

PRECIOUS APPRAISAL

No. 20
4th July 2022



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MARKET SPOTLIGHT

India can overtake China as the largest gold consumer this year

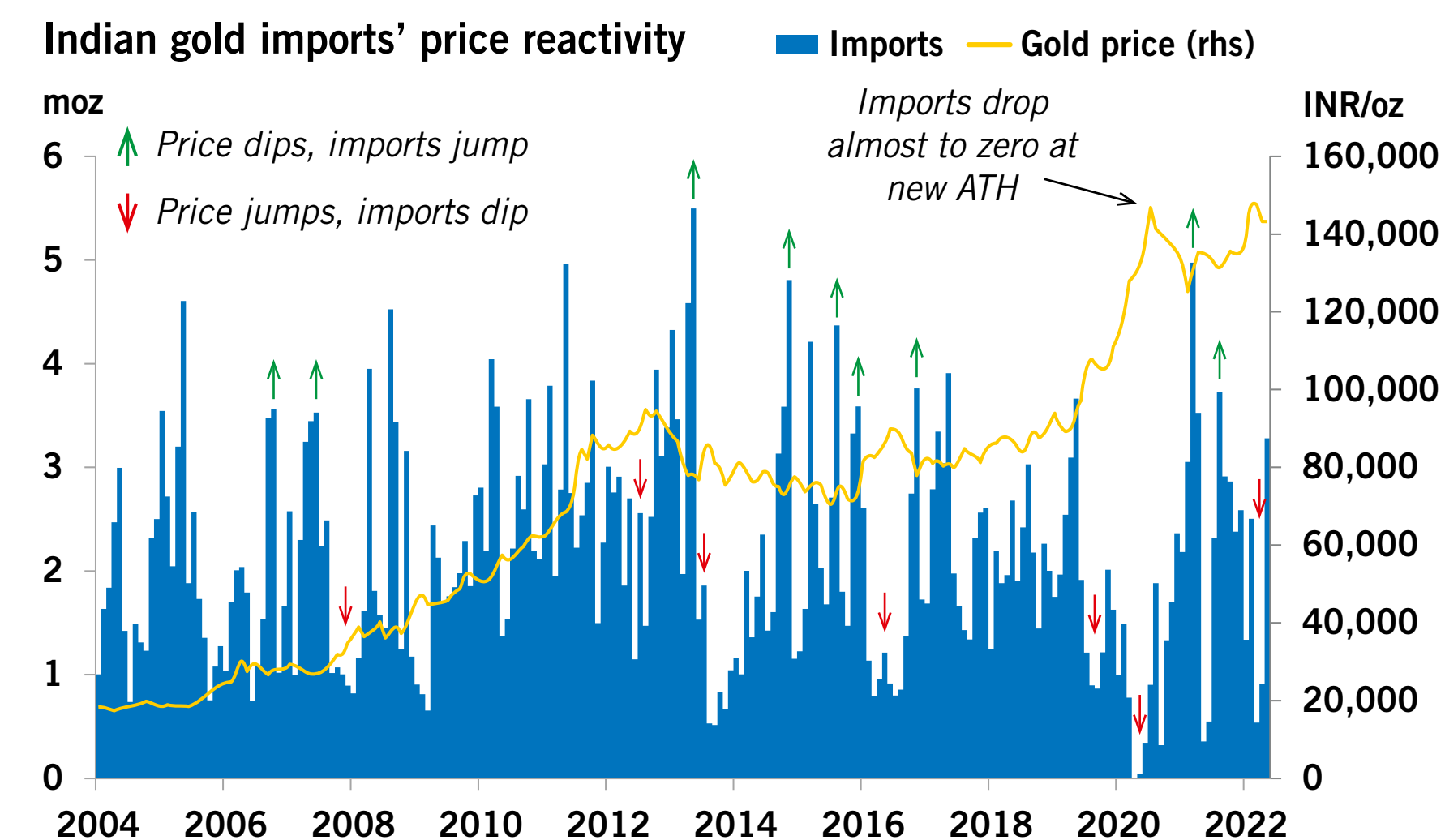
Since 2012, China has been the largest consumer of gold. Last year, China's gold demand bounced back from 2020's nine-year low by 55% to 993 t (source: World Gold Council). India has been narrowly behind China, averaging 711 t of annual gold demand since 2012, and in 2021 usage was 794 t. India is the largest importer of gold, bringing in an average of 64t every month, as domestic gold production is minimal (1.55 t in 2020). Jewellery is the primary consumer demand segment in both nations, in India making up 77% of demand and in China 70%. The remainder is from bar and coin sales.

