

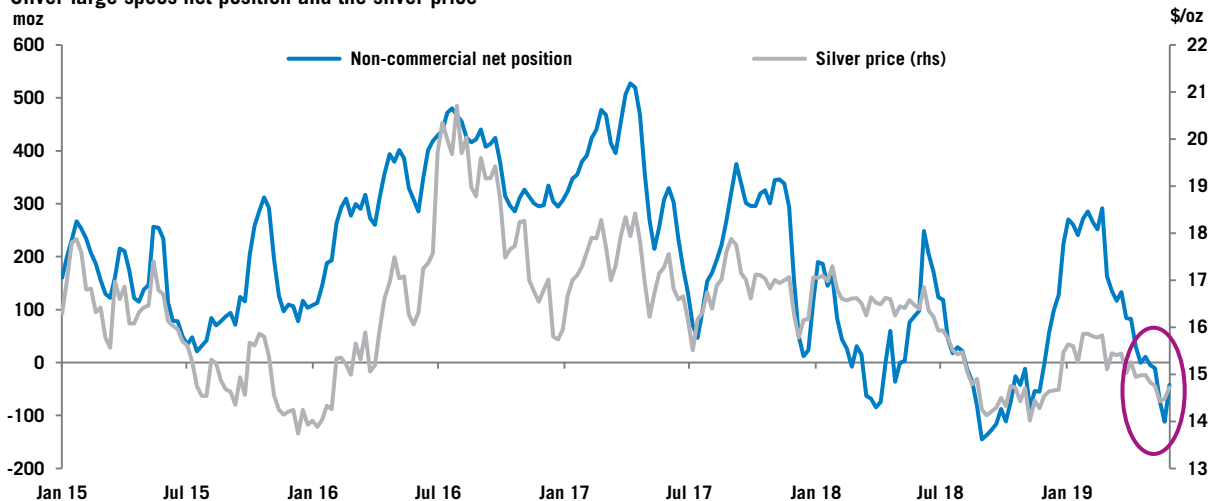
MARKET SPOTLIGHT

Silver short covering rally underway, but can it continue?

The ongoing, US-driven trade disputes have been a positive for the gold price, but a negative for silver. Economic and political uncertainties have increased and this has supported gold demand as a safe haven asset. However, trade disruption is leading to slower global economic growth which is a negative for silver as industrial demand accounts for 56% of silver usage. Silver's poor price performance has also resulted in relatively little investment interest, as bar and coin demand has been lacklustre and ETF holdings have slipped 8% from their peak in 2017.

However, Trump's surprise announcement at the end of May of possible tariffs on Mexican imports spurred safe haven demand for gold, which pushed up the price, and the silver price also gained. Sentiment has been quite negative on silver and the price has been consistently underperforming gold since 2016. From its depressed position just above support at \$14/oz, it has not needed much change in sentiment for silver to rally. Silver has broken out of its downtrend, which has caused some short covering. **If silver can overcome the drag from the trade disputes with some safe haven buying then the price could outperform gold.**

Silver large specs net position and the silver price



Source: SFA (Oxford), Bloomberg

On the technical front, non-commercial futures traders on COMEX were 112 moz net short silver at the end of May, the largest net short position since last September. In 2018, the non-commercial traders' silver position was net short for eight weeks in the first half of the year and again from mid-August to early December. In the first half of last year, when the silver non-commercial traders were net short, the silver price was relatively high and there was only a slight rally when the position switched from net short to net long. However in December, when the non-commercial traders' silver position shifted back to net long, silver rallied 11.7%, whereas the gold price went up 8.6% over the next two months.



PRECIOUS METALS REVIEW

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Au Gold

	Close	Weekly change	High	Date	Low	Date
\$/oz	1,340	2.97%	1,348	07/06/2019	1,309	03/06/2019
€/oz	1,184	1.38%	1,192	06/06/2019	1,173	03/06/2019

Safe haven demand lifting gold price. President Trump's threat to put a 5% tariff on Mexican imports gave fresh impetus to gold at the end of May as safe haven buying picked up. Other safe haven assets were also in demand as US Treasuries' yields fell, and the yen strengthened against the dollar. The price continued its rally last week, and came close to making a new high for the year. The rally has moved the price out of its downtrend, which is a positive development. A break-out to new highs would generate renewed interest in the metal and keep the momentum to the upside.

Gold coin sales have been lacklustre. The US Mint sold just 4 koz of American Eagle coins in May, but year-to-date sales are still up 6.3% at 102 koz. The Perth Mint had its lowest monthly sales in two years at 10.8 koz. Year-to-date, the Perth Mint's gold sales are down 7.5% at 114 koz, no doubt impacted by the record gold price in Australian dollars.

