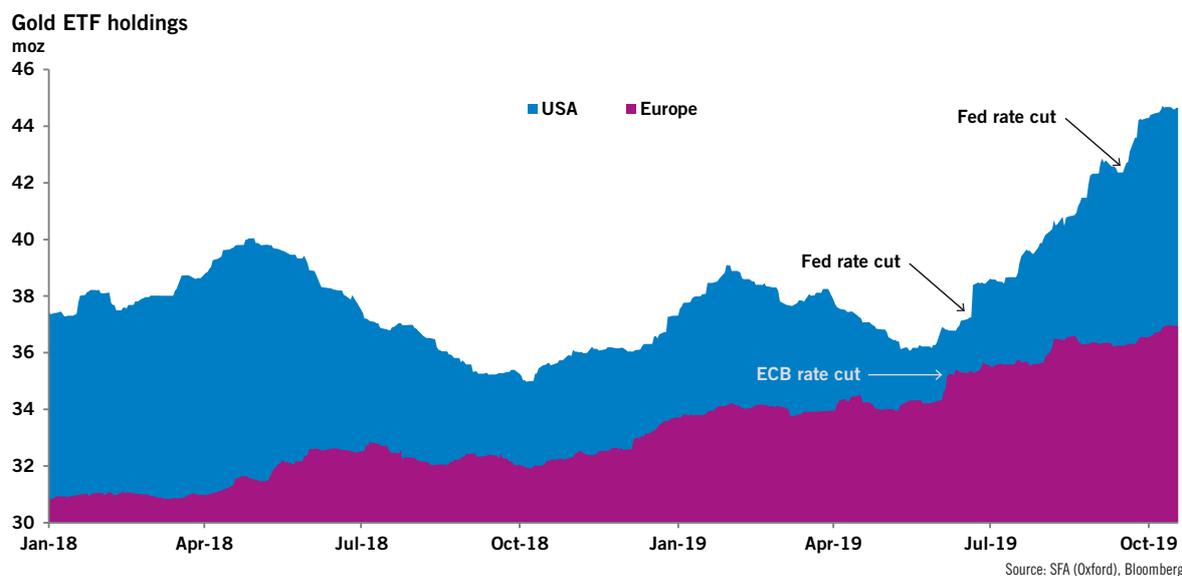




MARKET SPOTLIGHT

Gold ETFs hit record high on a weak global outlook

Federal Reserve rate cuts have spurred gold ETF buying. US listed gold ETFs have seen their holdings increase by 19.5% this year to 44.6 moz, with almost all of that growth coming in the third quarter. In the five trading days following the Fed's announcements of interest rate cuts, US gold ETFs grew by 1.2 moz (3.2%) in late June and 1.5 moz (3.5%) in September. With the Fed cutting interest rates, the real interest rate is dropping, and not far from becoming negative again, which is generally a positive for the gold price.



European investors have been steady purchasers of gold ETFs this year, but the announcements of rate cuts by the Fed and ECB have had little impact on the amount purchased. This could be because European investors have been subject to negative interest rates for several years. The ECB first implemented a negative interest rate in June 2014 and the Swiss central bank followed suit in January 2015. Since then European gold ETF holdings have almost doubled, from 19.2 moz to 37.0 moz. German listed ETFs have seen the largest increases, swelling from 2.6 moz when the ECB put rates into negative territory to 10.2 moz currently. Swiss ETFs started at a higher level of 7.1 moz and are now 9.9 moz. Gold ETF holdings in the UK have doubled from 8.4 moz to 16.8 moz, but that might have something to do with Brexit too.

The odds of another rate cut at the Fed's October meeting are high. The futures market implied probability jumped at the start of October with the release of poor manufacturing PMI numbers for September, and is now 84%. This was followed by the IMF releasing a downbeat assessment of the global economy. If the Fed keeps cutting rates then ETF holdings look set to rise further. Currently, gold is still consolidating after its rapid rise from earlier this year, but higher prices look likely in the medium term.



PRECIOUS METALS REVIEW

79

Au Gold

	Close	Weekly change	High	Date	Low	Date
\$/oz	1,491	0.65%	1,499	15/10/2019	1,477	16/10/2019
€/oz	1,337	-0.40%	1,360	15/10/2019	1,332	17/10/2019

Gold sentiment remains strongly bullish, with the speculative futures position rising to 27.6 moz in the week to 8 October. However, price rallies do not tend to start when sentiment is already very positive. A continuation of the current price correction would reduce the level of enthusiasm and set the scene for the next stage of the rally. A bit more progress on a US-China trade deal could see gold fall back as economic sentiment improves. This also fits with the typical seasonal pattern for gold which tends to trade sideways to lower in Q4.

Gold jewellery consumers price out on record prices in India, the world's second-largest gold jewellery market.

