

# HERAEUS PRECIOUS APPRAISAL

Heraeus

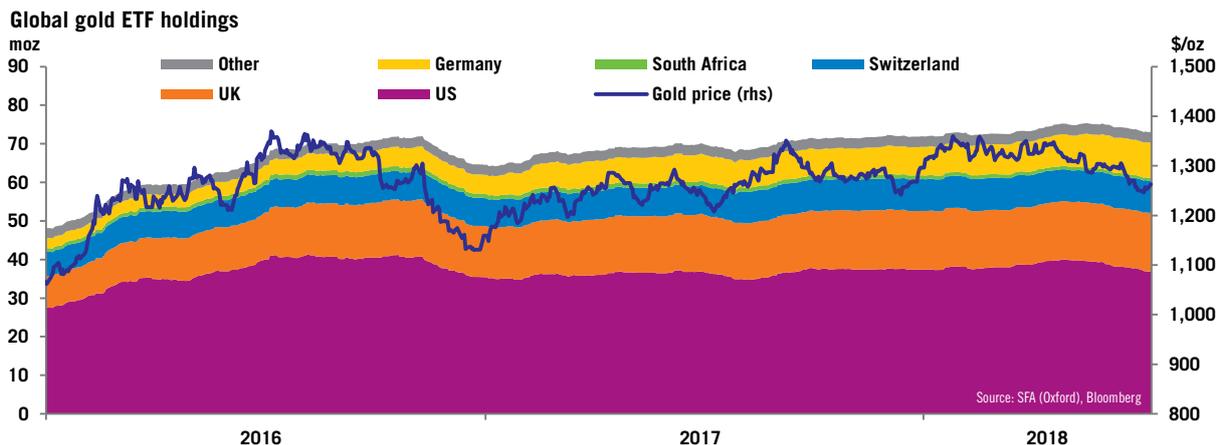
Ed. 21  
16<sup>th</sup> July 2018



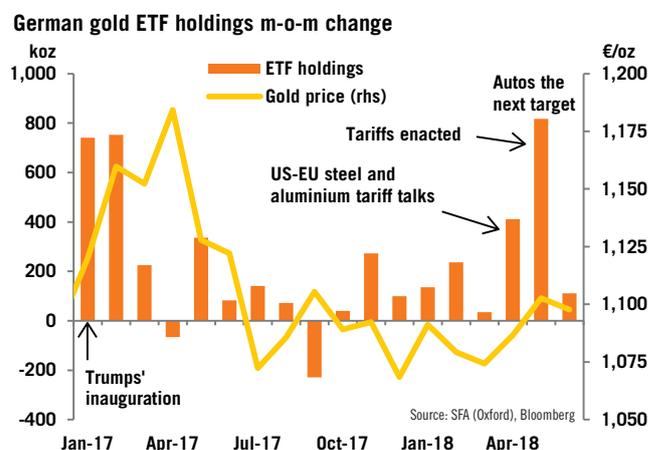
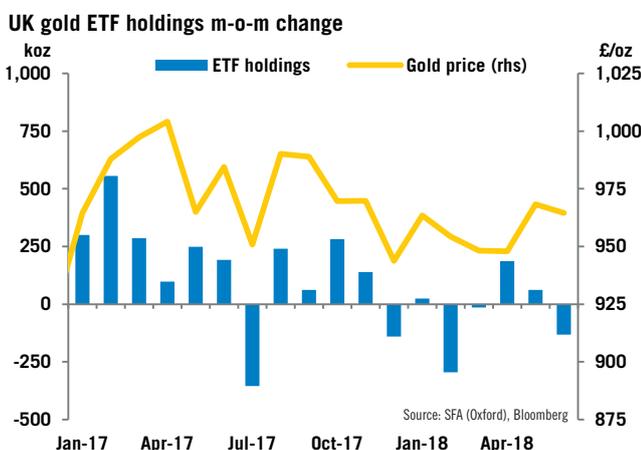
## MARKET SPOTLIGHT

### European gold ETF holdings climb as political and economic risks grow

Gold ETF holdings have increased by 2.2%, 1.5 moz, in the first half of 2018 to 73 moz, but are down from a peak in May at 75 moz. This follows a rise of 11% (7.4 moz) in 2017. German listed ETFs had the largest gain of 1.7 moz, whereas South Africa was the region with the biggest decline in gold ETFs of 250 koz.



