

HERAEUS PRECIOUS APPRAISAL

Heraeus

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MARKET SPOTLIGHT

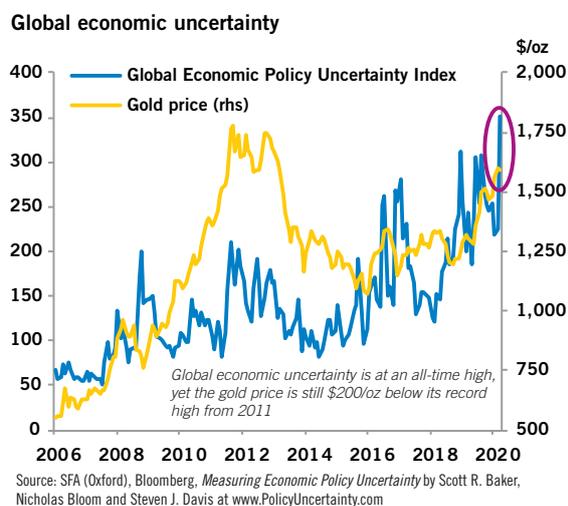
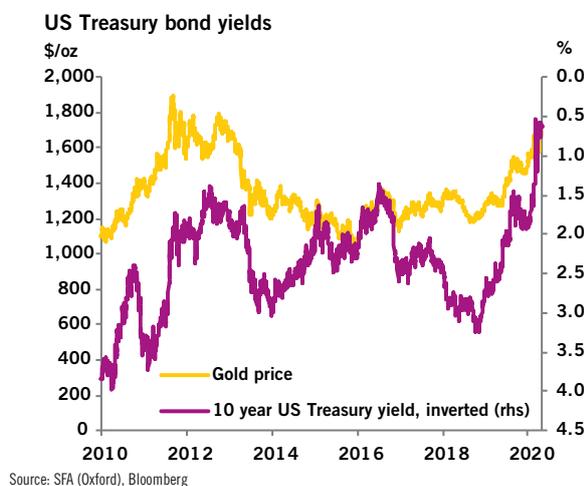
Peak uncertainty, peak gold price?

The **COVID-19 pandemic has brought a cessation to economic activity around the world.** The US, a key driver of the global economy, now accounts for a third of global infections and deaths related to COVID-19, exceeding 1 million infections and 60,000 deaths. US jobless claims have already exceeded 30 million, driving unemployment to 15% or higher.

Yet the gold price remains high. The unprecedented fiscal and monetary expansion by governments and central banks has boosted investment demand for gold, as liquidity floods the financial markets and reduces the opportunity cost for gold investors. The 10-year bond yield was pushed to a record low in March (0.54%), which is good for gold, but the issuance of new bonds could be considered oversupply. If bond yields increase to entice buyers, movement from gold to bonds is likely. However, interest rates close to zero continue to favour the upside for gold by keeping real rates in negative territory for now.

Gold faces serious demand headwinds from a lack of consumer spending in China and India, but healthy investor appetite is propping up demand at present. ETF inflows in the year to date have already exceeded those of the full year of 2019 (+12.5 moz in the year to date compared to +11.5 moz in 2019). However, in 2012 ETF holdings continued to rise long after the gold price had peaked.

Gold's rally is showing signs of stalling. Technical indicators, such as the RSI, are showing divergences from the price, and the speculative net long gold futures position reached a record high in February but has since declined. The last time the speculative net long position reached record highs, the gold price fell by 18% over the next five months. Typical seasonality in the gold price indicates the price could move lower, or at least sideways, over the summer.



In the midst of the worst economic downturn in over 100 years with unprecedented fiscal and monetary support, the gold price is still \$200/oz below its record high (in the US). It seems a great deal of uncertainty surrounding the state of the economy is already priced in and, with lockdowns beginning to be brought to an end, the price could pull back.



PRECIOUS METALS REVIEW

79 Au Gold

	Close	Weekly change	High	Date	Low	Date
\$/oz	1,696	-0.99%	1,723	27/04/2020	1,671	01/05/2020
€/oz	1,542	-2.78%	1,590	27/04/2020	1,523	01/05/2020

Global gold ETFs reached a record high of 3,185 t in Q1. Total investment demand for gold grew by 80% year-on-year to a four-year high of 539.6 t, with strong ETF demand and Western retail investment offsetting weak demand for small bars in Asia (source: World Gold Council). Bar and coin sales in China suffered the most, falling by 48% year-on-year to 39.3 t owing to a rising gold price and widespread lockdowns. Gold prices rallied to record highs in most major currencies apart from the

US dollar, the strength of which continues to act as a headwind for gold. European funds saw the largest inflow in Q1, starting with moderate inflows into UK funds as the Brexit deadline approached. In the US, President Trump's erratic handling of the COVID-19 pandemic means the presidential race is now looking very different. Political uncertainty is bullish for gold and could see modest inflows to US funds as the year progresses, but for now the price appears to be near a top.