Unofficial reports suggest India's gold imports in September fell 68% from a year earlier, as the gold price rallied to a new high of ₹39,011/10 g early in the month. India imports nearly all its gold. A recent correction in prices to around ₹38,200/10 g has lifted hopes of a recovery in time for the festivals of Dhanteras and Diwali at the end of October, an auspicious time for gold purchases. However, the gold price is still 20% higher than at the same time last year, and large jewellery retailers are relying on discounts, promotions and giveaways to incentivise sales. If the high price continues to crimp purchases then Indian jewellery demand could fall short of last year's total of 598 t.

47

Ag Silver

	Close	Weekly change	High	Date	Low	Date
\$/oz	17.56	0.35%	17.74	15/10/2019	17.17	16/10/2019
€/oz	15.74	-0.69%	16.08	15/10/2019	15.56	16/10/2019

Speculative positioning in silver is not as high as it is for gold. At 254 moz it is less than half the record level seen in 2017. This leaves plenty of room for positions to be increased and silver to outperform once the current price consolidation ends. Silver and gold prices moved sideways last week, keeping the gold:silver ratio close to 85.

Silver mine output cut by 1.7 moz. Operations have been suspended for over four weeks at Newmont-Goldcorp's Peñasquito mine in Mexico. The suspension was forced as local communities blockaded the mine. It will reduce third-quarter production by around 1.7 moz of silver. Although the blockade has been lifted, operations are still suspended which could increase the amount of lost production. Peñasquito produced 18.3 moz of silver in 2018, which accounted for 2.1% of global mine supply (source: The Silver Institute).

78

Pt Platinum

	Close	Weekly change	High	Date	Low	Date
\$/oz	890	0.14%	902	15/10/2019	876	16/10/2019
€/oz	799	-0.88%	819	15/10/2019	791	17/10/2019

Subsidy cuts hit outlook for fuel cells in China. The Chinese government will phase out subsidies for all new energy vehicles (NEVs), now including fuel cell vehicles (FCVs), by the end of 2020. Local governments will instead be encouraged to provide incentives to build hydrogen fuel stations. At current loadings, FCVs use around four times as much platinum as conventional diesel passenger cars, although this ratio will decline as thrifting increases over the next few years. The Chinese government began the subsidy programme this year, and sales of FCVs rose more than seven-fold in the first nine months to 1,251 units compared to 2018 (source:

CAAM). Government support was a crucial element for the long-term development of the fuel cell market. With such modest sales, the risk is that the support is being removed before the infrastructure and consumer demand are sufficiently developed to make the market sustainable.

Platinum's discount to palladium hit a new record of \$866/oz, as the platinum price was relatively flat while the palladium price hit new highs. With platinum demand subdued and the palladium market tightening, the discount could widen further.



PRECIOUS METALS REVIEW

⁴⁶ Pd **Palladium**

	Close	Weekly change	High	Date	Low	Date
\$/oz	1,753	3.51%	1,785	17/10/2019	1,690	14/10/2019
€/oz	1,572	2.47%	1,612	17/10/2019	1,531	14/10/2019

The palladium market continues to tighten. Lease rates are in double figures again and the price has hit new record highs. The spot price exceeded €1,600/oz for the first time last week. The market is expected to remain in deficit so, despite the already heady price, it appears that it can keep climbing.

Nonetheless, it was a not so golden September for China's car market. Year-on-year sales of passenger and commercial vehicles in China fell for the 15th consecutive month in September, down 5.2% to

2.3 million units. 'Golden September' and 'Silver October' are usually periods of strong car sales, with customers returning to make high-value purchases after the summer. China is the world's largest petrol market and accounted for 2 moz of palladium demand in 2018 (20% of global demand for the metal). Nevertheless, declining sales have not impacted the palladium price, which is up \$700/oz in the last 12 months, as increased loadings of palladium to meet stricter emissions legislation in Europe and China continue to offset lower car sales.

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

	Rhodium	Ruthenium	Iridium
Reporting week	\$5,600/oz	\$250/oz	\$1,500/oz
Previous week	\$5,400/oz	\$250/oz	\$1,500/oz

Tightening legislation for water treatment keeps ruthenium and iridium demand afloat. Ships are required to manage and treat their ballast water under the Ballast Water Management Convention. The treaty was introduced by the International Maritime Organization, a specialised agency of the United Nations, to address the problem of marine pollution by ships. The new D2 standard implemented this month will require most ships to install water management systems to control the amount of invasive species discharged. Electrochlorination is one method of treating ballast water, which uses ruthenium- and iridium-coated