Holdings in German listed gold ETFs increased strongly since the ECB reduced its main refinancing rate to zero in 2016, gaining 2.5 moz in 2016, 2.2 moz in 2017 and 1.7 moz in the first half of 2018. UK ETFs gained 1.7 moz over the last 18 months, although purchases have tailed off recently, and Swiss ETFs have also increased by 1.1 moz. Over this period, concerns about a global trade war grew as tariffs were enacted and political uncertainty increased, pushing investors towards gold.



Political and economic risks have not receded, market volatility has increased and the US\$ is strengthening. Tariffs on car exports would damage the Eurozone economy and weaken the euro, and failure to reach an agreement in Brexit negotiations would also adversely affect the EU and UK. All of which suggests that **European investors will continue to seek the safety of gold.**



# PRECIOUS METALS REVIEW

## 79 Au Gold

	Close	Weekly change	High	Date	Low	Date
\$/oz	1,242	-0.95%	1,266	09/07/2018	1,237	13/07/2018
€/oz	1,065	-0.36%	1,075	09/07/2018	1,063	11/07/2018

**A further escalation of the US-China trade war has not benefitted gold**, despite a stock market sell-off in the US, Europe and China. The US announced that it may increase tariffs to 10% on a further \$200 billion of Chinese goods, with a possible implementation date in two months' time. China's ability to respond is limited as they import only ~\$150 billion of goods from the US. At the same time, it is becoming increasingly difficult to see a mutually beneficial resolution to the trade war being found; the leaders of both countries have a lot to lose if they are perceived as having given in too easily. The yuan has weakened over the past month, maintaining

the gold price in yuan terms while it has fallen in dollars. The yuan dropped again in response to the tariff news to reach 6.7 yuan/USD. The Chinese government has said it would not intentionally weaken the yuan in response to the trade war but they may be inclined to allow it to fall. The Chinese central bank has previously intervened at this level to prevent further weakening so any action from them will be closely monitored. If this situation unfolds as badly as it appears it could, and stocks fall worldwide, then it may be enough to lead investors back to the safety of gold.

## 47 Ag Silver

	Close	Weekly change	High	Date	Low	Date
\$/oz	15.85	-0.86%	16.22	09/07/2018	15.69	13/07/2018
€/oz	13.58	-0.27%	13.78	09/07/2018	13.50	11/07/2018

**A South African 1 oz silver Krugerrand is to be minted for the first time.** It will be available from 1 August, offering investors another investment option and possibly creating additional silver demand given the strong reputation of the Krugerrand brand. There is room for growth in silver coin demand as it fell 35% in 2017 to 79 moz, according to the World Silver Survey 2018. There will not be a limit on the number of coins available for sale and total supply will depend on market conditions.

**Silver demand from solar power may be at risk as solar projects are losing out in investment to other sources of renewable energy.** BNEF has reported that financing of solar projects declined by 19% in H1'18, year-on-year,

but total investment in renewable energy dropped by only 1% over the same period. This is in part due to the changes in Chinese policy (explored in the 18 June Spotlight) and also because of a reduction in costs of projects; although one of the causes of this cost reduction is the thrifting of silver content. In comparison, wind power saw an increase of 33% in funding for the first half of 2018. However, photovoltaic modules continue to drop in price and demand outside of China may pick up. Globally, BNEF is anticipating a possible decline in solar installations in 2018, which would be the first ever y-o-y decline. Silver demand from the solar market could drop significantly this year as solar volumes and silver loadings fall.

