



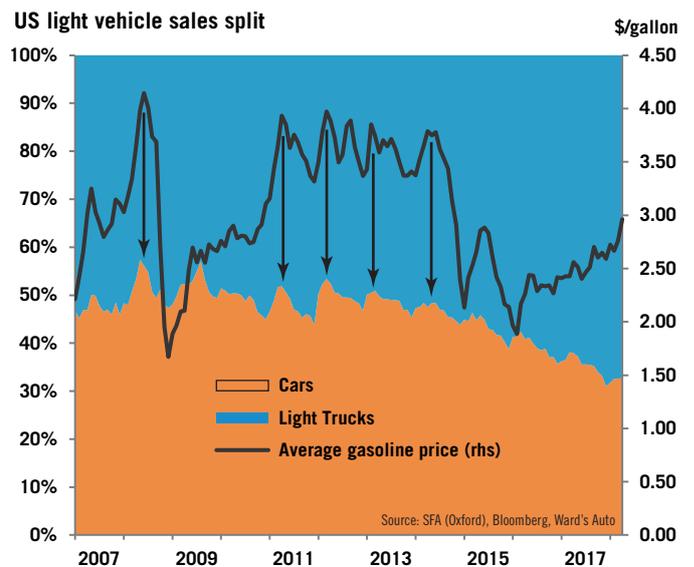
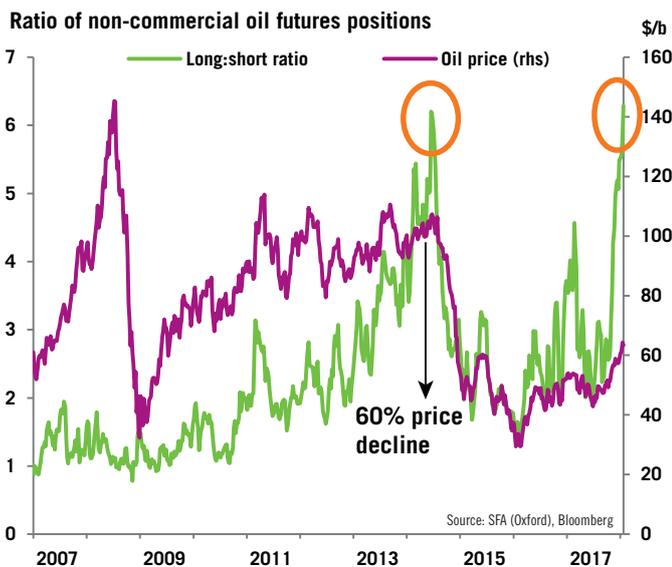
MARKET SPOTLIGHT

Will today's high fuel prices impact PGM demand?

If high oil prices persist this could cause a shift in car buying behaviour. Governments have introduced incentives to bring down the purchase price of electric vehicles (EVs) and have raised the tax on higher emission vehicles. Meanwhile, environmental lobby groups are championing the use of clean vehicles. The current high fuel prices are giving consumers another reason to consider downsizing or switching to EVs, where recharging costs are less than 10% of refuelling costs.

In the US the average price of gasoline is now over \$3.00/gallon. From 2008 to 2013 gasoline prices above \$3.50/gallon were enough to see a shift back to passenger cars from less fuel efficient SUVs and trucks. In Europe, gasoline and diesel prices are at their highest level since 2014 and in France the diesel price is now higher than at the oil price peak in 2008.

All eyes will be on the OPEC meeting on 22-23 June to see whether supply will be increased. If it is not then supply disruptions could keep oil and fuel prices elevated, which will start to push consumers towards smaller cars (with smaller catalysts and hence lower PGM loadings) or even to EVs.



However, traders' speculative futures positions suggest that the oil price has peaked. Speculative positioning actually reached a peak in February as the non-commercial traders' net long futures position reached 739 million barrels. The last time that the non-commercial traders cut their positions ahead of a price peak was in 2008, when the oil price reached a record \$147/barrel. In addition, the non-commercial traders' positioning is the most one-sided and bullish that it has ever been. This is because the ratio of their long positions to short positions has reached a new record, surpassing the previous record that occurred in 2014 just before the oil price collapsed by 60% in seven months. If the oil price does fall then this will weaken the incentive to move to smaller vehicles, in particular supporting palladium demand in the US.



