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MARKET SPOTLIGHT

Will BEV subsidies push Pd-rich ICEs onto thin ice?

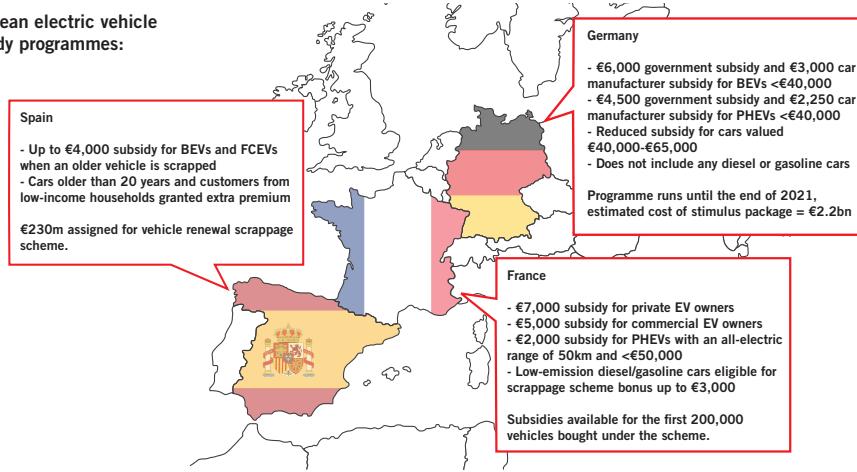
Europe's gasoline car market share has been growing over the past five years, accounting for 58.9% of new cars registered last year (source: ACEA), partly at the expense of a shrinking diesel market. Auto manufacturers in the region accounted for 1.0 moz Pt, 1.6 moz Pd and 290 koz Rh last year (38%, 20% and 28% of global autocatalyst demand for each metal, respectively).

The region's auto industry has been one of the worst hit sectors in the world from the impact of COVID-19. Light-vehicle sales in Western Europe have declined 43.5% in the year-to-date, compared to the same period in 2019, and full-year sales are forecast to drop by 26% (source: LMC Automotive) to just 10.6 million units in total.

Economic stimulus packages to help revive demand in Europe are heavily weighted towards zero-emission vehicles. Germany's government has doubled the incentives available for sales of ultra-low emission cars, but internal combustion engine (ICE) vehicles are excluded from the scheme. A scrappage programme, which helped to boost demand for new cars in the aftermath of the last financial crisis 10 years ago, has not been reinstated. France and Spain have also announced generous stimulus plans favouring electrified models to help their ailing auto industries.

With strong support from three of Europe's largest auto markets, affordable battery electric vehicles (BEVs) are an increasing threat to palladium and rhodium demand. A €9,000 subsidy in Germany will cut VW's electric ID.3 cost to below that of a mid-level Golf. Generous subsidies risk accelerating the trend towards BEVs and away from ICEs and the use of PGMs in autocatalysts sooner than anticipated. France, Spain and Germany's subsidy programmes could see as many as 600,000 BEVs hit Europe's roads while the funds are available (likely spread over several years). Assuming drivers opt for cheaper electric cars over gasoline models, the shift could amount to around 100 koz less Pd and 18 koz less Rh demand in this period. With both markets moving closer to balance this year owing to both supply and demand cuts from COVID-19, further impact to autocatalyst market from greater uptake of EVs could see prices soften in the medium term.

European electric vehicle subsidy programmes:



Source: SFA (Oxford), government announcements



PRECIOUS METALS REVIEW

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Au Gold

	Close	Weekly change	High	Date	Low	Date
\$/oz	1,743	0.49%	1,745	19/06/2020	1,704	15/06/2020
€/oz	1,557	1.07%	1,559	19/06/2020	1,512	15/06/2020

Chinese consumers enticed by discounted gold. Shanghai launched its 'May 5th Shopping Festival' last month, which will continue until the end of June and includes key holidays such as Labour Day and the Dragon Boat Festival. The event offers promotions on a range of products, both in store and online, with discounts of up to 20% reported on certain 24-carat gold products. The year-on-year decline in gold, silver, diamond and gem jewellery sales shrank to -3.9% last month, an improvement on the -12% recorded in April (source: National Bureau of Statistics of China). Online jewellery sales during the Labour Day Holiday (1 May) were 153% higher year-on-year (source: China Gold Association). China's gold jewellery demand fell by 65% in Q1'20

owing to the COVID-19 lockdown, but consumption initiatives have proved to be supportive for sales so far in Q2. H2'20 could see demand soften once the retail festival has ended. China's jewellery demand is the largest consumer market for gold, accounting for 638 t last year, 14% of global demand (source: World Gold Council). While the Chinese market has made a strong recovery since contracting by 65% year-on-year in Q1, it is likely to still fall short of the 2019 total. Despite the apparent optimism in the stock markets, safe havens have also been bought. Bond yields have fallen and the gold price is now close to \$1,750/oz. If yields push lower then gold could make new highs for the year.

