



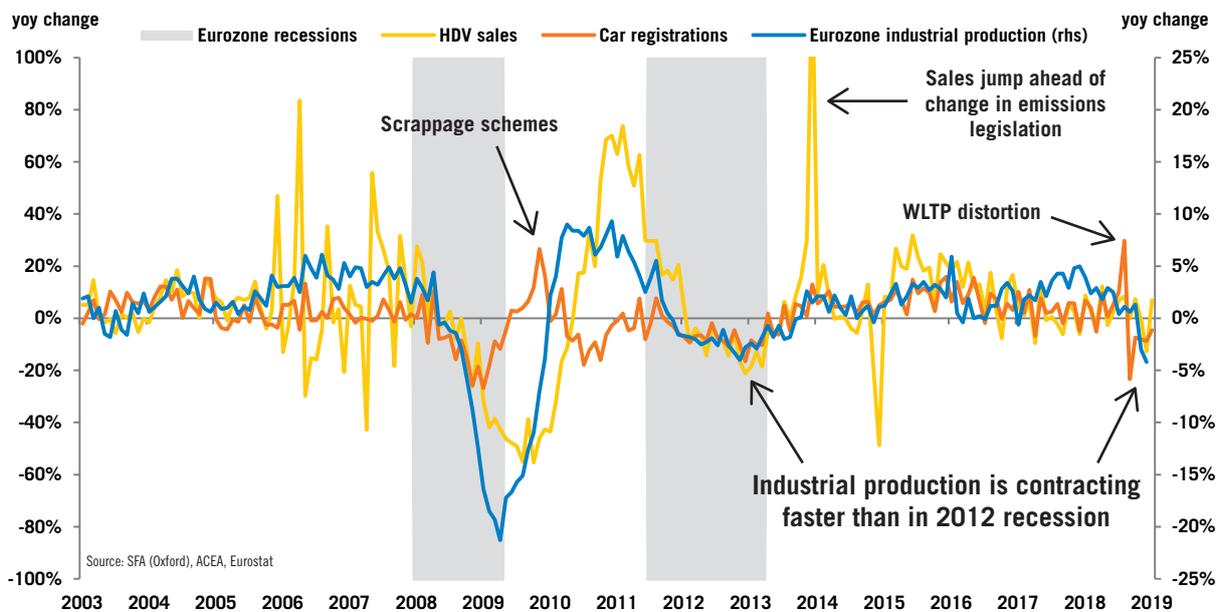
MARKET SPOTLIGHT

A Eurozone recession will hit palladium demand hardest

If the Eurozone were to enter recession then passenger car sales would fall, cutting palladium demand. Eurozone growth slowed down to 0.2% in Q4'18 and the outlook has been revised down accordingly, but GDP is still expected to expand by 1.6% this year (source: IMF). However, Eurozone industrial production is declining at the fastest rate since 2009, and faster than in the double-dip recession of 2011/12. Industrial production was still expanding at the start of the last two recessions in the Eurozone. It fell 4.2% year-on-year in December.

Given the shift from diesel to gasoline vehicles over the last few years, palladium demand will be impacted more than platinum. A 10% decrease in car sales this year would cut 150 koz of palladium demand, 75 koz of platinum demand and 20 koz of rhodium demand. The platinum market is already oversupplied so this could depress the price further. It would ease some of the tightness in the rhodium market. **A 10% drop in Western European car sales would not shift the palladium market into surplus, but it could cause a pullback in the price.**

Western European vehicle sales



Platinum is not immune from recession as a fall in HDV sales will also impact demand. Heavy-duty vehicle (HDV) sales are expected to ease back slightly this year after a strong 2018. Volvo projects sales in the EU30 (EU + Switzerland and Norway) heavy-duty market will be 300,000 units in 2019, down from 320,000 in 2018. However, Eurozone industrial production tends to lead HDV sales by a few months, so HDV sales look likely to drop more than anticipated. Industrial production falling at 4% year-on-year in 2012 coincided with HDV sales contracting by 21.2% year-on-year. A 20% drop in HDV sales equates to around 40 koz of lost platinum demand this year.



PRECIOUS METALS REVIEW

79 Au Gold

	Close	Weekly change	High	Date	Low	Date
\$/oz	1,302	-2.19%	1,333	25/02/2019	1,301	01/03/2019
€/oz	1,144	-2.49%	1,173	25/02/2019	1,144	01/03/2019

High gold price is reducing Indian demand. The gold price in India has hit an all-time high: the MCX Exchange based in Mumbai shows a high of INR33,730 per 10g, a clear break above the previous record of INR33,146 per 10g from 2013. Jewellery stores in the country are reporting a marked drop in business with prices at this level. India consumed 760 tonnes of gold in 2018

through jewellery and physical gold purchases. It is the second-largest market behind China and accounts for over a quarter of global consumer gold demand. Trump walked away from talks with North Korea and although US-China trade negotiations seem to be progressing, a no-deal outcome is still possible. With the outlook remaining uncertain, the gold price has potential for upside.