47 Ag Silver

	Close	Weekly change	High	Date	Low	Date
\$/oz	14.94	-0.93%	15.51	30/04/2020	14.65	30/04/2020
€/oz	13.55	-3.08%	14.18	30/04/2020	13.49	01/05/2020

Two-thirds of the world's silver mine supply is still on hold. Among the mining activities disrupted by partial or complete lockdown measures, silver production remains the worst affected, with 66% of the world's annual output still on hold until restrictions are lifted (source: GlobalData). Lockdowns in Mexico and Peru, which together account for 39% of silver mine supply (source: The Silver Institute), have been extended until mid- to

late May at the earliest. Mine production is expected to decline by 6.4% this year (54.5 moz), although this will increase if lockdowns are extended and new projects are put on hold. However, lost industrial demand owing to COVID-19 likely offsets disruption to mine supply. The gold:silver ratio remained steady last week at around 112, but gold remains the metal favoured by investors, so silver's fortunes might not improve any time soon.

78 Pt Platinum

	Close	Weekly change	High	Date	Low	Date
\$/oz	764	0.74%	796	29/04/2020	752	27/04/2020
€/oz	695	-1.10%	733	29/04/2020	691	01/05/2020

Platinum trading on the Shanghai Gold Exchange increased by 500% year-on-year in March. SGE volumes totalled 343 koz in March, taking the Q1 trading volume to 455 koz. Banks were the largest buyer, but purchasing increased among all players, including jewellers and industrial users. In local currency the platinum price plummeted 26% (-CNY1,601/oz) in the second week of March, which is likely to have prompted the steep jump in trading.

CO₂ targets could slow the rate of Europe's platinum decline this year. Automotive platinum requirements fell by 8% last year to around 2.7 moz, mainly owing to the 14% drop in Western European demand as the diesel market contracted. Global factory shutdowns are expected to intensify the demand destruction this year. However, Western Europe is forecast to comprise a smaller share of

lost consumption owing to diesel vehicles' role in meeting the EU's strict CO₂ emissions targets this year. Production losses in Europe owing to factory shutdowns now amount to at least 2.1 million vehicles, which includes cars, trucks, vans and buses (source: ACEA), around 10% of annual production. The average downtime across Europe has been 28 days, but several major automakers, including BMW and VW, restarted production last week. Assembly lines are expected to run at reduced capacity until demand returns to pre-COVID-19 levels. However, the threat of a no-deal Brexit remains a fundamental concern for Europe's auto industry, irrespective of how well it recovers from the effects of the virus. Platinum outperformed all other precious metals last week, closing the week +0.74% higher, but fundamentally has the weakest outlook.



PRECIOUS METALS REVIEW

⁴⁶ Pd **Palladium**

	Close	Weekly change	High	Date	Low	Date
\$/oz	1,926	-4.67%	2,083	30/04/2020	1,888	28/04/2020
€/oz	1,754	-6.28%	1,913	30/04/2020	1,739	28/04/2020

Palladium should weather the COVID-19 storm better than other PGMs. The impact on palladium output due to the coronavirus outbreak is less than on platinum or rhodium owing to its geographically diverse mine supply. South Africa, which is currently operating at 50% capacity after an initial three-week lockdown, accounted for only 35% of palladium supply last year, compared to 72% of platinum and 81% of rhodium supply. Russia is the largest producer of palladium (39% of global output) and, owing to the remote locations of its mining operations, is expected to be largely shielded from any

effects of COVID-19. Nornickel's palladium production in Q1'20 was 548 koz, a 29% decline year-on-year, which was the result of a high base effect from the processing of work-in-progress stock in Q1'19. Production targets have been reiterated at the pre-COVID level of 2,648-2,777 koz Pd.

The palladium price fell back below \$1,900/oz again last week before making back some of its losses and closing 4.67% down. The price could remain volatile, but for now it is following a broadly downward trend.

