

PRECIOUS APPRAISAL

No. 30
19th September 2022



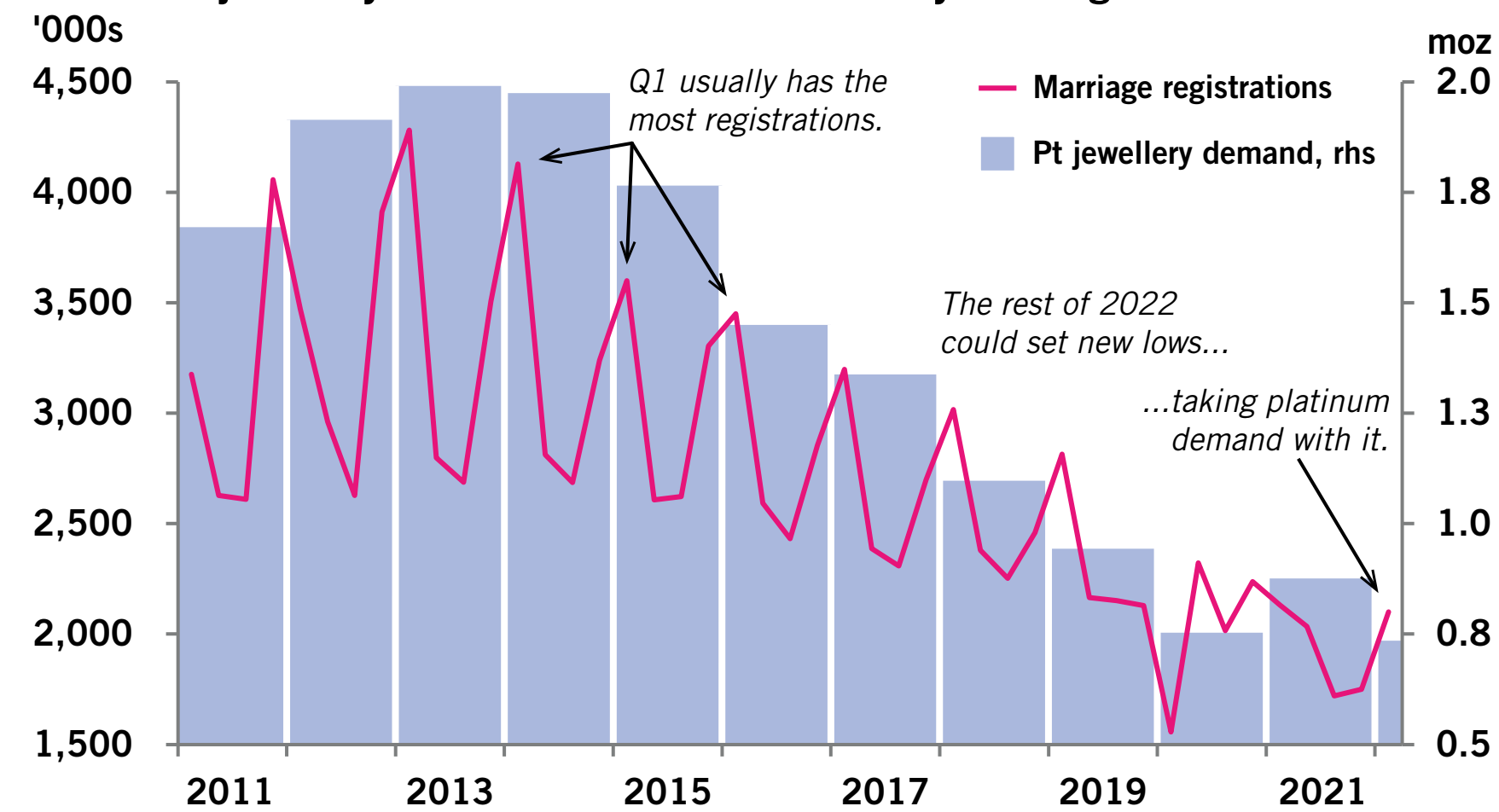
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MARKET SPOTLIGHT

The fuse is lit: will platinum jewellery demand go up, or blow up?

