



MARKET SPOTLIGHT

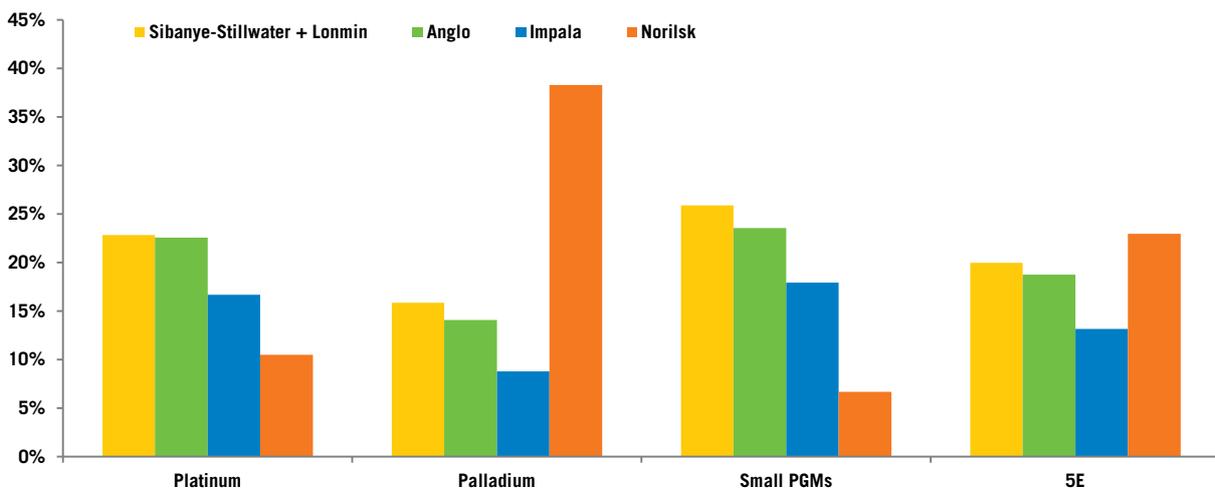
Merged Sibanye-Stillwater-Lonmin is the force in rhodium

Sibanye-Stillwater has been consolidating PGM mining in South Africa, and has now received shareholder approval to acquire Lonmin. The initial bid for Lonmin was made in December 2017 and, after overcoming several hurdles, both companies' shareholders have just voted overwhelmingly for the deal. The first PGM company purchased by Sibanye was Aquarius Mining in March 2016, to which was added the adjacent Rustenburg mines acquired from Anglo American Platinum (Anglo) in late 2016. Lonmin's land holdings are contiguous with those mines, enabling the enlarged entity to benefit from operational synergies and utilise Lonmin's processing infrastructure.

The merger of Sibanye-Stillwater and Lonmin will create a company that produces 20% of global PGMs, making it the second-largest PGM producer after Nornickel in Russia. Lonmin and Sibanye-Stillwater's combined annual production of platinum, palladium, rhodium, ruthenium and iridium will exceed 3.0 moz this year (assuming no cuts to production). The combined entity will overtake Anglo in terms of overall PGM output. Anglo's PGM output has declined as the company has been rationalising its portfolio of assets.

Nornickel is the largest overall PGM producer, responsible for 23% of global output. As the world's largest producer of palladium, at 2.8 moz, it mines almost 40% of global supply. This, combined with 650 koz of platinum and some output of small PGMs, adds up to over 3.5 moz.

Global production share



Source: SFA (Oxford). Note: 5E = platinum + palladium + rhodium + iridium + ruthenium.

The merger will create a company with the largest rhodium production of over 170 koz/a. Rhodium, the most expensive PGM at \$2,800/oz, is the most important metal for reducing NO_x emissions and will be increasingly needed to meet tighter emissions standards in China and India.

The combined company will produce the most platinum. With a projected output of 1.4 moz of platinum this year, it will edge Anglo into second place. The combined company will be second to Nornickel in terms of palladium production, but even with output of over 1.1 moz it will produce less than half the amount mined by the Russian company.



PRECIOUS METALS REVIEW

79 Au Gold

	Close	Weekly change	High	Date	Low	Date
\$/oz	1,302	1.38%	1,305	31/05/2019	1,275	30/05/2019
€/oz	1,167	1.82%	1,169	31/05/2019	1,141	28/05/2019

Recession risk is increasing, but gold is being sidelined. The gold price continues to drift sideways and is in danger of making new lows for the year as the US dollar has continued to strengthen. US bonds yields have been falling following the escalation of US-China trade tension. The 10-year Treasury yield is now at a 20-month low (chart on p4). As a result, the yield curve has inverted further, an indication of an upcoming recession. The New York Federal Reserve Bank is estimating a 27% chance of a recession in 12 months. If a recession does materialise then gold should receive a boost from safe haven demand even if the dollar's strength continues.

Australian gold production reached a 20-year high in Q1'19, mining 78 tonnes according to Surbiton Associates. A mixture of expansions and growth at juniors pushed up supply, despite some contractions at the larger operations. Australia is the second-largest gold producer in the world, behind China, and contributed just under 10% of the 3,503 tonnes mined globally in 2018 (source: USGS).

47 Ag Silver

	Close	Weekly change	High	Date	Low	Date
\$/oz	14.58	0.05%	14.69	31/05/2019	14.29	28/05/2019
€/oz	13.08	0.48%	13.15	31/05/2019	12.78	28/05/2019

Silver price is approaching support. The price has fallen 7% year-to-date and is approaching strong historical support at \$14/oz. Additionally, large futures speculators are net short again (-73 moz), which is typically the case around price lows (chart on p4), and this suggests a turnaround is not far off. The last time speculators were net short, in August, the price moved sideways for three months before rallying from \$14/oz to \$16/oz (+15%) over the next two months. Silver should follow gold higher later in the year.

