



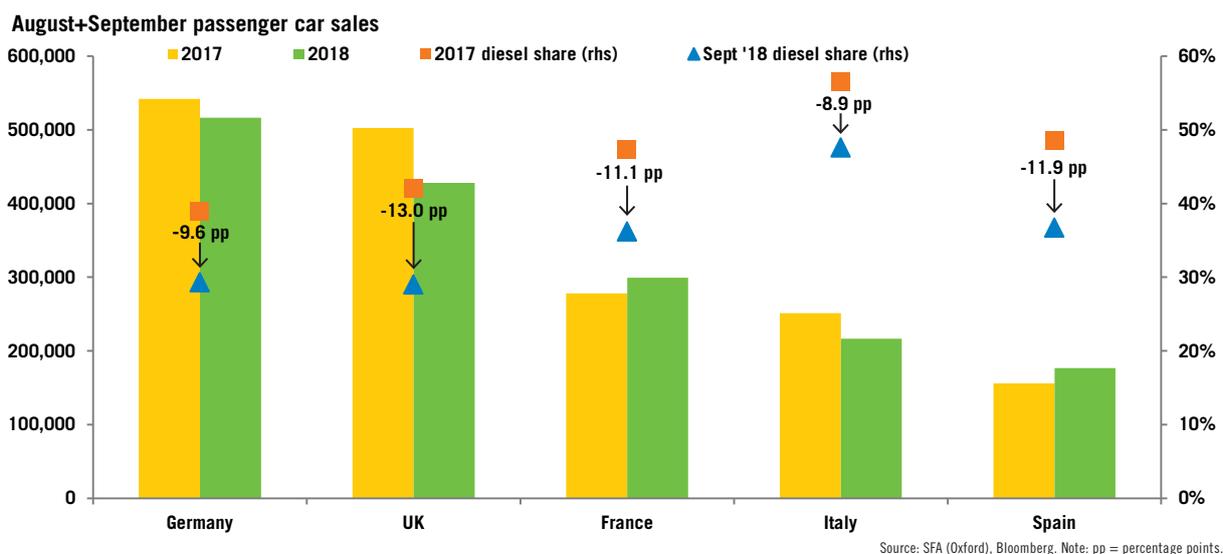
## MARKET SPOTLIGHT

### Diesel tank now one-third full; more bad news for platinum?

European Union auto sales slumped by 23.5% year-on-year in September to 1.09 million units. The diesel market share slipped further in each of the five major European markets (Germany, the UK, France, Italy and Spain), falling to 33.5% combined across all five.

The diesel market share projection for Western Europe has been downgraded since the start of the year when it was over 40%. This has reduced forecast automotive platinum demand by 100 koz. If the diesel market share stabilises at current levels in the fourth quarter, platinum demand could drop by another 25 koz. Meanwhile, gasoline vehicle sales have increased, so palladium demand is now forecast to be 60 koz higher in Europe than was expected at the start of the year.

The slump in auto sales in September followed a 31.5% surge in August, which is typically a quiet month for sales, to 1.13 million units. Car sales jumped ahead of the introduction of the Worldwide harmonized Light vehicles Test Procedure (WLTP) on 1 September. Under WLTP many models will see higher CO<sub>2</sub> ratings, which would raise prices in countries which tax CO<sub>2</sub> emissions. In addition, there has also been a backlog of vehicles waiting to be certified. Some manufacturers increased their sales incentives to sell vehicles that had not yet been certified to avoid holding stock until their certification had been completed. Any models not certified under WLTP cannot be sold after 1 September.



Total car sales in August and September were down 5.3% year-on-year in the five largest markets combined, to 1.12 million units. Year-to-date EU auto sales are ahead by 2.5% at 11.95 million units. Sales for the year as a whole are still expected to be around 2% higher than in 2017. However, until all models have been certified, sales could remain volatile and it is possible that sales in October will also be impacted. **Declining diesel sales are not new news, but with no offset from platinum jewellery demand in China, the headline for platinum remains further price weakness.**



# PRECIOUS METALS REVIEW

## 79 Au Gold

	Close	Weekly change	High	Date	Low	Date
\$/oz	1,240	1.09%	1,243	26/10/2018	1,220	22/10/2018
€/oz	1,089	2.20%	1,094	26/10/2018	1,062	22/10/2018

**Gold is the beneficiary of continued stock market volatility.** Global equity markets fell sharply last week, (S&P500: -4.0%, MSCI World Index: -3.9%) in some cases erasing all the gains made in the year to date. Concerns include the sustainability of corporate profits as world growth is impacted by higher interest rates; the growing fear of trade protectionism; and political shocks such as the outcry over the Saudi role in the killing of a journalist in their consulate. Classic safe havens have benefitted: gold rose \$13/oz (1.1%) last week, despite

the dollar index climbing by 0.8% to 96.5, almost to its 2018 high. This move is a notable signal that investors now view gold as a genuine safe haven - the price fell with equities during the stock market correction in January. Furthermore, although there was some short covering during the recent price rally, the large speculators' net long position is still only 1.8 moz. This leaves almost 20 moz of headroom before reaching its 2018 high from January, when the price was \$110/oz higher.

