

PRECIOUS APPRAISAL



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PRECIOUS METALS REVIEW

Gold

79

Au

	CLOSE	WEEKLY CHANGE	HIGH	DATE	LOW	DATE
\$/oz	1,956	-0.30%	1,971	13/06/2023	1,925	15/06/2023
€/oz	1,791	-1.91%	1,826	12/06/2023	1,774	15/06/2023

Despite stimulus, gold demand could decline on China’s soft economic reality. Interest rate cuts and support for the real estate sector are unlikely to boost demand for gold. Gold withdrawals from the Shanghai Gold Exchange (a proxy for fabrication demand) fell in May, having been declining since February, and are below the long-term average. Seasonality is likely to be a contributor to this decline as Q2 demand is usually weaker. High prices and concerns over weak economic data across different sectors are likely to be having a negative pull with enterprises. The gold price reached recent highs in yuan terms, and the latest manufacturing PMIs showed a contraction in May. If stimulus measures fail to fast-track the economic recovery from last year’s Covid measures, the anticipated year-on-year growth in gold demand may be smaller than initially expected, excluding Chinese central bank gold purchases, at around 900 tonnes.

The Fed pauses, but future rate hikes weigh on gold. The Federal Reserve declined to raise interest rates for the 11th consecutive time at its meeting last week, instead choosing to keep the Federal Funds Rate at 5.25%. The dot plot of members’ interest rate forecasts shows significant divergence in opinion on the outlook for H2’23. However, despite the pause in hikes, the monetary policy committee sees 50 bp of hikes before the year-end. The pause (or skip) indicates the Fed is waiting to assess its impact so far and is confident of a soft landing. Hopes of a soft landing

echo the sentiment around 2007, when the then Fed President, Bernanke, predicted a soft landing following a pause in interest rate raises, which was promptly followed by a recession and financial crisis in 2008.

The gold price initially reacted badly to last week’s pause announcement, dropping more than 1% during and immediately after the press conference. Additional interest rate hikes are likely to be a headwind for gold if they materialise, as market speculators are now predicting. Real interest rates will continue to rise as inflation falls later in the year, reducing gold’s appeal as a non-yielding asset, and should strengthen the dollar, adding additional downside pressure to the gold price.

Unlike the Fed, the European central bank ploughed on in its fight against inflation with a 25bp hike in interest rates, now the highest since 2001 at 3.5%. The ECB also revised its inflation forecasts higher for the next two years, indicating there is more runway for higher interest rates. To keep raising rates in Europe while the Fed waits may result in a stronger euro relative to the dollar, and underperformance of the gold price in euro terms.

Gold finished last week slightly lower than the last Precious Appraisal at \$1,956/oz, after touching a three-month low of \$1,925/oz intraday Thursday.

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Silver



	CLOSE	WEEKLY CHANGE	HIGH	DATE	LOW	DATE
\$/oz	24.01	-1.39%	24.41	13/06/2023	23.22	15/06/2023
€/oz	21.98	-2.98%	22.57	13/06/2023	21.04	15/06/2023

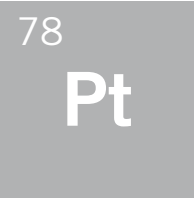
El Niño could dry up Indian silver demand later this year. The abnormal warming of Pacific Ocean waters known as El Niño typically suppresses the rainfall experienced during the Indian monsoon season, which is currently in its early stages. The season runs from June-October and is relied on to fill water storage for the rest of the year. During El Niño years, crop yields can suffer, resulting in lower incomes in rural communities. Rural areas are a major demand sector for silverware and jewellery in India, and a hit to excess savings is likely to result in lower average purchases of silver. Silverware and jewellery demand in India was already expected to drop this year following a surge in demand last year owing to the release of post-Covid pent-up demand and large amounts of restocking by retailers. A deficient monsoon could add to this decline. Silver fabrication demand (jewellery + silverware) could return to 2018 levels of ~70 moz (source: The Silver Institute).

The silver price succumbed to interest rate pressure last week, sinking 1.4% versus the previous week to \$24.01/oz.

