

HERAEUS PRECIOUS APPRAISAL

Heraeus

Ed. 29
26th August 2019

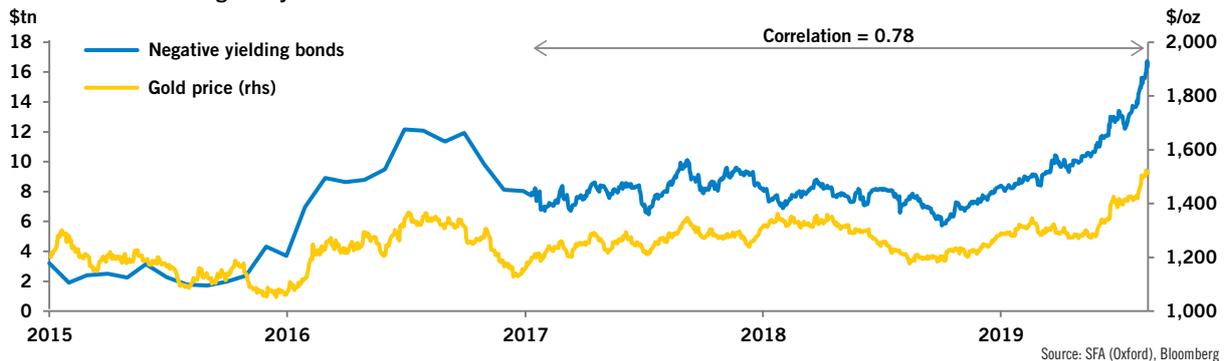


MARKET SPOTLIGHT

Are negative yields positive for gold?

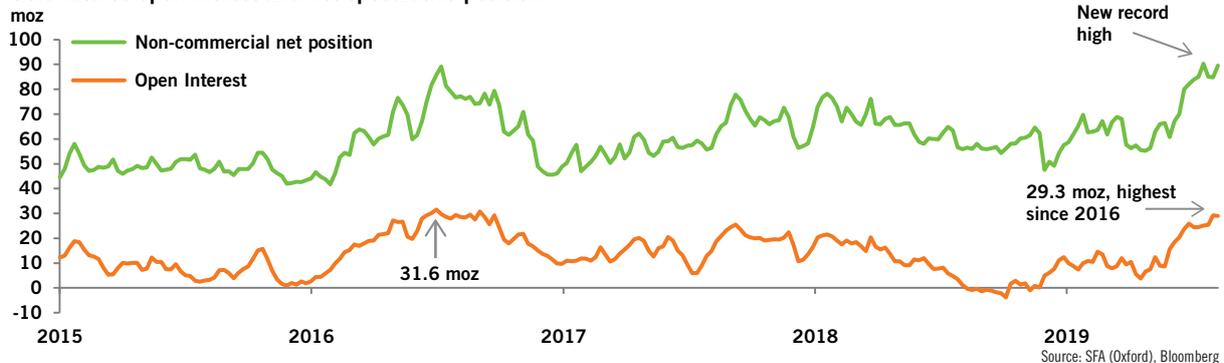
The \$16 trillion in negative yielding bonds makes gold look attractive. Central bank actions, lowering interest rates to negative levels and quantitative easing, triggered a reach for yield that has reached epic proportions. Concerns over slowing global growth amid US-China trade disputes have seen the trend accelerate this year. Now there is over \$16 trillion in negative yielding bonds (~16% of total global debt), guaranteeing a loss for anyone that holds them to maturity. Gold has also benefited from safe-haven buying and looks more attractive when bonds have a negative yield.

Global bonds with negative yield



Bond and gold prices are overbought and near term a price correction is likely. The speculative gold futures net long position reached 29.3 moz at the start of August, the highest level since 2016, and open interest hit 90 moz, a record high. This increases the chance of a price correction near term since many people are already long gold.

Gold futures open interest and net speculative position



Monetary policy is in an easing trend. Trade talks between the US and China and the EU are still on the agenda, but tariffs remain a threat to the global economy. Slowing growth means that central banks have been cutting interest rates. The futures market is predicting another interest rate cut by the Fed in September. The ECB is also expected to act and ease monetary policy in September. If bonds and gold continue to receive a safe-haven bid then **medium term the gold price can go higher.**



PRECIOUS METALS REVIEW

79 Au Gold

	Close	Weekly change	High	Date	Low	Date
\$/oz	1,528	1.21%	1,529	23/08/2019	1,493	22/08/2019
€/oz	1,371	0.68%	1,375	23/08/2019	1,341	22/08/2019

Gold takes a pause before pushing higher. Despite some modest profit-taking earlier last week, the gold price should ultimately pull clear of the \$1,500/oz area and make further gains in the second half of 2019. Supportive influences for higher gold prices include economic fragility and trade issues which are pushing central banks into loosening monetary policy. With safe-haven assets having received strong buying interest over the last few weeks, some time to digest the gains may be necessary. Gold is holding above \$1,500/oz, which is a solid performance as the dollar has been gradually strengthening. However, speculative futures positions in gold are at very high level and with gold having become overbought, the price may correct near term.

