

# HERAEUS PRECIOUS APPRAISAL

Heræus

Ed. 15  
4<sup>th</sup> June 2018



## MARKET SPOTLIGHT

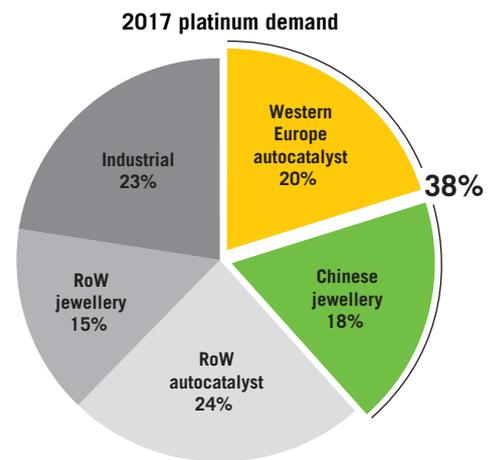
### Platinum's two largest demand segments are shrinking

Changes in the Chinese jewellery market have had a far greater impact on platinum demand than the decline in diesel market share in Europe, despite the impression the relentless media coverage on diesel emissions might give.

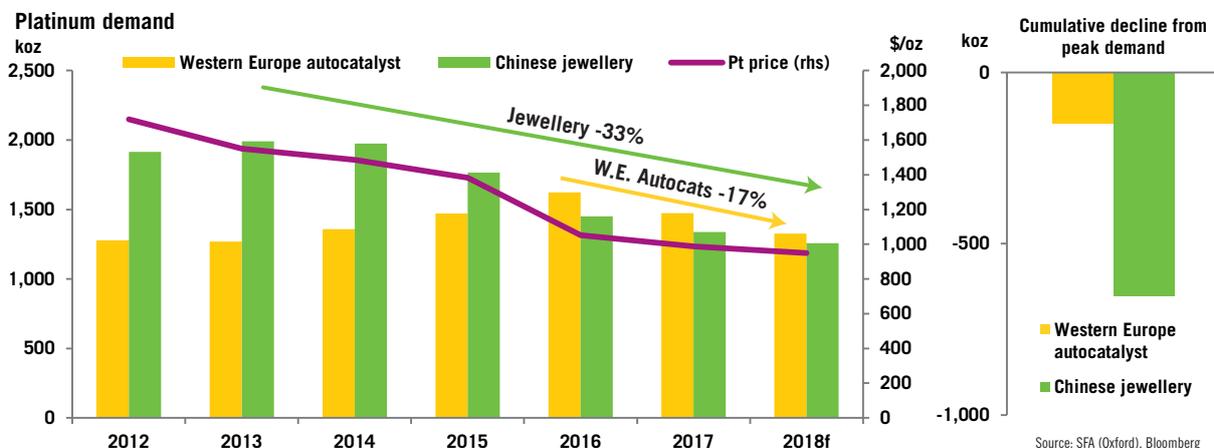
Platinum jewellery manufacturing demand in China is likely to fall by 5% to 10% this year, Platinum Guild International estimated in its Jewellery Business Review 2017 during London Platinum Week. Although growth is still expected in the bridal segment, PGI claims limited marketing support will mean that the gifting and self-purchase segments will continue to struggle this year.

In China, manufacturing demand for platinum jewellery was down 5.7% in 2017, while the overall jewellery market improved. PGI noted that consumers' tastes have changed – they have become more sophisticated, and too many jewellery retailers are still stocking generic platinum jewellery. It will take the retailers and manufacturers some time to adjust the balance of their products to match consumer preferences.

Since its peak at close to 2 moz in 2013, Chinese platinum jewellery demand has fallen by a third, whereas Western European autocatalyst demand has dropped by less than 10% from its recent peak in 2016. However, both are expected to decline further in 2018.



Source: SFA (Oxford)



Source: SFA (Oxford), Bloomberg

The contraction in market share for diesels now means fewer diesel cars are being sold in Western Europe, even with overall car sales expanding 3.4% in 2017 (source: ACEA), dragging down platinum autocatalyst demand to under 1.6 moz.

