

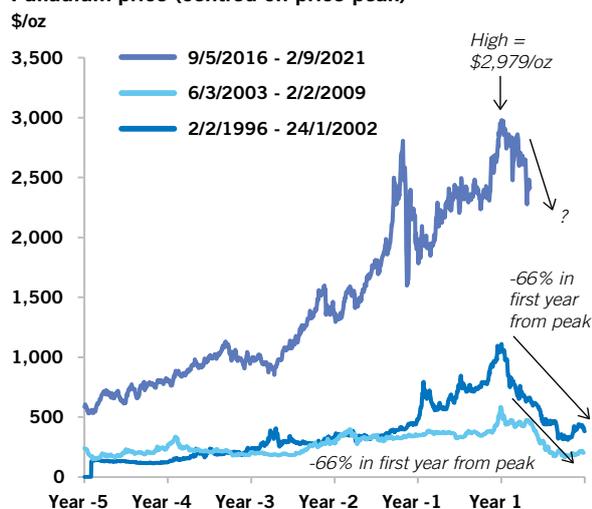


## MARKET SPOTLIGHT

### Spring forward, Fall back?

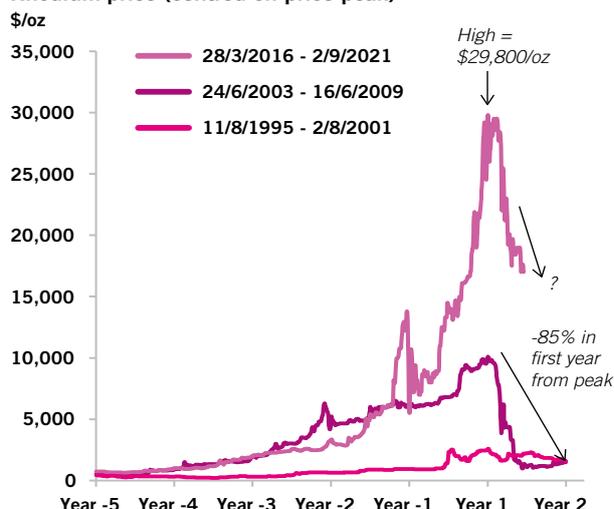
The palladium and rhodium prices have suffered a sharp sell-off over the past two weeks after breaking through key support regions. They are now down 31% and 57% respectively from the peak in the spring. The last two times palladium reached a peak (in 2001 and 2008) it fell by 66% over the following 12 months. Rhodium has a greater tendency for needle-like price movements, and after the last peak in June 2008, it dropped 85% in the first year.

Palladium price (centred on price peak)



Source: SFA (Oxford), Bloomberg

Rhodium price (centred on price peak)



**Post-Covid demand recovery, particularly from the auto market, is out of balance with supply.** After the pandemic-induced production cuts PGM producers suffered last year, output from South Africa has now comfortably returned to 'normal' levels and, despite the reduction in Russian supply, refined palladium and rhodium output is still expected to record year-on-year growth in 2021. However, ongoing supply chain issues in the auto market and associated vehicle production losses are significantly hindering the recovery in auto demand for palladium and rhodium this year, which is weighing on prices.

**The impact of the global semiconductor shortage on light vehicle production is now expected to be a loss of around 7 million units this year,** with Q3'21 now representing the peak of the chip supply crunch. Automaker's plans to play catch-up during the second half of the year have effectively been abandoned as the chip shortage shows no sign of easing. Rising Covid-19 cases and slow vaccination rates across SE Asia, which accounts for key parts of the semiconductor supply chain, are exacerbating the problem. A loss of 7 million units equates to a reduction in demand of almost 1 moz palladium and over 100 koz rhodium this year alone, which shifts the rhodium market into surplus.

Chip shortages are also now expected to extend into Q1'22, and possibly Q2'22, which has removed a significant volume of light vehicle units from the 2022 forecast as well. Both Intel and Infineon, major semiconductor manufacturers, have warned that the issue may persist throughout the whole of 2022. **If the situation in 2022 deteriorates, it could push the palladium market into surplus and increase rhodium oversupply.**



# PRECIOUS METALS REVIEW

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## Au Gold

	Close	Weekly change	High	Date	Low	Date
\$/oz	1,753	-2.24%	1,809	14/09/2021	1,745	16/09/2021
€/oz	1,494	-1.51%	1,530	14/09/2021	1,485	16/09/2021