Indian gold jewellery demand sags under the weight of the rising price. The government increased the import duty to 12.5% in July. This, along with a generally rising gold price, pushed domestic prices to an all-time high of 38,666 rupees per 10 g last week. India imports almost all of its gold. July saw imports drop 42.2% in US dollar terms from the previous year, to the lowest level since March 2016. The high price, slower economic growth and floods in the largest gold-buying states of Kerala and Karnataka have resulted in gold jewellery demand falling off sharply in Q3.

47 Ag Silver

	Close	Weekly change	High	Date	Low	Date
\$/oz	17.42	1.84%	17.48	23/08/2019	16.85	19/08/2019
€/oz	15.63	1.30%	15.71	23/08/2019	15.18	19/08/2019

Expect further gains for silver while investors are in risk-off mode. After lagging the rise in the gold price through to July this year, the silver price is making headway again. The underlying fear driving global

investment dynamics has seen bonds rally and stocks sell off which has benefitted silver (and gold). The gold:silver ratio is edging lower but at 88 is still relatively high, leaving plenty of room for further silver outperformance.

78 Pt Platinum

	Close	Weekly change	High	Date	Low	Date
\$/oz	860	1.85%	870	23/08/2019	840	21/08/2019
€/oz	771	1.28%	783	23/08/2019	758	21/08/2019

Platinum ETFs show investors are still betting on a platinum price recovery. ETF holdings have slipped slightly from the record level at the end of July, but are still above 3.1 moz. One reason is a judgement that OEM fabricators will switch away from more expensive palladium to cheaper platinum in emissions control systems. However, the choice is driven by more than the price differential. The technical requirements of tighter emissions standards and more sophisticated engine management systems necessitate careful calibration of catalysts which involves expensive R&D.

More vital, though, for automakers are the plans for punitive fines associated with the EU's impending CO₂ emissions targets. Manufacturers will be fined €95 for each gram of CO₂ emitted over their target multiplied by their total vehicle sales. Auto companies may have to absorb billions of euros in fines. This would accelerate the drive for electrification, particularly in the absence of a strong recovery in diesel sales. It would render the economics associated with metal switching of much lesser prominence right now. On this basis, with the platinum market in growing oversupply, ETF investors may have to be patient for higher platinum prices.



PRECIOUS METALS REVIEW

⁴⁶ Pd Palladium

	Close	Weekly change	High	Date	Low	Date
\$/oz	1,466	1.04%	1,497	21/08/2019	1,452	19/08/2019
€/oz	1,313	0.42%	1,349	20/08/2019	1,307	19/08/2019

Palladium price is now a steal (literally)! Supply remains tight, but really it is rising demand that is supporting the price. It is the strengthening of vehicle emission standards by governments, particularly in the EU, US and China, which makes the strong metal price sustainable in the foreseeable future. The price is so high that there are numerous reports in the UK, Ireland and the US of thieves stealing catalytic converters, sometimes in broad daylight, to recover this recyclable metal. An Irish Times article reported unofficial Garda figures that show there has been more than a three-fold surge in these thefts. Thieves have found a black market to sell on the converters for more than €100 a part, leaving victims with repair bills that can run into thousands of euros.

Palladium stock sales filling the deficit. In the first half of the year palladium ETF holdings fell by 122 koz and sales

by Nornickel from its palladium fund (metal acquired from third parties' stocks) were an estimated 130 koz. This was the estimated level of metal held by the fund at the end of 2018. Visible stock sales totalled ~250 koz in H1'19 and conveniently that equates to around half of the projected market deficit for the year. However, Nornickel plans to buy between 300 koz and 500 koz by the end of 2019. With announced reserves of 100 koz at the end of the year, 200 koz to 400 koz will be sold to Nornickel's customers. Between Nornickel stocks and ETF sales there should be enough metal available to supply the shortfall in H2'19. The market is projected to remain in deficit in 2020, so a high price will still be needed to motivate sales of stock to fill the supply shortfall next year.