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Ag Silver

	Close	Weekly change	High	Date	Low	Date
\$/oz	15.03	3.07%	15.15	07/06/2019	14.59	03/06/2019
€/oz	13.27	1.49%	13.36	07/06/2019	13.05	04/06/2019

US tariffs on Mexican imports would have had an adverse impact on silver. Mexico and the US reached an agreement late last week and President Trump dropped his plan for tariffs on Mexican imports. Around 50% of US silver imports come from Mexico (2,700 t) (source: USGS). The US is responsible for around 18% of global silver demand and has the third-largest silver usage after India and China. Tariffs could have had an adverse short-term impact on metal availability for a wide variety of industries. The largest silver users are the electrical and electronic industries (44% of US demand) and the photovoltaic industry (13%). Tariffs would have most

likely shifted global metal flows around, but probably would not have had a long-term impact on the price. The silver price was pulled higher along with gold, but the price ratio has remained near its recent high of 89.

Low price helping silver coin sales. The price has averaged \$15.27/oz this year compared to \$16.67/oz in the first five months of 2018. Silver coins have fared better than gold as US Mint American Eagle silver coin sales are 9.1 moz year-to-date, with 866 koz sold in May. Although that is up 42% year-on year, US Mint sales in 2018 were the lowest for 11 years.

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Pt Platinum

	Close	Weekly change	High	Date	Low	Date
\$/oz	806	1.44%	833	05/06/2019	799	03/06/2019
€/oz	711	-0.19%	740	05/06/2019	710	07/06/2019

Diesel car sales in Europe climb in Germany, but drop in the UK in May. The two largest car markets' consumers are diverging in their views on diesel. In Germany, new car sales rose by 9.1% year-on-year to 332,962. Diesel car sales were up by 16%, giving diesel a market share of 33.3%. Diesel's share in Germany appears to have stabilised at around 30%. However, in the UK the slump in diesel sales has continued. Total new car sales fell 4.6% in May, but this was driven by an 18.3% collapse

in diesel car sales. Sentiment has swung against diesel despite the newest vehicles beating their emissions targets. Year-to-date, total new car sales in the UK are down 3.1% at just over 1 million vehicles. The slide in diesel share in Western Europe is expected to result in platinum demand being over 100 koz lower than in 2018, at around 1.1 moz.



PRECIOUS METALS REVIEW

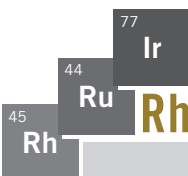
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Pd Palladium

	Close	Weekly change	High	Date	Low	Date
\$/oz	1,367	2.33%	1,376	07/06/2019	1,312	03/06/2019
€/oz	1,207	0.75%	1,213	07/06/2019	1,171	04/06/2019

Removal of the US tariff threat on Mexican imports saves 300 koz of palladium demand. There is much cross-border trade of parts for cars that are built in Mexico, with some parts crossing the US border multiple times, as well as exports of finished cars. Mexico exported 2.6 million light vehicles to the US last year, 76% of the country's total light vehicle exports, representing 15% of US light vehicle sales. The tariffs would have caused major disruption to the US and Mexican auto parts industries and vehicle production. The price for an imported vehicle would have risen by several thousand dollars, resulting in a large negative impact on sales in the US. If US auto sales had dropped by 10% then palladium demand could have fallen by over 300 koz p.a. which would significantly cut the market deficit. The US is in trade talks with Japan and will hold them with the EU later this year. Those regions exported a combined 2.9 million passenger cars to the US last year, so US tariffs on vehicle imports are still a threat to palladium demand. For now, the market is expected to remain in deficit, which is supportive of higher prices.

US auto sales picked up in May, but are still down year-to-date. The BEA estimated light vehicle sales of 17.3 million (seasonally adjusted annual rate, SAAR) in May, up 5.5% from a weak April, and a 2.9% improvement year-on-year. However, automakers used large discounts to clear inventory, which has been building up, and also relied on fleet sales to drive their sales. Year-to-date, sales have averaged 16.9 million SAAR, down 1.9% compared to the same period in 2018. Full-year sales are forecast to be around 17 million, down from 17.3 million in 2018. However, US automotive palladium demand is expected to be slightly higher year-on-year at around 1.7 moz because domestic production is growing and catalyst loadings are edging up. The shift in consumer preferences to light trucks and SUVs and away from cars is also lifting the average catalyst loading.

