

PRECIOUS APPRAISAL

No. 25
8th August 2022



01 MARKET SPOTLIGHT

02 GOLD

03 SILVER

04 PLATINUM

05 PALLADIUM

06 RHODIUM, RUTHENIUM, IRIIDIUM

07 TRENDS AND INVESTMENTS

08 ABOUT HERAEUS

MARKET SPOTLIGHT

Lockdowns hit Chinese electronics demand, dragging down industrial silver usage

Silver loadings on smartphones are increasing on average. The number of silver-containing electronic components is growing. Silver is used in electronic connections in devices as its high conductivity is more favourable than other metals, and as electromagnetic shielding. Non-photovoltaic industrial silver demand (which includes electronics) was forecast to grow by 4.6% this year to a record high of approximately 410 moz (source: The Silver Institute), following a rebound from the pandemic to 362 moz in 2020.

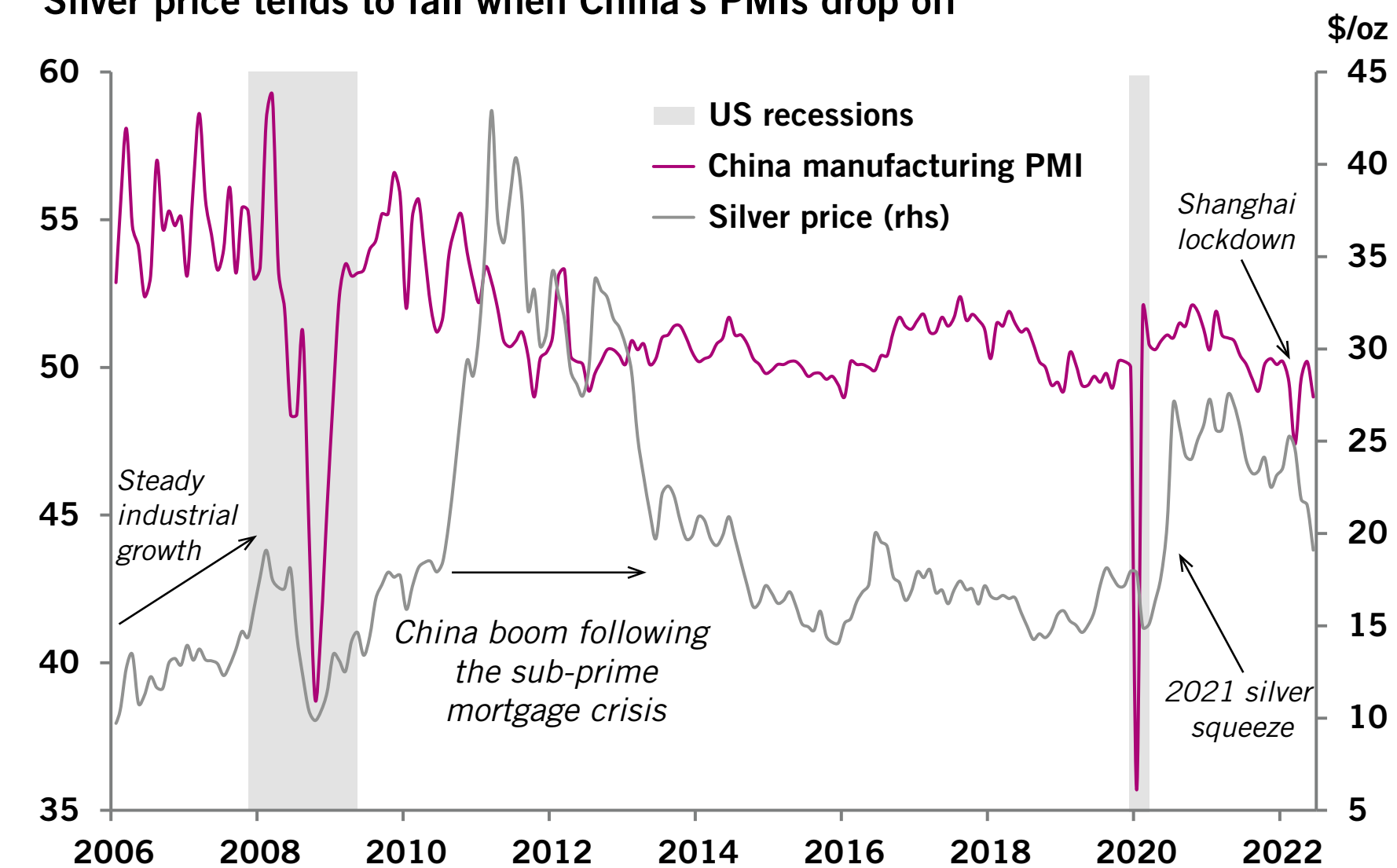
However, global smartphone shipments contracted for the fourth consecutive quarter in Q2'22. Shipments fell 9% year-on-year in Q2'22 to 286 million units, 3.5% lower than initial forecasts (source: IDC). Growing evidence of a recession in the US and record European inflation have dampened consumer spending on new handsets and other tech.

