

PRECIOUS APPRAISAL



MARKET SPOTLIGHT

Gold has headwinds but the outlook is bright

The gold price tends to rise following the first cut of US interest rate cycles.

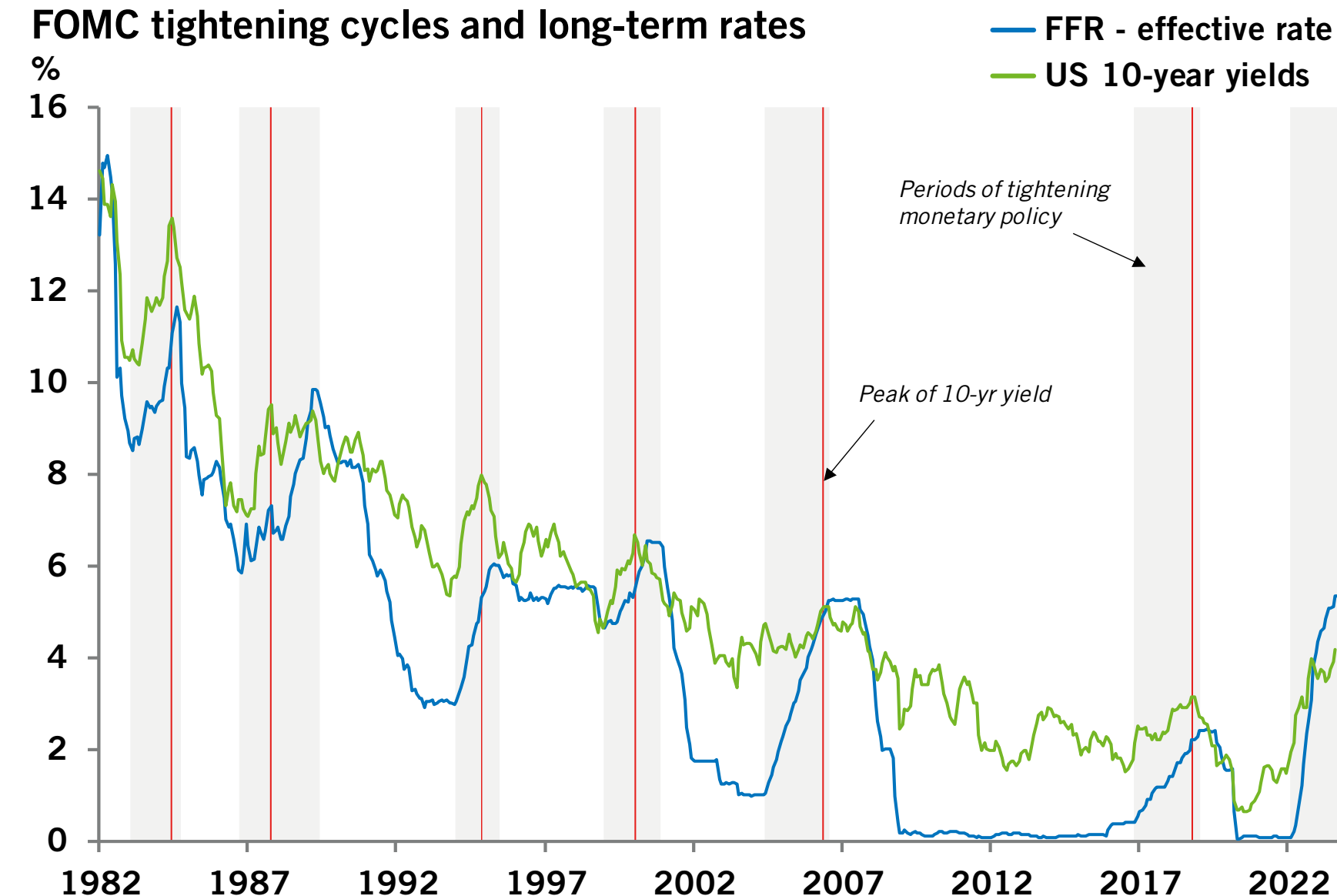
On average since 1984, one calendar year after the Federal Reserve first cuts its rate after a hiking cycle, gold is 10% higher than the day of the decision to reduce interest rates, and after two years is 18% higher. The dollar tends to weaken, yields on US Treasuries fall, and the economy tends to have deteriorated. All of these elements can act as a tailwind for the gold price.

