Heraeus

Precious Metals

PRECIOUS APPRAISAL

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MARKET SPOTLIGHT

The Great Financial Crisis 2.0? Will history repeat itself for gold?

Investors have bought gold as confidence in the financial sector has been rocked. Bank failures and bailouts have pushed gold above $2,000/oz for just the fourth time ever as investors looked to safe-haven assets.

Recent events bear striking similarities to those during the build-up to the great financial crisis. Silicon Valley Bank (SVB) was the first major US bank to collapse since Washington Mutual in 2008. In Europe, Credit Suisse has been rescued by UBS. The immediate problems appear to have been contained but, as 2008 showed, the situation could worsen in a deep recession.

$2.1bn
Value of gold ETF inflows since the collapse of SVB

84%
Market's likelyhood that the Fed won't hike again

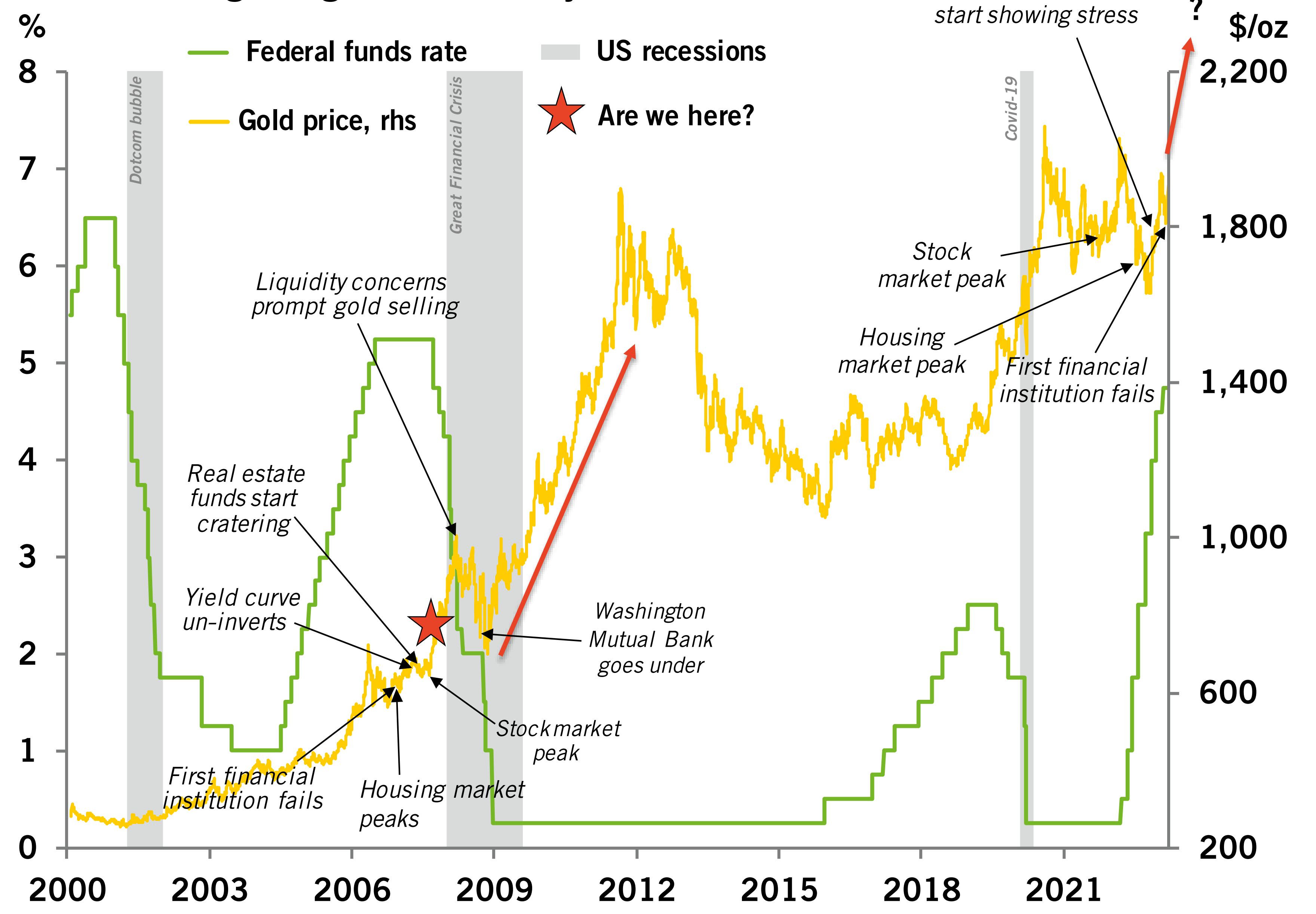
Leading economic indicators suggest that a US recession is approaching and that the Fed will be forced to cut rates soon. The inversion in the spread between the 10-year and 2-year US Treasury bond yields is one of the strongest leading indicators for a future recession. The spread has been negative since July last year, and normally climbs back above zero just before a recession. In addition, the 2-year US Treasury bond yield fell below the Fed funds rate late last year. Since at least 1989 this has not occurred without the Fed pausing or cutting within months. The Fed's record for achieving a soft landing is not good. Since 1915, just three of the 20 hiking cycles have *not* ended in recession. The setting up of extremely lax monetary policy over the last decade followed by the second-fastest hiking cycle ever suggest this time will be no different.

