

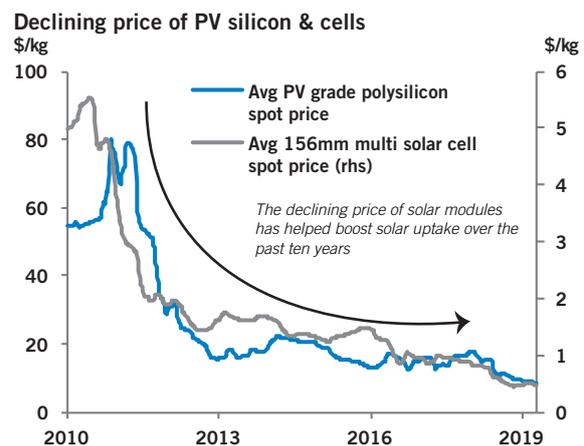
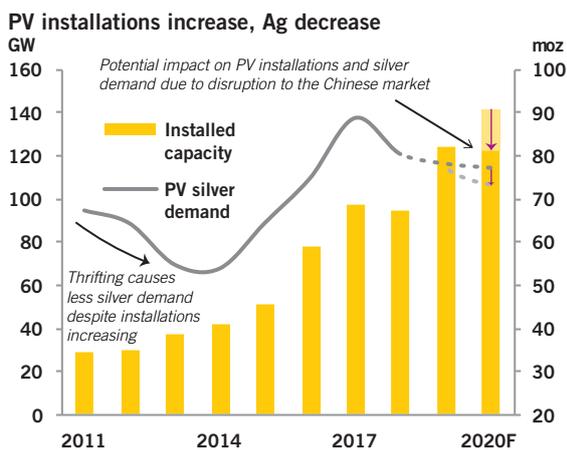


## MARKET SPOTLIGHT

### Will China's woes limit silver's time in the sun this year?

**A quarantined Chinese market threatens photovoltaic silver demand.** In addition to thrifting and efficiency gains, both of which result in less silver per solar cell, the disruption to Chinese manufacturing due to the effects of the coronavirus could reduce silver demand this year. The industry faces additional headwinds from an already weak economy and uncertainty over developers' reactions to moving further away from a subsidy-driven market. The outlook for China is now much less optimistic than it was only a few months ago.

**There will be a serious impact on the global supply chain from the fallout from the coronavirus.** China is the largest photovoltaic (PV) silver market in the world, accounting for over a third of annual installations and the majority of manufacturing globally. The global PV industry accounted for 8% of physical silver demand in 2018 at 80.5 moz (source: The Silver Institute). The Chinese market amounted to 30.9 moz, with close to 40 GW of solar capacity added. Many solar module manufacturing facilities across China were closed for at least two weeks as the authorities attempted to deal with the coronavirus outbreak. While many factories have since reopened, the China Photovoltaic Industry Association (CPIA) expects output to be curtailed until mid-year at the earliest, with recovery from Q3.



**Disruption to the world's largest supply of PV modules could raise prices in the near term and impact demand,** with manufacturers already reporting shortages of wafer and solar glass. On top of shipment delays exacerbated by logistical bottlenecks, the higher prices of raw materials could affect the financials of pipeline projects and delay their commission. Supply constraints have already infiltrated the global solar market.

**Global PV installations could fall 20 GW short of expectations this year<sup>1</sup>** as a result of China's supply disruption. Before the coronavirus outbreak, global installations were forecast to increase by 142 GW (+14% year-on-year) (source: IHS Markit). The impact of reduced output from China, as well as the effect of thrifting, is likely to add further pressure to industrial silver demand this year. However, this is expected to be offset by investor interest which will keep the price supported.

<sup>1</sup>Assuming a 25% impact on China's installations, India – 20%, RoW – 10%.