**Chinese retail sales of gold and other jewellery increased 45% in the first eight months of the year**, the strongest year-on-year increase in that period across all major retail categories, according to the National Bureau of Statistics of China. Moving into Q4'21, sales are expected rise further with a higher number of weddings and auspicious days for buying. The National Day Holiday in early October is a particularly popular period for gold purchasing. According to the latest Chinese gold jewellery market insight report from World Gold Council, there has been a surge in popularity for chunky, traditional Heritage gold products this year, which can command premiums

of more than 20% over conventional gold jewellery, particularly among young consumers embracing the rise of 'Guochao' trend. Previously, a lack of emotional connection to gold was considered to be a major barrier for young Chinese consumers, but this appears to be lifting. On a year-on-year basis, Chinese gold jewellery demand is expected to record strong growth, albeit from the low base of 2020 (413.8 tonnes), but is also on track to reach, or even exceed, 2019 levels too (638 tonnes (source: WGC)). The gold price slipped again last week as the dollar strengthened.

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## Ag Silver

	Close	Weekly change	High	Date	Low	Date
\$/oz	22.48	-5.97%	23.97	16/09/2021	22.34	17/09/2021
€/oz	19.16	-5.26%	20.28	16/09/2021	19.03	17/09/2021

**Silver's solar future is a strong incentive for new silver projects.** Long-term demand fundamentals from the global transition toward green energy are expected to see new silver projects coming online over the next few years, as junior producers rush to capitalise on the rapid growth of solar photovoltaic (PV) energy production. Silver Mines' Bowden project in NSW is one such project and is one of the largest undeveloped silver projects in Australia,

with an initial annual output of 5.4 moz of silver. The PV sector is expected to be a growing source of industrial demand for silver over the next decade. Last year it accounted for over 100 moz, close to 20% of global industrial demand. Silver continues to underperform gold but is now close to a price support level. If the price were to fall below \$22/oz, that would be a bearish development.

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## Pt Platinum

	Close	Weekly change	High	Date	Low	Date
\$/oz	945	-2.47%	967	13/09/2021	924	15/09/2021
€/oz	805	-1.74%	818	13/09/2021	783	15/09/2021

**Platinum trade data paints a positive picture in China, but retail sales tell a different story.** Total platinum transactions via the Shanghai Gold Exchange increased by 70% year-on-year to 17.0 tonnes in Q2'21, a new quarterly high. In the first half of the year, total platinum transactions were up 20% year-on-year to 28.9 tonnes. Customs data showed that net platinum imports also increased 68% year-on-year to 32.6 tonnes in Q2'21. However, the retail sales volume<sup>1</sup> of platinum jewellery in China contracted by 15% year-on-year in Q2'21, according to Platinum Guild International's (PGI) latest platinum jewellery business review. The stocking of heavier pieces of premium gold by retailers, in line with trends reported in the gold commentary above, has resulted in reduced capital allocation to platinum products in stores and a lower gold price has weakened platinum's cost advantage. Chinese platinum jewellery

demand is forecast to increase by ~16% year-on-year to around 880 koz in 2021 but is anticipated to continue its downward trajectory over the next few years, as its prospects are overshadowed by increasing competition from other jewellery categories (such as gold) and a declining number of marriages. The apparent disconnect between the trade data and jewellery retail sales could well be accounted for by the increased demand for platinum from industrial end users in China, which is forecast to reach a record level exceeding 800 koz this year. The platinum price also fell last week. The market is in substantial surplus (ex. investment) which a price below \$1,000/oz better reflects.

<sup>1</sup>from PGI retail partners, which account for around a third of total retail sales.



# PRECIOUS METALS REVIEW

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

	Close	Weekly change	High	Date	Low	Date
\$/oz	2,006	-6.56%	2,173	13/09/2021	1,936	14/09/2021
€/oz	1,711	-5.79%	1,837	13/09/2021	1,639	14/09/2021

The US selling rate of light vehicles in August fell to its lowest level since May 2020, with a SAAR of around 13 million units, as the impact of the chip shortage worsened (source: LMC Automotive). Traditionally one of the strongest months of the year, record low inventory levels are limiting the pace of recovery in the US auto market. Ongoing supply chain issues and announcements of further production cuts suggest automakers will be

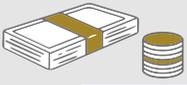
unable to produce enough vehicles to increase, rather than simply maintain, inventory levels for the remainder of 2021. LMC Automotive expects levels to remain at or below 1 million units in the near-term, which will keep light vehicle availability well below natural demand and prevent it reaching a level necessary to support higher vehicle sales and, by association, automotive palladium demand.