Gold could benefit further from uncertainty. The flight to safety seen in investment into precious metals in the last two weeks could be just the beginning in terms of a gold rally if developments in global conditions result in a further crisis of confidence among investors.

Large-scale contagion in the US banking sector is unlikely among "too big to fail" banks, so the fallout could be less than in 2008. Also, when liquidity became an issue for institutional investors in 2008, gold saw selling pressure, and the price fell by 30% before resuming its rise.

Near term, gold may struggle to break through to new highs as the bank failures look to have been contained by the swift action taken to guarantee Credit Suisse's deposits, and the Federal Deposit Insurance Corporation's (FDIC) protection of deposits in the case of SVB. **However, with Fed rate cuts coming once the US economy enters recession, bond yields are likely to fall and the gold price may resume its climb.**

Are markets getting a sense of déjà vu?



Source: SFA (Oxford), Bloomberg

PRECIOUS METALS REVIEW

Gold

79
Au

	CLOSE	WEEKLY CHANGE	HIGH	DATE	LOW	DATE
$/oz	1,987	1.29%	2,006	20/03/2023	1,934	22/03/2023
€/oz	1,847	0.44%	1,886	20/03/2023	1,796	22/03/2023

Euro strength is a headwind for gold in euro terms. Outside the US, central banks are caught in similar dilemmas over their interest rate decisions. For now, the direction is still upwards. The ECB recently hiked up the rate again by half a percentage point to 3.5%. In the UK, the Bank of England has decided to raise rates by another 25 bp as inflation surprised to the upside in February. Despite the stress obviously growing in European banking, the Deutsche Bundesbank has urged the ECB to remain hawkish as inflation is still stubbornly high in Germany and in other nations across the Eurozone. The speed of the ECB's rates hikes are unprecedented and have happened at the fastest rate since the inception of the bloc's central monetary policy authority. Interest rate differentials between the US and Europe are likely to keep the euro stronger against the dollar as the Fed's hiking cycle should end sooner. This should support the gold price in both currencies, but with dollar-denominated gold outperforming as the dollar weakens.

Recent gold price spike was one of the quickest in history as it initially broke $2,000/oz last week. As fears regarding the banking sector calmed, gold pared back some of those gains before climbing back gradually to $1,987/oz. As gold pushed to $2,000/oz, the gain in other currencies propelled gold to new highs in sterling, rupee and yen terms.

PRECIOUS METALS REVIEW

Silver

47
Ag

	CLOSE	WEEKLY CHANGE	HIGH	DATE	LOW	DATE
$/oz	23.21	4.61%	23.52	24/03/2023	22.16	21/03/2023
€/oz	21.58	3.75%	21.89	24/03/2023	20.57	21/03/2023

Higher silver prices were too good to miss, and ETF investors cashed out. Silver investors sold more than $400 million worth of silver from metal-backed ETFs as the price crossed above $22/oz. The run-up in the price was aided by safe-haven demand for silver owing to the uncertainty in the banking sector. Globally, ETFs saw little of this action however, and holdings grew by only 0.2% (+1.4 moz) between the failure of SVB and the price breaking $22/oz. In comparison, gold funds saw more consistent buying and a proportionally larger inflow of metal. Interestingly, silver futures speculators have been winding down long positions, and as of 17 March held a net short position on silver for the first time in five months. However, silver continued its rise above the $22/oz mark last week and was the outperformer, closing the week 4.6% higher at $23.21/oz.