Covid measures are suppressing jewellery demand in China. Demand for both gold and platinum jewellery has been heavily impacted by the stop-start Covid restrictions. Year-on-year declines in platinum jewellery sales of -20% in Q1'22 and -24% in Q2'22 were recorded at Platinum Guild Institute (PGI) partner stores (source: PGI). This short-term impact on jewellery demand is a product of an extended lockdown in Shanghai and continuing measures in other cities. Major Chinese retailer Chow Sang Sang reported a 9% reduction in total sales in H1'22, and a fall in market share of its platinum (plus Karat gold) segment. PGI reports a year-on-year decrease of 27% in platinum jewellery fabrication during Q2'22, slightly improving on the 39% decline in the previous quarter. Platinum demand has also been weakening in comparison to its gold alternatives. In 2021, local jewellery retailer Lao Miao sold 41% less platinum jewellery than in 2020, compared to an increase of 37% in gold jewellery sales.

Platinum jewellery demand in China is driven by marriage rates



Source: SFA (Oxford), China Ministry of Civil Affairs

Meanwhile, a demographics time bomb is ticking. China's platinum jewellery demand peaked in 2013 at around 2 moz, and has since decreased to an estimated 740 koz in 2022. Since 2013, the number of marriage registrations is down 50% from 4.3 million in Q1'13 to 2.1 million in Q1'22. The trend of fewer marriages is likely to continue due to the gender imbalance (particularly in rural areas) stemming from the one-child policy first implemented in the 1980s. Platinum jewellery demand in China is forecast to continue to fall in the medium-long term, as there will be fewer women of marriageable age.

Demand in other countries has outperformed China. Platinum jewellery demand in North America and India appears to be faring better in terms of the impact of Covid and year-to-date has recovered well, according to PGI. India is poised to exceed pre-pandemic levels in platinum jewellery sales after outperforming Q2'19 in the same period this year. Whilst overall US jewellery sales have been strong, growing 16.2% year-on-year in June (source: Mastercard), high inflation has increasingly impacted consumer spending in Q3'22 and large retailers are expecting discretionary spending to move away from jewellery in 2023. An austere macroeconomic outlook and the increasing likelihood of a recession in 2023 would also stifle potential demand in the US (and Europe).

Global platinum jewellery demand could fall in 2023 as the US and Europe teeter on the edge of recession. Demand from China could increase slightly next year as Covid restrictions reduce, but some economic forecasters are now predicting that the US and Europe are likely to enter a recession during 2023. The outcome of this could be a contraction in jewellery demand in both regions. A recession would also likely pull industrial demand down, adding to a larger material surplus and pressure to the downside for the platinum price.

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PRECIOUS METALS REVIEW

Gold



	CLOSE	WEEKLY CHANGE	HIGH	DATE	LOW	DATE
\$/oz	1,674	-2.51%	1,735	12/09/2022	1,654	16/09/2022
€/oz	1,672	-2.18%	1,714	12/09/2022	1,661	16/09/2022

The Fed has more work to do to contain inflation. The European Central Bank has raised its key interest rates by 75 bp, with effect from September 14. This is the largest hike in the institution's history and brings the deposit rate above zero for the first time since 2012 at the tail-end of the European sovereign debt crisis. The Fed will also decide on its interest rate hike this week, in the wake of the latest US inflation data. United States CPI came in at 8.3% year-on-year for August, while increasing 0.1% month-on-month. This was a hotter reading than expected and indicates that the Fed still has significant work to do to bring inflation down to its preferred level of ~2%. The gold price initially dropped 1.5% on the release of the data, to \$1703/oz, and continued to slide for the rest of the week, closing at \$1,674/oz – a drop of more than 2.5%. The result of the unexpectedly strong CPI is likely to be larger rate hikes by the Fed at this week's meeting, as well as at subsequent meetings at the end of this year and into 2023. Swaps traders are now pricing in a hike of at least 75 bps, with the real possibility of 100 bp. The dollar has continued to strengthen in anticipation of more hikes, which has sent the gold price below \$1,670/oz – a long-term support level. If the price breaks below this level, more price downside is expected.

Auspicious times for auriferous metal in India. October sees the festivals of Dussehra, Diwali and Dhanteras, the latter of which is considered the timeliest to buy gold as it is the festival of wealth. Gold imports into India reportedly fell by 50% year-on-year during August to 61 t from 121 t in 2021. Local premiums on gold rose at the beginning of September as retailers likely began stocking up in preparation for the October festivities, although by the end of last week gold was still trading at a discount of \$8.5/oz.