Demand fell in Q1'22 for both China and India. Lockdowns and travel restrictions in major Chinese cities during Q1'22 resulted in an 11% quarter-on-quarter decline in China's gold consumption. India saw a large swing to the downside in gold demand in the first three months of 2022, from 344 t in Q4'21, down 44% to 136 t in Q1'22 as a result of normal sales seasonality and the high price sensitivity of the market. Q1 demand is typically below average, and first-quarter gold prices were elevated as the market reacted to the conflict in Ukraine in late February, ultimately reaching an all-time high in rupees.

Economic headwinds will dampen Chinese demand for 2022. China's commitment to a zero-Covid policy stunted gold demand in H1'22 and has resulted in a contraction in manufacturing and services PMIs for March-May and a forecast for slower annual growth. This reduces the likelihood of a demand recovery this year. Conversely, India should stage a recovery in demand, as Q1 decline was largely down to normal seasonality plus price pressures.

India saw a recovery in May. High prices suppressed gold demand and the gold price fell by nearly 7%. However, in early May demand was robust as the price decline coincided with the Akshaya Tritiya festival – an auspicious time to buy gold. India's gold imports in May were up 822% year-on-year to 102 t. May is typically the strongest month for gold imports, but this year's total is 26% higher than average, demonstrating healthy demand.

India will likely overtake China this year. Chinese consumer demand for gold is now expected to contract year-on-year in 2022. Globally, the gold price will be under pressure from rising interest rates for the remainder of the year, with a lower price being beneficial to Indian demand. A moderate boost to demand in India year-on-year would result in the country becoming the top global consumer.



Source: SFA (Oxford), Bloomberg. Note: ATH = all-time high.

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PRECIOUS METALS REVIEW

Gold



	CLOSE	WEEKLY CHANGE	HIGH	DATE	LOW	DATE
\$/oz	1,807	-1.13%	1,841	27/06/2022	1,785	01/07/2022
€/oz	1,736	0.12%	1,755	30/06/2022	1,710	01/07/2022

Ban on Russian gold will not stop flows into the East. Since 7 March, six major Russian gold refiners have been suspended from the LBMA's good delivery list, effectively stopping the flow of newly refined Russian gold on London trading floors. During the G7 summit last week, the US, UK, Canada and Japan (collectively accounting for 342 t of gold demand per year) officially sanctioned Russian gold exports. Given the restrictions already in place, the new bans will likely have limited impact on the gold price. Much of the world has not sanctioned the metal and flows will continue to the Middle East, India and China where combined demand far outweighs that of the areas that have imposed sanctions.

Dollar going from strength-to-strength pins gold down. Despite a knee-jerk reaction on Wednesday last week in the wake of the European Central Bank Forum, the gold price resumed its downward trajectory, finishing 6.4% down quarter-on-quarter last Friday at \$1,807/oz. This makes the second quarter the worst for gold since Q1'21 as rising interest rates, combined with the dollar index reaching two-decade highs, keep investors at bay and prices subdued. ETFs demonstrate the investor sentiment to precious metal exposure. Gold-backed funds recorded net outflows of 827 koz globally in the month of June, an acceleration of the modest 67 koz loss of metal from May.

PRECIOUS METALS REVIEW

Silver



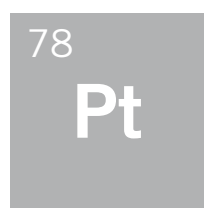
	CLOSE	WEEKLY CHANGE	HIGH	DATE	LOW	DATE
\$/oz	19.84	-6.35%	21.54	27/06/2022	19.38	01/07/2022
€/oz	19.07	-5.11%	20.36	27/06/2022	18.60	01/07/2022

Global photovoltaic capacity growth led by China in 2021. Worldwide installed solar capacity grew by 19% to 843 GW from 710 GW in the previous year (source: BP), with 36% of growth coming from installations within China, the largest increase of any country or region. Boosts to both domestic photovoltaic (PV) panel production for export and domestic use heavily contributed to China’s silver demand growing by 8% year-on-year to 121 moz in 2021 (source: The Silver Institute). Increasing fabrication has offset decreasing metal content in PV cells, which is now 60% lower than in 2012. PV demand for silver is forecast to continue growing at a comparable rate in 2022, which is bullish for silver as the segment makes up more than 10% of global demand.