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

	Rhodium	Ruthenium	Iridium
Reporting week	\$8,650/oz	\$315/oz	\$1,600/oz
Previous week	\$9,250/oz	\$315/oz	\$1,600/oz

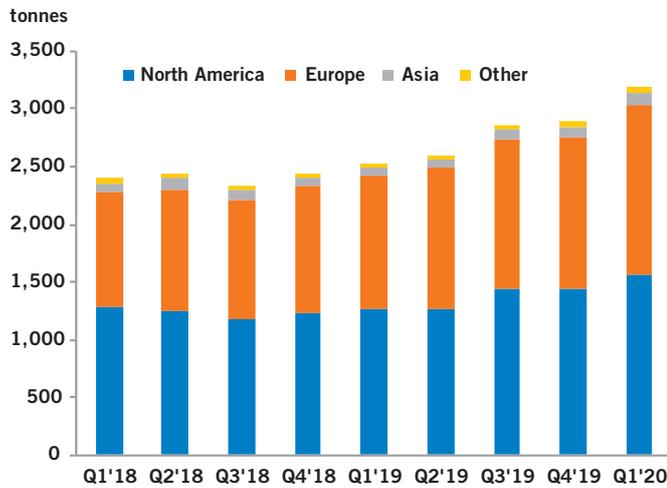
After rallying 126% (+ \$7,900/oz) between January and March, the rhodium price has dropped off and is up a modest 38% in the year to date. After four weeks of extremely volatile price movements as a reaction to supply disruption and cuts to auto production forecasts,

rhodium seems to have settled into a downward trend. For now, it is still the best performing precious metal in the year to date. Iridium and ruthenium prices were unchanged last week.



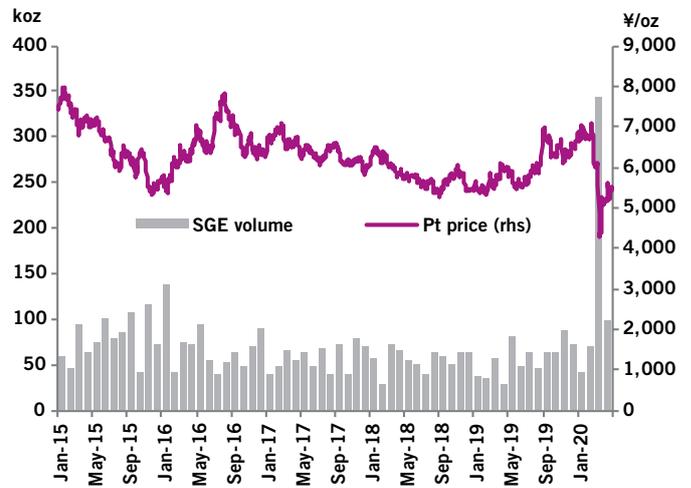
TRENDS AND INVESTMENTS

Gold ETFs



Source: SFA (Oxford), World Gold Council

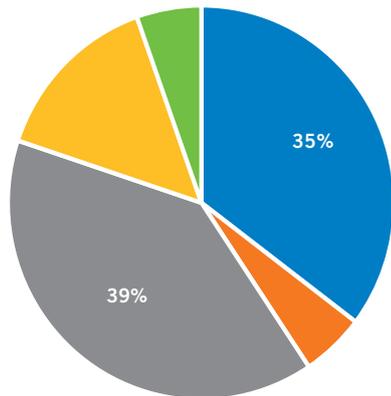
SGE platinum trading



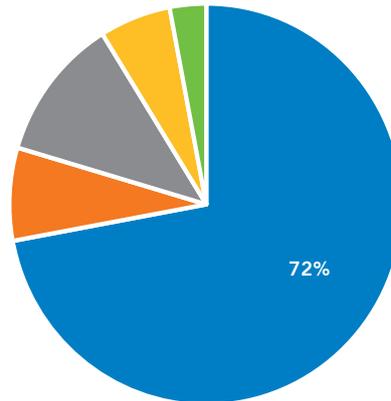
Source: SFA (Oxford), Bloomberg

PGM mine supply

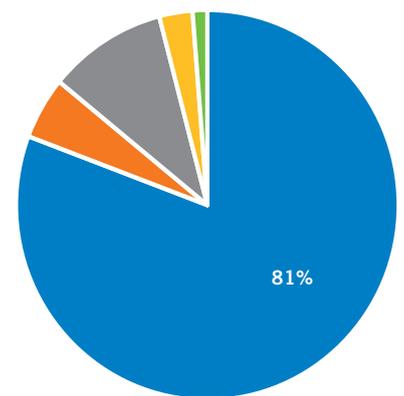
Pd



Pt



Rh



Source: SFA (Oxford)

■ South Africa ■ Zimbabwe ■ Russia ■ North America ■ RoW

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