China underperformed the global average, posting a 15% decline to 67.2 million handsets versus Q2'21's figure of 78.7 million, making it the worst quarter since the first wave of Covid. Lockdowns in Q2 severely impacted consumer spending and the consumer confidence index dropped to an all-time low of 86.7 during the period (where 100=1997). The Chinese government has indicated that it will stick to the Zero-Covid policy for the foreseeable future, regardless of potential economic hindrance.

As well as being the largest consumer electronics market, China is the largest industrial user of silver. Just under 25% of global industrial silver demand is attributed to China, of which 75% (~90 moz) is used in the electrical and electronics sector. The July manufacturing PMI for China was 49, indicating a slowdown in industrial output, despite no large lockdowns being implemented. This indicates a wider impediment to output.

A weakening global economy impacts industrial demand for silver and could pull silver prices firmly below \$20/oz. Likely economic contractions in the US and Europe in the next 12 months, plus expected further lockdowns in China may continue to constrain smartphone demand and production into H2'22. A US recession along with China's lockdown impacts are likely to be already priced into the recent silver price declines, but there is more uncertainty about China's industrial sector's ability to recover owing to additional sporadic lockdowns and geopolitical tensions with Taiwan.

Silver price tends to fall when China's PMIs drop off



Source: SFA (Oxford), China Federation of Logistics and Purchasing, Bloomberg. Note: A PMI of >50 indicates expansion and <50 indicates a contraction.

- 01 MARKET SPOTLIGHT
- 02 GOLD
- 03 SILVER
- 04 PLATINUM
- 05 PALLADIUM
- 06 RHODIUM, RUTHENIUM, IRIDIUM
- 07 TRENDS AND INVESTMENTS
- 08 ABOUT HERAEUS

PRECIOUS METALS REVIEW

Gold



	CLOSE	WEEKLY CHANGE	HIGH	DATE	LOW	DATE
\$/oz	1,774	0.44%	1,795	04/08/2022	1,754	03/08/2022
€/oz	1,744	0.76%	1,757	04/08/2022	1,718	01/08/2022

The gold price rose by 0.44% last week to \$1,774/oz as the US dollar stayed below its all-time highs. The gold price also reacted to the upside last week after the Swiss government announced alignment with the EU sanctions on Russia, including a ban on buying, importing and transportation of gold products. This, however, will likely have little effect on gold supply as many Swiss refineries have been self-sanctioning Russian gold prior to this announcement.

Central banks halted sales and boosted gold purchasing in June. Gold buying by central banks grew 78% month-on-month to 59 tonnes in June, recording zero sales, putting Q2 net buying at 180 tonnes – 14% lower than in Q2’21. The volume of purchases in Q2’22 was more than double that in Q1’22, in large part driven by a one-off purchase from Iraq of 34 tonnes in June. This constitutes a boost to the country’s reserves of 35% and is Iraq’s first monthly gold purchase of more than 10 tonnes since April 2014 (source: World Gold Council). The stronger second quarter puts global purchases on track to reach the elevated levels from last year of more than 400 tonnes – more than forecast at the start of the year. Gold’s role as a store of value is likely the reason for an increase in purchases as central banks attempt to insulate reserves from rising inflation.

