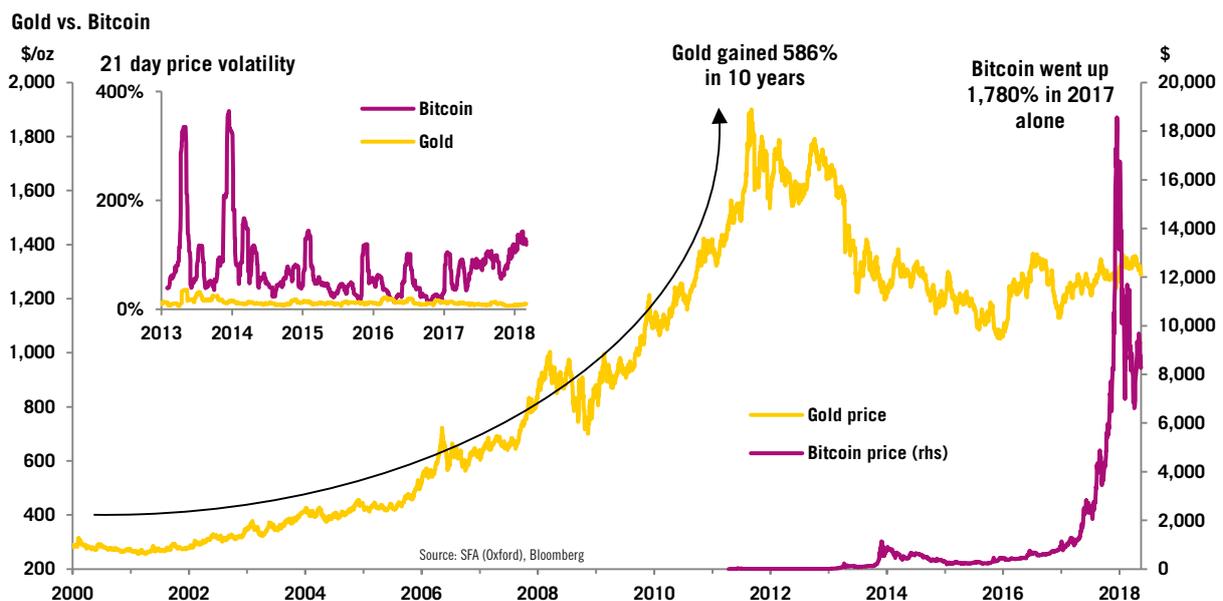
Ed. 14  
28<sup>th</sup> May 2018



## MARKET SPOTLIGHT

### Bitcoin – a flash in the pan or a replacement for gold?

Bitcoin was originally designed to have similar traits to gold that made it suitable as money. Bitcoins are “mined” and, like gold, bitcoins are scarce and the incremental increase in the supply of bitcoins each year is small compared to the total already mined. Bitcoin is an alternative to fiat currency – a means of payment and store of value that cannot be manipulated or devalued by governments or central banks.



The price of bitcoin passed that of gold in March 2017, but speculation rather than utility or investment merit has driven the price. Compared to gold, bitcoin is much more volatile, on both the upside and the downside, making it seem a significantly worse store of value. After escalating by over 1,780% in 2017 to its peak in December at \$18,572, bitcoin has fallen more than 50% in six months to \$8,220. In over six years since the gold price peaked, gold is down by around a third.

Bitcoin is a cryptocurrency with a digital, but not physical, existence, and is the ultimate example of something being worth what someone else is prepared to pay for it, but as Warren Buffett said, “Price is what you pay, value is what you get”. Gold has more than 5,000 years of history and over half of the world’s population owns some gold. Compare that to bitcoin’s 10 years of existence.

Now that some of the speculative froth has gone there could be some utility in having a digital currency, so Bitcoin could retain some value, but as a digital entity it is more likely to be a complement to, rather than a replacement for, gold.



# PRECIOUS METALS REVIEW

## 79 Au Gold

	Close	Weekly change	High	Date	Low	Date
\$/oz	1,304	0.99%	1,308	25/05/2018	1,282	21/05/2018
€/oz	1,118	1.93%	1,121	25/05/2018	1,092	21/05/2018

**A strengthening US dollar and rising bond yields have not been good for gold.** The dollar jumped and the 10 year US Treasury broke clear of the 3% yield level and reached a multi-year high on the 15<sup>th</sup>. Gold dropped 1.7% on the day to close at \$1,290/oz, its lowest level of the year.

However, in the last week while the dollar has held its gains, yields have slipped back and gold has edged higher as signs have emerged that geopolitical tensions are increasing again. A new Italian government composed of a coalition between the anti-euro Five Star Movement and anti-immigration Northern League which could cause problems for the ECB and the euro is not to come about.

The planned meeting between Donald Trump and Kim Jong-Un, for which there were hopes of progressing peace in the Korean peninsula, was cancelled by Trump, but the next day he said it may be back on. **If tensions ease then pullbacks in the US\$ and bonds may offer only temporary relief to gold.**

**The minutes from the Federal Reserve meeting suggest that the Fed is likely to raise rates at its next meeting in June**, but it is unclear how many more rate rises are planned this year. If inflation stabilises around 2%, as the committee thinks, then **further rate rises will be a negative for gold.**

## 47 Ag Silver

	Close	Weekly change	High	Date	Low	Date
\$/oz	16.54	0.74%	16.72	25/05/2018	16.27	21/05/2018
€/oz	14.18	1.69%	14.31	25/05/2018	13.88	21/05/2018

**The trading range on the silver price has been narrowing this year in a continuation of the trend from 2017.** From a technical point of view this suggests that a breakout is increasingly likely to occur soon and the pattern of decreasing highs make a breakout to the downside seem a real possibility, which would be signalled by a move through the support level at \$15.60/oz-\$15.75/oz. **However, with the gold:silver ratio at 79 silver still looks undervalued.**

**US electronics manufacturing moved to an all-time high in March while Japanese manufacturing moved to the**

**highest level in 10 years**, just 3% off the 2007 high. March saw China decline in exports of electrical and electronic equipment after 14 consecutive months of growth as the impacts of the US tariffs start to effect the market, although the decline was only 2.3% year-on-year. Electronics forms the largest section of silver demand, at almost a quarter of the total, and consumer demand for electronics is expected to increase in emerging markets which the IMF forecast will see GDP growth of 5% in 2018 and 2019.