After the 10-year yield peaks, it is only a matter of time before Fed Chair Jerome Powell reduces the Federal Funds Target Rate. The last rate hike of the cycle also tends to coincide with the peak in the yield on 10-year US Treasuries. Since 1984, interest rate cuts have never lagged the peak in 10-year US Treasury notes by more than one year and seven months – this being the outlier in 1989. Excluding 1989, cuts have followed the peak by an average of ~10 months.

The methodology is not foolproof. Two years after the first interest rate reduction in 1995, gold was 16% lower at \$325.50/oz. On the other hand, gold’s relative performance to the upside following interest rate cuts has grown since the 2001 cycle.

Yields are currently at the highest point in 16 years. The yield on long-dated US Government debt has not hit 4.5% since September 2007, the month that interest rates were lowered 50 bp from 5.25% to 4.75% and the US was on the brink of recession. This suggests the higher-for-longer message from the Fed may now be sinking in for investors, and raises the expectation that for this cycle there could be a more prolonged period before interest rates begin to fall.

FOMC tightening cycles and long-term rates

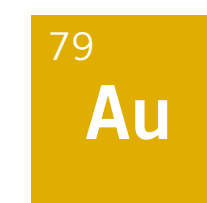


Source: SFA (Oxford), Federal Reserve Economic Data (FRED). Note: FFR = Federal Funds Rate, FOMC = Federal Open Markets Committee.

The short-term outlook is challenged by a surge in yields. The average rate tightening cycle has lasted for 21 months with a total Federal Funds increase of 3.02%, but this point is clearly past. Historically, long-term yields peak shortly before the Fed stops increasing short-term rates. Inflation may continue to climb well after the Fed curtails rate hikes. The uptick in consumer prices in August highlights that despite a Fed pause in September, inflation may not be tamed just yet, and that gold is likely to face headwinds until at least the new year or until yields flag.

PRECIOUS METALS REVIEW

Gold



	CLOSE	WEEKLY CHANGE	HIGH	DATE	LOW	DATE
\$/oz	1,855	-3.78%	1,927	25/09/2023	1,852	29/09/2023
€/oz	1,753	-3.09%	1,817	25/09/2023	1,752	29/09/2023

High yuan gold price likely to tarnish Golden Week demand. The gold price has remained high in China since making a new all-time high of CNY14,276/oz on 19 July. The local gold price finished last week’s trading at CNY13,700/oz, which may continue to inhibit demand, particularly during this Golden Week. The holiday, starting on 1 October in China, typically brings a surge in gold purchases from consumers. It is the start of the fourth quarter, and over the last decade October has been the second-strongest month for Chinese gold demand, after the Chinese New Year period. Since 2013, gold jewellery demand in China during the fourth quarter has averaged 183 tonnes (source: World Gold Council). After rallying in March, the Chinese gold price has been consistently high, at ~CNY14,000/oz, and has been a significant hindrance to a recovery in gold demand. Demand in the second quarter rose this year against constrained consumption due to lockdowns in 2022, though it was 16% lower than the long-term average. China’s total gold jewellery demand is set to rise this year, though expectations have been lowered by the consistently high price.

The dollar index reached a 10-month high. The gold price reacted to the downside, breaking a six-month low as support failed at \$1,885/oz. The strength in the US dollar in the last week may be a sign that traders are beginning to accept that interest rates may be higher for longer. The dollar index is up ~7% since mid-July, against other major currencies. The EURUSD is now in danger of breaching the 1.05 level. After falling below \$1,885/oz, the next level at which gold could find technical support is ~\$1,800/oz.