⁴⁵ Rh ⁴⁴ Ru ⁷⁷ Ir Rhodium, Ruthenium, Iridium

	Rhodium	Ruthenium	Iridium
Reporting week	\$4,175/oz	\$250/oz	\$1,460/oz
Previous week	\$3,950/oz	\$250/oz	\$1,460/oz

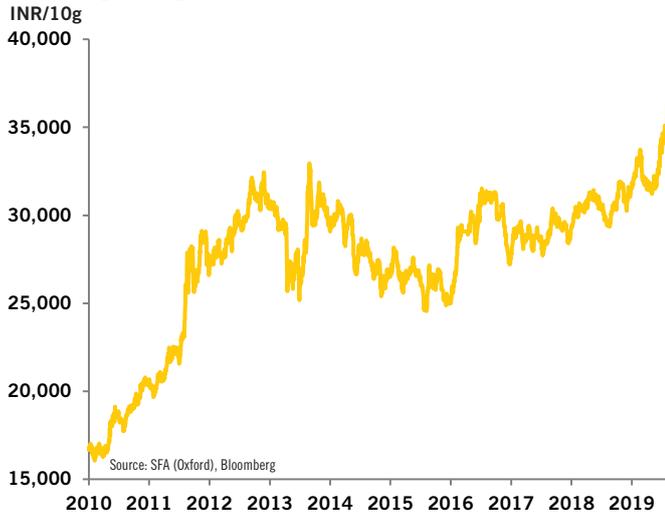
Small metal prices remain elevated, but only rhodium is showing positive momentum. Liquidity for iridium and ruthenium is rising as South African shipments increase. Volumes are being added from the release of work-in-progress stocks (metal previously locked-up in the metallurgical processing pipeline) flowing into the market. Ruthenium looks more fragile than iridium as technology substitution in hard disk drives gradually becomes a threat, limiting demand growth.

The China 6 emissions standard supports light-duty gasoline vehicle rhodium demand and a firm price. China 6 is the most stringent gasoline light-vehicle emissions legislation in the world. The move to China 6b in 2023 will further lower permitted NO_x levels, and so require higher rhodium content on the three-way catalyst. While it may be too early to link it to China 6b, rhodium imports into China have picked up in H1'19. With demand firm, the rhodium price will outperform its sister metals in H2'19.



TRENDS AND INVESTMENTS

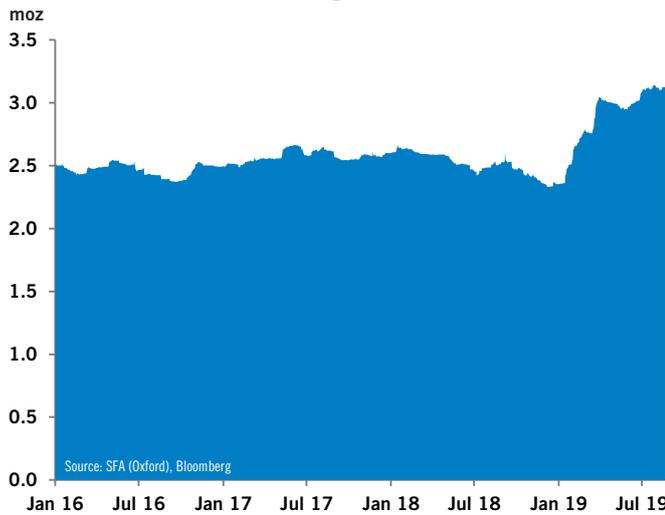
India gold price



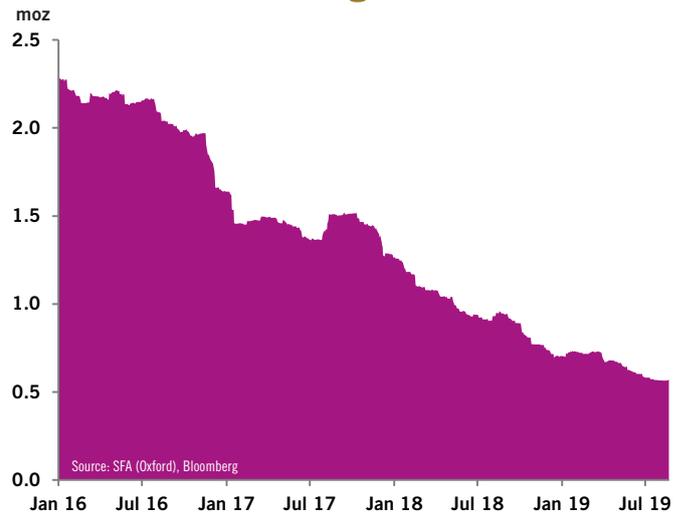
Gold:silver ratio



Platinum ETF holdings



Palladium ETF holdings



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