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Ag Silver

	Close	Weekly change	High	Date	Low	Date
\$/oz	17.73	1.07%	17.80	19/06/2020	16.96	15/06/2020
€/oz	15.83	1.60%	15.84	19/06/2020	15.13	15/06/2020

A silver lining for solar. US solar installations are expected to see strong growth this year despite the effects of COVID-19, which is positive for silver. The US added 3.6 GW of solar capacity in Q1'20, the largest first quarter recorded in the country. Owing to the timing of the US lockdown, the impact on the photovoltaic (PV) market was marginal in Q1. While the residential sector is likely to suffer this year, the pipeline of large-scale solar projects is expected to keep capacity growth robust, with 18.3 GW of installations forecast in 2020. This is a

9% reduction from the start of the year, but still a 37% increase year-on-year (source: Solar Energy Industries Association) and equates to around 14 moz of silver. Global PV silver demand, which is around 20% of the industrial market, edged higher last year to 98.7 moz (+7% year-on-year). Despite growth in the US market this year, silver PV demand is likely to be lower year-on-year owing to weaker demand in China and Europe. The silver price moved higher last week and if gold prices keep climbing silver could continue to outperform.

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Pt Platinum

	Close	Weekly change	High	Date	Low	Date
\$/oz	827	1.30%	837	19/06/2020	791	15/06/2020
€/oz	740	1.93%	747	19/06/2020	702	15/06/2020

A mixed forecast for the platinum jewellery market. Platinum Guild International (PGI) expects Chinese platinum manufacturing to recover to normal levels as soon as Q3, providing there is no second wave of the coronavirus. Platinum jewellery sales in China may have benefitted from discounts and government retail incentives over the last few weeks (see Gold section), but it remains to be seen whether this demand will be sustained. In Japan, sales were already declining before the pandemic owing to a sales tax increase in Q4'19,

but still fell by 13.5% year-on-year in Q1. With a state of emergency extended for April and May, Q2 is likely to be equally poor. Global platinum jewellery demand is forecast to fall by roughly 500 koz this year, led by the Chinese market which could shrink by almost a third. The platinum price has held above \$800/oz but has been gradually slipping lower in June. Further price decline is quite possible because the market is significantly oversupplied.



PRECIOUS METALS REVIEW

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Pd

Palladium

	Close	Weekly change	High	Date	Low	Date
\$/oz	1,915	-1.42%	1,970	16/06/2020	1,878	18/06/2020
€/oz	1,712	-0.86%	1,740	18/06/2020	1,678	19/06/2020

Economic uncertainty and volatile markets reduce the appeal of new projects. Impala Platinum has confirmed its intention not to increase its shareholding up to 50.1% in the Waterberg joint venture (JV) project, and instead retain its 15% ownership. The long-term PGM outlook, including revisions to both supply and demand owing to the impact of COVID-19, as well as the project schedule and ramp-up time were key considerations in the decision. The Waterberg project is a palladium-rich site (63% palladium), located at the top of the Northern Limb of the Bushveld Complex in South Africa. Measured and indicated resources estimate around 16.6 moz of

palladium. Waterberg is a large, highly capital-intensive greenfield project, and the increased economic uncertainty brought about by COVID-19 is likely to have influenced Impala's decision. The Waterberg JV was scoped for first production in late 2023, ramping up to steady state of 420,000 4E oz by 2027. The palladium market is forecast to move into a small surplus this year for the first time since 2009, as global supply has fallen less than demand. The palladium price is still holding close to \$1,900/oz for now (high by historical standards) but further downside would not come as a surprise.



