

HERAEUS PRECIOUS APPRAISAL

Heraeus

Ed. 26
20th August 2018



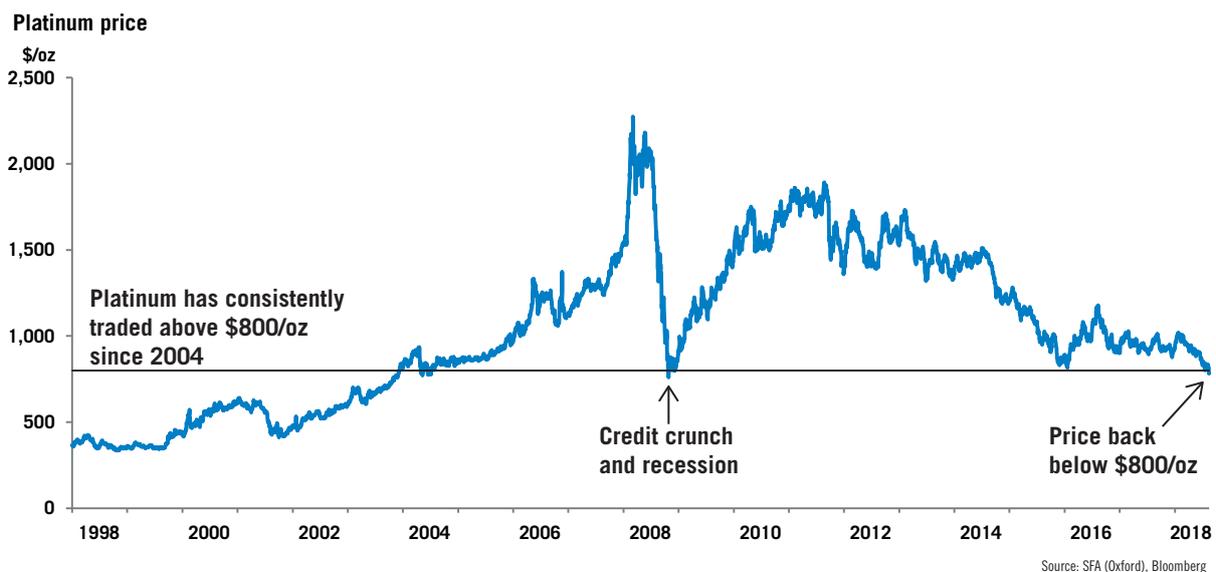
MARKET SPOTLIGHT

Is platinum a bargain or is it going lower?

The platinum price recently closed below \$800/oz for the first time in 10 years. The price looks cheap on a historical basis and on a relative basis since platinum is trading at a large discount to palladium (~\$120/oz) and gold (~\$400/oz). However, futures traders are convinced the price is going lower, having maintained a net short position for the last eight weeks.

Production has been too high. Some cuts in primary supply have been made but they have so far failed to balance the market. Impala's recently announced cuts will not take effect until 2020.

Near term, the demand picture for platinum looks bleak as the largest two end-uses are seeing shrinking demand. Diesel passenger car market share is falling in Western Europe and has yet to level off. Chinese platinum jewellery demand remains weak despite a return to growth in gold jewellery sales. However, industrial consumption has held up relatively well, with a wide range of end-uses seeing stable or growing demand. Investment demand has also been maintained with positive bar and coin purchases and stable ETF holdings. However, platinum has not benefitted much from being a precious metal, but then neither has gold which is also suffering from a lack of interest in a strong dollar environment.



On a longer term view, platinum's prospects look better as demand is expected to increase just as supply cuts finally arrive. Currently, proposed cuts to output by Impala, and Sibanye if the Lonmin takeover occurs, will start to impact the market in 2020. That is the same year in which India and China are due to tighten their emissions legislation to reach levels equivalent to those in the US or Europe. This will boost demand for platinum as India and China are both large commercial vehicle markets and India is the second-largest diesel passenger car market. In addition, the amount of platinum recovered from recycling is expected to flatten off.



PRECIOUS METALS REVIEW

79 Au Gold

	Close	Weekly change	High	Date	Low	Date
\$/oz	1,178	-2.80%	1,209	13/08/2018	1,160	16/08/2018
€/oz	1,033	-2.90%	1,061	13/08/2018	1,023	16/08/2018

The collapse of emerging market currencies and consequent buying of the dollar (for now the safe haven of choice) pushed down the dollar gold price. After falling 2.8% last week, gold is now below \$1,200/oz, notable ‘chart’ support – the low from March 2017 – and a key psychological level. Nevertheless, the euro price has held up better in August suggesting there is some ‘crisis’ support for gold too. (In June and July gold fell in all major currencies.) In fact, it could be argued that gold’s

orderly descent has been a creditable performance; after all, the FX turmoil is focused in emerging markets, the key to physical gold’s demand growth. The vague but much-discussed perception of greater risk is supported by a high July reading of the Global Economic Policy Uncertainty Index: 211 against a 20-year average of 112. Should this persist, gold might attract more of the safe-haven buying currently being channelled mostly into the dollar.