## 78 Pt Platinum

	Close	Weekly change	High	Date	Low	Date
\$/oz	827	-1.83%	859	09/07/2018	824	13/07/2018
€/oz	709	-1.29%	730	09/07/2018	707	11/07/2018

**Platinum speculators' net position in futures contracts moved to a net short -0.26 moz on 3 July as the market has weak fundamentals and the price continued to decline.** This is the first time it has been negative since 2004. Such extreme positions are not typically sustained for very long and when they unwind it is often in conjunction with an increase in the price.

**Gold has been outperforming platinum, as evidenced by the platinum:gold ratio reaching an all-time intraday**

**low of 0.65 on 3 July and since then maintaining a level around 0.67.** The gold premium to platinum was \$415/oz at close of day on Friday. The widest premium was \$431/oz in early July. On a longer-term basis, platinum has been underperforming gold since June 2016 and that trend seems likely to continue as long as platinum demand has headwinds and the market remains in surplus.



# PRECIOUS METALS REVIEW

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

	Close	Weekly change	High	Date	Low	Date
\$/oz	940	-1.07%	968	09/07/2018	935	11/07/2018
€/oz	806	-0.52%	823	09/07/2018	796	11/07/2018

**Tariffs on US autos could see Chinese palladium auto demand underperform expectations in H2'18.** China's vehicle sales increased 4.8% in June to reach 2.27 million, bring the total increase for the first half of 2018 to 5.6% according to the China Association of Automobile Manufacturers (CAAM). This is faster than was expected at the beginning of the year, particularly when February sales fell 11%. Despite this CAAM has not changed its forecast for 2018 as a whole. While sales have accelerated, risks have accumulated over the same period, primarily in the form of the trade tensions between the US and China. BMW, which exported 81,000 cars from the US to China in 2017, has already announced that it will have to increase the prices of its vehicles in the Chinese market in response to the tariffs. While the majority of cars sold in China are made locally,

general inflationary pressures and costs could lead to a reduction in disposable income which could affect spending in high-cost sectors such as autos. This may also lead consumers to purchase smaller cars which, with an overall sales reduction, could result in Chinese palladium demand slowing in H2'18.

**Continued profit taking led palladium ETF holdings to decline again last week.** They are now at 996 koz, down from 1.5 moz in October 2017 and 2.9 moz in August 2015. The last time ETF holdings were this low was in September 2009. The dollar price has performed poorly in 2018, but the price is still at a historically high level, and weakness in other currencies has offset this to some extent.

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

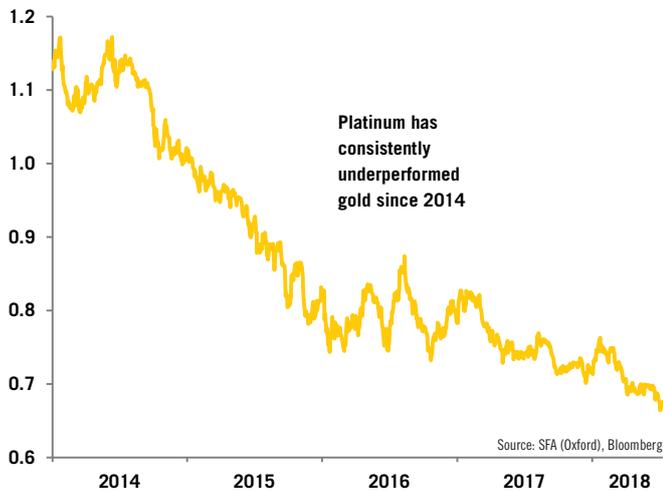
	Rhodium	Ruthenium	Iridium
Reporting week	\$2,265/oz	\$270/oz	\$1,415/oz
Previous week	\$2,250/oz	\$270/oz	\$1,415/oz

**Rhodium gained \$15/oz last week to reach \$2,265/oz, the price had been holding at \$2,250/oz since 22 May (except for three days in June).** Ruthenium and iridium prices were unchanged last week after small declines in the previous week, so rhodium is showing better upward momentum than the other minor PGMs.