Rhodium, Ruthenium, Iridium

	Rhodium	Ruthenium	Iridium
Reporting week	\$9,150/oz	\$295/oz	\$1,650/oz
Previous week	\$9,650/oz	\$295/oz	\$1,650/oz

Anglo American Platinum (AAP) expects to ramp up production to reach 75-80% by the end of the year, according to a report quoting CEO, Natascha Viljoen. The PGM miner is prepared for cases of COVID-19 and is mitigating the risk of infection by separating work teams and implementing back-up shift patterns. AAP has production guidance for the year of 3.1-3.6 moz 6E, down from 3.3-3.8 moz at the start of the year. Global

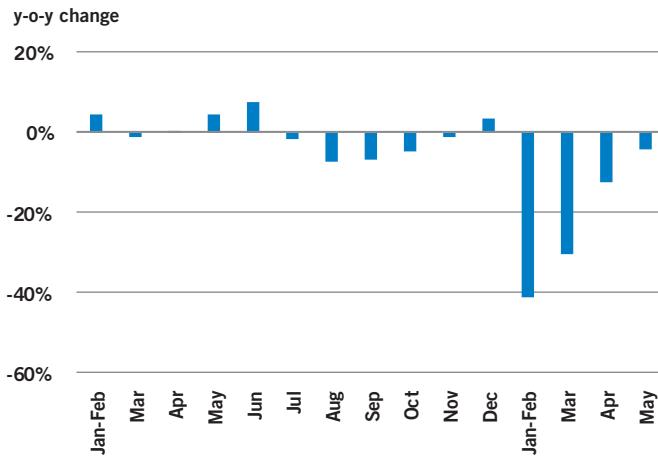
rhodium mine supply is expected to fall by more than 100 koz this year. However, demand (mainly autocatalyst) has been significantly impacted, with further risk from second waves of the virus in any major market (China, Europe, US), and so prices remain volatile.

The rhodium price dropped \$500/oz (-5.2%) last week, while iridium and ruthenium remained unchanged.



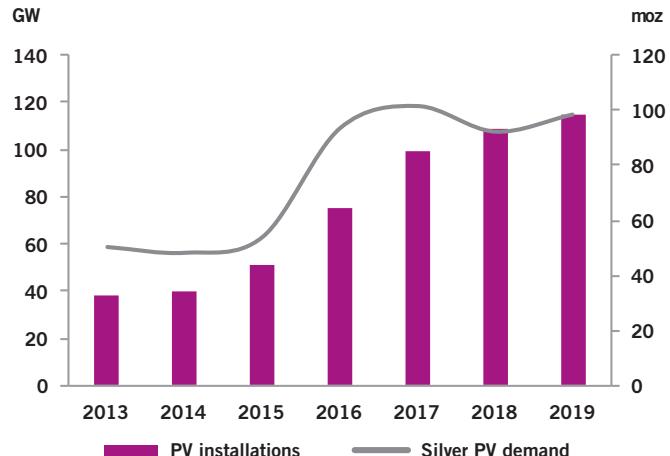
TRENDS AND INVESTMENTS

China jewellery sales



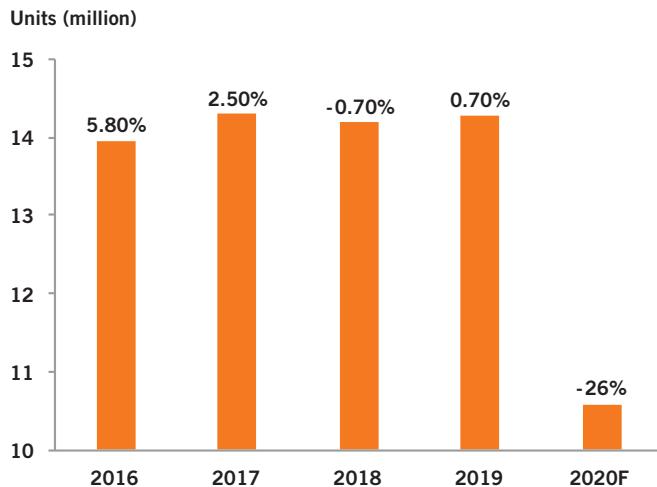
Source: SFA (Oxford), Bureau of Statistics of China

Silver PV demand



Source: SFA (Oxford), SEIA, The Silver Institute

W. Europe light vehicle sales forecast



Source: SFA (Oxford), LMCA

Palladium price



Source: SFA (Oxford), Bloomberg

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