# PRECIOUS METALS REVIEW

## 79 Au Gold

	Close	Weekly change	High	Date	Low	Date
\$/oz	1,641	3.75%	1,649	21/02/2020	1,579	17/02/2020
€/oz	1,512	3.61%	1,522	21/02/2020	1,457	17/02/2020

**Gold made a new high for the year** and closed above \$1,600/oz for the first time since April 2013. This was despite the dollar strengthening as safe havens were in demand, with bond yields falling too. In euros gold has exceeded €1,500/oz as the euro has weakened and gold is also trading at record highs in many other currencies. The Federal Reserve has noted in its minutes the potential for the adverse economic impact of the

coronavirus but is maintaining its policy rate outlook at present. However, the futures market is now predicting an increased chance (87%) of at least one rate cut this year. Economic uncertainty remains high as the ultimate impact of the coronavirus on the Chinese economy and wider global economy is still unclear. While that remains the case the gold price can push higher.

## 47 Ag Silver

	Close	Weekly change	High	Date	Low	Date
\$/oz	18.51	4.32%	18.63	21/02/2020	17.74	17/02/2020
€/oz	17.07	4.21%	17.18	21/02/2020	16.37	17/02/2020

**Silver saw a burst of interest and climbed back above \$18/oz.** It marginally outperformed gold last week, but, unlike gold, silver did not make a new price high for the year. The occasional surge of outperformance does not change the expectation that, overall, silver will lag gold this year.

**Can semiconductor silver demand side-step China's shutdown?** Silver's electrical conductivity makes it an important component of semiconductors, with the largest industrial use for silver being electrical and electronic applications at 24% of global physical demand (source: The Silver Institute). Reports suggest that China's

semiconductor industry has mostly avoided direct impact from shutdowns in January and February. Owing to the autonomous nature of fabrication, many factories remained open. The threat comes from electronic manufacturers which represent the largest purchasers of semiconductors. Major operations in the Wuhan area include Foxconn's iPhone production facility which is currently operating at 10-20% capacity due to a labour shortage as movement restrictions keep workers away. While semiconductor production may have escaped unscathed, weaker end-use demand is likely to have reduced electrical silver consumption to some extent this quarter.

## 78 Pt Platinum

	Close	Weekly change	High	Date	Low	Date
\$/oz	976	1.03%	1,019	19/02/2020	967	17/02/2020
€/oz	899	0.89%	943	19/02/2020	892	17/02/2020

**Platinum players reduce their production outlook.** Anglo American Platinum produced 2,514.2 koz of platinum last year (+5% year-on-year) but has lowered its refined production outlook for 2020 to 2.0-2.2 moz. Reduced mine production should help to alleviate pressure on an oversupplied platinum market this year, although it is still expected to remain in surplus by more than 1 moz (excluding investment), keeping the price suppressed.

**Platinum failed to hold above \$1,000/oz again.** The platinum price rallied above \$1,000/oz briefly last week but failed to hold that level. Considering the subdued fundamental outlook, further price weakness is expected this year.



# PRECIOUS METALS REVIEW

## <sup>46</sup>Pd **Palladium**

	Close	Weekly change	High	Date	Low	Date
\$/oz	2,699	11.52%	2,850	19/02/2020	2,441	17/02/2020
€/oz	2,487	11.15%	2,640	19/02/2020	2,253	17/02/2020

**Chinese car sales could slump by 70% in February**, according to the China Passenger Car Association, after sales fell 92% in the first two weeks of the month. The factory shutdowns and logistical disruption caused by the coronavirus will severely reduce car sales this month. This is in addition to people's reluctance, if not actual inability, to travel far. The increase in autocatalyst loadings to meet tighter emissions legislation is happening in several major markets, not just in China, although China is the largest car market with sales of 21.4 million units last year. The palladium market is predicted to be in a large deficit this year and even a drop in Chinese car sales of 2 million units would not come close to changing that. The problem is that the palladium market has been in deficit for the last 10 years. This has

drawn down liquid stocks (that were substantial), and what metal is now available requires much higher prices to motivate its sale.

**Another week, another record for the palladium price**, as the spot price briefly touched \$2,850/oz. The shutdown of significant parts of China along with the potential for a drop in automotive demand appear to have led some brave/foolish investors to short palladium. It seems, however, that there are still buyers even at these high prices and the short positions were stopped out as the futures price hit new highs, exacerbating the price volatility. A larger price correction would not be a surprise, but the path of least resistance still appears to be for higher prices.