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Platinum



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\$/oz	981	-3.13%	1,012	12/06/2023	966	15/06/2023
€/oz	898	-4.76%	939	12/06/2023	891	15/06/2023

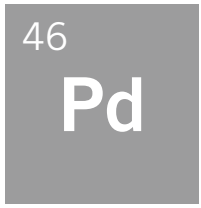
Zimbabwe’s platinum production pipeline is developing. Impala Platinum’s Zimbabwean arm has commissioned a third ore concentrator earmarked to process material from the Zimplats Mine expansion and replacement projects. The projects will enable the expansion of platinum production to ~290 koz by 2024, a 15% increase in output versus pre-Covid levels. Elsewhere in the country, the Karo project is advancing. It could begin production as early as 2024 and could produce more than 80 koz a year at steady state. Last week, the state mining house of Zimbabwe announced \$100 million in investment for the Darwendale project. The project lost its previous JV partner and now the government is taking full control. Full capital expenditure requirements are estimated to be ~\$500 million, and therefore steady-state production is not expected in the next five years. Net of development projects, Zimbabwe’s platinum output is expected to grow by 4% in 2023 to 510 koz, having risen by 12% since 2019. Zimbabwe now contributes 10% of global primary platinum supply.

Platinum still under pressure even as the rand jumps. The platinum price posted a 3.13% decline last week, following little price change in the previous week. After improvements in Eskom’s energy generation capacity in the last couple of weeks, load-shedding intensity has decreased, with some periods when no power cuts were required. The state utility also signed a three-year wage agreement with its main labour union, removing another risk to electricity production. The South African currency has outperformed all other emerging market currencies versus the dollar in June, and has recouped the losses made in May. The divergence between the platinum price and rand is continuing. Last week, platinum finished Friday’s trading at \$981/oz.

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Palladium



	CLOSE	WEEKLY CHANGE	HIGH	DATE	LOW	DATE
\$/oz	1,419	8.03%	1,429	16/06/2023	1,307	12/06/2023
€/oz	1,299	6.28%	1,307	16/06/2023	1,216	12/06/2023

A solid start to global automotive market in 2023. Light-vehicle sales data for May point to outperformance versus last year. Global new light-vehicle registrations rose 18.7% year-on-year last month (source: LMC Automotive). This is likely to be a result of fewer supply chain issues and improving vehicle inventories despite rising interest rates in some major markets. In China, comparisons to last year are distorted owing to the lockdowns experienced at this time last year. However, year-to-date light-vehicle sales are 873,000 units higher than in 2022 (+11% year-on-year). Despite the increasing uptake in battery electric vehicle (BEV) sales, China’s plug-in hybrid combustion vehicle (PHEV) sales are outperforming those of BEVs. PHEVs’ sales figures have grown 91% year-on-year, while BEVs are up by 82%. The growth in PHEVs provides some support for palladium autocatalyst demand as BEVs continue to erode market share. The increase in PHEV sales could help to offset some losses to BEVs in Europe where the market share of PHEVs has declined this year in favour of fully electric vehicles.

Global palladium autocatalyst demand is expected remain stable this year at ~7.7 moz despite an increase in global light-vehicle production of several million units. Primarily this is expected to be a result of BEV market penetration and substitution of palladium in favour of platinum. The latter could decrease in importance if the palladium price continues to decline and the Pt:Pd ratio rises.

Palladium finished last week 8% higher at \$1,419/oz as it bounced back after falling below support at around \$1,356/oz last week, testing as low as \$1,294/oz – the first time the price has fallen below \$1,300/oz since 2019. \$1,350-\$1,450 could now act as a range of resistance to upward price movement.

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Rhodium, Ruthenium, Iridium



	RHODIUM	RUTHENIUM	IRIDIUM
Reporting Week	\$6,950/oz	\$495/oz	\$5,150/oz
Previous Week	\$6,950/oz	\$525/oz	\$5,150/oz

Europe to provide €200 million for Chilean green hydrogen production. Last week the EU moved forward with its hydrogen strategy as it announced direct funding for future Chilean green hydrogen production projects. It is not clear at this time if any of the projects will use iridium-based catalysts for green hydrogen production, but it is likely that some will, given that renewable power sources will be used. The projects will also provide an important stream of green hydrogen for the EU, which aims to import 10 million tonnes of green hydrogen by 2030 to supplement 10 million tonnes of domestically produced gas. Current green hydrogen production volumes are low, and so is demand for iridium in proton-exchange membrane electrolyzers. As the number of similar agreements builds and projects reach commissioning stage, iridium demand is forecast to grow rapidly. This potentially puts stress on the very inelastic supply, primarily from South Africa. Reducing the amount of iridium used per GW of hydrogen production capacity should enable supply to meet demand.