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Silver



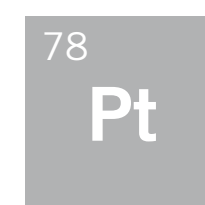
	CLOSE	WEEKLY CHANGE	HIGH	DATE	LOW	DATE
\$/oz	22.34	-5.28%	23.65	25/09/2023	22.28	29/09/2023
€/oz	21.11	-4.58%	22.33	25/09/2023	21.06	29/09/2023

Silver's second-order boost from BEVs. A solar panel subsidy scheme in Germany has had to halt grants as allocated funds ran dry in just 24 hours. The grants were allocated for solar panel installations to recharge households' BEVs. This suggests BEV owners in Germany are keen to adopt rooftop solar, and that there is strong underlying demand for residential solar in Europe's largest market. Silver usage in solar panels is forecast to reach all-time highs this year, and demand in Germany is strong. New installations reached 1.2 GW in August, bringing additions this year to 7.7 GW, close to the government's target of 9 GW. Electric vehicles can stimulate demand for silver through its use in solar panels, and also in the more complex wiring loom and electric connections than in an ICE vehicle. Electrical and electronics demand (including photovoltaics) is forecast to grow by 3% year-on-year to 382 moz of silver (source: The Silver Institute), marking a third consecutive year of record sectoral demand.

Silver underperformed gold last week, dropping more than 5% week-on-week, and closed trading at \$22.34/oz

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Platinum



	CLOSE	WEEKLY CHANGE	HIGH	DATE	LOW	DATE
\$/oz	913	-2.24%	929	25/09/2023	887	27/09/2023
€/oz	862	-1.59%	875	29/09/2023	845	27/09/2023

Electricity supply could continue to impact South African PGM processing.

In Eskom’s winter outlook, the official base case for power load-shedding intensity was rolled back compared with earlier in the year. It now expects 62 days of load-shedding between now and the new year, with no higher than stage 4 intensity – assuming no more than 14,500 MW of unplanned outages at power stations. Eskom’s aging coal-fired power plants have been South Africa’s Achillies’ heel this year and have proved to be unreliable. Unplanned outages have averaged 16,412 MW on a weekly basis since April. If this continues, it equates to stages 5 to 6 and near daily load-shedding, according to Eskom’s own scenario analysis for the rest of the year. Load-shedding past stage 4 is where curtailment begins to potentially impact PGM processing facilities.

Excess work-in-progress PGM stock levels have grown over the first half of 2023

at Implats and Anglo American Platinum, where they had been planning to draw down stocks following smelter maintenance in 2022. However, severe load curtailment has prevented this. In addition, some producers have been prioritising higher-grade concentrates to maximise refined ounces from tonnes smelted. If load-shedding continues in the coming months, it becomes more likely that less of this stock will be refined, pushing it out to 2024.

The platinum price fell below \$900/oz but found support once again and recovered. A break below support could see the price revisit the low \$800s.

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Palladium

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Pd

	CLOSE	WEEKLY CHANGE	HIGH	DATE	LOW	DATE
\$/oz	1,257	0.50%	1,292	29/09/2023	1,212	26/09/2023
€/oz	1,188	1.12%	1,219	29/09/2023	1,143	26/09/2023

EU proposal to water-down emissions legislation washes out some palladium demand. Last week the EU approved its approach to proposed Euro 7 emissions standards. This update intends to keep emissions standards in line with Euro 6 (currently in force) for light vehicles rather than tighten those for diesel vehicles as initially put forward. Had the legislation as first proposed been introduced from mid-2025 then higher PGM autocatalyst loadings would likely have been needed at least initially, probably followed by thrifting. The decision to soften legislation could crimp palladium autocatalyst demand in Europe by ~130 koz between 2024 and 2026. This year, palladium autocatalyst demand is forecast to rise by 2% as light-vehicle production recovers year-on-year, despite a greater market share of BEVs.

Of the precious metals, palladium resisted downside pressure from the dollar best last week. It stayed within its established trading range, ending the week largely on par with the previous week.