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

	Rhodium	Ruthenium	Iridium
Reporting week	\$13,950/oz	\$710/oz	\$5,350/oz
Previous week	\$16,950/oz	\$730/oz	\$5,350/oz

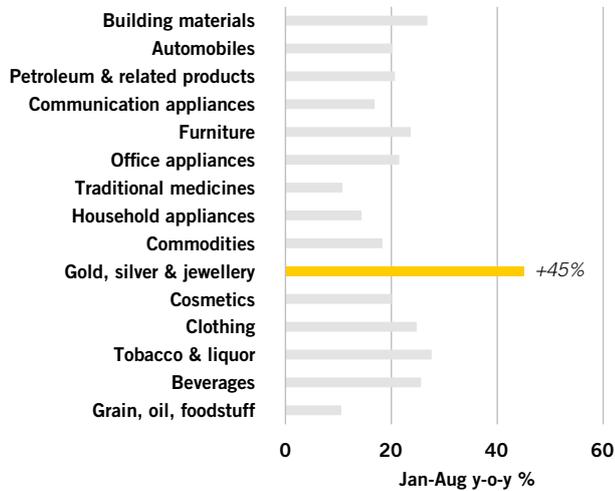
The rhodium market is now expected to be in surplus this year, for the first time since 2017. Increasing production from South Africa, which includes the release of work-in-progress stock, combined with weakening automotive demand from the ongoing semiconductor chip shortage,

has improved liquidity. The price is still expected to remain high by historical standards (the long-term real price average is \$2,720/oz), but there is risk to the downside if history repeats itself with rhodium's record of volatile price movements.



# TRENDS AND INVESTMENTS

## China retail sales



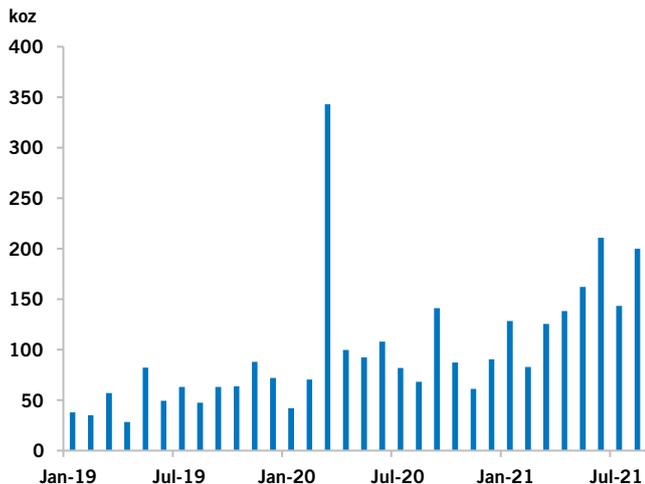
Source: SFA (Oxford), National Bureau of Statistics of China

## Silver price



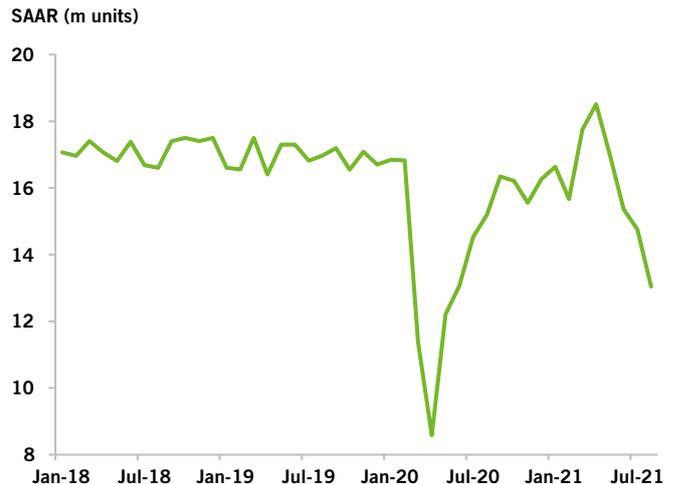
Source: SFA (Oxford), Heraeus

## SGE platinum trading



Source: SFA (Oxford), SGE, Bloomberg

## US auto sales



Source: SFA (Oxford), Bloomberg

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