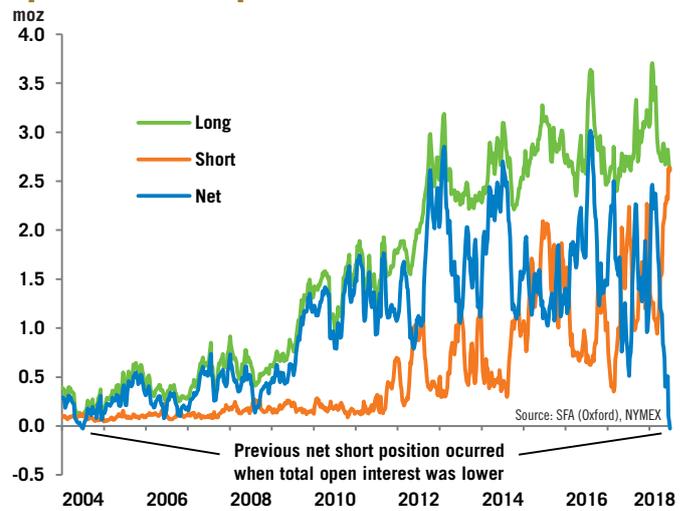


# TRENDS AND INVESTMENTS

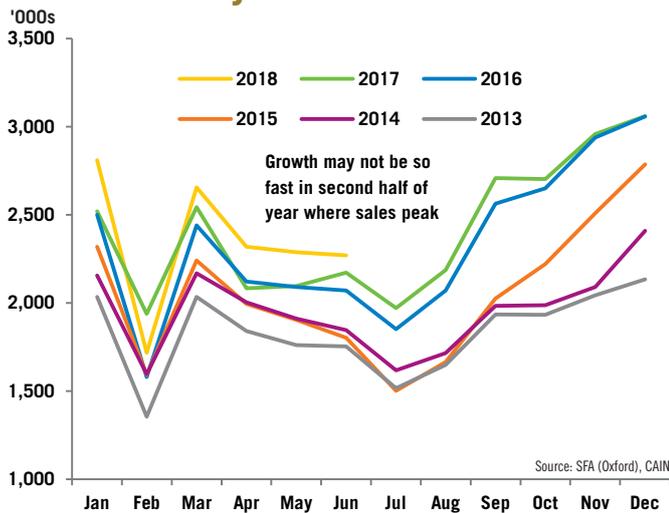
## Platinum:gold ratio



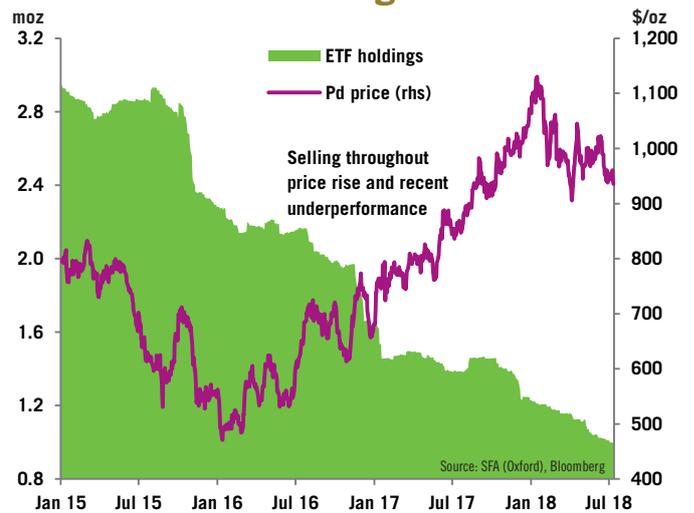
## Speculators' platinum futures



## China monthly car sales



## Palladium ETF holdings



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The HERAEUS PRECIOUS APPRAISAL produced in collaboration with:

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