Silver finished down last week, in line with the other precious metals. After a brief rally to \$21.50/oz last Monday, momentum shifted to the downside, with silver closing the week at a near two-year low of \$19.84/oz, breaking through support and suggesting the sell-off could have further to go.

PRECIOUS METALS REVIEW

Platinum



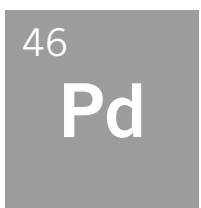
	CLOSE	WEEKLY CHANGE	HIGH	DATE	LOW	DATE
\$/oz	883	-3.34%	940	29/06/2022	868	01/07/2022
€/oz	848	-0.57%	893	29/06/2022	833	01/07/2022

Longer-term platinum supply stability secured in South Africa. Last week, Impala Platinum joined fellow major producer Anglo American Platinum in signing a new wage deal with the Association of Mineworkers and Construction Union (AMCU), the largest mineworker’s union in South Africa. The deal is identical in length to Anglo’s five-year agreement and includes a ~6.5% raise to all components of remuneration. The five-year agreement is longer than the typical three-year deal. Between them, Impala and Anglo produce approximately 2.4 moz of platinum – 55% of South African supply and 41% of global supply. The deal means that the possible risk of lost mine production owing to strike action is lessened as Sibanye-Stillwater is now the only major PGM miner without a new agreement. Sibanye-Stillwater’s South African operations produce ~1 moz of platinum.

Stage 6 load-shedding risks PGM production losses. Last week, South Africa temporarily reached Stage 6 load-shedding as protests over wage negotiations reduced power production. Stage 6 means that the national power supplier, Eskom, has a power deficit of 6 GW and power cuts are implemented. At Stage 6, PGM miners are required to reduce their energy consumption by ~50% (~20% at Stage 4). Consequently, the Bushveld’s deep, conventional mines (50% of South African PGM production) are at risk of pausing mining activity as prolonged power outages could leave miners stranded a mile underground. This has so far been avoided as fully-integrated producers can reduce power consumption at processing operations and maintain mining production safely while also offsetting lower power supply from Eskom with diesel generators. Concentrate producers have less flexibility. However, the unreliable fleet of power stations means small additional disruptions could push load-shedding from Stage 4 into Stage 6 again. The last time Stage 6 load-shedding was reached in South Africa was in December 2019. This resulted in a temporary build-up of approximately 44 koz of work-in-progress (WIP) platinum at Anglo’s processing operations. Any hold-up in production would once again be temporary, with production made up when the power situation improved. The market is predicted to have a large surplus (excl. investment) this year, so the price is likely to remain subdued.

PRECIOUS METALS REVIEW

Palladium



	CLOSE	WEEKLY CHANGE	HIGH	DATE	LOW	DATE
\$/oz	1,964	4.53%	2,022	29/06/2022	1,863	28/06/2022
€/oz	1,886	5.79%	1,919	29/06/2022	1,767	27/06/2022

India commits to hybrids as EU plans to crush ICE. An EU proposal to ban the sale of internal combustion engine (ICE) cars from 2035 seems likely to become law as countries agree on their position. The proposal is already backed by the European Parliament so is likely to pass into law when presented, despite some pushback from Member States. Western Europe is the third-largest region (17% of global demand) in terms of autocatalyst palladium demand, forecast this year to use 1.3 mozt in autocatalyst production – mostly in Germany. The severe reduction in size of this market will likely push the palladium price lower in the very long term. On the upside, nations with less robust grid systems that cannot support the load and green energy requirements for EV-only transportation could stick with ICE vehicles. The Chairman of Maruti Suzuki, the largest carmaker in India, has noted that India will likely use hybrids rather than BEVs, thereby maintaining palladium autocatalyst demand. Indian light-vehicle production totalled 4.2 million units in 2021 (source: Global Data), accounting for approximately 280 koz palladium in autocatalysts. Autocatalyst demand is forecast to grow more than 10% this year to over 300 koz with demand in the Indian and Rest of World markets offsetting some of the losses experienced in Europe.

Palladium continues retreat from all-time-high through Q2. The 14% drop in the palladium price to \$1,964/oz from \$2,276/oz during the second quarter was precipitated by repeated downgrades to global light-vehicle production numbers and recession fears, resulting in lower growth in palladium autocatalyst demand for the year than previously expected. Last Wednesday, the UK officially sanctioned Vladimir Potanin, the CEO and main shareholder of the largest palladium producer, Nornickel. This caused the intra-day palladium price to jump above \$2,000/oz from around \$1,880/oz before the announcement. Imports of Nornickel’s metals are not banned, and there is no indication that they will be. However, sanctions are now just one step removed from Russia’s palladium production and, although still unlikely, the concern is the EU or US could take that next step.

