

HERAEUS PRECIOUS APPRAISAL

Heraeus

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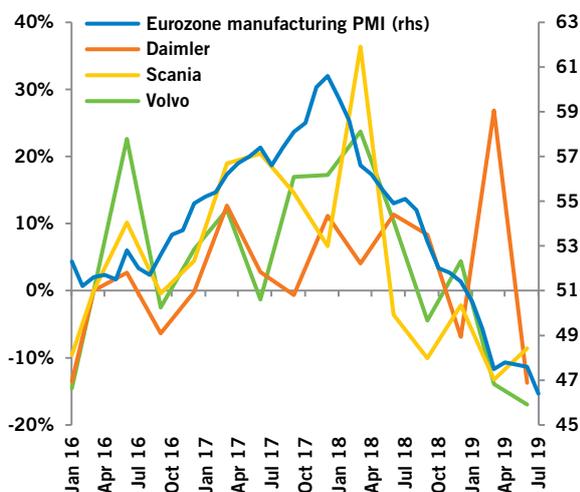


MARKET SPOTLIGHT

Falling EU manufacturing PMI and truck sales shift platinum demand into low gear

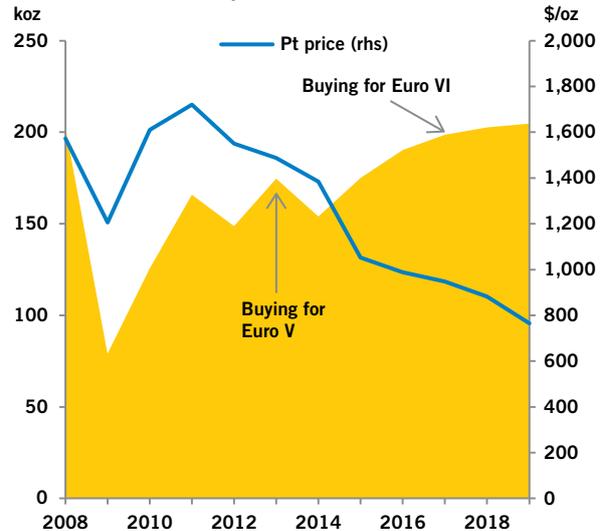
Truck orders in Europe trend with manufacturing activity, which is declining. The Eurozone manufacturing PMI fell to 46.5 in July. In Daimler's home market of Germany new orders for medium- and heavy-duty vehicles (M&HDVs) fell by 19.4% year-on-year to 6,865 in Q2'19. For Europe as a whole (EU30), new orders were down 13.5% to 18,493. Volvo and Scania are also seeing significant declines in M&HDV new orders in Europe (-9.2% and -9.6% year-on-year respectively in Q2'19). The three companies combined have over 50% of the European truck market.

European truck new orders
y-o-y % change



Source: SFA (Oxford), Volvo, Daimler, Scania, IHS Markit

Pt demand in W. European HDV



Source: SFA (Oxford), Bloomberg

The decline in the manufacturing PMI suggests that new orders for trucks will continue to fall and so will platinum demand. The expectation was that Western European M&HDV sales would grow slightly this year and in 2020, and platinum demand would therefore also increase slightly. Western European platinum demand for M&HDVs was estimated at 200 koz, or 29% of global M&HDV demand this year. In the last Eurozone recession, M&HDV sales fell by 10.6% in 2012, with platinum demand falling by a similar amount. If the slowdown in the economy turns into a recession then a 10% drop in M&HDV sales in Western Europe would cut platinum demand by 20 koz. **This is another area of weak demand in an oversupplied market so the platinum price is likely to decline further.**

Growth in the Eurozone is forecast to slow to 1.3% this year (source: IMF). However, the risks are to the downside. World trade volume is no longer expanding and Germany is particularly exposed as an export-oriented economy. German GDP contracted by 0.1% in Q2'19. China-US trade discussions remain unresolved and the US also has forthcoming trade talks with the EU. Uncertainty over how Brexit will be resolved continues to weigh on business in Europe. For now the services side of the economy and consumer spending are maintaining the economic expansion. **However, manufacturing is at a recessionary level and it will not take much to tip the whole economy into recession.**



PRECIOUS METALS REVIEW

79 Au Gold

	Close	Weekly change	High	Date	Low	Date
\$/oz	1,510	0.37%	1,535	13/08/2019	1,480	13/08/2019
€/oz	1,361	1.57%	1,376	16/08/2019	1,325	13/08/2019

China's tariff delay erodes gold's gains. Gold price volatility has picked up. The announcement that the US would increase tariffs on \$300 billion of Chinese imports, along with the subsequent devaluation of the yuan to over 7 to the US dollar, helped gold to surpass \$1,500/oz. Then half the tariffs were delayed until December and gold gave back some of those gains. The price may consolidate for a while after rising by \$100/oz in two weeks, but the outlook remains positive.