PRECIOUS METALS REVIEW

Platinum

78
Pt

	CLOSE	WEEKLY CHANGE	HIGH	DATE	LOW	DATE
$/oz	984	0.82%	1,004	20/03/2023	961	24/03/2023
€/oz	914	-0.17%	938	20/03/2023	896	21/03/2023

China's consumer spending decline expected to reduce platinum jewellery demand this year. In 2022, global platinum jewellery demand fell by 6% year-on-year to 1.7 moz. The primary driver for this decline was a significant reduction in consumer spending on jewellery in China as the country's economy was severely impacted by uncertainty about Covid-19 outbreaks. Platinum jewellery fabrication in China dropped by 37% year-on-year during Q4'22 (source: Platinum Guild International) as Covid restrictions were lifted and a wave of infections spread. Platinum trading volumes on the SGE are also slow year-to-date. With one trading week left of the first quarter, trading volumes are on track to be one of the lowest in more than a decade (see the chart on pg. 8). China currently accounts for ~45% of global platinum jewellery demand. In 2023, retail sales in the country are predicted to recover somewhat following the government's lifting of Covid measures but are not expected to return to pre-Covid levels. China's consumers are shifting to prioritising saving because of concerns over future financial security. Owing to its large market share, China's demand contraction is expected to drag global demand down by a further 5% this year. This is despite relatively robust economic growth and a modest forecast increase in platinum jewellery demand in India.

The platinum price has been grinding higher since the second half of February, having tested the $1,000 level five times, but has been unable to hold above this level. Platinum finished last week slightly higher at $984/oz.

PRECIOUS METALS REVIEW

Palladium

46
Pd

	CLOSE	WEEKLY CHANGE	HIGH	DATE	LOW	DATE
$/oz	1,423	1.95%	1,469	23/03/2023	1,372	22/03/2023
€/oz	1,321	0.75%	1,360	22/03/2023	1,272	22/03/2023

E-fuels are unlikely to save palladium demand from BEVs. The EU in mid-February approved the phasing out of ICE light-vehicle production for use in the region, effectively ending the need for PGM-based autocatalysts in new light vehicles. Germany and Italy are advocates for using carbon-neutral e-fuels alongside their respective BEV strategies and are pushing for an exemption to the ban for e-fuel powered vehicles. E-fuels are synthetic hydrocarbons and therefore vehicles using them still require a catalytic converter. Use of e-fuels has backing from some major automakers, but their costs are high so they are likely to remain a relatively niche market and not for mass adoption by the light-vehicle fleet. Consequently, it will do little to preserve palladium autocatalyst demand.

Europe's autocatalyst palladium demand is forecast to be just over one million ounces this year, a small reduction year-on-year, despite better light-vehicle availability. The reduction is likely to be due to a combination of substitution by platinum in gasoline vehicles, growing BEV market share, and sales risk from slow economic growth. EU car registration data shows BEV uptake is still accelerating as the industry recovers from the automotive chip crisis. The first two months of the year have seen 1.6 million new cars registered (+11.4% year-on-year). BEVs grew their market share in Europe to 10.8%, up from 9.1% a year earlier. The gain in BEVs was mainly at the expense of diesel powertrains, though there has also been a drop in PHEV sales so far this year owing to the end of German subsidies in January.

The palladium price has found support at the previous low made at the onset of the pandemic at $1,350/oz. Price rallies are not likely to last as fundamentals remain weak. The palladium price has been relatively stable for the last four weeks, and it finished slightly higher on the week at $1,423.