Bargain hunters boost national Mints’ sales in July. The US Mint reported sales of 64,500 oz of American Gold Eagle coins in July, a recovery from a year-to-date low of 52,000 oz in June. Although the ounces sold grew by 24% from June to July, the number of coins sold almost halved. This was due to a larger proportion of 1 oz coins sold versus 1/10 oz coins. At \$1,738/oz, the average gold price in July was almost \$100 dollars lower than the June average of \$1,835/oz. The lower prices in July may have prompted bargain hunting investors and those looking to invest at a smaller scale to buy larger denominations of gold over the fractional coins. The Royal Mint also recorded strong demand, with gold bullion sales increasing by 8% quarter-on-quarter in Q2’22.

PRECIOUS APPRAISAL

8th August 2022

01 MARKET SPOTLIGHT

02 GOLD

03 SILVER

04 PLATINUM

05 PALLADIUM

06 RHODIUM, RUTHENIUM, IRIDIUM

07 TRENDS AND INVESTMENTS

08 ABOUT HERAEUS

PRECIOUS METALS REVIEW

Silver



	CLOSE	WEEKLY CHANGE	HIGH	DATE	LOW	DATE
\$/oz	19.86	-1.96%	20.51	02/08/2022	19.55	05/08/2022
€/oz	19.53	-1.64%	20.09	02/08/2022	19.25	05/08/2022

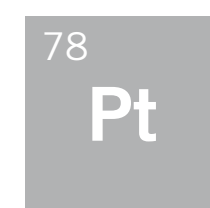
Mexico's silver miners gripped by trio of inflation, a tight labour market and a weaker silver price. The profitability of silver miners has been squeezed by converging economic pressures in most jurisdictions during the last quarter. Production stayed relatively flat year-on-year in H1 for Fresnillo at 27.6 moz (+0.4% vs. H1'21), while profits fell 54.3% despite the company being at the lower end of the silver cost curve. Production is expected to meet guidance of 50.5-56.5 moz of silver by year-end. Group production is also expected to increase by ~10 moz in 2023 as the Juanicipio mine begins an operational ramp-up later this year. Last year Fresnillo produced 53.1 moz, making it the largest single silver miner and accounting for approximately 6% of global production from its Mexican operations.

The silver price strengthened mid-week as the US dollar continued to weaken and evidence of decreasing liquidity grows, but closed nearly 2% down by Friday. London vault levels of silver continued to drop in June and July, falling below 1 billion ounces for the first time since November 2016, and a 15% decrease in metal held since last June. Less available metal probably contributed to gains in the silver price last week. As industrial silver demand should temper into next year, available metal could increase.

- 01 MARKET SPOTLIGHT
- 02 GOLD
- 03 SILVER
- 04 **PLATINUM**
- 05 PALLADIUM
- 06 RHODIUM, RUTHENIUM, IRIDIUM
- 07 TRENDS AND INVESTMENTS
- 08 ABOUT HERAEUS

PRECIOUS METALS REVIEW

Platinum



	CLOSE	WEEKLY CHANGE	HIGH	DATE	LOW	DATE
\$/oz	937	3.90%	946	05/08/2022	891	03/08/2022
€/oz	921	2.20%	924	05/08/2022	875	03/08/2022

Zimbabwe is looking to raise more revenue from taxes on PGM production.

Earlier this year, the Zimbabwe Chamber of Mines agreed to defer a 5% tax on unbeneficiated PGMs. However, the government has now proposed applying a royalty rate of 5% to PGM production from January next year. This new royalty rate will bring Zimbabwe in line with South Africa which applies a 5% royalty for refined PGMs (7% for unrefined minerals). Zimbabwean platinum production is forecast to reach 525 koz in 2022, roughly 10% of global production, compared to the 4.5 moz estimated to be produced in South Africa this year. PGM mining operations in Zimbabwe are lower cost on average than in South Africa as mines are shallower and more mechanised. The new royalty rate should not impact production of platinum or adversely affect mine profitability.