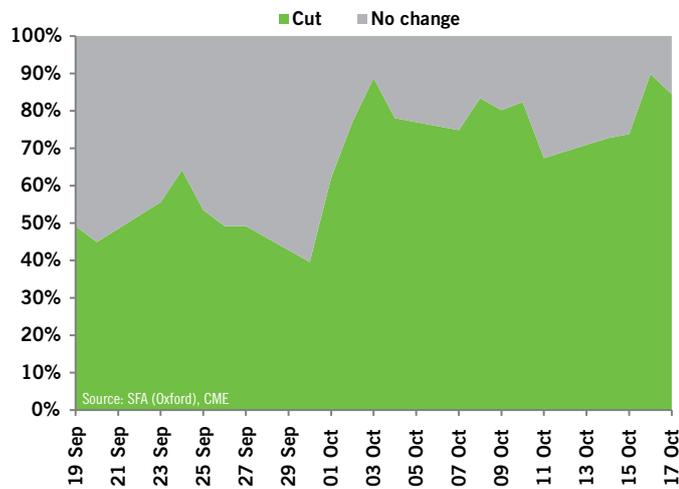
electrodes to produce chlorine. Electrochemical applications account for around 25% (62 koz) of the global demand for iridium, and 16% (180 koz) for ruthenium. All ships must conform to D2 by September 2024, thus supporting the use of ruthenium and iridium over the next five years.

Rhodium is now up 127% this year, having climbed \$200/oz last week to a new high of \$5,600/oz. Similar to palladium, rhodium automotive demand is being lifted by tighter emissions legislation. Ruthenium and iridium prices were unchanged.

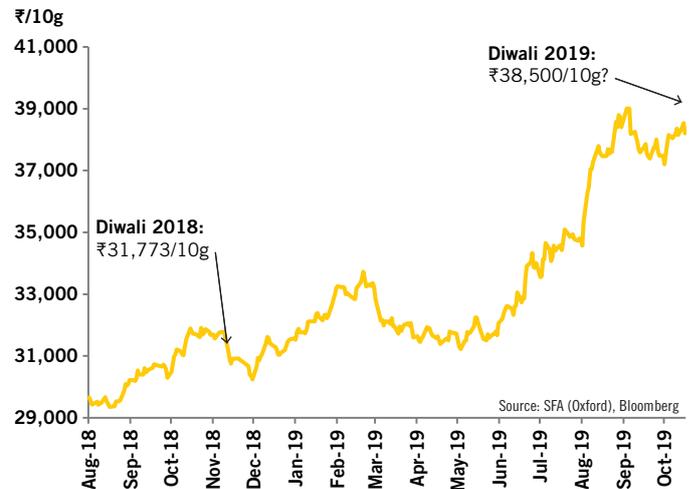


TRENDS AND INVESTMENTS

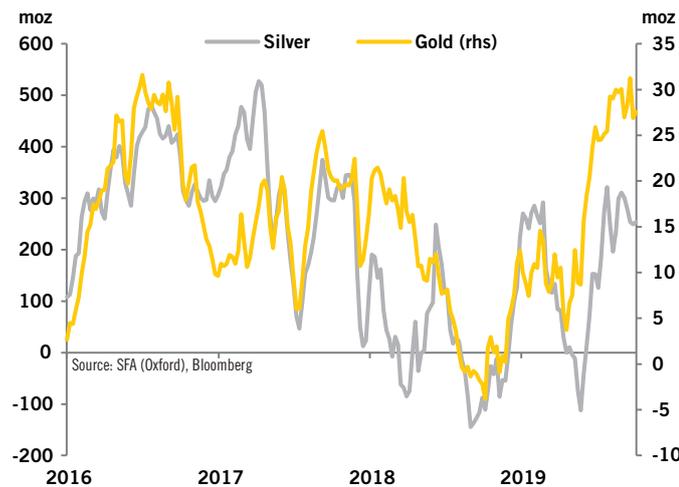
Fed rate cut probability



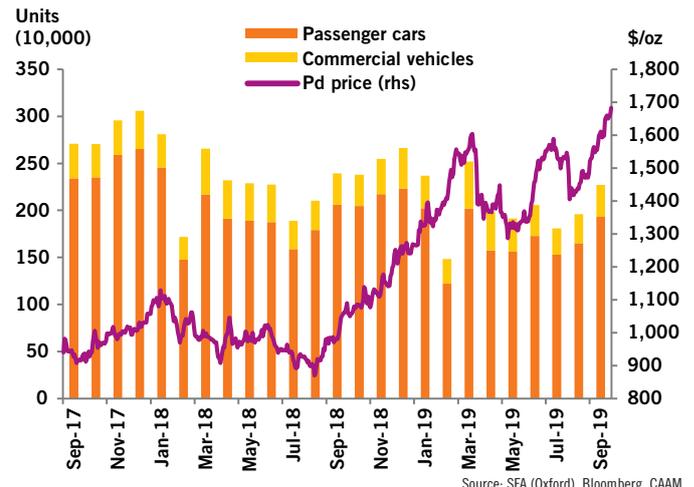
Indian gold price



Gold and silver speculative positions



Chinese car sales



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