Declining smartphone sales are negative for silver demand. Smartphone sales to consumers fell 2.7% year-on-year in Q1'19 to 373 million (source: Gartner). Samsung, the world's largest smartphone vendor, is forecasting a 1% drop in global smartphone shipments this year to 1.43 billion. Annual silver demand from the sector is over 4 moz. Although representing only 0.4% of global silver demand, this has been a rapid growth market until now. It is indicative of slowing economic growth and industrial use, which makes up over 55% of silver demand.

78 Pt Platinum

	Close	Weekly change	High	Date	Low	Date
\$/oz	794	-1.19%	818	28/05/2019	789	30/05/2019
€/oz	713	-0.66%	731	28/05/2019	710	31/05/2019

Platinum still holding on to support. After falling \$60/oz in two weeks, the platinum price has been trading close to the psychological level of \$800/oz (chart on p4). The real test will be at \$780/oz which is the support level that the price stabilised at twice in the second half of 2018 and during the crash in 2008. A fall below this level could see significant downside and take the price to levels not seen since the early 2000s. This seems possible given the sizeable market surplus expected this year (excluding investment demand).

the major platinum markets of China, India, Japan and the US, according to a survey highlighted in PGI's 2019 *Platinum Jewellery Business Review*. This is a key factor for platinum demand growth in markets where the metal price is less transparent to consumers (Japan, US, India), as consumers take the opportunity to buy jewellery with high perceived "value" at a lower price. However, the transparent pricing of plain platinum jewellery in China has discouraged some consumers and reduced sales. Since China is the largest jewellery market at more than 1 moz, this will pull down total platinum jewellery demand in 2019.

Platinum jewellery retains its allure despite price drop. Most consumers value platinum higher than gold in all



PRECIOUS METALS REVIEW

⁴⁶Pd Palladium

	Close	Weekly change	High	Date	Low	Date
\$/oz	1,336	0.68%	1,381	30/05/2019	1,325	27/05/2019
€/oz	1,198	1.12%	1,239	30/05/2019	1,181	27/05/2019

The palladium price is unusually stable, but it will not last. Palladium remains around the \$1,350/oz level (chart on p4), almost unchanged from two months ago. The last price correction, which started in January 2018, lasted for seven months, but followed a two-year uptrend compared to nine months from the 2018 low to the 2019 high. Near-term support is at \$1,280/oz to \$1,300/oz and a break of that level could lead to another sharp price drop. However, with the market in deficit, further upside looks likely in the longer term.

Forecasts for 2019 Chinese car sales are being revised down. Around the beginning of the year Chinese car sales were expected to see minor growth in 2019, but sales were down 17% year-on-year for the first four months of

the year. The China Association of Automobile Manufacturers (CAAM) predicts sales will remain flat from 2018 at 23.7 million vehicles. The chairman of major Chinese automaker SAIC is more pessimistic, saying new vehicle sales in the country will fall 5% year-on-year in 2019 assuming that sales growth turns positive in Q4'19. Electric vehicle sales have been rising at the expense of gasoline, which is reducing palladium demand. Some of the decline in palladium demand from lower gasoline vehicle sales is being offset by increasing loadings due to the approach of China 6 emissions standards. A 5% drop in sales in 2019 would result in a fall of over 40 koz in automotive palladium demand from China compared to 2018. This decline would not be enough to move the market out of deficit.

⁴⁵Rh ⁴⁴Ru ⁷⁷Ir Rhodium, Ruthenium, Iridium

	Rhodium	Ruthenium	Iridium
Reporting week	\$2,800/oz	\$260/oz	\$1,460/oz
Previous week	\$2,800/oz	\$260/oz	\$1,460/oz

Weak resistor sales could hit ruthenium demand. Electronics usage (primarily for thick film chip resistors) creates around 400 koz of ruthenium demand per year, a third of total demand and the largest single segment. Two of the largest resistor manufacturers, Yageo and Vishay, have reported quarter-on-quarter decreases in resistor sales in Q1'19. Inventories in the supply chain are high and will need to be reduced before new orders pick up. Slower global growth and trade tensions have negatively impacted electronics demand. The increasing presence of

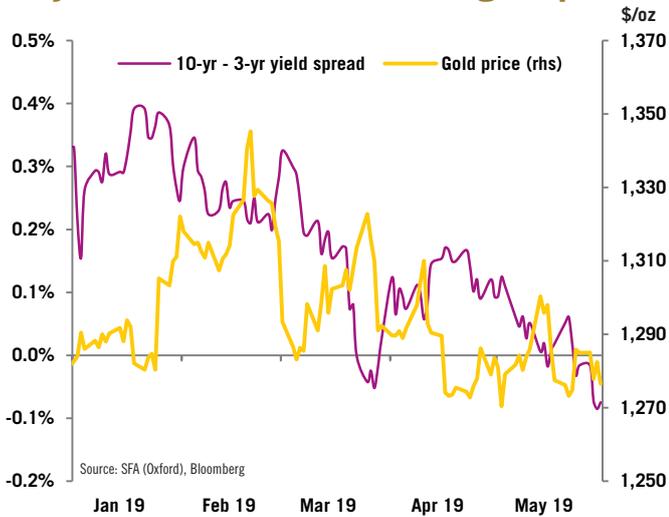
electronics in cars provides upward pressure to demand, but the falling car sales in the US, Europe and China are weighing on this segment as well. Overall, electrical ruthenium consumption is expected to rise in 2019, but a pick-up in resistor demand later in the year will be needed.

The rhodium, ruthenium and iridium prices were unchanged last week.



TRENDS AND INVESTMENTS

US yield curve inversion and gold price



Silver large specs position



Platinum price



Palladium price



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