PRECIOUS METALS REVIEW

79 Au Gold

	Close	Weekly change	High	Date	Low	Date
\$/oz	1,299	0.18%	1,303	07/06/2018	1,290	05/06/2018
€/oz	1,103	-0.63%	1,112	05/06/2018	1,097	08/06/2018

The focus this week will be on the central banks, as the European Central Bank, Federal Reserve and Bank of Japan all meet. Gold investors will be paying attention to any indications from the Federal Reserve on future interest rate rises. The ECB and BoJ may give additional details on a timeframe for ending quantitative easing (QE). Based on comments made last week by the ECB's chief economist, Peter Praet, it seems likely that the ECB will at least discuss the unwinding of QE, having avoided it up to now. However, the impact of a move to end QE may be more to strengthen the euro rather than on gold

directly. The BoJ is less likely to make such hawkish comments, although Governor Kuroda might give a few more details on the bank's long-term intentions for its approach to reducing its debt holdings. The Fed will most likely raise interest rates this week, but whether there is a total of three or four rises in 2018 remains to be seen. The interest rate futures market currently implies a 37.8% probability for four or more interest rate rises this year. Any indication of the Fed favouring four rate rises would be negative for gold.

47 Ag Silver

	Close	Weekly change	High	Date	Low	Date
\$/oz	16.76	1.84%	16.90	07/06/2018	16.36	05/06/2018
€/oz	14.23	0.99%	14.32	08/06/2018	14.01	04/06/2018

The very low levels of historic volatility in silver, and gold, seen over the past few weeks could lead to a reasonable move in the near future. The silver price continues to stay in a narrow band since the 2% decline on 16 May. During that 18-day period annualised volatility has been just 10% compared with a 20-year average of 25%. Over the last 10 years, a period which has seen record low

volatility in the equities market, lower levels of volatility in silver have been seen on less than 1% of trading days. Gold has seen a similarly rare level of volatility as its figure, over the same period, dropped to 6% against a 20-year average of 15%. As was seen earlier this year in the equity markets, when a low volatility period ends the result can be dramatic.

78 Pt Platinum

	Close	Weekly change	High	Date	Low	Date
\$/oz	905	-0.25%	910	04/06/2018	893	05/06/2018
€/oz	769	-1.10%	776	04/06/2018	760	08/06/2018

Diesel car sales continue to fall sharply in Europe amid more negative publicity. Italy is the largest market for diesel cars in Europe. Despite a 10% year-on-year drop in May, the market share of diesel cars in Italy is still very high at 51.7% (103,000 cars). Germany saw a decline in diesel car sales of 27% in May compared to the same month in 2017, as the market share fell to 31.3%, equivalent to 95,000 diesel cars. Diesel cars have already been banned in parts of Hamburg despite encouragement from the government to pursue alternatives. In addition, the demand for diesel cars from the UK has declined almost as much at 24%. The bottom of this trend is likely still some way off, with several hundred koz of platinum demand at risk. Diesel received more bad press from a recent paper from the "TRUE" initiative (The Real Urban Emissions). TRUE's testing found that no Euro 6 diesel cars met the original 80 mg/km specification for

NO_x emissions in real world environments. These findings have been countered by an article from the ACEA that points out that many do conform to the Euro 6d-TEMP standard, which allows a 2.1 conformity factor, including all diesels released since September 2017.

Recent declines in platinum ETFs suggest investors are losing faith in the upside potential of the metal. Platinum ETF holdings declined 64 koz in May with further declines in June bringing the total to 65 koz, a 3% drop to 2.51 moz, the lowest level since January 2017. Palladium has seen a similar 86 koz reduction in ETF holdings to 1.03 moz but this has been on a high and steady price as the holdings are sold to secure profits. In comparison, platinum averaged just \$904/oz in May, the worst month since January 2016, which makes the recent ETF sell-off a much more worrying sign.