PRECIOUS METALS REVIEW

Rhodium, Ruthenium, Iridium



	RHODIUM	RUTHENIUM	IRIDIUM
Reporting Week	\$15,150/oz	\$615/oz	\$5,100/oz
Previous Week	\$15,600/oz	\$645/oz	\$5,150/oz

Ruthenium-platinum PEM fuel cells on the rise in China. This week Beijing, Shanghai and Shanxi Province collectively took delivery of 300 fuel cell electric buses from FAW Jiefang – China’s largest heavy-duty truck manufacturer by market share. More than 1,500 hydrogen FCEVs were sold in China last year, with over 50% of those produced in China being buses. China has ambitious plans for FCEVs, and in its National Development and Reform Commission it plans to have 50,000 FCEVs on the road by 2025. To help facilitate this, China introduced a four-year programme to financially reward enterprises for FCEV research, development and demonstration of applications. Hyundai is on track to begin mass production of fuel cell heavy-duty trucks later this year with an initial capacity of 6,500 per annum. The rapid growth of FCEVs and refuelling infrastructure is positive for ruthenium and iridium demand as the metals are used in the fuel cells and electrolyzers for hydrogen production respectively, which ultimately is supportive of the metal prices.

Rhodium, iridium and ruthenium prices all down quarter-on-quarter in Q2. Rhodium has fallen by 28% to \$15,150/oz from \$20,950/oz since the beginning of April, and iridium and ruthenium also declined, both finishing the second quarter down more than 11%.

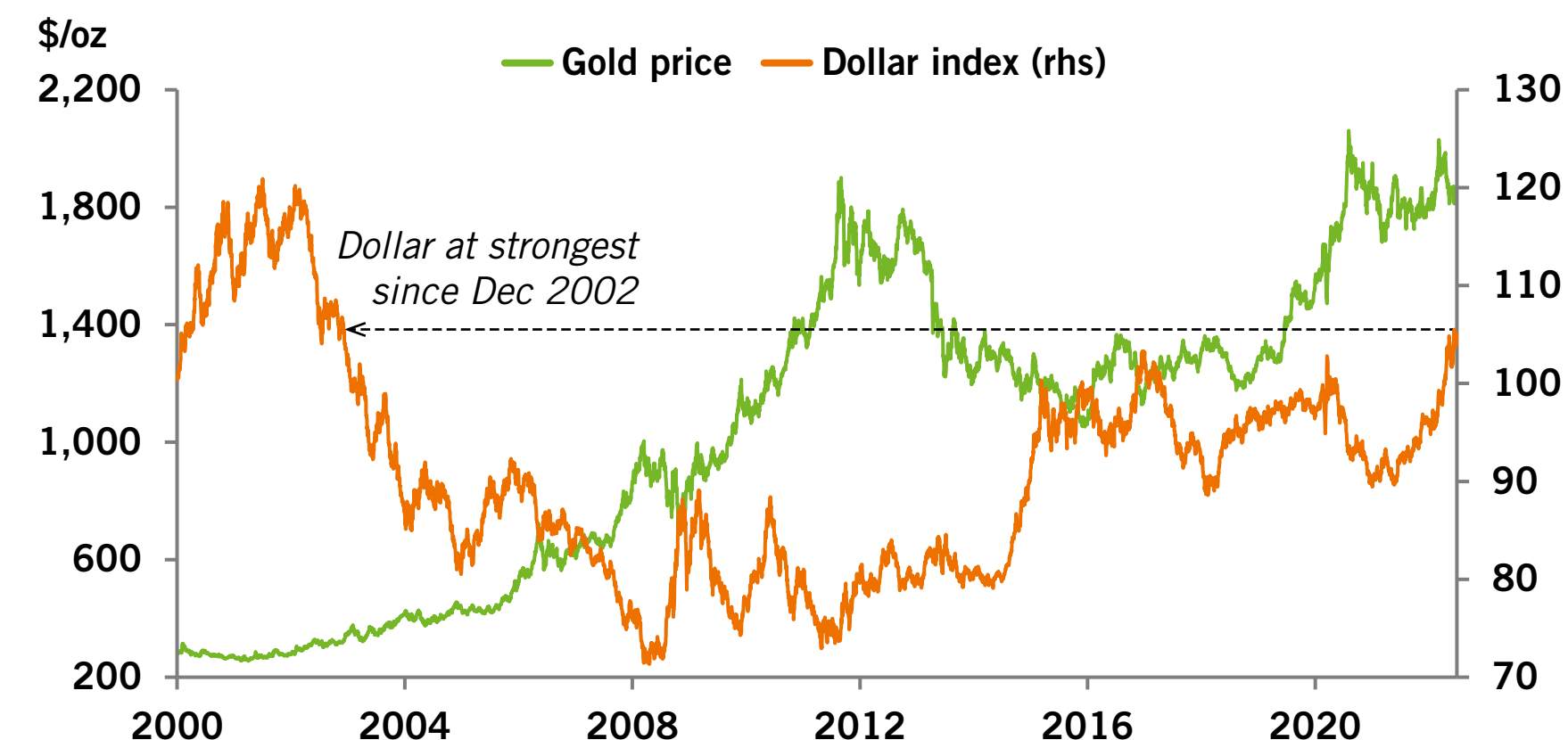
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TRENDS AND INVESTMENTS