Hong Kong protests dent jewellery demand. Hong Kong retailers rely on tourists, especially those from the Chinese mainland, for much of their sales. Safety concerns are deterring tourists and rising prices and a slowing mainland economy are not helping. Hong Kong represents around 7% of total Chinese jewellery demand.

Hong Kong jewellery demand fell by 14.4% in Q2'19 to 9.8 t (source: World Gold Council) and is likely to remain weak in Q3.

Gold miner mega-merger is not increasing output. Following the acquisition of Randgold Resources by Barrick Gold in late 2018, the merged company reported Q2'19 gold production of 1.353 moz, up 27% from last year but down 1% from Q1'19. Production from Barrick's assets remained steady at 1.05 moz compared to 1.07 moz last year. Barrick now owns half of the Top 10 Tier One gold assets in the world. The company's strategy is to focus on the top assets and to sell non-core assets, starting with its 50% share in the Kalgoorlie 'Super Pit' mine.

47 Ag Silver

	Close	Weekly change	High	Date	Low	Date
\$/oz	17.11	0.62%	17.51	13/08/2019	16.54	13/08/2019
€/oz	15.43	1.80%	15.63	13/08/2019	14.80	13/08/2019

Semiconductor sales slump and hit silver demand. Sales of semiconductors fell 16.8% year-on-year to \$98.2 billion in Q2'19 (source: Semiconductor Industry Association). Silver use in electronics accounted for around a quarter of global demand in 2018 (250 moz). In 2018, there was a boom in semiconductor sales as companies built stockpiles ahead of US tariffs on Chinese goods. Now the global economy is slowing, US tariffs are in place and sales are subdued. Consumers

may also be delaying the purchases of new smartphones in anticipation of next-generation launches. However, 5G phones should be widely available by 2020 and are projected to help lift smartphone sales by 3%. Electronics demand for silver looks likely to slip this year, but recover somewhat next year. However, the silver price is being driven by investors and is expected to move higher along with gold.

78 Pt Platinum

	Close	Weekly change	High	Date	Low	Date
\$/oz	844	-2.18%	867	13/08/2019	833	16/08/2019
€/oz	762	-0.98%	775	13/08/2019	749	15/08/2019

South African producer results for the first half of 2019 confirm that mine supply is likely to remain well over 4.0 moz of platinum this year. Reported mine revenues (given the weaker rand and much higher palladium and rhodium prices) are unlikely to prompt any production cuts in H2'19. On this basis, mine supply stoppages may just be restricted to industrial action, as the primary producers (Anglo Platinum, Impala, Sibanye-Stillwater) are currently

in the midst of their wage negotiations for the next three-year cycle. The companies' proposed wage increases vary quite meaningfully between producers, being contingent on individual company fiscal performance. This will make it difficult for the AMCU (the largest miners' trade union) to reach unanimity in wage increases across its members. This might raise the chance of a "threatened strike" and give the platinum price a little upside risk.



PRECIOUS METALS REVIEW

⁴⁶ Pd **Palladium**

	Close	Weekly change	High	Date	Low	Date
\$/oz	1,451	1.12%	1,463	13/08/2019	1,420	12/08/2019
€/oz	1,308	2.25%	1,314	16/08/2019	1,266	12/08/2019

Chinese car sales fall for 13th consecutive month in July. Data from the China Association of Automobile Manufacturers (CAAM) confirmed the ongoing weakness in the Chinese auto market noted in recent weeks. With the introduction of China 6 emissions legislation nationwide in July next year and car sales expected to recover, the palladium market is projected to remain in deficit which supports a higher palladium price in the medium term.

Palladium market tightness is easing. The futures curve has been flattening and the front end is now in contango, with the December contract trading \$2/oz above the September contract. A month ago the September contract was trading \$2/oz less than the December contract. Lease rates are also edging lower. This could just be a result of seasonally weak demand during the northern hemisphere summer holidays, but it might be a sign of caution following poor auto sales. The price is trading in a range between \$1,600/oz and \$1,300/oz and breaking one of those levels will indicate the longer-term price direction.

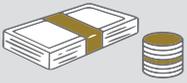
⁴⁵ Rh ⁴⁴ Ru ⁷⁷ Ir **Rhodium, Ruthenium, Iridium**

	Rhodium	Ruthenium	Iridium
Reporting week	\$3,950/oz	\$250/oz	\$1,460/oz
Previous week	\$3,750/oz	\$250/oz	\$1,460/oz

Auto sales slowdown impacts rhodium demand in China. Based on year-to-date passenger car sales being down 11.4%, a 10% drop over the course of the year is looking more realistic than CAAM's prediction of a 5% decline. China's passenger car market represents 140 koz of rhodium demand or 12% of global demand. However, with emissions legislation being tightened, catalyst loadings are increasing. In theory a 10% drop in sales would result in Chinese automotive rhodium demand