The ruthenium price showed some life last week, dropping by \$30/oz to \$495/oz. The price had been stable since 2 March. Iridium stayed steady, though the prices of the two metals do tend to move in step with each other. The rhodium price also remained stable week-on-week at \$6,950/oz.

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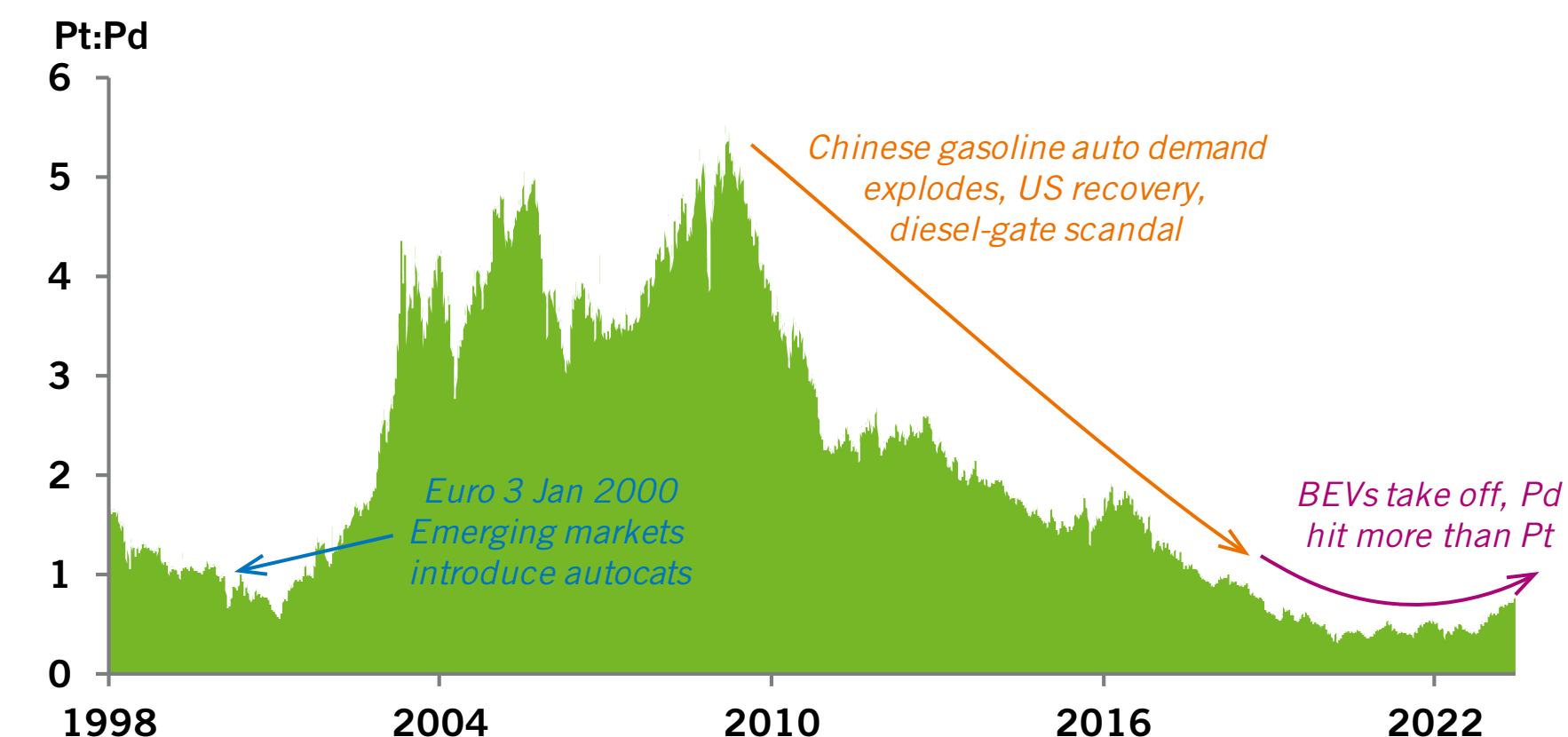
TRENDS AND INVESTMENTS