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Silver



	CLOSE	WEEKLY CHANGE	HIGH	DATE	LOW	DATE
\$/oz	19.36	3.10%	20.01	12/09/2022	18.78	16/09/2022
€/oz	19.33	3.43%	19.74	12/09/2022	18.78	12/09/2022

Investors are losing faith in silver as a store of value. The trend of outflows from silver-backed investment funds has continued in September, with more than 11.8 moz of metal de-allocated so far this month, some of which could be attributed to investors cutting their losses as the price rallied. Net outflows total 124 moz year-to-date, indicating a larger trend of falling holdings. If this trend continues for the rest of the month, September will be the fifth straight month of metal being removed from global investment funds. Coin sales from the Perth Mint match this trend as sales of silver coin and bars plunged 33% month-on-month in August to 1.66 moz. Despite a recent rally, the silver price found resistance at around \$20/oz and failed to get above the August high. Holdings in silver ETFs do tend to correlate with the silver price, so further price downside could see further outflows from the remaining 762 moz still held globally. Headwinds are gathering for industrial silver demand in 2023.

Manufacturing PMIs in the world's largest economies are turning towards recessionary territory in August. Following a peak in mid-2021 during the rebound from the depths of the Covid pandemic, global manufacturing is slowing once again and could begin to contract by next year. This could signal a decrease in the demand for silver in industrial applications, especially as overall industrial production in China has been contracting for two months now, potentially affecting solar cell production which makes up approximately 25% of industrial silver demand.

Unusually, the silver price outperformed gold last week, rising 3.10% compared to the yellow metal's 2.51% decline. The gold:silver ratio had its largest weekly fall since January 2021, reflecting silver's relative strength.

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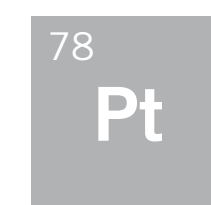
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Platinum



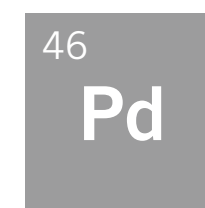
	CLOSE	WEEKLY CHANGE	HIGH	DATE	LOW	DATE
\$/oz	906	2.37%	924	15/09/2022	881	13/09/2022
€/oz	905	2.24%	923	15/09/2022	876	12/09/2022

Fuel cell heavy-duty trucks will start burning rubber in the US soon.

California's largest hydrogen refuelling station operator has secured EPA funding to deploy five fuel cell-powered trucks on US roads to transport hydrogen to H2 refuelling stations. Hyundai's heavy-duty platinum-ruthenium containing fuel cell-powered truck is the world's first mass produced model, with 47 already on the roads in Switzerland. When compared to electric heavy-duty trucks, hydrogen-powered models may be more suited to California owing to the fragility of the State's grid. Currently, China leads in terms of fuel cell vehicle production and deployment, with approximately 5,000 fuel cell buses already on the roads. Although currently small compared to its use in autocatalysts, demand for platinum in hydrogen applications (electrolysers and fuel cells) is growing rapidly. The platinum price has reached resistance around \$910/oz to \$920/oz, which could prevent further upside progress.

PRECIOUS METALS REVIEW

Palladium



	CLOSE	WEEKLY CHANGE	HIGH	DATE	LOW	DATE
\$/oz	2,103	-3.12%	2,277	12/09/2022	2,075	14/09/2022
€/oz	2,098	-2.90%	2,247	12/09/2022	2,080	14/09/2022

Another knock to PGM supply this year as Anglo’s Polokwane smelter rebuild faces a two-month delay. The delivery of substandard materials to Anglo American Platinum’s Polokwane Smelter earlier this month has resulted in a delay until replacements arrive. The company has cut its refined PGM production guidance to 3.7-3.9 moz of PGMs (previously 4.0-4.4 moz). This could result in approximately 125-200 koz of palladium being locked up in above-ground stocks until it can be processed in 2023. The amount of unprocessed metal this year could be towards the upper end of the range by the end of the year as Eskom has indicated that loadshedding may have to be implemented again in the summer months when plant maintenance is carried out. Last week, Nornickel also suffered a fire at the Kola MMC Nickel Electrowinning facility in Monchegorsk, although according to the company, the PGM production chain is intact and operating normally.

Palladium supply forecasts have been downgraded this year owing to floods at Stillwater Mine and now the issues with Polokwane. The palladium market is now forecast to be balanced for the year. This has provided support for the palladium price to stay above \$2,000/oz, but by the time supply chains normalise, weak economic conditions may result in a price decline.

UK new car registrations grew in August after five months of contraction.