47 Ag Silver

	Close	Weekly change	High	Date	Low	Date
\$/oz	15.30	-3.99%	16.00	25/02/2019	15.30	01/03/2019
€/oz	13.45	-4.29%	14.35	25/02/2019	13.41	28/02/2019

Strong silver coin demand causes sell-out at US Mint. The US Mint was forced to suspend sales of the 1-ounce silver American Eagle coin on 21 February after running out. Demand had reached 2,157,500 ounces by that date, already a 48% increase on February 2018 and the highest level for the month in three years. The premium on silver coins over spot prices in the US is reported to have increased. Investor demand in silver has been high:

speculators are net long 377 moz in silver futures as of 5 February (there is still a lag in data due to the US government shutdown), just off the prior week's 15-month record of 391 moz. Not all investors are following this course though – silver ETFs fell 28 moz from a high in November to 504 moz in mid-January and have recovered by only 6 moz since then. The silver price has pulled back and reached a support area, but should move higher with gold.

78 Pt Platinum

	Close	Weekly change	High	Date	Low	Date
\$/oz	863	2.37%	877	28/02/2019	847	26/02/2019
€/oz	759	2.10%	769	28/02/2019	746	26/02/2019

AMCU attempts to expand strikes in South Africa. If the strikes do go ahead, approximately 40 koz of PGMs per day is at risk. The AMCU gave secondary strike notices to 15 mining companies on 21 February, including major platinum miners Amplats, Implats, Lonmin and Northam. However, South African courts ordered the union to suspend its strike until a final ruling could be given. Following the first announcement of the strike, the platinum price broke above resistance around \$830/oz and rallied to \$855/oz. Any strikes could cause tightness in all PGM markets, pushing up prices, although given its sizeable market surplus, platinum would be likely to fall again once strikes conclude.

Heavy-duty fuel cell vehicles receive support from major stakeholders. Air Liquide, Hyundai, NEL, Nikola Motor, Shell and Toyota have agreed to cooperate to develop and test standards for the hardware required to refuel heavy-duty hydrogen trucks. The development increases the likelihood that fuel cell trucks will play a role in reducing

CO2 emissions from HGVs. This is important given the recent announcement of European heavy-duty CO₂ targets which will require an increased presence of battery or fuel cell vehicles. The extra fuel cell support could help sustain the 200 koz of European heavy-duty platinum demand.

Independent tests on new diesel cars show they can be completely NO_x compliant. The ADAC, the German automobile club, has shown that the emissions performance of new diesel cars tested is typically around half of the required NO_x emissions or lower. This demonstrates that diesels can compete with gasoline vehicles and are unlikely to come under the effect of further city bans. Despite electrification, diesels will be needed to help auto manufacturers get close to fleet CO₂ emissions targets. If the low CO₂ and NO_x emissions message can encourage governments and consumers to return to diesel then there could be meaningful upside from Europe, which shed 400 koz of platinum demand from 2016 to 2018.



PRECIOUS METALS REVIEW

⁴⁶ Pd **Palladium**

	Close	Weekly change	High	Date	Low	Date
\$/oz	1,552	4.01%	1,567	26/02/2019	1,510	25/02/2019
€/oz	1,364	3.64%	1,379	26/02/2019	1,331	25/02/2019

Sibanye-Stillwater and Nornickel expect palladium production to increase in 2019. Sibanye-Stillwater produced more palladium (823 koz) than platinum (819 koz) in 2018, boosted by the Stillwater operations which produced 459 koz of palladium last year. Guidance for 2019 suggests that palladium supply from Stillwater could increase by 40-63 koz but a decline in yield from South African mines is expected to partially offset that growth. Nornickel, whose main source of revenue is now palladium, produced 2,729 koz of the metal in 2018 against guidance of 2,630-2,725 koz. The company expects production to increase again in 2019 and has given guidance of 2,770-2,800 koz of palladium. Greater primary supply, along with an expansion in recycling, is expected to reduce the palladium market deficit although it will still be several hundred thousand ounces. As a result, prices are likely to remain high, although possibly not at current levels.

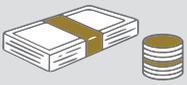
Daimler sees higher car sales this year but EVs are gaining ground. Daimler stated that there should be a slight increase in total unit sales in 2019 but also highlighted efforts to meet emissions standards and increase electrification. Consequently, sales of combustion engine powered cars may not rise this year. Daimler is targeting 15-25% of car sales to be purely electric by 2025, equivalent to 50-90 koz of palladium demand if they were gasoline vehicles. In an effort to accelerate adoption, Daimler and BMW have announced they will invest over €1 billion in a joint mobility services provider. The objective is to offer a wide array of key services with the ultimate aim of forming an all-electric, self-driving fleet of vehicles. While this is a significant commitment, the scale of the project and the number of cars it might displace are still unclear.