Gold spot price in Chinese renmimbi



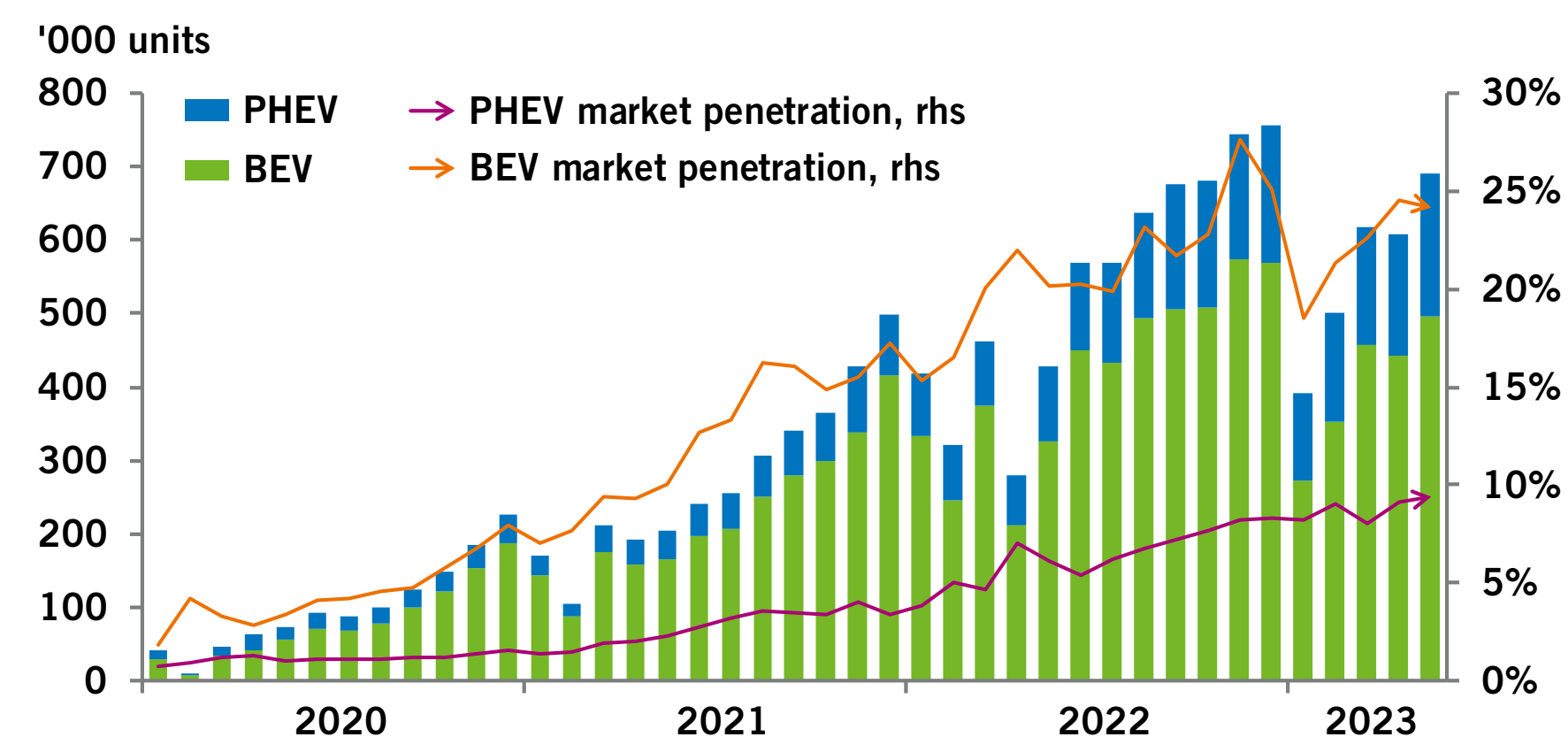
Source: SFA (Oxford), Bloomberg

Platinum:Palladium ratio



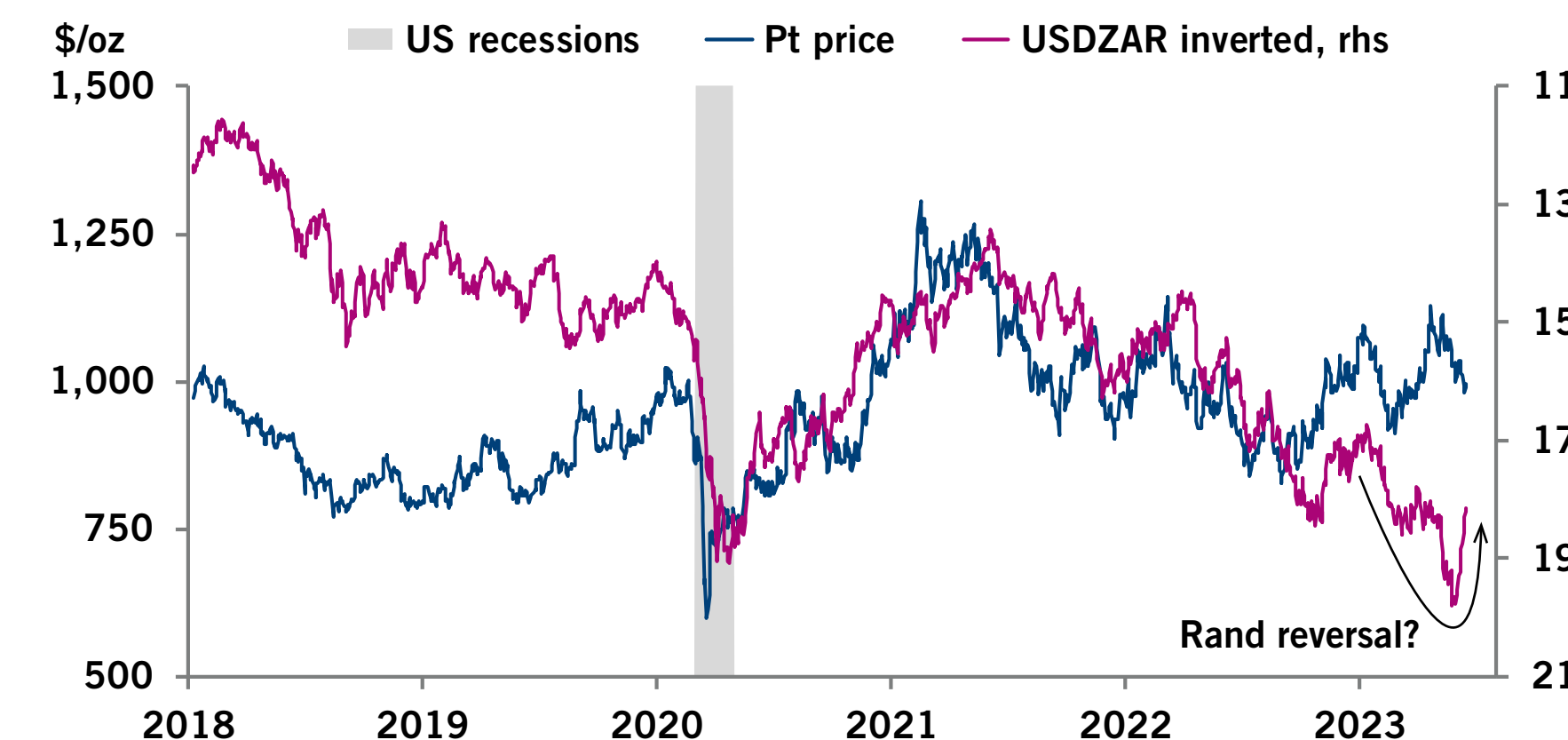
Source: SFA (Oxford), Bloomberg

China NEV sales



Source: SFA (Oxford), Bloomberg. NEV = New energy vehicles (PHEV+BEV), PHEV = Plug-in hybrid vehicle, BEV = Battery electric vehicle.

Platinum price vs. South African rand



Source: SFA (Oxford), Bloomberg

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