Royal Bafokeng increases platinum output at core operations while Styldrift underperforms

in H1'22. Total platinum in concentrate increased 4.3% to 145 koz during the period across all operations but decreased slightly by 1.1% to 64 koz from the Styldrift mine. The Styldrift operation is scheduled to complete ramp-up this year and produce 320 koz 4E per annum when at steady state, with a 40+ year mine life. Current production falls far below that, as only 99 koz 4E was produced in H1'22. Production from RBPlats' operations is unlikely to sway the platinum market as metal output is relatively low compared to larger operations in the Bushveld. In 2021, its operations produced 301 koz platinum in concentrate, roughly equivalent to 7% of South African primary supply.

PRECIOUS APPRAISAL

8th August 2022

01 MARKET SPOTLIGHT

02 GOLD

03 SILVER

04 PLATINUM

05 **PALLADIUM**

06 RHODIUM, RUTHENIUM, IRIDIUM

07 TRENDS AND INVESTMENTS

08 ABOUT HERAEUS

PRECIOUS METALS REVIEW

Palladium

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Pd

	CLOSE	WEEKLY CHANGE	HIGH	DATE	LOW	DATE
\$/oz	2,129	-0.10%	2,224	01/08/2022	1,993	03/08/2022
€/oz	2,094	0.22%	2,161	01/08/2022	1,967	03/08/2022

NEV tax incentive extension in China should keep fuelling its EV market.

Beijing has decided not to halt a tax exemption worth around 10% of purchase price on new energy vehicles (NEVs) at the end of the year as planned. This will likely encourage more consumers to switch from an internal combustion engine (ICE) vehicle to a battery electric vehicle. In June, the government also introduced tax incentives for ICE vehicles to aid a recovery in sales following Covid-19 lockdowns. Despite this, NEVs outperformed the market in June, with sales growth of 135% year-on-year, compared to ICE models which returned positive growth of 27% (source: LMC Automotive). China's palladium autocatalyst demand is likely to shrink slightly this year, mainly due to lockdowns in the automotive manufacturing hub of Shanghai in Q2, and the growing market share of NEVs. On the upside, the extended tax exemption does include fuel cell vehicles which contain platinum and ruthenium in the fuel cell catalyst.

PRECIOUS APPRAISAL

8th August 2022

01 MARKET SPOTLIGHT

02 GOLD

03 SILVER

04 PLATINUM

05 PALLADIUM

06 **RHODIUM, RUTHENIUM, IRIIDIUM**

07 TRENDS AND INVESTMENTS

08 ABOUT HERAEUS

PRECIOUS METALS REVIEW

Rhodium, Ruthenium, Iridium



	RHODIUM	RUTHENIUM	IRIDIUM
Reporting Week	\$16,250/oz	\$565/oz	\$4,550/oz
Previous Week	\$15,850/oz	\$580/oz	\$4,650/oz

Lowering iridium loadings in proton exchange membrane (PEM) electrolyzers is key to the rollout of green hydrogen in Europe. A recent study involving Heraeus showed that membrane electrode assemblies with low-iridium anode catalyst can maintain durability during operation. Current PEM electrolyzers are loaded with unsustainable amounts of iridium if the multi GW-scale rollout of green hydrogen production in Europe is to be achieved, as the supply of iridium is small (~250 koz) and is fundamentally linked to platinum and palladium production from South Africa. To achieve European hydrogen production goals, iridium loadings must be reduced from current levels.

The rhodium price bucked the trend amongst the small PGMs this week, increasing by 2.5% to \$16,250/oz. Ruthenium and iridium both continued their multi-week downward trend, with ruthenium closing the week at a new year-to-date low.