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Rhodium, Ruthenium, Iridium



	RHODIUM	RUTHENIUM	IRIDIUM
Reporting Week	\$4,650/oz	\$475/oz	\$5,250/oz
Previous Week	\$4,650/oz	\$475/oz	\$5,050/oz

Around half of ruthenium demand comes from the electricals sector, including chip resistors for devices and industrial electronics. Yageo, the world’s leading chip resistor producer, has consistently reported lower sales this year, now down 19 % year-to-date, and highlights uncertainty in the global macroeconomy as a key risk for the rest of the year. Demand for ruthenium in electronics is expected to fall this year from weaker downstream demand. The ruthenium price has been trending lower since its all-time high of \$945/oz in May 2021. Ruthenium is still seeing technological substitution in the hard-disk sector as the major disk producers are aiming to aggressively roll out new non-ruthenium products with greater data storage density.

The iridium price rose to \$5,250/oz last week, the highest it has been this year. Rhodium and ruthenium prices remained unchanged week-on-week.

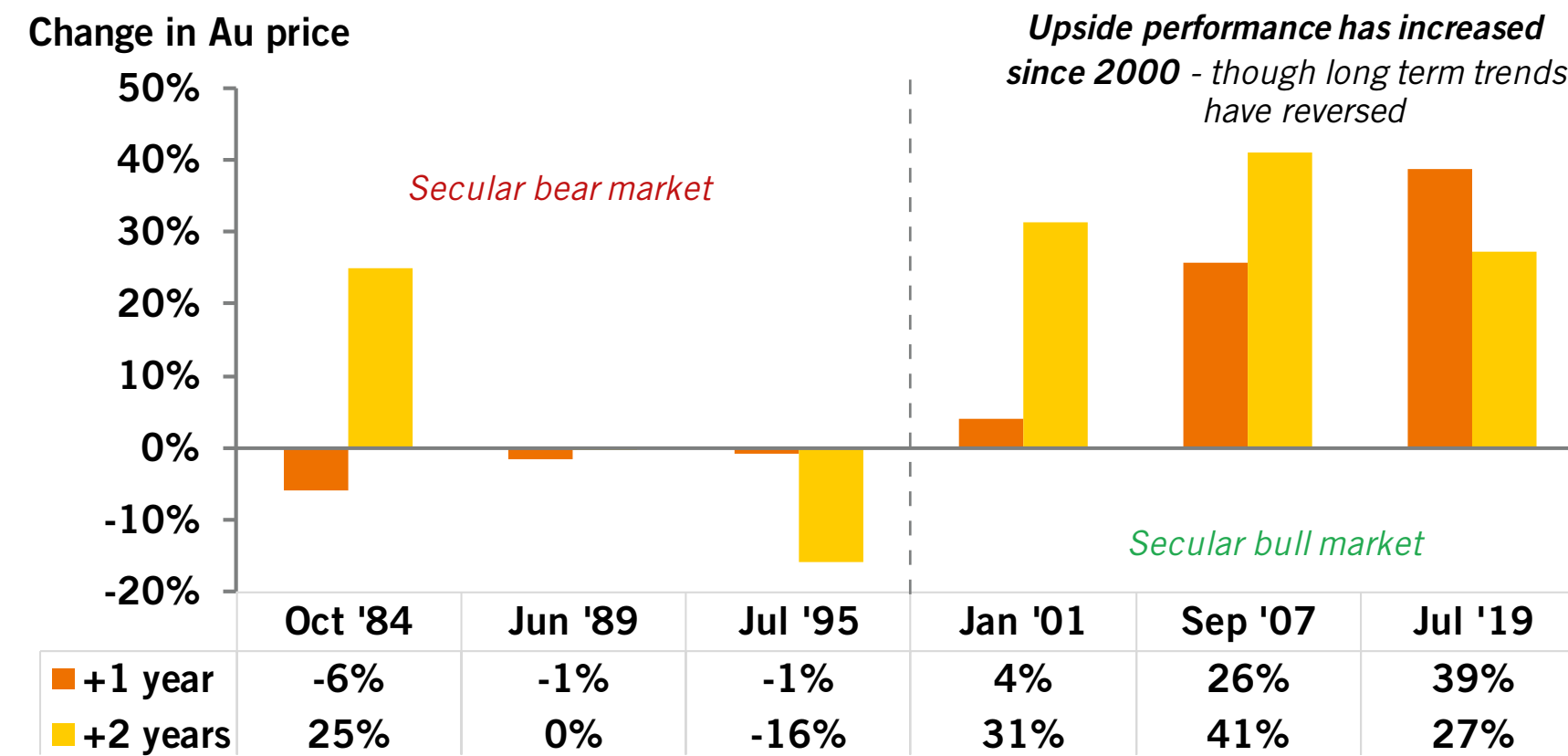
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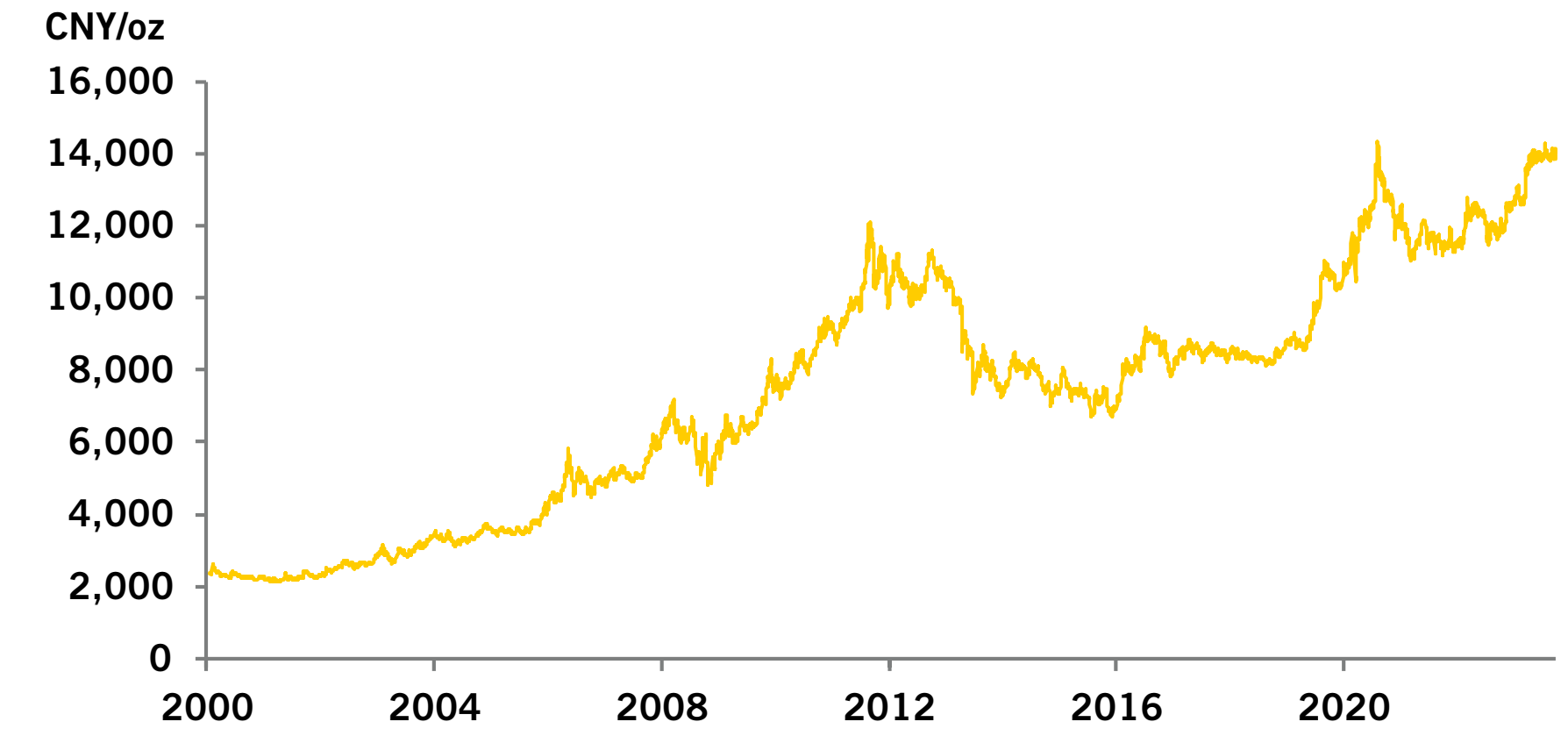
TRENDS AND INVESTMENTS

