The gold price is now slightly below where it started the year. The price had managed to gain 5% (~$65/oz) by mid-February, but has given that back and a bit more as the US dollar has firmed. There is seemingly a lack of investor interest, with global gold ETF holdings slipping 0.2 moz to 73.6 moz and speculative futures positions being cut by 60% to 5.6 moz so far this year.

Historical price volatility in January was at the lowest level since 2000. While historical price volatility has picked up, the projected 30-day volatility (as calculated from options on the SPDR GLD ETF) is now at its lowest level in more than 10 years. Both measures have been below their long-term average for over two years, which is very unusual. The last time price volatility was below average for this long was during the 1990s.

However, volatility will not stay low forever and it can change rapidly. Falling bond yields, US dollar strength and the gold price holding up despite dollar strength all suggest an underlying safe-haven bid. The rally in the stock markets has grabbed investors’ attention, but there are plenty of issues, from an unresolved Brexit to contentious US-EU trade talks, that could increase economic uncertainty and reignite interest in gold.
Lacklustre silver fundamentals do not offer price support. The latest World Silver Survey predicts silver supply will increase in 2019 with a number of operations in the Americas and India ramping up, along with higher by-product output from zinc, gold and copper mines. At the same time demand remains under pressure. Anticipated declines in smartphone sales this year would impact the 250 moz of electrical and electronic silver demand. Uncertainty around China's industrial sector also puts a portion of the 150 moz of "Other" industrial silver use at risk. Silver tends to outperform gold in a bull market but as gold is struggling to break out, silver's fundamentals do not provide sufficient support to suggest that the metal is likely to outperform this year.

The silver market was in a small deficit last year. In 2018, demand increased by 4% to 1,034 moz and supply declined by 2% to 1,004 moz, according to the 2019 World Silver Survey. However, the silver price performed poorly in 2018, falling 8.6% over the course of the year compared to a 1.6% dip in the gold price. The more industrial metals struggled last year amid the US-China trade dispute and slowing global growth.

Gold down as equities and dollar gain. The dollar index reached a high of 98, the highest level since May 2017 as the US economy continues to outperform that of Europe. Strong results from US companies have lifted the S&P500 index to a new all-time high and many equity markets have had strong recoveries this year. As a result, gold has been getting less attention and it edged down to its lowest level of the last four months at $1,266/oz intraday. Investors have been exiting long positions, ETF holdings are down 845 koz (-1.2%) so far in April and large speculators cut the net futures position almost in half to 5.6 moz on 16 April from a week earlier. The gold price did recover towards the end of last week as the dollar index dipped slightly despite the strong US Q1 GDP figure.

Platinum ETF holdings start to decline. So far in April platinum ETFs have shed 39 koz of metal, as the firm dollar price prompted profit-taking in the US. It is a small change relative to the 692 koz increase in Q1'19, 60% of which took place in South Africa.

Key European diesel market is suffering. Car sales in Italy fell the most of any EU country year-on-year in Q1’19, down 38,000 (-6.7%) to 536,000 units, as the country faces a recession and a low 2019 GDP forecast. Italy is the last major market holding up diesel share at 44% in Q1’19, ahead of France with 35%. Italian car sales account for close to 0.25 moz of platinum demand so a full-year drop of 6.7% equates to 16 koz of lost demand. Across Western Europe car sales were down 3.2% in Q1’19 from a year ago, to 4.15 million. A continuation of poor sales and loss of diesel share could see platinum demand drop by 120 koz (-10%) in 2019. The weak Q1’19 car sales performance means the platinum price could move back towards $800/oz over the next few months. This is particularly likely if the market realises that substitution in place of palladium is not likely in the short term due to the risk of failing stricter emissions tests.