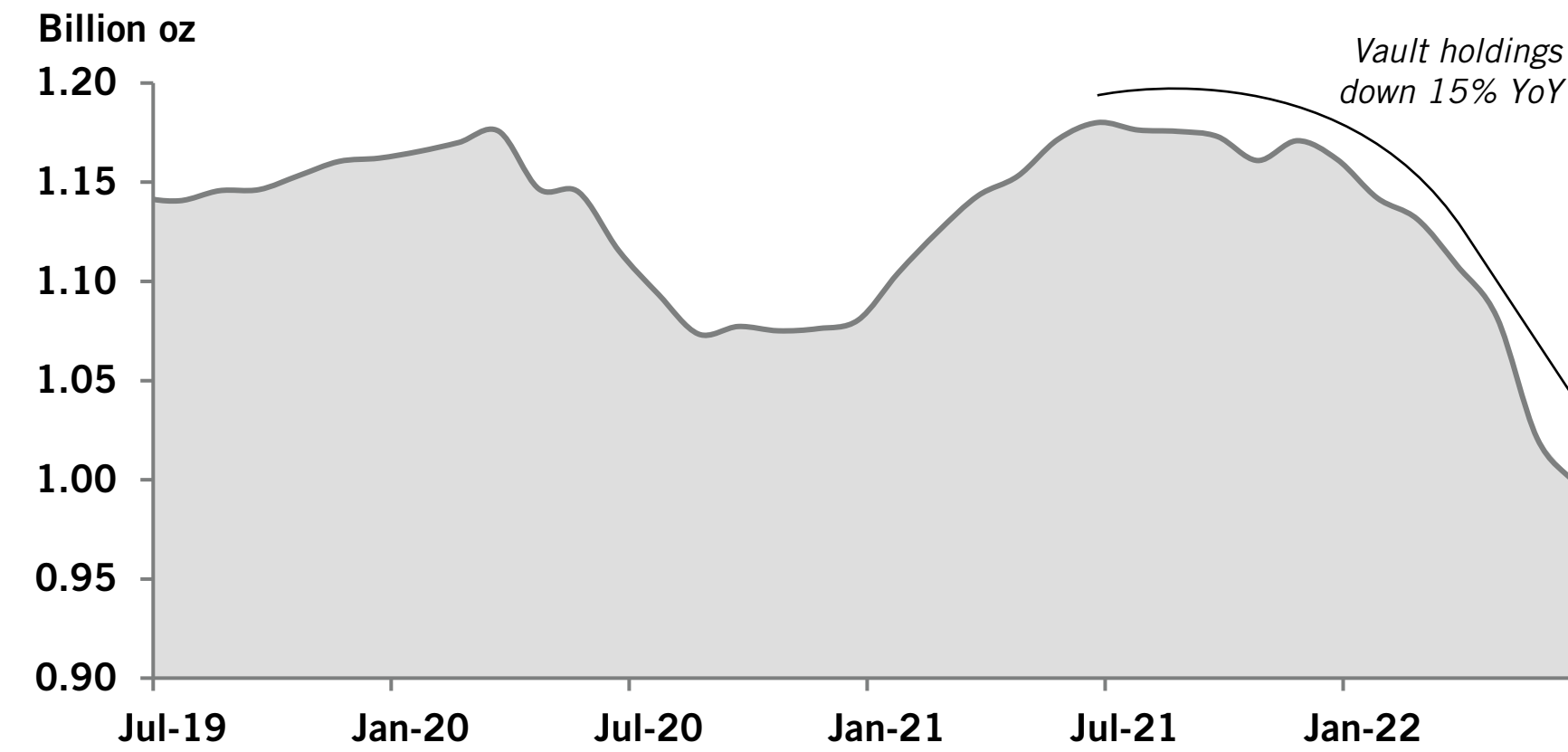
PRECIOUS APPRAISAL

8th August 2022

- 01 MARKET SPOTLIGHT
- 02 GOLD
- 03 SILVER
- 04 PLATINUM
- 05 PALLADIUM
- 06 RHODIUM, RUTHENIUM, IRIIDIUM
- 07 **TRENDS AND INVESTMENTS**
- 08 ABOUT HERAEUS