Other demand segments are seeing increasing platinum use, but with the two largest demand segments in decline this is not sufficient to lift overall platinum demand this year, leaving the market in surplus.



# PRECIOUS METALS REVIEW

## 79 Au Gold

	Close	Weekly change	High	Date	Low	Date
\$/oz	1,296	-0.60%	1,307	29/05/2018	1,289	01/06/2018
€/oz	1,110	-0.70%	1,133	29/05/2018	1,106	01/06/2018

**The threat of a euro exit has demonstrated that gold may no longer be viewed as a useful safe haven; the gold price did not react strongly and, as such, may not benefit from remaining political uncertainty.** The future of the whole Eurozone was thrown into doubt Sunday 27 May when the attempt to form a coalition government in Italy was abandoned after the President rejected the nominee for Finance Minister. The market reaction was delayed by holidays in the US and UK until Tuesday but nonetheless it was strong as fears grew that a new election could be a proxy referendum on euro membership: US treasuries

fell (2-year yield -16bps), the yen gained (+0.6%) while Italian bonds (2-year yield +186bps) and equities (FTSE MIB -2.7%) suffered. Despite this reaction, gold moved very little (+0.3%) from its position established on 23 May when the Federal Reserve meeting minutes were released and President Trump first cancelled the North Korea summit. It seems that the gold safe haven does not offer the kind of protection that investors are seeking and so the price will likely be more dictated by moves in the dollar, US bonds and interest rates.

## 47 Ag Silver

	Close	Weekly change	High	Date	Low	Date
\$/oz	16.46	-0.51%	16.60	31/05/2018	16.32	29/05/2018
€/oz	14.09	-0.63%	14.31	29/05/2018	13.99	31/05/2018

**The COMEX silver non-commercial net long position increased by 73 moz to reach 76 moz despite the price staying close to the \$16.50/oz level it has been near since February.** The non-commercial net position reached its low of -85 moz on 3 April and has climbed to its current level which was last achieved in early February, just after the price had dropped from \$17.20/oz. The specs' position did increase briefly in late April due to the price spiking to \$17.25/oz, a move that was likely exacerbated by short-covering, but immediately dropped again to a net short position as the price receded. **If silver breaks through the region around \$16.75/oz again, it looks more likely that it could sustain that level.**

**Violence in Mexico is putting supply at risk in silver's highest producing country,** responsible for 22% of global supply last year. Last week Pan American Silver (25 moz of production in 2017) announced it was curtailing operations at its Dolores mine (2017: 4.2 moz of silver) in the Chihuahua region in the north of the country in response to the danger from warring drug cartels. Mexico's Business Coordinating Council has said, "The high levels of violence have become one of the greatest obstacles for economic activity".

## 78 Pt Platinum

	Close	Weekly change	High	Date	Low	Date
\$/oz	907	0.66%	915	31/05/2018	900	01/06/2018
€/oz	778	0.60%	789	29/05/2018	772	28/05/2018

**The increasing number of short positions in platinum may be premature and there is a risk of short-covering if the price fails to fall.** The net long position of NYMEX platinum speculative futures fell to 0.40 moz on 22 May, the lowest value since December 2008. The net long position has dropped week-on-week since its high of 2.37 moz on 27 February, and the platinum price dropped \$73/oz to \$908/oz over the same period. Short positions increased 108% from 1.1 moz to 2.3 moz while long positions moved significantly less, reducing by 23%, but this has occurred while the price has failed to break through support around \$900/oz, suggesting the prematurity of the shorts.

**A general election is to take place in Zimbabwe on 30 July which could help to unlock the country to foreign investment and ultimately lead to an increase in platinum supply** through much needed replacement and expansion capital expenditure. President Mnangagwa made the announcement last Wednesday committing to a free and fair election, a crucial step to demonstrating stability and reducing political uncertainty. As long as the elections go ahead without disruption, business confidence should be dramatically improved. A freely elected government will also have a greater mandate for introducing additional reforms.