## 47 Ag Silver

	Close	Weekly change	High	Date	Low	Date
\$/oz	14.74	0.78%	14.81	23/10/2018	14.52	23/10/2018
€/oz	12.94	1.91%	13.00	26/10/2018	12.65	22/10/2018

**Silver is still fundamentally cheap.** Although it has recovered a little recently (+\$0.68/oz, +4.8%, in the last six weeks), the silver price is still in the bottom 10% of daily prices that have been observed since 2009. It has also underperformed gold – the gold:silver ratio has increased this month to 84.1 from 81.6 on 1 October. So silver looks set to rise; especially as positive news continues to emerge for the silver-consuming solar industry.

**Solar power receives additional support in Europe and South America.** Spain has revoked the 'sun tax' that charges households an additional tax for energy produced from private solar panels. Spain's Energy and Environment Minister said the tax meant there were only 1,000 private solar installations in Spain compared with over 1 million in Germany. The IEA estimated that Germany's

solar power capacity was 42 GW in 2017 compared to just 5.6 GW in Spain. This tax change, along with the recent reduction in EU tariffs on Chinese solar panels, opens up the Spanish market and could lead to a rapid increase in demand there. Solar power is also seeing rapid growth in South America: installed capacity in Brazil is expected to jump by 115% in 2018 to 2.5 GW from 1.15 GW in 2017. Argentina also recently concluded an auction for renewable energy and signed off on the installation of 300 MW of solar power. In 2017, 94 GW of solar power was installed globally, according to the World Silver Survey 2018, and solar panel production created demand for 94.1 moz of silver (9% of total demand). In order to have the same solar capacity per person as Germany, Spain would need 24 GW of solar power, which would require approximately 18 moz of silver to achieve from 2017 levels.

## 78 Pt Platinum

	Close	Weekly change	High	Date	Low	Date
\$/oz	834	0.27%	839	22/10/2018	817	23/10/2018
€/oz	732	1.31%	734	26/10/2018	714	22/10/2018

**Platinum production remains high in the face of a market surplus.** Anglo American Platinum (Amplats) has revised up its 2018 mined platinum production guidance by 50 koz from 2.4-2.45 moz to 2.45-2.5 moz. Platinum production in Q3 2018 was 649 koz, a 5% increase on the previous quarter and up 4% year-on-year. Most of this extra metal will not enter the market until 2019 owing to a backlog at the refining stage of production. Lonmin

has announced its full financial year production results: platinum output for the 12 months to 30 September 2018 increased 0.7% to 654 koz. Platinum sales of 682 koz marginally exceeded guidance for the year of 650-680 koz. Total mine supply of platinum in 2017 was 6.1 moz, but is only forecast to drop 1% in 2018 before growing by 3% in 2019 after including Amplats' upward revision.



# PRECIOUS METALS REVIEW

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

	Close	Weekly change	High	Date	Low	Date
\$/oz	1,097	1.40%	1,153	23/10/2018	1,084	26/10/2018
€/oz	964	2.60%	1,003	23/10/2018	943	22/10/2018

**Palladium reached an all-time price high of \$1,153/oz last week but can go higher.** The price rose \$71/oz early last week as it broke above the January high of \$1,131/oz, but retreated as it had become overbought. It has now risen 29% from its low of \$851/oz on 15 August. Over the same period, the palladium premium over platinum has climbed from \$81/oz to \$266/oz but is still below the all-time peak of \$496/oz from the 2001 palladium price spike. The palladium market is experiencing tightness at the moment – one-year lease rates have increased since the August price low and are now in double digits. This is a result of the deficit market that palladium has been in for the last six years and it is expected to continue for at least the next few years. Admittedly, auto sales (which

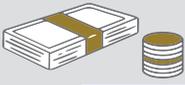
are the source of 80% of palladium demand) have slowed this year in the major markets of the US and China but only enough to reduce growth, not turn it negative. Palladium demand is still expected to rise in 2019. Additionally, supply is estimated to drop and is likely to affect palladium more than platinum. Amplats did not raise its palladium production guidance (as it did with platinum) but narrowed the range from 1.5-1.6 moz to 1.55-1.6 moz. Large speculators have increased their net long futures position for eight consecutive weeks from 0.1 moz to 1.2 moz. However, it was as high as 2.8 moz before the price dropped in January, implying the current price could continue to rise, particularly in addition to the fundamentals.