For the first time since February, the monthly addition of new cars on the road in the UK was larger than in 2021. August saw 68,858 new vehicle registrations, a modest but significant 1.2% year-on-year increase. In absolute terms, the number of new registrations was the lowest for the month of August since 2013 (excluding 2021), owing to supply chain issues and high inflation continuing to impact both supply and demand. September will be the bellwether for the recovery of the automotive industry, as it is typically a strong month for sales in the UK because it coincides with the release of the new numberplate year prefix.

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Rhodium, Ruthenium, Iridium



	RHODIUM	RUTHENIUM	IRIDIUM
Reporting Week	\$15,200/oz	\$515/oz	\$4,250/oz
Previous Week	\$16,350/oz	\$515/oz	\$4,250/oz

A new European Hydrogen Bank could lend iridium and ruthenium demand a hand. The European Commission plans to invest €3bn in the establishment of a future market for hydrogen, moving the bloc's hydrogen economy from niche to scale. This includes the aim to reach 10 mtpa of green hydrogen production by 2030. Achieving this will involve the development and production of many times the capacity of iridium-containing electrolyzers in the coming years, boosting demand from this sector. Currently, expanding electrolyser production capacity requires significant CAPEX, and must pre-empt future demand. Thus, this funding can help companies bridge the investment gap needed to guarantee the supply of hydrogen and, in turn, support demand for PGMs used in its production.

The rhodium price fell by more than \$1,000/oz last week, while iridium and ruthenium stayed firm.

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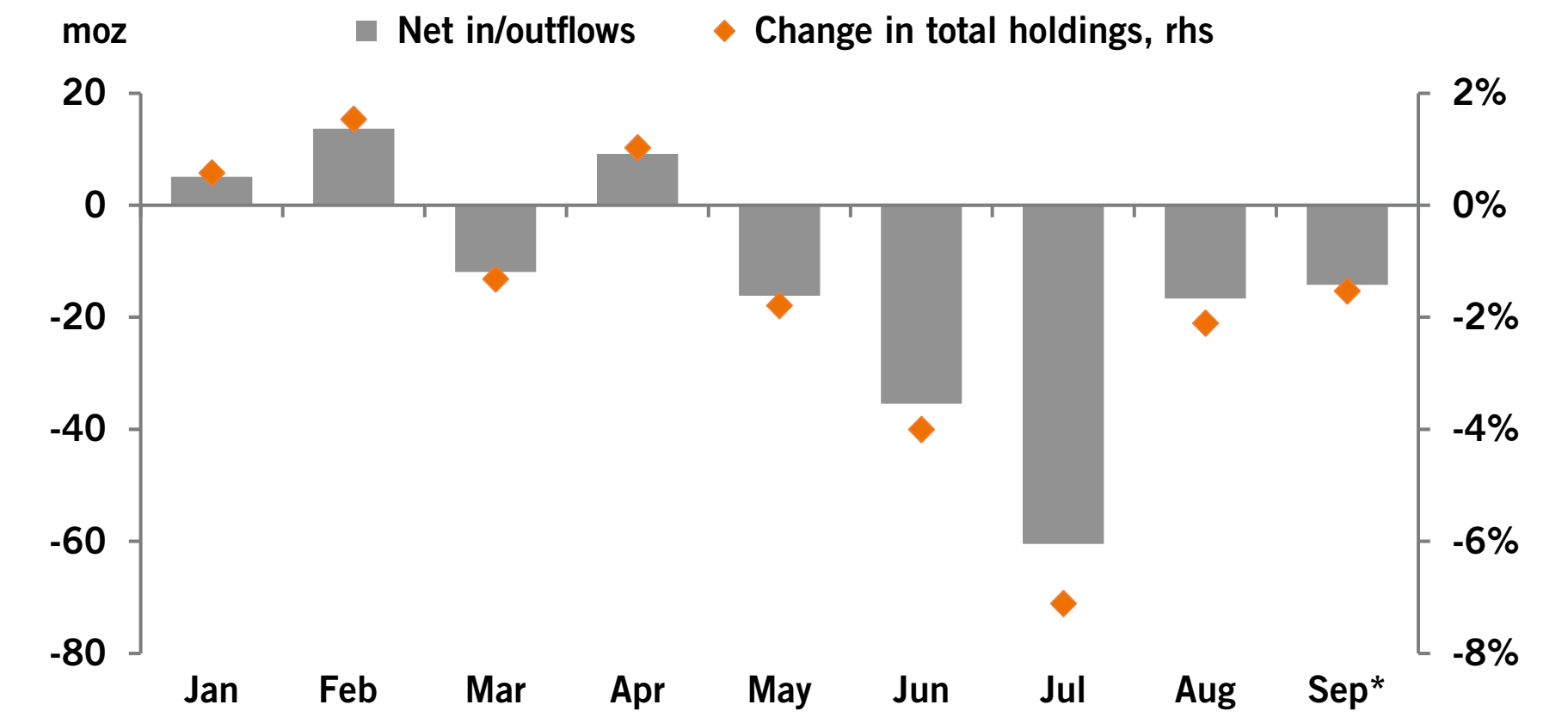
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Gold:silver ratio vs. silver price