## 78 Pt Platinum

	Close	Weekly change	High	Date	Low	Date
\$/oz	902	2.02%	915	24/05/2018	878	21/05/2018
€/oz	773	2.98%	781	25/05/2018	748	21/05/2018

**Hydrogen fuel-cell buses have been introduced to Chengdu as more Chinese vehicle manufacturers become interested in the technology for heavy-duty vehicles.** Attendees to London Platinum Week may have heard of the particular benefits that fuel-cell power has to offer this vehicle class from ITM Power CEO, Graham Cooley, as the move towards zero emissions vehicles is made. The longer range and faster refuelling time are

possibly the most obvious benefits but, the separation of energy and power requirements make the technology more cost effective and efficient in large vehicles, and depot refuelling presents an opportunity for creating fuel from renewable energy. If this technology catches on it would become a major source of platinum demand in the future.



# PRECIOUS METALS REVIEW

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

	Close	Weekly change	High	Date	Low	Date
\$/oz	976	1.12%	1,007	22/05/2018	968	21/05/2018
€/oz	835	1.81%	853	22/05/2018	825	21/05/2018

**China's announcement that it will cut tariffs on imported cars from 25% to 15%, and on car parts from 25% to just 6%.** This was seen by many as primarily an attempt to ease tensions between China and the US, and it has been fairly successful, but of course there are implications for the market itself. The effect on the volume of cars being imported into China may not change dramatically though and the upside for palladium is limited. Most foreign manufacturers have already set-up joint ventures with local manufacturers in order to build cars in China. Demand in China is still primarily for cheap vehicles and, as such, the 15% tariff that still remains eliminates the opportunity to compete in this segment. Consequently the main benefit will be to high-end vehicles which could encourage some upsizing and consequently raise the average palladium loadings in vehicles sold, although likely less than 1%.

The US has launched an investigation into US imports of EU cars and trucks on the grounds of national security. This could prove problematic for auto manufacturers, but while palladium demand may shift region if production is ultimately moved from Europe to North America, overall demand is unlikely to be much affected.

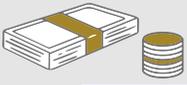
**The non-commercial traders net long position in palladium futures has held above 1 moz for the last five weeks.** This follows a decline from 2.7 moz at the start of 2018 to 0.8 moz in mid-April as the price dropped from over \$1100/oz to under \$900/oz. Non-commercial traders took profits after increasing their long positions during 2017 at lower prices. The price has moved back above \$960/oz, but speculative long positioning has not recovered proportionately showing **traders currently have less appetite to take long positions at prices above \$900/oz.**

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

	Rhodium	Ruthenium	Iridium
Reporting week	\$2,250/oz	\$275/oz	\$1,425/oz
Previous week	\$2,195/oz	\$275/oz	\$1,335/oz

**The rhodium price has gained 2.5% over the last week in spite of the stronger US dollar.** The tightness in the market continues for now, although the rally is unlikely to hit historical highs as the market is close to balance. The flow of rhodium metal from ETF holdings has also slowed; the last six weeks have seen outflows totalling 7.5 koz compared with 22 koz in the six weeks prior to that. Iridium is also gaining against the pressure of a stronger dollar as it increased by \$90/oz last week, while ruthenium held its price at \$275/oz.

The small metals were the subject of the most interest and discussion, by far, among end users and fund managers during London Platinum Week. This is, no doubt, connected to the significant price appreciation that the metals have seen. Rhodium, ruthenium and iridium prices have increased by 31%, 38%, 46% year-to-date and by 260%, 588%, and 174% respectively from their 2016 lows.



# TRENDS AND INVESTMENTS

## Dollar index



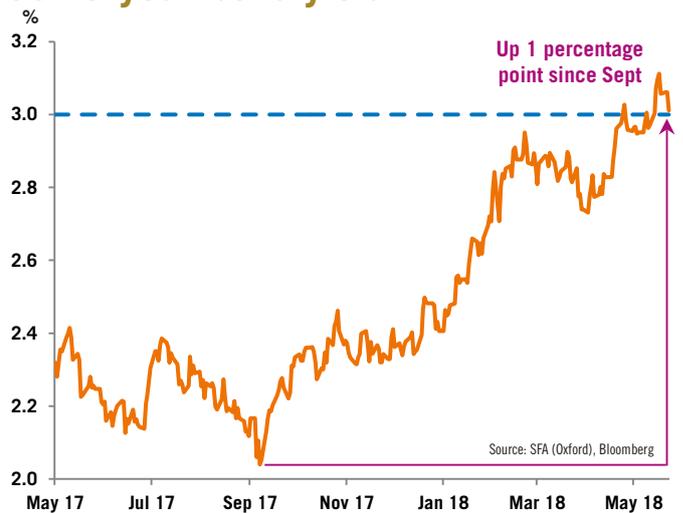
## Silver price



## Pd specs net futures position



## US 10-year bond yield



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