# PRECIOUS METALS REVIEW

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

	Close	Weekly change	High	Date	Low	Date
\$/oz	998	2.30%	999	01/06/2018	975	30/05/2018
€/oz	854	2.25%	856	29/05/2018	840	28/05/2018

**Under current plans the rise of electric vehicles is expected to have little impact on palladium over the next 12 years**, but the actions taken by governments in the next few years will be crucial to the size of the effect. The International Energy Agency (IEA) has released a report on the future of electric vehicles, shedding light on the threat to gasoline cars and palladium demand. The IEA created two forecasts: a base case, which only considers the outcomes from legislation which has already been implemented or announced, and an alternative scenario, which estimates the consequences of governments reaching a target of 30% of sales being electric vehicles; in the base case the market share of

electric vehicles only reaches 13% by 2030. However, of those electric vehicles, hybrids and plug-in hybrids still have catalysts with similar loadings to those of standard gasoline engines but the IEA expects battery powered vehicles to be more popular in the alternative scenario, constituting 60% of electrified vehicle sales instead of 33% in the base case. Additionally, the global number of cars in use in 2030 is estimated to be 12% lower in the alternative scenario than in the base case. The total consequence of this is that the base case would result in a 4% loss of potential palladium demand in 2030 versus 28% in the scenario where the targets are met, the difference representing up to 2 moz of palladium demand.

## <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	\$2,250/oz	\$275/oz	\$1,425/oz

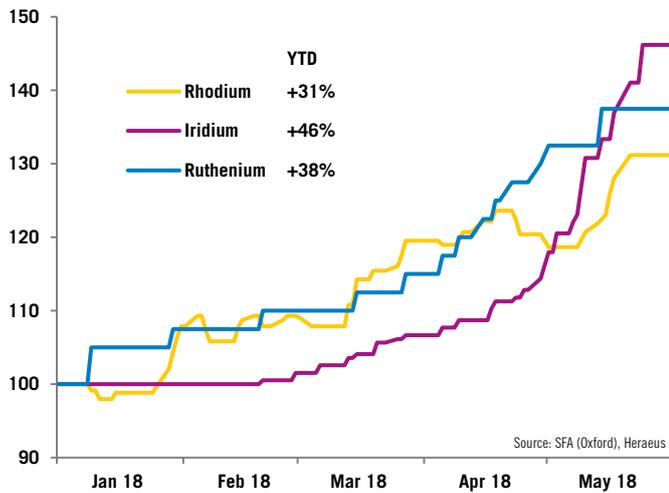
**All three small PGMs slowed their gains last week but on a year-to-date basis have performed fairly similarly** given the size of the changes that have been seen. Iridium is now the best performer of the three metals this year, having increased 46%, but this is perhaps less surprising given that the other two metals gained considerably in the second half of 2017 and suggests that iridium might have some way to climb yet. Ruthenium has gained 38%

in 2018, growing particularly strongly in April by 13%, but has slowed considerably from the tripling in price it saw last year. Rhodium has had the worst performance and the most volatility, being the only one to see any daily declines in the price, but this is likely a result of it having greater exposure to speculation.