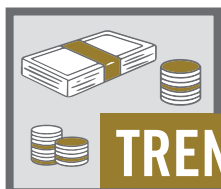


Rhodium, Ruthenium, Iridium

	Rhodium	Ruthenium	Iridium
Reporting week	\$2,925/oz	\$250/oz	\$1,460/oz
Previous week	\$2,800/oz	\$260/oz	\$1,460/oz

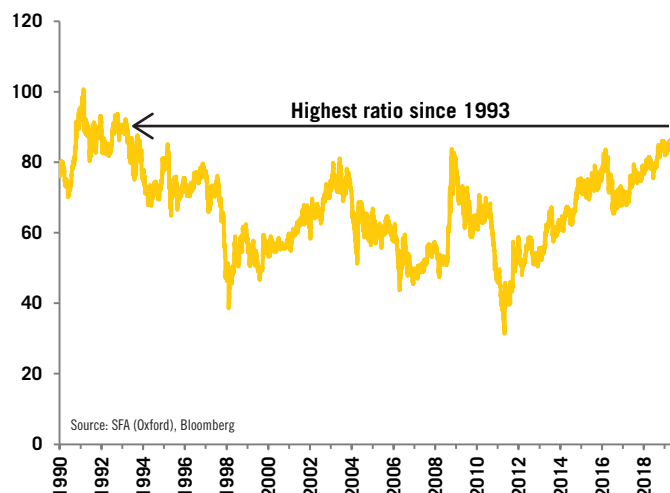
US-Mexico tariffs could have cut rhodium demand for autocatalysts by 30 koz. With rhodium being used in three-way catalysts along with palladium, any disruption to US auto sales will impact rhodium demand too. If US auto sales were to fall by 10% then rhodium demand would be cut by 30 koz p.a.

Rhodium rallied \$125/oz last week, while ruthenium lost \$10/oz on lacklustre demand, but the iridium price was unchanged.

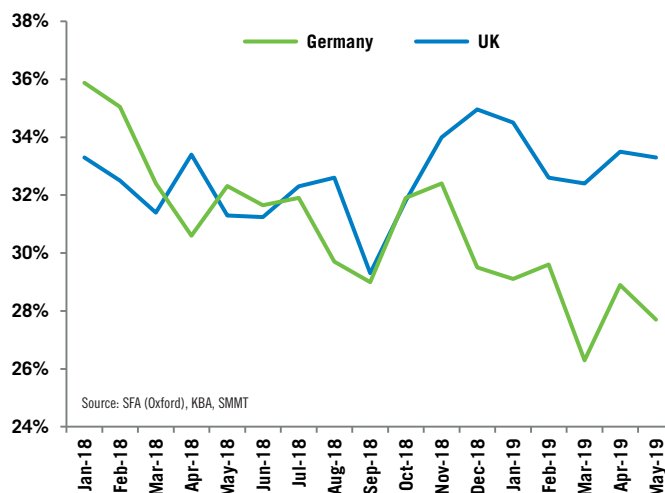


TRENDS AND INVESTMENTS

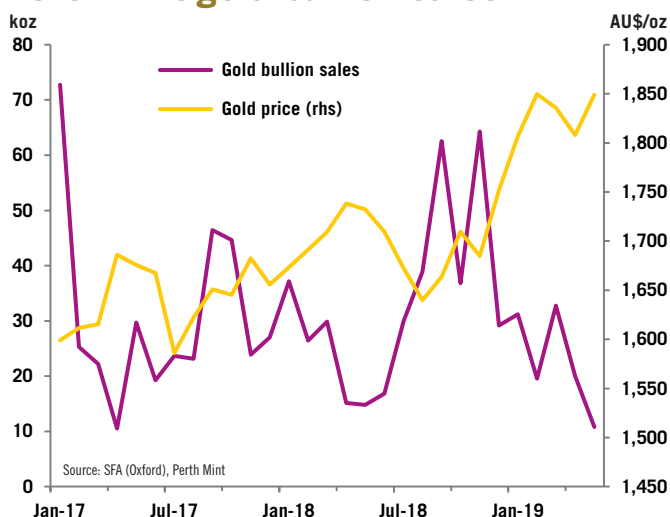
Gold:silver ratio



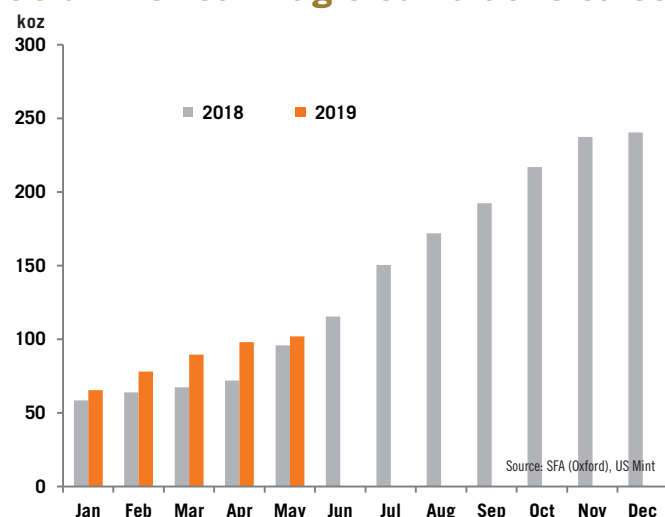
Diesel vehicle market share



Perth Mint gold bullion sales



Gold American Eagle cumulative sales



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