South African production being affected by Eskom power disruptions. Anglo American Platinum and Impala have reported that power disruptions have had a small negative impact on their output in Q1’19. Eskom has been struggling to provide sufficient electricity to meet demand owing to coal supply issues and power station failures.
US vehicle inventory hit a 21-month high as demand drops. At the end of March there were 4.2 million unsold light vehicles (70 inventory days) on dealer lots in the US, the highest since June 2017. Light vehicle sales fell 2.5% year-on-year in Q1’19 to 4.0 million units. IHS Markit and JD Power/LMC Automotive’s forecasts for full-year sales are 16.8 million (-2.3%) and 16.9 million (-1.7%) units, respectively, from 17.2 million in 2018. Some of the decline in sales will be made up by marginally higher palladium loadings. The US light vehicle market accounted for around 2.3 moz of palladium demand in 2018, a quarter of total demand. The weakness in car sales in the US, and also China, was a factor in palladium’s price being range-bound at $1,350/oz to $1,430/oz but it broke out to the upside on Friday. The market remains in a large deficit and palladium could continue to move higher.

Palladium demand increasing from Europe’s shift to petrol. Palladium demand from cars sold in the EU is expected to increase by 30 koz to 1.93 moz in 2019, based on flat sales and a growing market share of gasoline vehicles. However, if the Q1’19 sales performance of -3.2% continues for the whole year this could turn into a 35 koz drop.

High rhodium price incentivises more production. Royal Bafokeng Platinum (RBP) is restarting the South Shaft at the BRPM mine. Notably, this is a particularly rhodium-rich UG2 operation and RBP is currently targeting production by Q4’19. This is on top of a ramp-up in production at Styldrift mine due to be completed in 2020. Between the two, they could add up to 10 koz of annual rhodium supply, a 1% increase on global supply. The rhodium price has been recovering since reaching a low of $2,900/oz on 17 April, showing a stabilisation similar to that of palladium. After being overbought in March, the rhodium price now appears to be around a more justifiable level. Ruthenium’s price dipped to $260/oz amid light trading while iridium ended the week unchanged.
TRENDS AND INVESTMENTS

Gold and the US dollar

Platinum ETFs

Diesel share in major EU markets

US light vehicle sales and inventory

Heraeus Precious Metals

Europe, Middle East, Africa & other regions
Phone: +49 6181 35 2750
edelmetallhandel@heraeus.com

South East Asia
Phone: +852 2773 1733
tradinghk@heraeus.com

www.heraeus.com/trading-market-report

DISCLAIMER

This document is being supplied to the recipient only, on the basis that the recipient is reasonably believed to be a professional market participant in the precious metals market. It is directed exclusively at entrepreneurs and especially not intended for the use of consumers. The material contained in this document has no regard to the specific investment objectives, financial situation or particular need of any specific recipient or organisation. It is not provided as part of a contractual relationship. It is not and should not be construed as an offer to sell or the solicitation of an offer to purchase or subscribe for any investment or as advice on the merits of making any investment. This report has been compiled using information obtained from sources that Heraeus and SFA (Oxford) Ltd (“SFA”) believe to be reliable but which they have not independently verified. Further, the analysis and opinions set out in this document, including any forward-looking statements, constitute a judgment as of the date of the document and are subject to change without notice. There is no assurance that any forward-looking statements will materialize. Therefore, neither SFA nor Heraeus warrants the accuracy and completeness of the data and analysis contained in this document. Heraeus and SFA assume no liability for any losses or damages of whatsoever kind, resulting from whatever cause, through the use of or reliance on any information contained in this document. However, in so far as a liability claim exists under German law, Heraeus and SFA shall have unlimited liability for willful or grossly negligent breach of duty. Unless expressly permitted by law, no part of this document may be reproduced or distributed in any manner without written permission of Heraeus. Heraeus specifically prohibits the redistribution of this document, via the internet or otherwise, to non-professional or private investors and neither Heraeus nor SFA accepts any liability whatsoever for the actions of third parties in reliance on this document.

Prices quoted are interbank (offer) prices for gold, silver, platinum and palladium. Rhodium, ruthenium and iridium quotes reflect the Heraeus offer price at the time of writing.

The HERAEUS PRECIOUS APPRAISAL produced in collaboration with:

SFA (Oxford) Ltd
United Kingdom
Phone: +44 1865 784366
www.sfa-oxford.com

The Oxford Science Park, Oxford,
United Kingdom, OX4 4GA