47 Ag Silver

	Close	Weekly change	High	Date	Low	Date
\$/oz	14.67	-4.26%	15.30	13/08/2018	14.34	16/08/2018
€/oz	12.86	-4.35%	13.62	14/08/2018	12.32	16/08/2018

Silver ETF holdings have finally started to buckle as the price falls. Holdings had increased by 8.5 moz from a low in June to the end of July, as the price began to drop, but the fall of almost 3 moz in the last three weeks implies investors no longer regard the continued price decline as a buying opportunity. Silver’s low price volatility also betrays a lack of investor interest; it is down at 17%

(on a 50-day basis) compared with a 10-year average of 29%. Further, silver’s status as a precious metal did not provide much relief– the price fell 5.4% over the last three weeks as the Bloomberg Base Metal Index lost 5.7%. However, gold performed better, losing only 3.9%, pushing the gold:silver ratio back above 80.

78 Pt Platinum

	Close	Weekly change	High	Date	Low	Date
\$/oz	782	-5.73%	820	13/08/2018	756	16/08/2018
€/oz	686	-5.82%	721	13/08/2018	667	16/08/2018

Rand weakness is offsetting platinum’s price drop. The South African rand weakened 4.8% to 14.78 against the dollar last week, while platinum dropped 5.7% and ended the week at \$782/oz. However, the rand price of platinum changed only -1.3% last week as the rand weakness counteracted the PGM price drops, sheltering producers from large dollar moves. Historically, there has been strong correlation between the dollar platinum price and the USDZAR exchange rate; the year-to-date correlation is -0.87 and the correlation since 2008 is -0.82. The decline in the platinum price was the largest weekly drop in eight months. It crashed below \$800/oz and reached the lowest level in 10 years, and a fall below \$756/oz would put it at the lowest level since 2003.

The rand is now the weakest it has been since August 2016 but is still some way off the record of 16.92:\$1 from January 2016. The trigger for the rand’s sharp decline was the US imposition of tariffs on Turkey which caused a collapse in the lira and spread to worldwide selling of emerging market currencies. The investment appeal of emerging markets was already being impacted by the US Federal Reserve increasing rates and fears over fallout from a trade war. The rand suffered particularly badly as Moody’s (the only rating agency which has South African debt at investment grade) issued a warning over the rate of fiscal consolidation in South Africa. The lack of significant change in investor sentiment over South Africa despite Ramaphosa’s election and the central bank stating it will not involve itself in currency matters suggests there could be further weakness for the rand and downside for the dollar platinum price.



PRECIOUS METALS REVIEW

⁴⁶ Pd **Palladium**

	Close	Weekly change	High	Date	Low	Date
\$/oz	906	-0.62%	910	17/08/2018	834	16/08/2018
€/oz	794	-0.72%	796	17/08/2018	735	16/08/2018

Nornickel supplied the palladium market with 350 koz of stockpiled metal in H1'18 in order to meet demand from its clients. This is in addition to the 1,368 koz it produced in the first half of 2018, a 61 koz increase on last year. The metal is managed by a subsidiary fund which has another 200 koz available to help achieve its aims, one of which is “reduction of overall volatility of the palladium market”, but as the metal originally comes from the Russian central bank, there is additional stock that the fund could purchase. The long-term health of the palladium market is increasingly important to Nornickel as its H1'18 results showed that 36% of its revenue now comes from palladium, a greater proportion than either nickel or copper which represent 27% and 26%

of revenue, respectively. Nornickel also detailed some of its expectations for the palladium market. The company predicts the palladium market deficit will widen from 640 koz in 2017 to 1,520 koz in 2019, primarily driven by growing demand from the automotive sector. However, this looks excessive given the slowdown in vehicle sales being observed in the US and China.

The palladium price had a turbulent week falling \$50/oz on Wednesday, before bouncing back on Thursday and Friday to end the week less than 1% lower at \$906/oz. Palladium lease rates increased markedly last week despite the price volatility as the market remains tight for industrial end users.