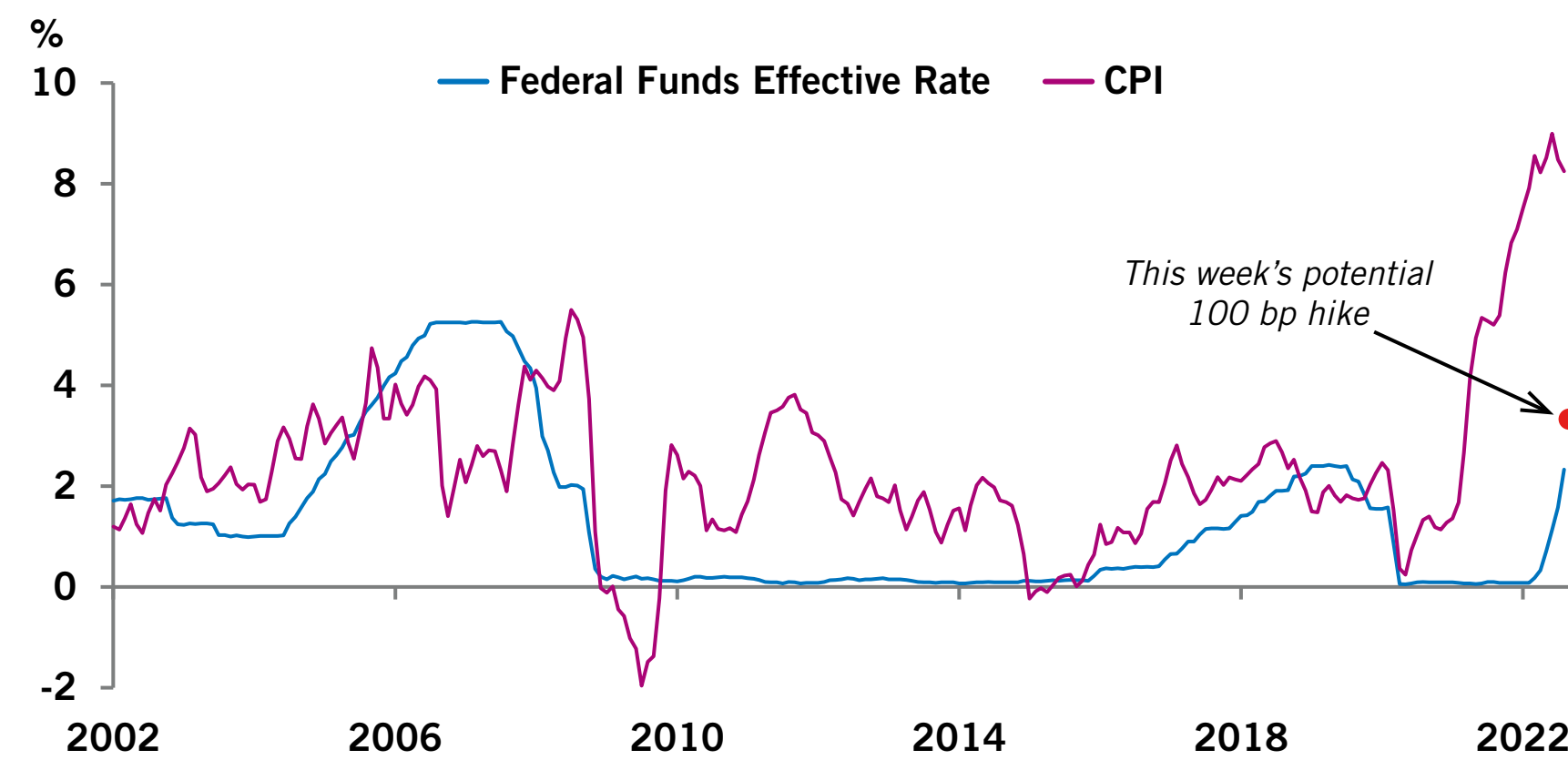
Source: SFA (Oxford), Bloomberg

Global silver ETFs net change in holdings, 2022



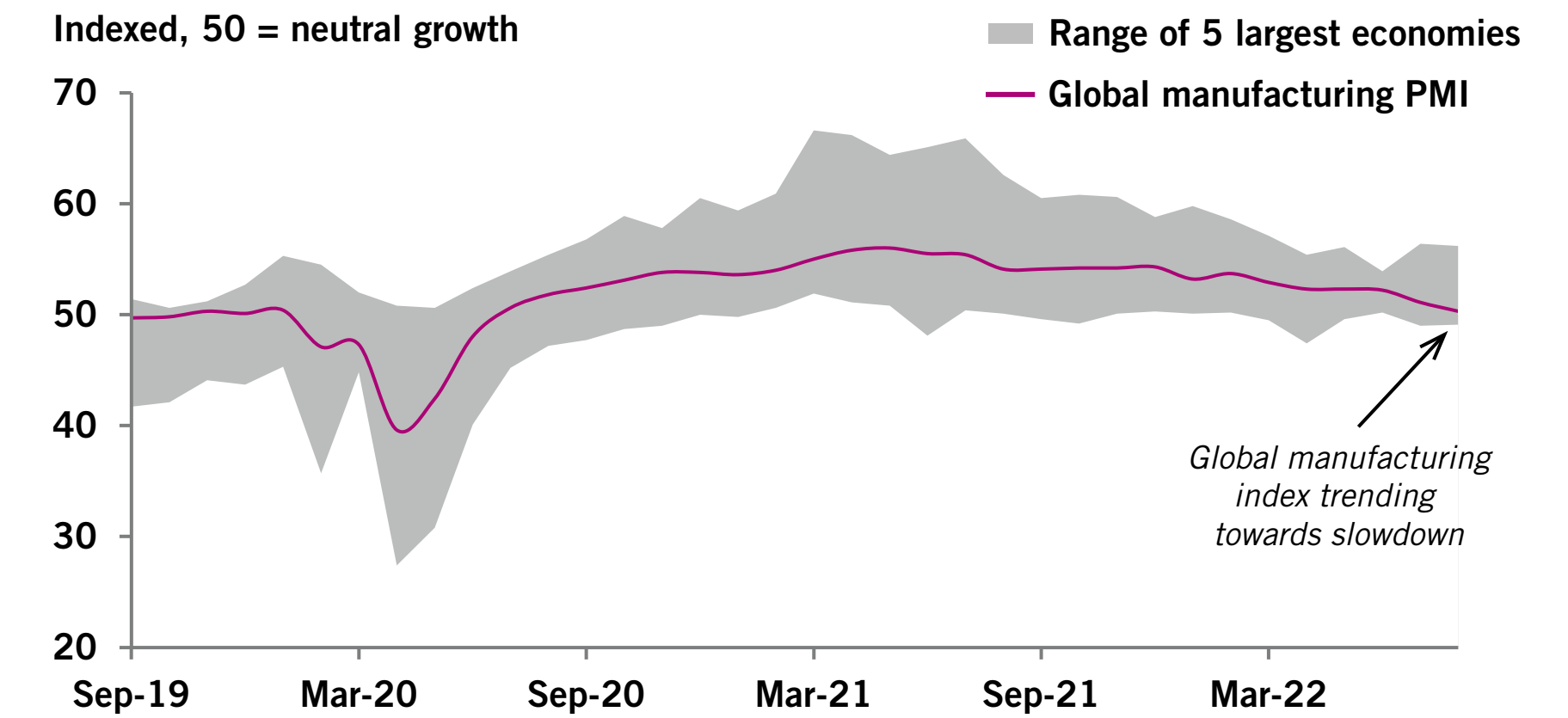
Source: SFA (Oxford), Bloomberg. *Total up to and including 16 September 2022

Consumer price index vs. Federal Funds Rate



Source: SFA (Oxford), Federal Reserve Bank of St. Louis

Manufacturing PMIs



Source: SFA (Oxford), Eurostat, Market/Nomura, China Federation of Logistics, ISM, HSBC, JP Morgan

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