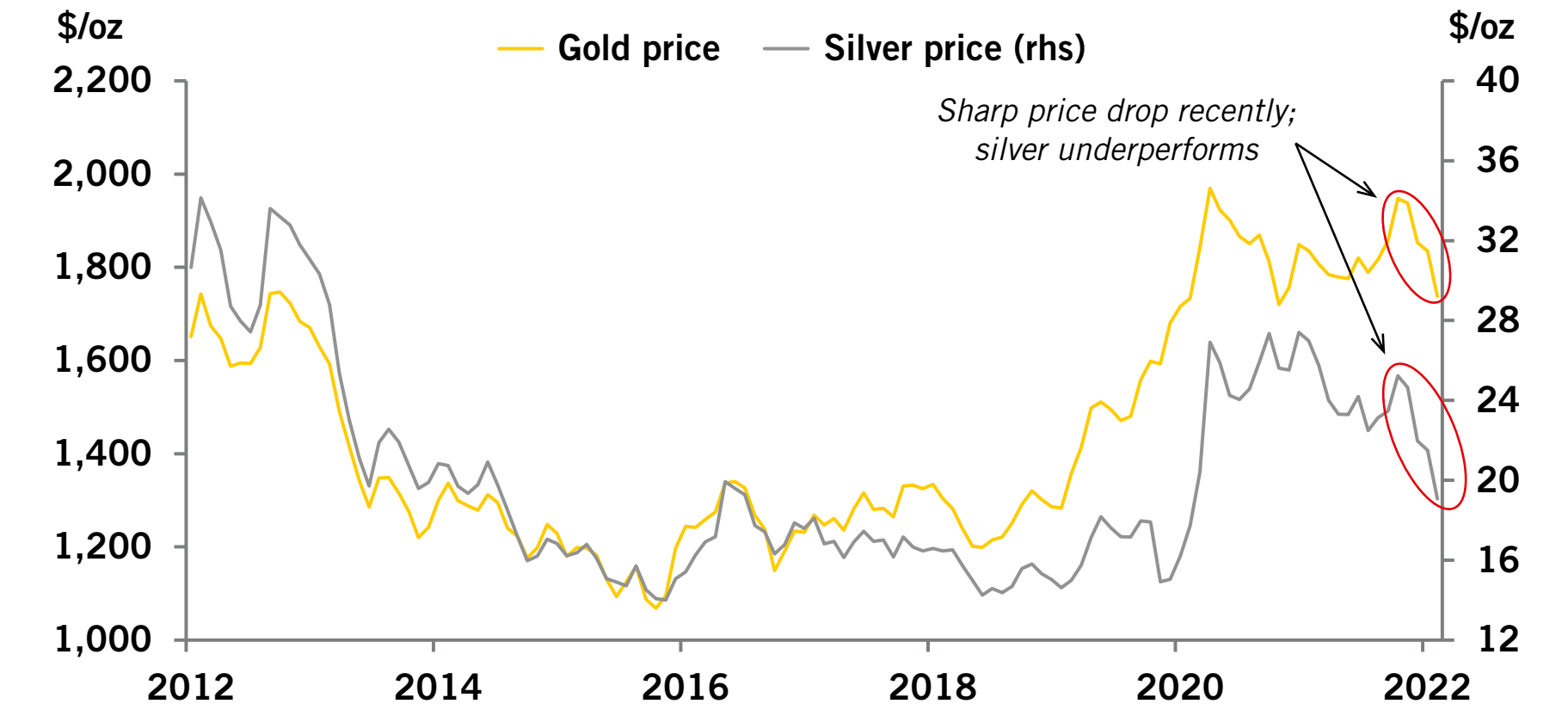
TRENDS AND INVESTMENTS

London's silver vaults stocks



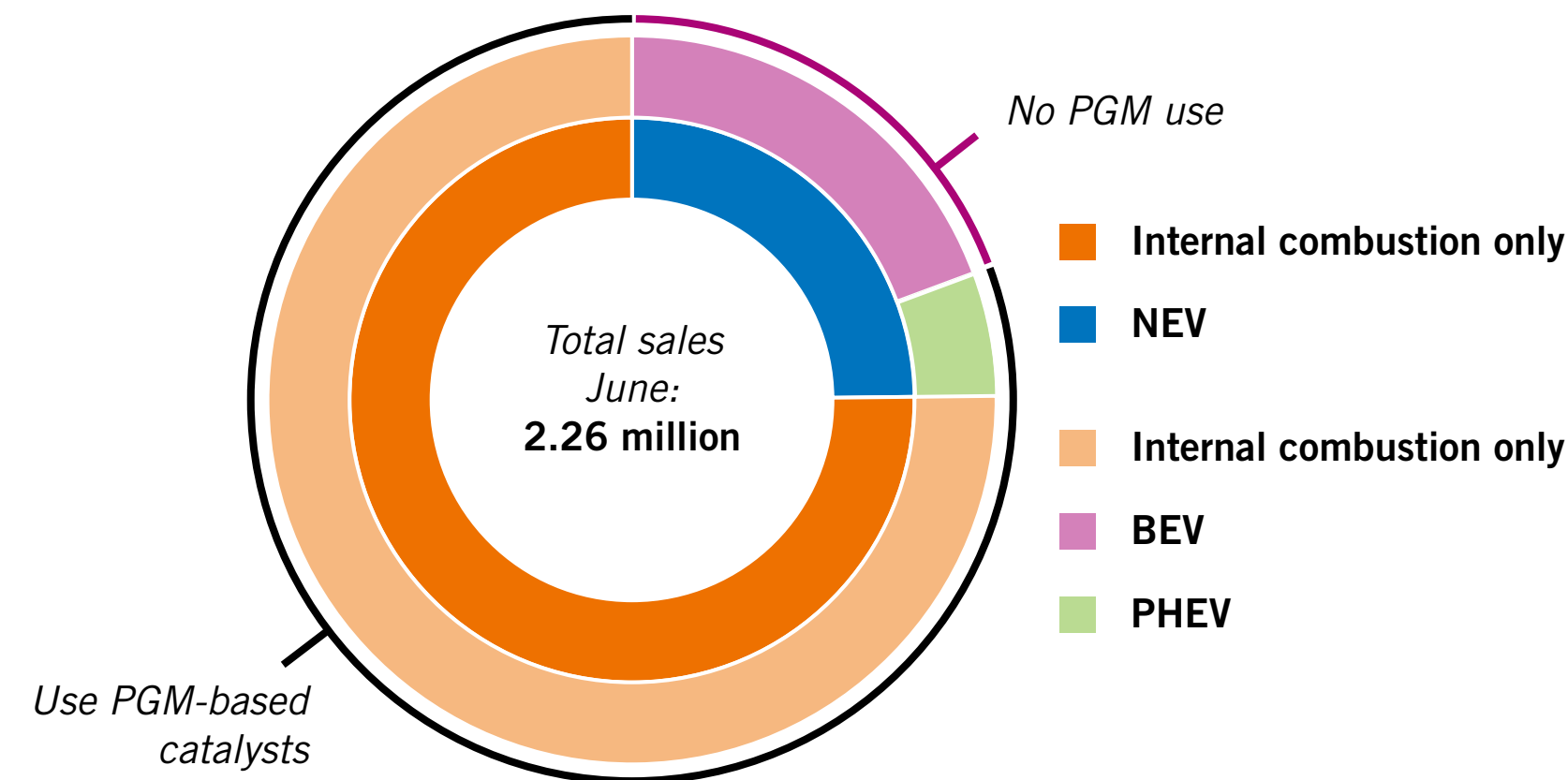
Source: SFA (Oxford), LBMA

Gold price vs. silver price



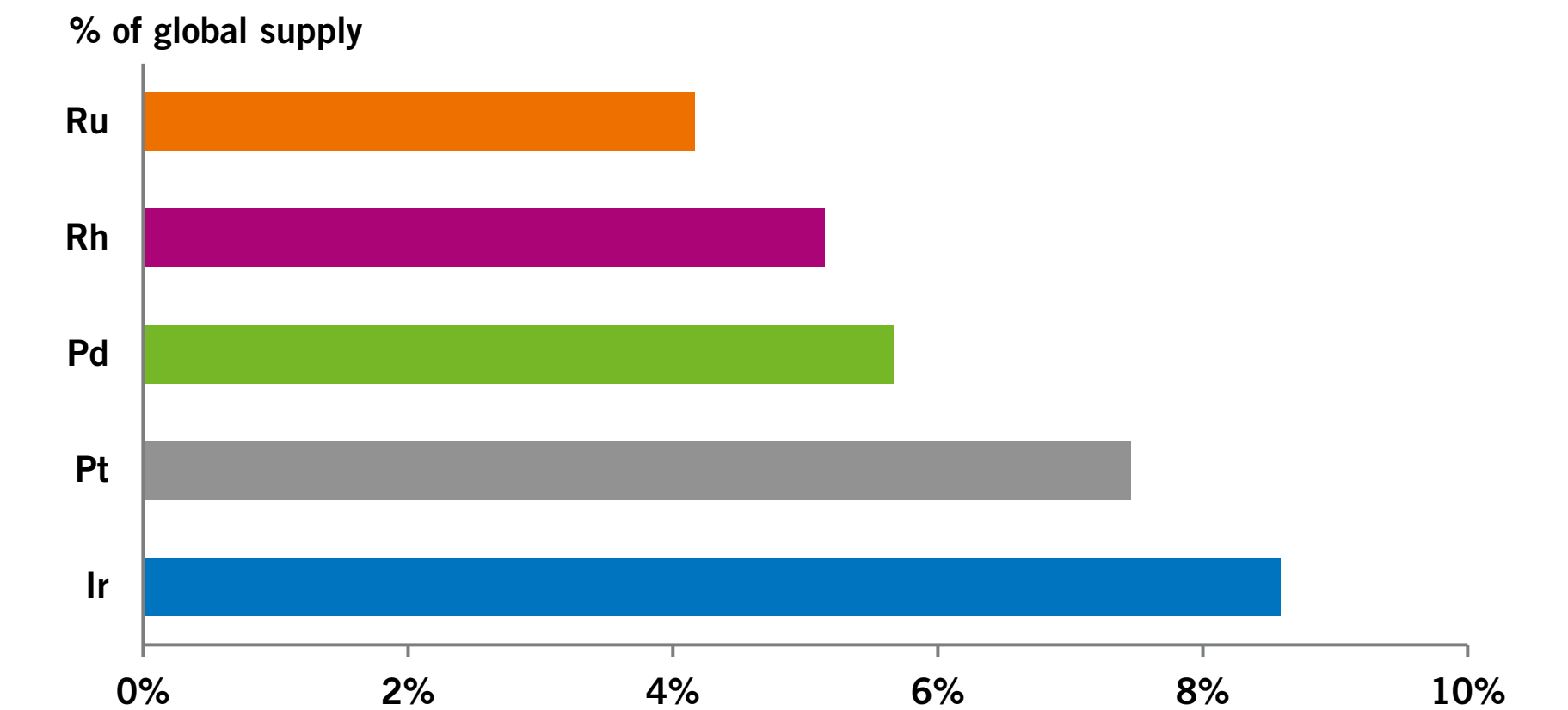
Source: SFA (Oxford), Bloomberg

China passenger vehicle sales for June



Source: SFA (Oxford), LMC Automotive, Clean Technica

Zimbabwe 2021 PGM production



Source: SFA (Oxford)

PRECIOUS APPRAISAL

8th August 2022

- 01 MARKET SPOTLIGHT
- 02 GOLD
- 03 SILVER
- 04 PLATINUM
- 05 PALLADIUM
- 06 RHODIUM, RUTHENIUM, IRIIDIUM
- 07 TRENDS AND INVESTMENTS
- 08 **ABOUT HERAEUS**

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