Gold performance following US interest rate cuts



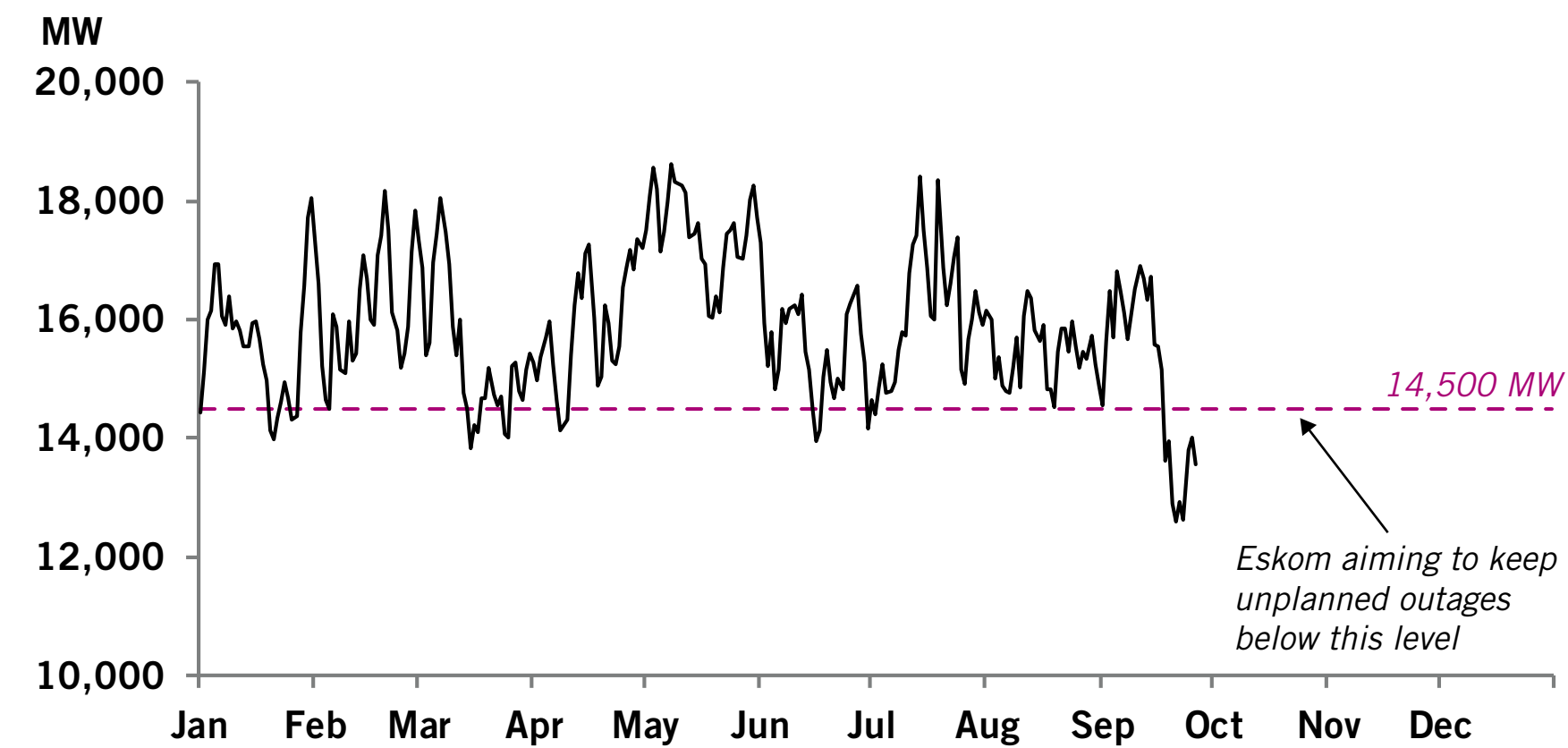
Source: SFA (Oxford), Bloomberg

Gold price - Chinese yuan



Source: SFA (Oxford), Bloomberg

South African grid unplanned generation losses



Source: SFA (Oxford), Eskom

Gold price - US dollar



Source: SFA (Oxford), Bloomberg

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