PRECIOUS METALS REVIEW

Rhodium, Ruthenium, Iridium

45 Rh 44 Ru 77 Ir

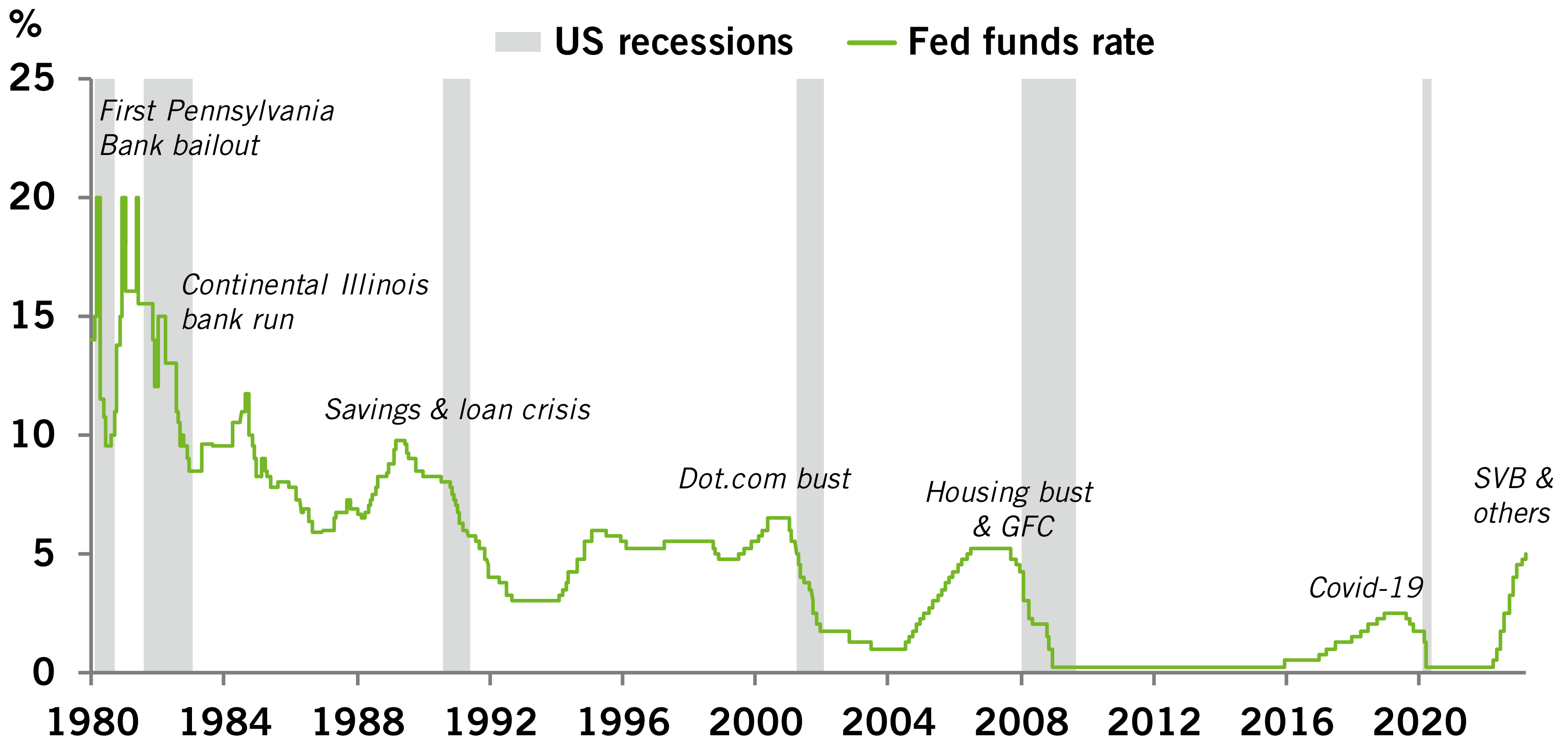
	RHODIUM	RUTHENIUM	IRIDIUM
Reporting Week	$9,550/oz	$525/oz	$5,150/oz
Previous Week	$10,350/oz	$525/oz	$5,150/oz

The rhodium price continues to drop despite primary and secondary supply issues. Miners in South Africa have been dealing with unprecedented levels of power supply curtailment. More than 80% of primary rhodium supply is forecast to be produced in South Africa this year and lower power availability could impact output, offsetting the release of stock built up by miners in the previous 12 months. Secondary supply is also expected to remain on par with the lower levels seen in 2022 as recessions mean fewer cars are scrapped in the US and Europe. Despite this, the price has continued to slip lower this week, dropping below $10,000/oz for the first time since 2020. Reports of large industrial users in China selling excess metal inventory back to the market could be weighing on the price. The price could remain volatile while supply interruptions remain possible in South Africa. However, the weakening economic outlook suggests that the price is likely to continue trending lower.