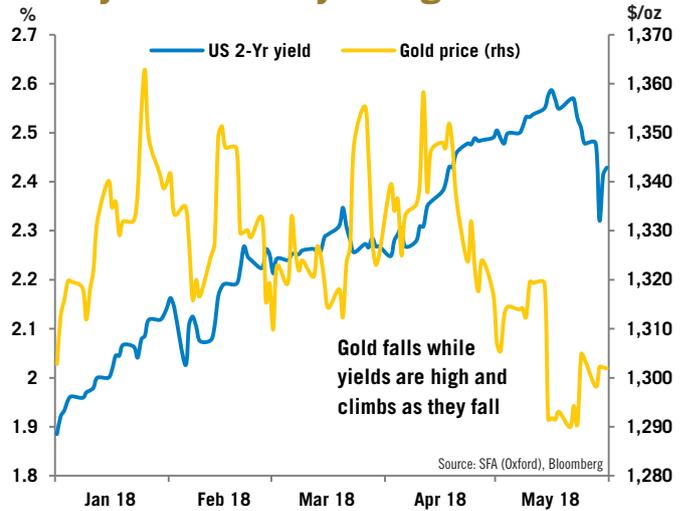


# TRENDS AND INVESTMENTS

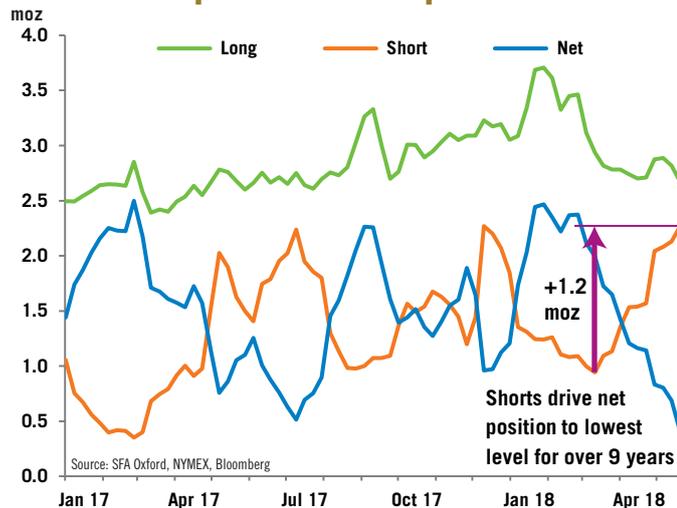
## Small PGM performance index



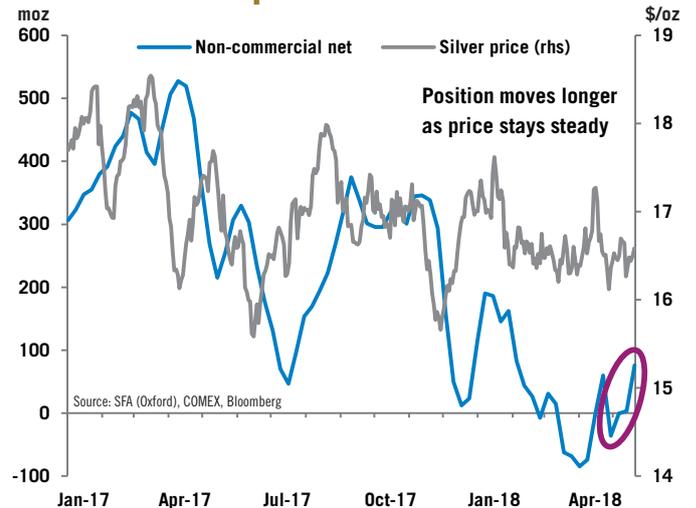
## US 2-year treasury and gold



## Platinum specs futures position



## Silver futures position



## Heraeus Precious Metals

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

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

[www.herae.us/trading-market-report](http://www.herae.us/trading-market-report)

United States of America  
 Phone: +1 212 752 2180  
 tradingny@heraeus.com

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

The HERAEUS PRECIOUS APPRAISAL produced in collaboration with:

**SFA (Oxford) Ltd**  
 United Kingdom  
 Phone: +44 1865 784374  
 www.sfa-oxford.com



The Oxford Science Park, Oxford,  
 United Kingdom, OX4 4GA

## 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. Unless expressly permitted by law, no part of this document may be reproduced or distributed in any manner without written permission of Heraeus. Heraeus specifically prohibits the redistribution of this document, via the internet or otherwise, to non-professional or private investors and neither Heraeus nor SFA accepts any liability whatsoever for the actions of third parties in reliance on this document. Prices quoted are interbank (offer) prices for gold, silver, platinum and palladium. Rhodium, ruthenium and iridium quotes reflect the Heraeus offer price at the time of writing.