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

	Rhodium	Ruthenium	Iridium
Reporting week	\$2,410/oz	\$285/oz	\$1,480/oz
Previous week	\$2,465/oz	\$285/oz	\$1,470/oz

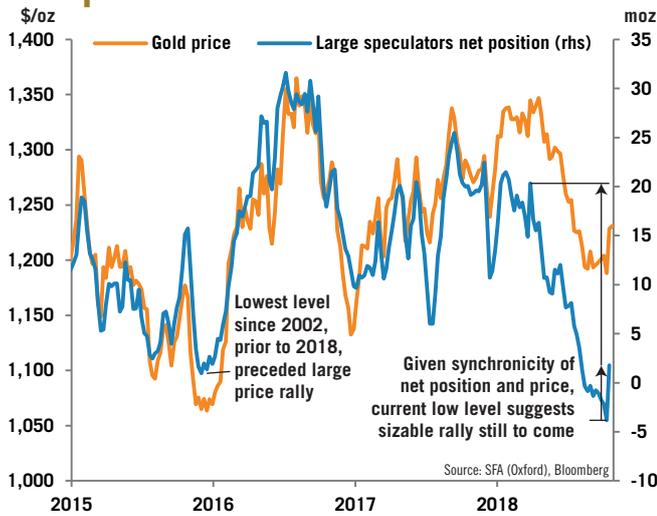
**Iridium edged up for the first time in over a month, gaining \$10/oz last week to \$1,480/oz.** The rhodium price fell by \$55/oz to \$2,410/oz. The ruthenium price remained unchanged last week. Lonmin Platinum and Royal Bafokeng Platinum (RBP) both reported increases in production of the small PGMs in their latest results, although Amplats did not provide a detailed breakdown of its production. Notably, RBP produced 43 koz of ruthenium in Q3 2018, twice as much as the

same quarter last year. In Q3 2018, RBP and Lonmin produced a combined 32.4 koz, 11.3 koz and 88.2 koz of rhodium, iridium and ruthenium, respectively, up from 31.7 koz, 11.2 koz and 66.1 koz. For comparison, a quarter of annual demand is approximately 270 koz, 60 koz and 290 koz for rhodium, iridium and ruthenium. However, these expansions in supply will not change the prevailing market tightness.



# TRENDS AND INVESTMENTS

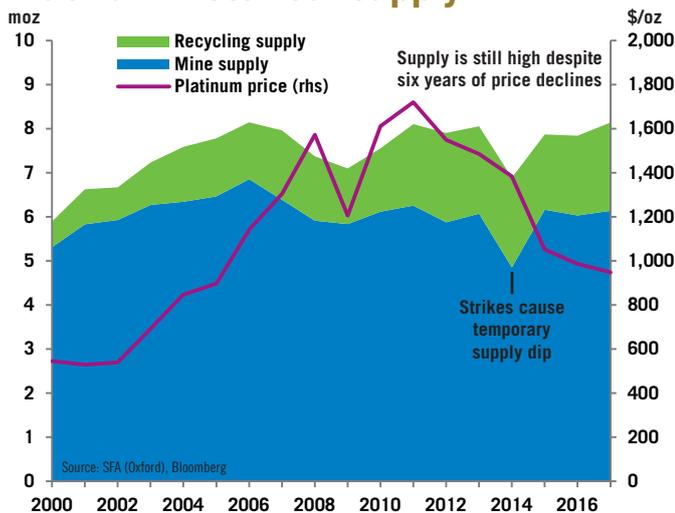
## Gold price and futures



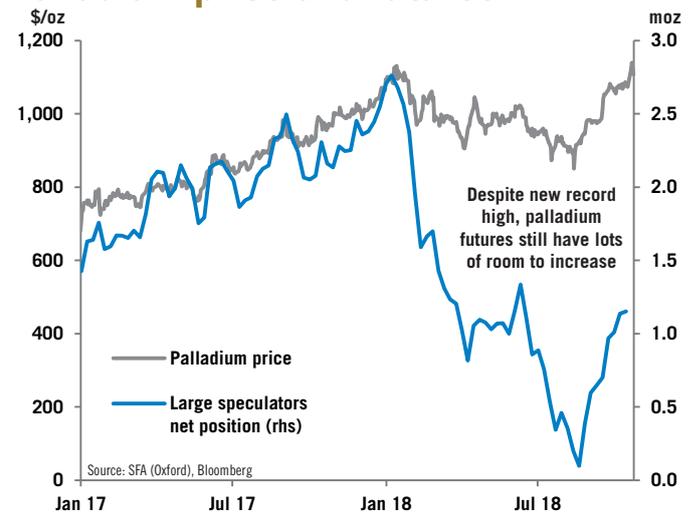
## 10-year silver price histogram



## Platinum historical supply



## Palladium price and futures



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