Iridium and ruthenium were unmoved by either the banking sector or monetary policy decisions last week. The price of both metals remained flat, closing the week at $5,150/oz and $525/oz, respectively.

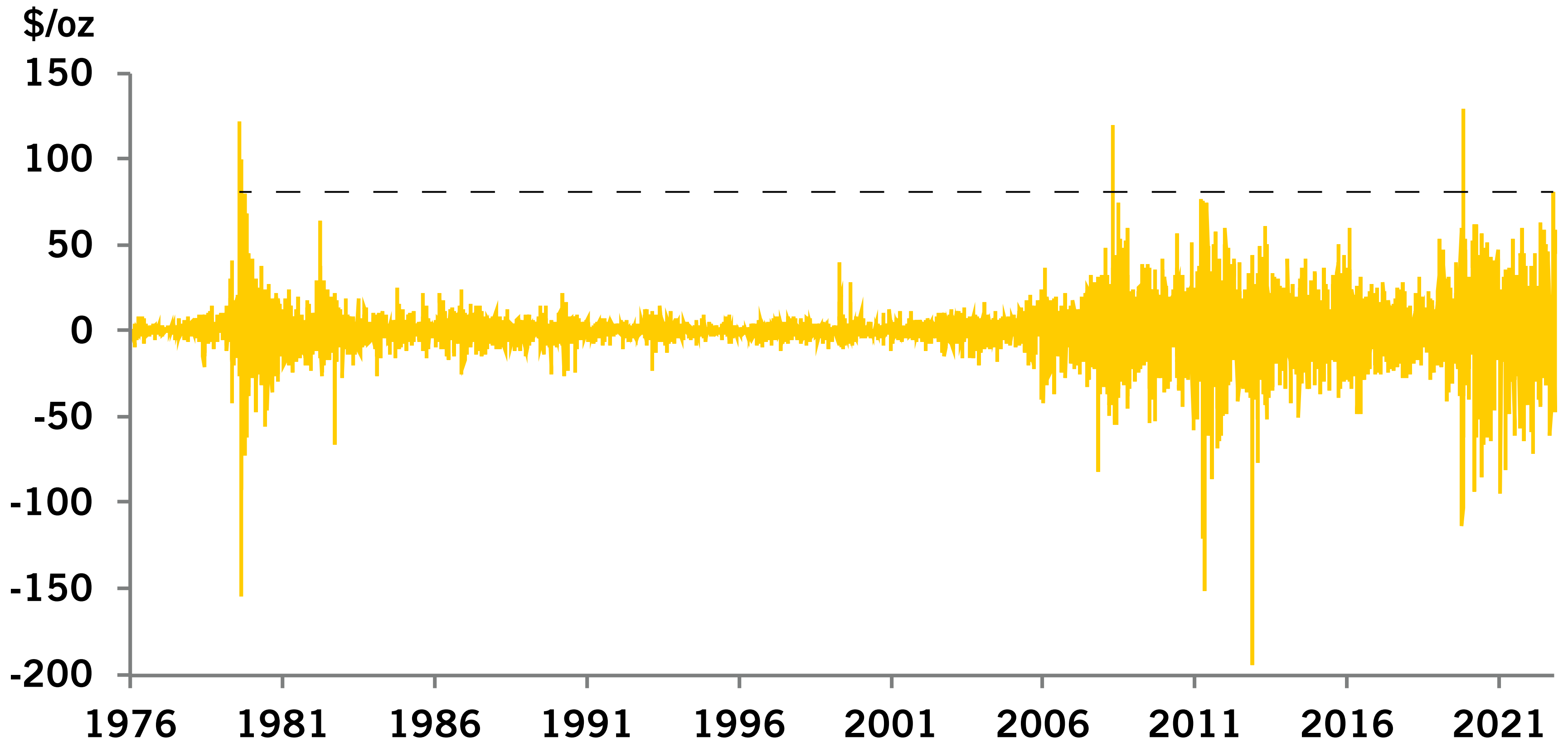