## <sup>45</sup>Rh <sup>44</sup>Ru <sup>77</sup>Ir **Rhodium, Ruthenium, Iridium**

	Rhodium	Ruthenium	Iridium
Reporting week	\$12,950/oz	\$265/oz	\$1,520/oz
Previous week	\$11,550/oz	\$260/oz	\$1,520/oz

**Rhodium's climb continued, taking it above \$12,000/oz for the first time** to \$12,950/oz. Despite a sharp slowdown in auto sales in China, diminishing mine supply is likely to push the price higher. Last week, two of the world's biggest rhodium producers, Sibanye-Stillwater and Anglo American Platinum (accounting for 21.4% and 20.9% of global rhodium supply respectively), announced their annual results for 2019. As expected, both companies announced strong earnings in H2'19 on the back of higher PGM basket prices. However, despite the global shortage of palladium and rhodium, neither company

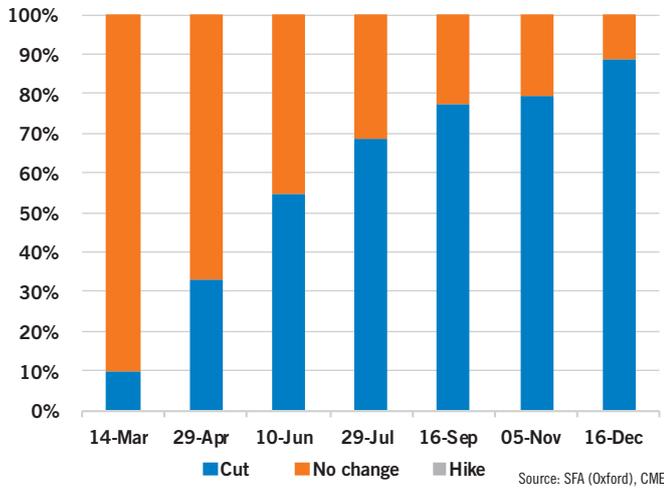
announced any plans to expand production in 2020. This is less significant for palladium, where some growth in supply is coming from North America this year, but for rhodium it is not good news. Rhodium prices are now over \$12,000/oz and with no near-term supply growth or plans to expand output coming from the largest producers, the market is likely to remain tight and prices elevated.

Ruthenium gained \$5/oz (+1.9%) last week, and the iridium price remained unchanged.



# TRENDS AND INVESTMENTS

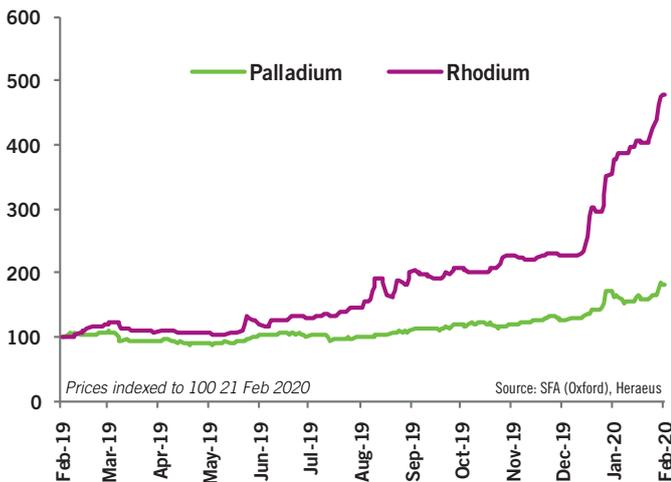
## Fed rate cut probability 2020



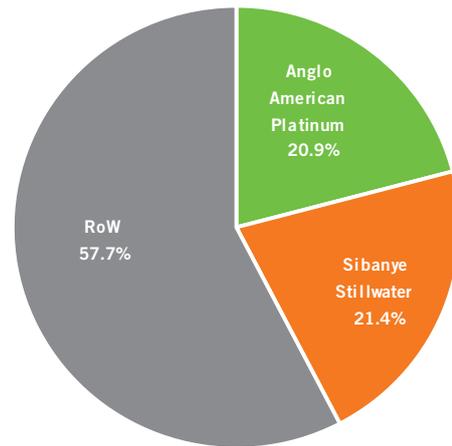
## Gold price, EUR



## Palladium and rhodium's 12m price rally



## Global rhodium mine supply



Source: SFA (Oxford)

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