PRECIOUS METALS REVIEW

⁴⁶ Pd Palladium

	Close	Weekly change	High	Date	Low	Date
\$/oz	1,015	1.63%	1,031	07/06/2018	980	05/06/2018
€/oz	862	0.88%	872	06/06/2018	842	05/06/2018

Auto sales figures in the US during May are a good sign for palladium in the short term, rising by 2% year-on-year despite the high prices of gasoline. Total sales from January-May have grown by 1.2% compared to 2017. The popularity of SUVs and pick-ups, which contain higher loadings of palladium, continues to grow, reaching 67% of light vehicle sales. Fiat Chrysler Automobiles saw sales of Jeeps increase by 29%. Along with growing demand for the Ram pick-up, this boosted the group's total sales by 11%. However, the 2% growth missed the expectations of 3%+ growth from some analysts, and the seasonally adjusted sales in the US were down 2% on April.

The new tariffs on aluminium and steel from Canada, Mexico and the EU will likely lift new car prices and reduce palladium demand for the duration of the tariffs. However, this could be a relatively short period given the strength of the response from US trading partners and President Trump's propensity to change plans. There have also been signals that Trump is considering introducing a 25% tariff on imported cars – the current tariff is only 2.5%. In 2016, almost 1.2 million cars were exported from the EU to the US. An increase in the price of these cars could also reduce total car sales in the US. If US consumers respond by purchasing American cars instead of those made in Europe, there would be a shift in palladium demand from the EU to the US.

⁴⁵ Rh ⁴⁴ Ru ⁷⁷ 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

None of the three small PGMs has seen any change in price for a second consecutive week, an unusual period of calm compared to the strong and regular growth seen recently. The last period of this length with no changes was at the New Year, and before that in September

2017. Rhodium ETF holdings have also quietened down as there have been only two moves over the past three weeks totalling -400 oz, leaving total holdings at 53.6 koz.



TRENDS AND INVESTMENTS

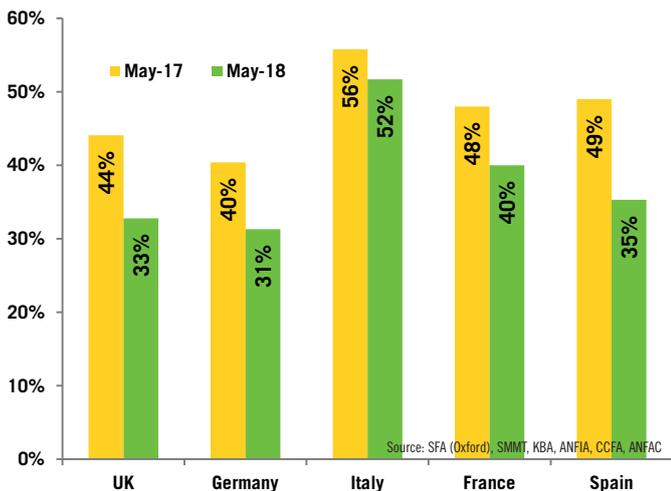
Silver price historic volatility



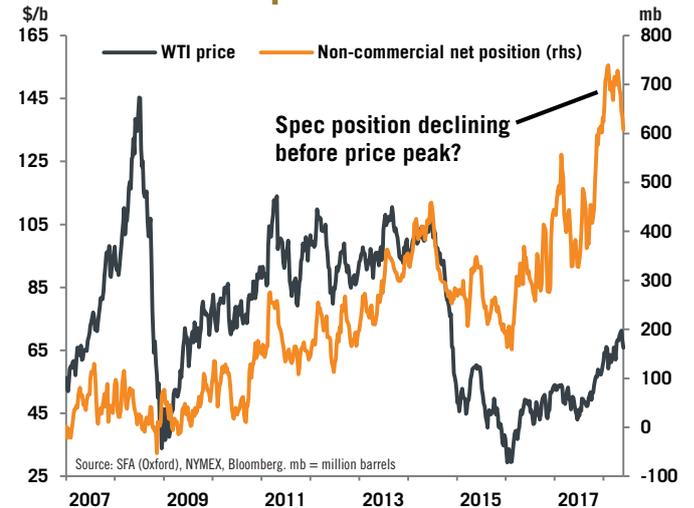
Platinum ETF holdings



European diesel market share



Oil futures net position



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