Gold price vs. dollar strength index



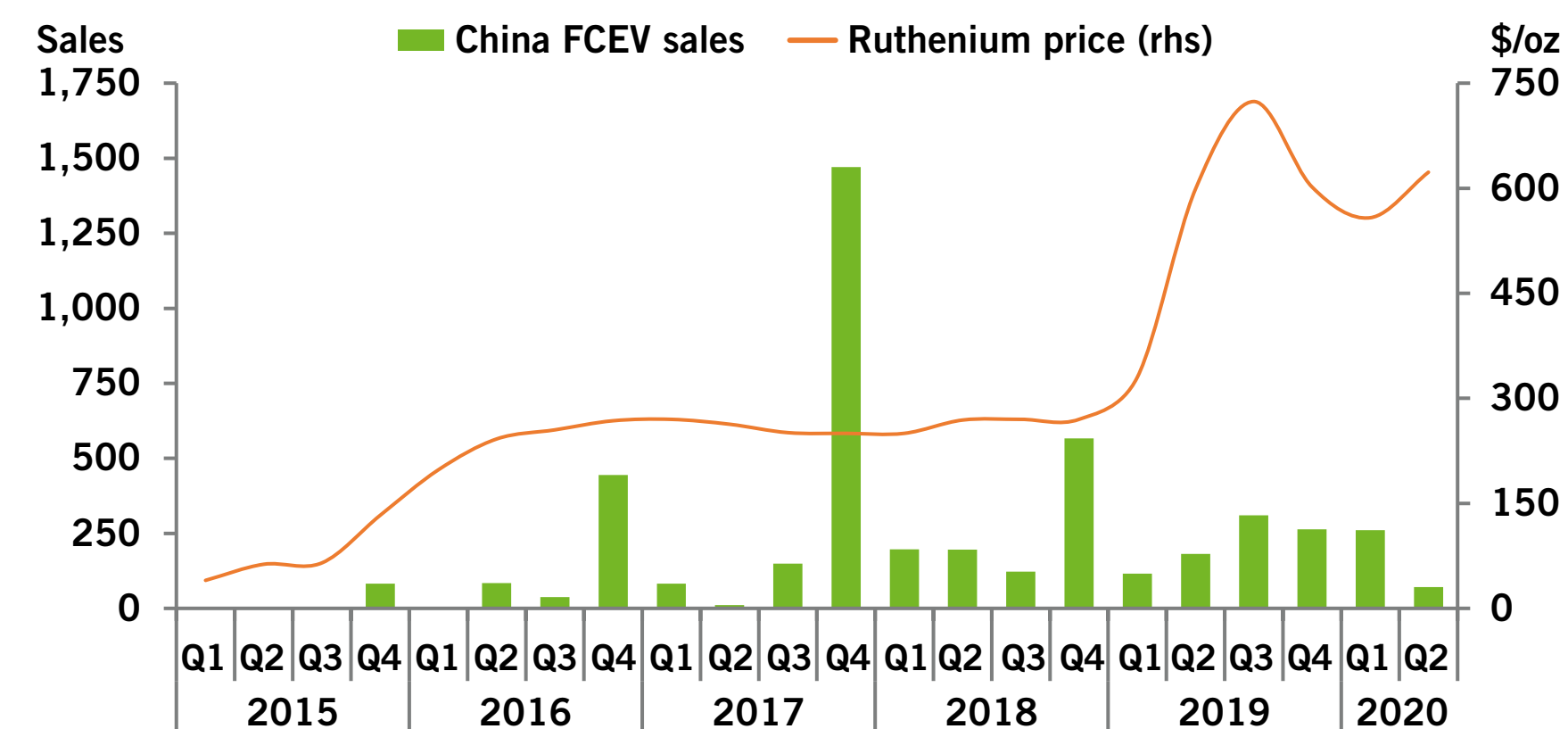
Source: SFA (Oxford), Bloomberg

Silver price



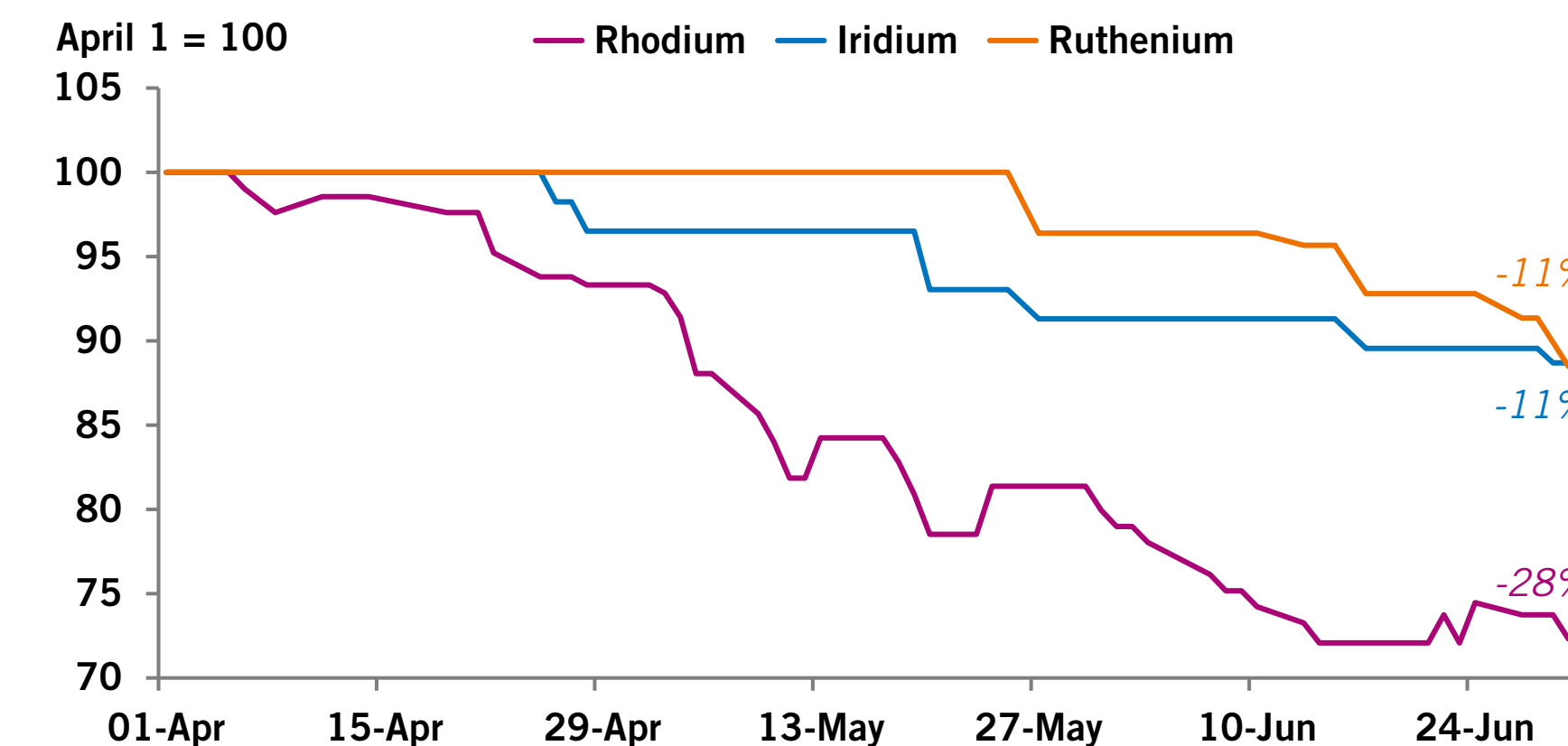
Source: SFA (Oxford), Bloomberg

China fuel cell bus sales



Source: SFA (Oxford), Bloomberg, China Automotive Information Net

Small PGM Q2 price performance



Source: SFA (Oxford), Heraeus

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