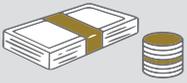
⁴⁵ Rh ⁴⁴ Ru ⁷⁷ Ir **Rhodium, Ruthenium, Iridium**

	Rhodium	Ruthenium	Iridium
Reporting week	\$2,360/oz	\$270/oz	\$1,425/oz
Previous week	\$2,345/oz	\$270/oz	\$1,425/oz

Chinese light vehicle sales fell to 1,589,500 units in July, down 5.3% from a year earlier, which could put a dampener on Chinese rhodium and palladium demand growth. Palladium and rhodium are both key components of the catalysts found in gasoline car exhaust systems, the primary demand segment for the two metals which accounts for over 80% of total demand for both. Additionally, a shift in consumer purchasing habits has led to an 8.2% year-on-year decline in sales of Chinese SUV and crossover sales, while sales of cars increased 1.5%. The competition between the two segments will have implications for metal demand, as an underperformance

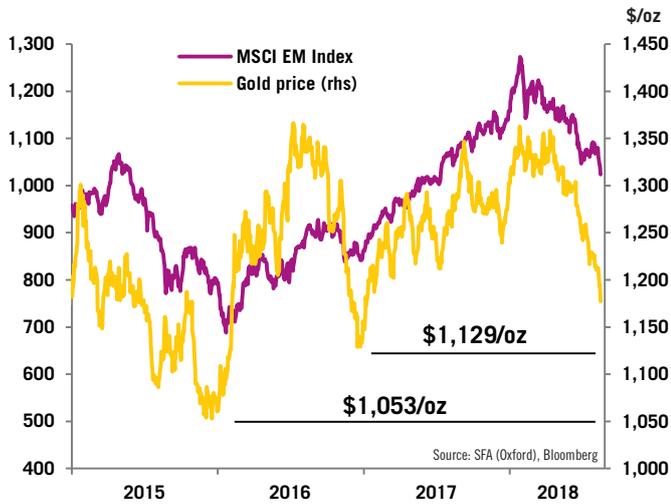
of expectations by the SUV segment would lead to lower average loadings. The exchange of tariffs between China and the US has already led to a slight downward revision of the total vehicle sales forecast in China owing to the economic risk and the higher cost of imports, and could result in consumers favouring cheaper cars over SUVs.

The rhodium price climbed \$15/oz last week despite the volatility in platinum and palladium created by a nervous market. The other small PGMs' prices held their ground last week.

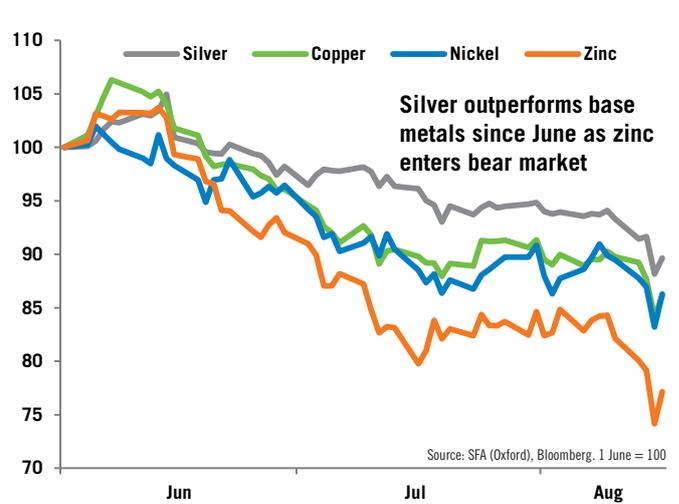


TRENDS AND INVESTMENTS

Gold and EM currencies



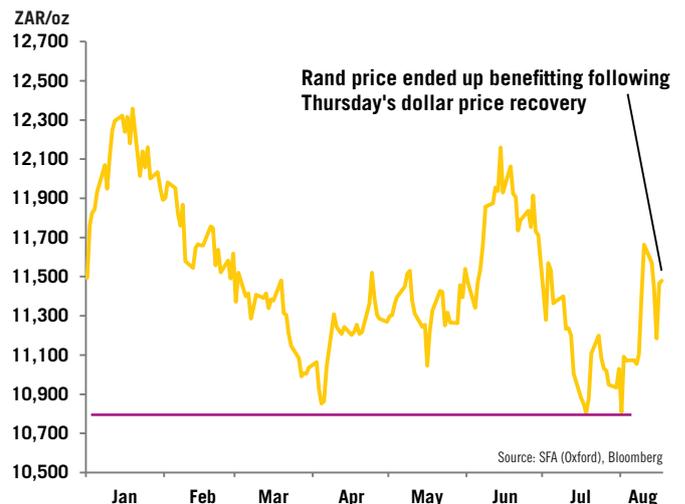
Silver and base metal price index



Silver ETFs



Platinum rand price



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