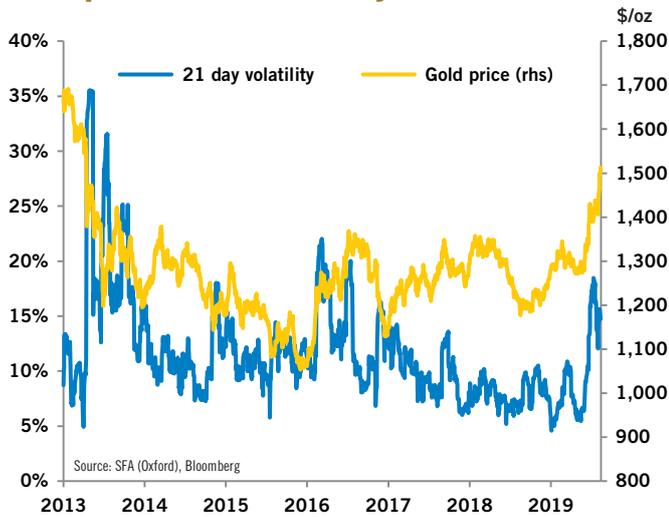
falling, but it is a small spot market, and the rhodium price has continued to climb, gaining \$200/oz last week.

Finally, should the AMCU threaten or initiate a strike during wage negotiations in South Africa, the upside risk to the rhodium price is greater than for platinum, since it is the tighter market. A strike is also an upside risk for ruthenium and iridium prices, but for now they continue to flatline.

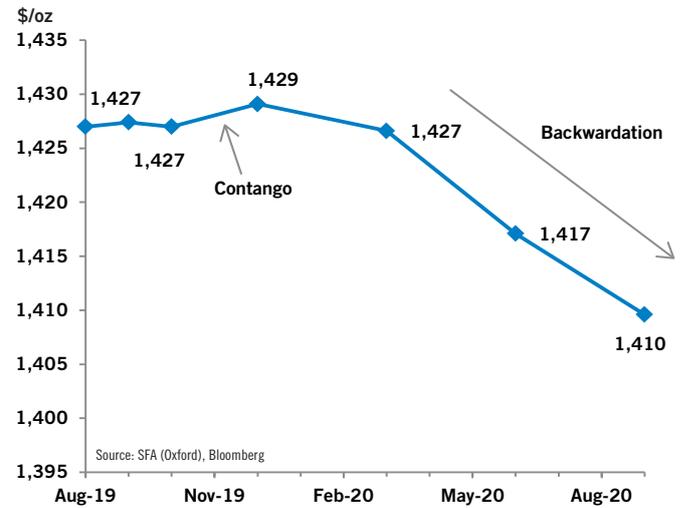


TRENDS AND INVESTMENTS

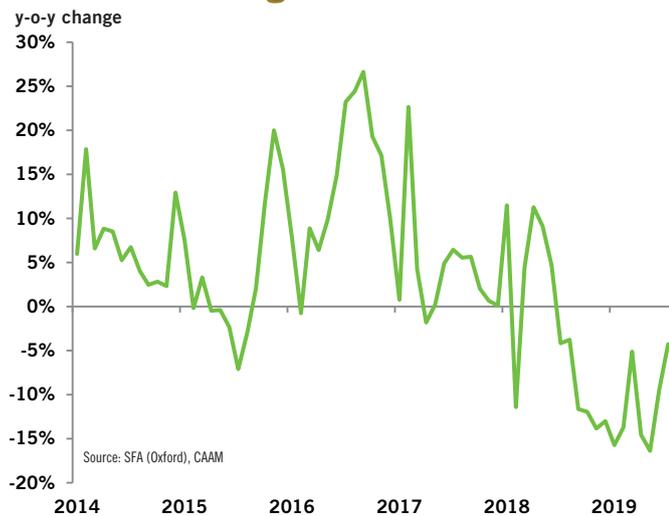
Gold price and volatility



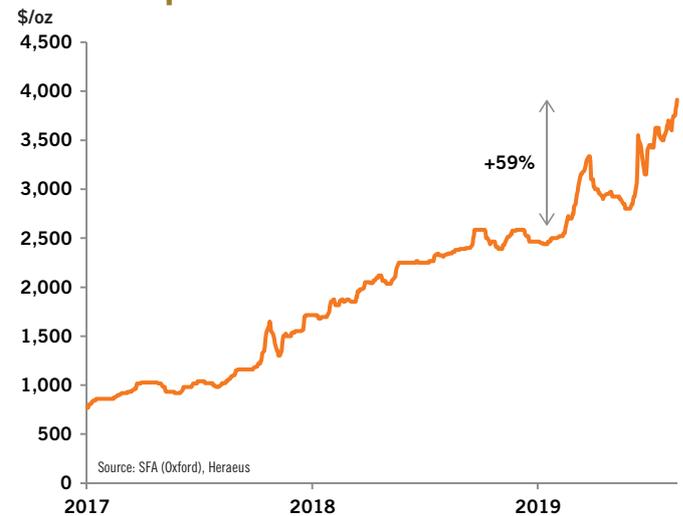
Palladium futures curve



China car sales growth



Rhodium price



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