TRENDS AND INVESTMENTS

Federal Funds Rate and recessions



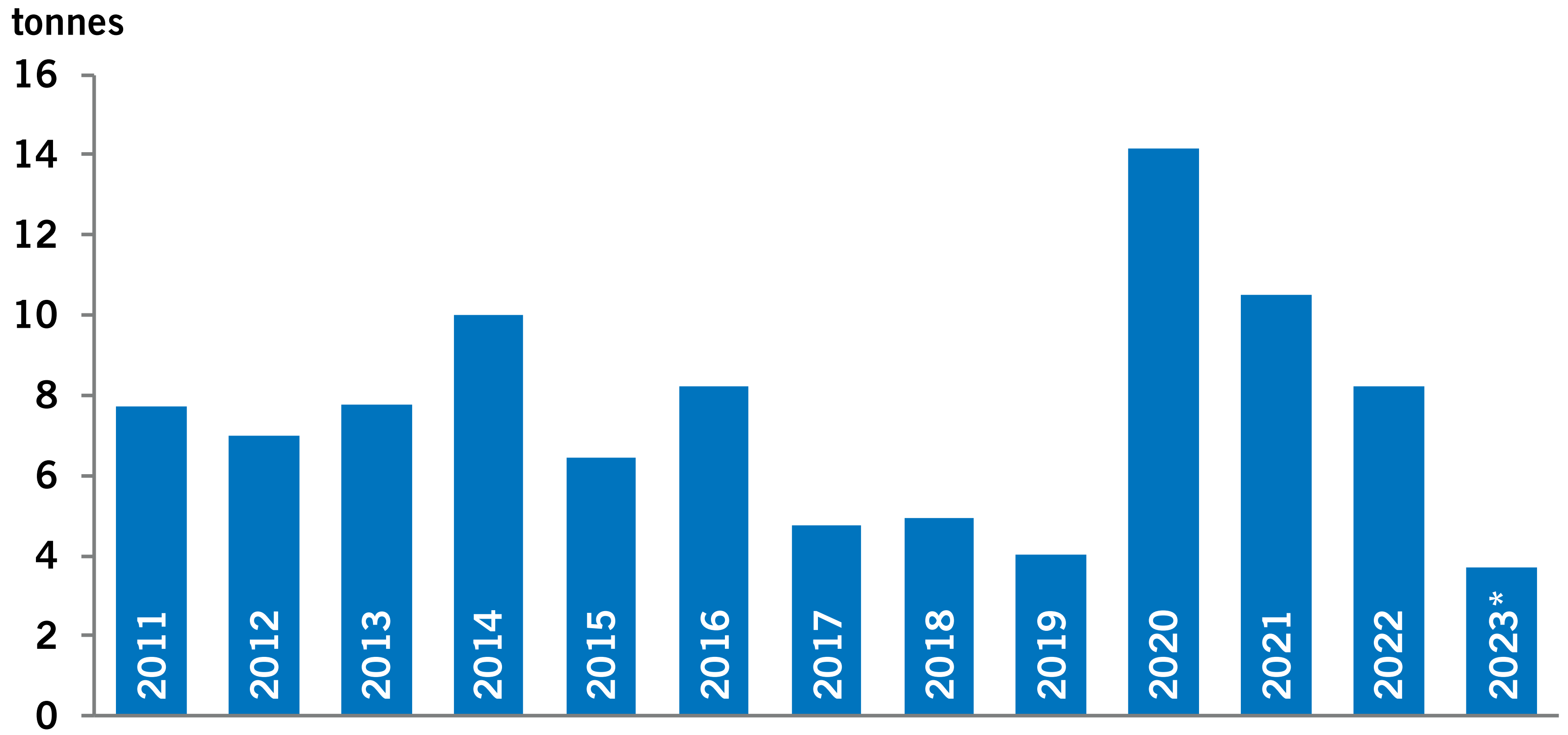
Source: SFA (Oxford), Bloomberg

Two-day change in gold price



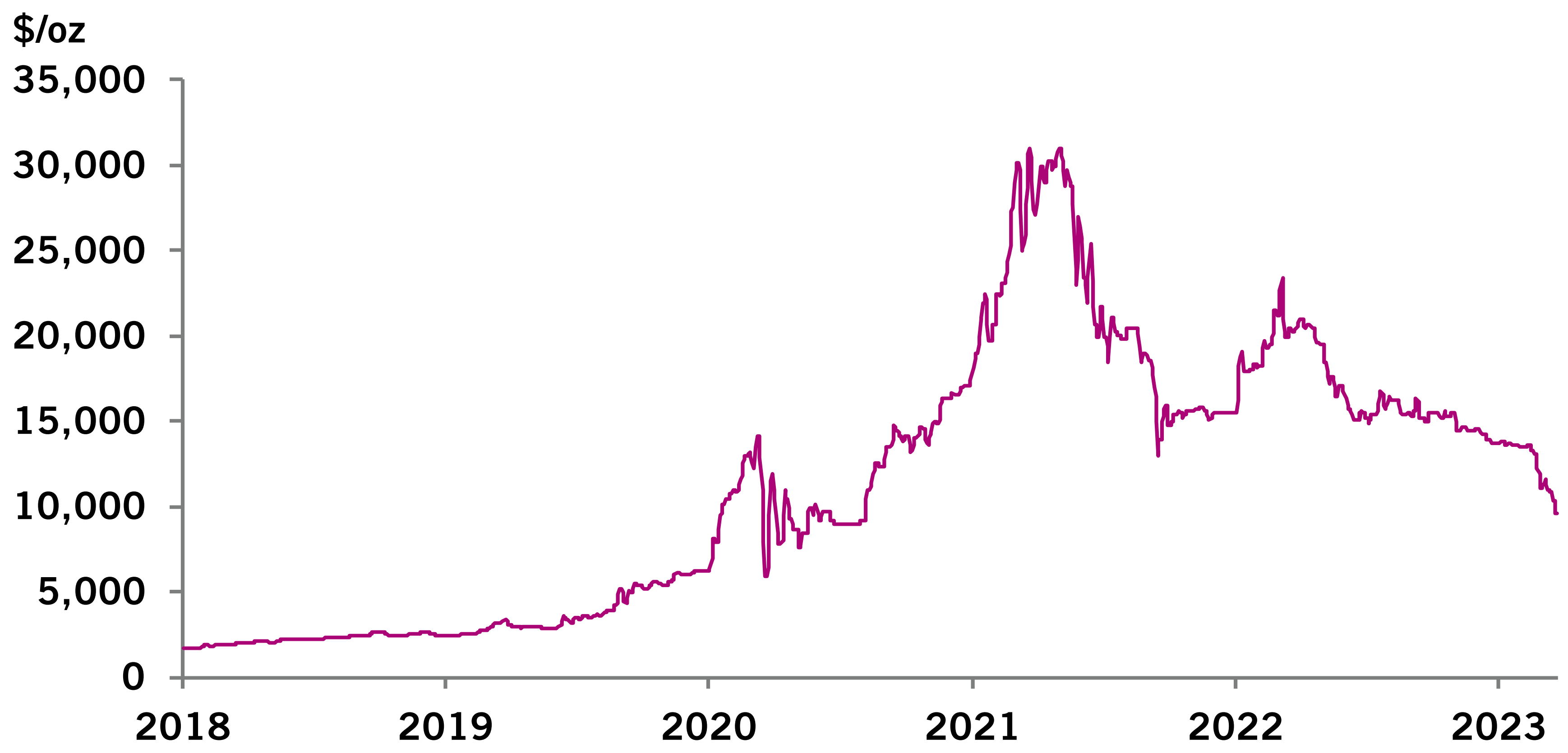
Source: SFA (Oxford), Bloomberg

Q1 SGE platinum trading volume



Source: SFA (Oxford), SGE. *2023 figure is to 24 March.

Rhodium price



Source: SFA (Oxford), Heraeus

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