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

	Rhodium	Ruthenium	Iridium
Reporting week	\$2,825/oz	\$275/oz	\$1,460/oz
Previous week	\$2,700/oz	\$275/oz	\$1,460/oz

Rhodium has reached a new high of \$2,825/oz after gaining \$125/oz last week. The price has now been rising for the last seven weeks. Industrial and automotive demand remain strong and the market is tight, but even after the latest price increase financing rates remain at similar levels to previous weeks. The Africa Rhodium ETF saw its first daily inflow since January 2017 but ETFs

are generally continuing to sell off. Holdings of rhodium by ETFs have fallen by 7.2% (-2,850 oz) year-to-date and are now at just 36.7 koz compared to 90.4 koz at the beginning of 2018 when the price was \$1,715/oz. Ruthenium and iridium prices are unchanged at present, but all three metals could be lifted by strike action.

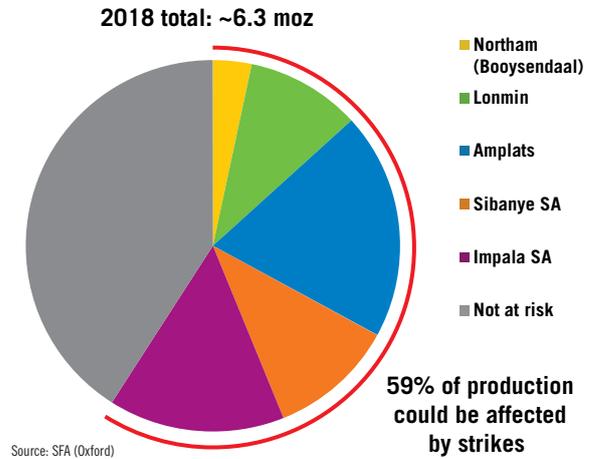


TRENDS AND INVESTMENTS

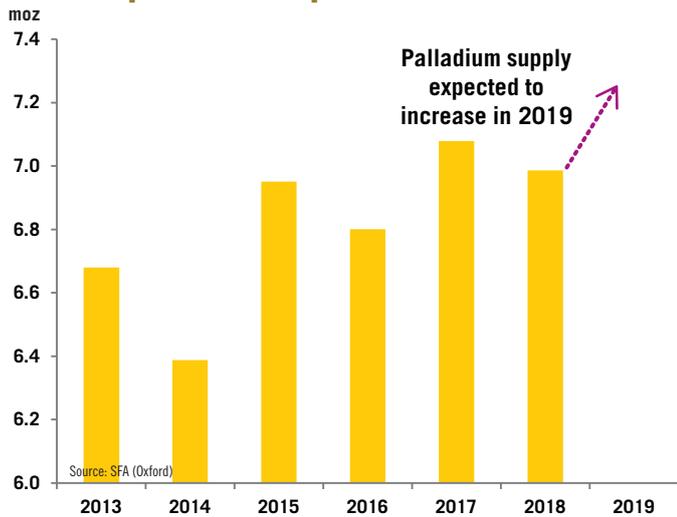
Indian gold price



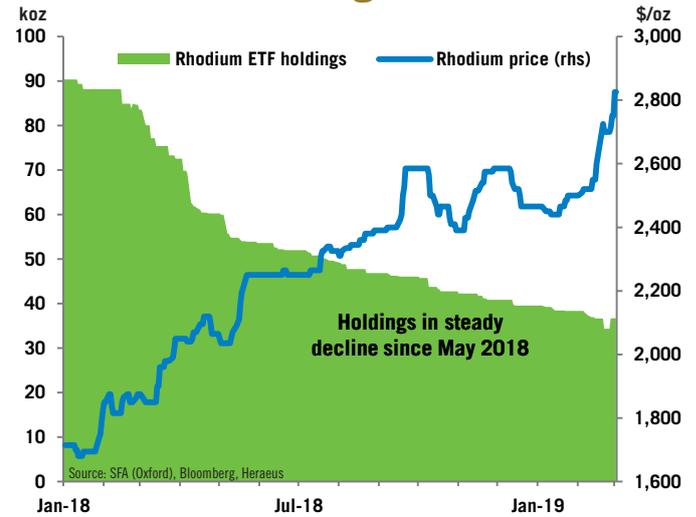
Platinum supply at risk from AMCU strikes



Global palladium production



Rhodium ETF holdings



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