

# HERAEUS PRECIOUS APPRAISAL

Heraeus

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## MARKET SPOTLIGHT

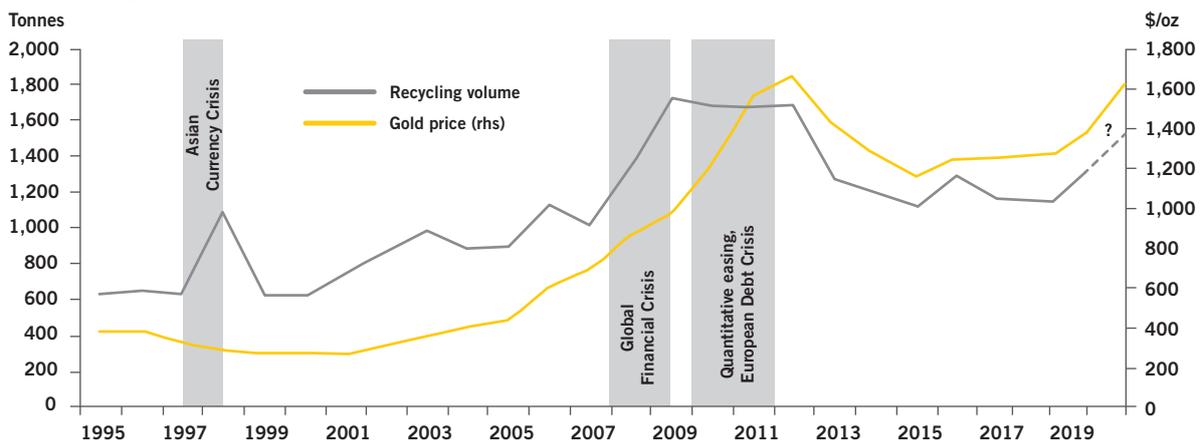
### High price incites quick cash-for-gold scrap sales

The **COVID-19 pandemic** has severely impacted gold jewellery demand in Asian markets. Global jewellery demand fell to a record low in Q1'20 to 325.8 t, led by a 65% contraction in China which is the largest jewellery consumer market. Demand in India dropped 41% in the same period, with greater damage expected in Q2. China and India's jewellery markets accounted for 27% of global demand last year, at 1,182.6 t (source: World Gold Council).

**Central banks remained net buyers in Q1'20 but the pace of buying slowed.** Purchases were 8% lower year-on-year to 145 t. Russia, the largest buyer since 2015, has also suspended purchasing, which will have a significant impact on global central bank demand this year.

**High gold prices are likely to spur cash-for-gold scrap sales.** Gold price movement accounts for around 75% of annual changes in gold recycling, and periods of economic turmoil have shown to accelerate it further. Scrap gold spiked during the 1997 Asian economic crisis and increased even more during the global financial crash of 2007-08 as consumers sold liquid assets such as gold to alleviate hardship. The gold price has reached record highs in the local currency in India (see chart on page 4), China, Malaysia, Singapore and South Korea.

Gold recycling volumes and economic crises



Source: World Gold Council, Bloomberg

**Scrap gold is likely to reach an all-time high in India this year.** Recycled gold is an important part of the market, accounting for almost a third of global supply annually (27% in 2019). Considering the significant downturn forecast in consumer demand and weaker central bank buying this year, an increase in the recycling volume threatens to flood the market. Global recycling volumes declined by 4% in Q1'20 to 280.2 t, as both recyclers and consumers fell victim to lockdowns (source: World Gold Council). Now that restrictions are gradually lifting and the gold price is still high, will there be a rush to sell?

**The unprecedented amount of monetary and fiscal stimulus aimed to prop up economies around the world has driven investors into gold and supported the price so far this year.** Now, with an excess of secondary metal supply, a steep drop in jewellery demand and weaker central bank demand, it seems gold's time at the top might be drawing to a close.



# PRECIOUS METALS REVIEW

## 79 Au Gold

	Close	Weekly change	High	Date	Low	Date
\$/oz	1,731	-1.02%	1,765	18/05/2020	1,717	21/05/2020
€/oz	1,589	-1.72%	1,633	18/05/2020	1,567	21/05/2020

**China's gold market is stirring but consumer demand is still weak.** With COVID-19 more or less contained in China, the country's economy rebounded further in April. Trading volumes of Au9999 on the Shanghai Gold Exchange rose from the previous month to 16,975 kg (source: SGE), as jewellers prepared for demand to pick up gradually for the Labour Day holiday and Mother's Day in early May. However, SGE trading is still down 19% year-on-year, and with the possible exception of the two dates in May, consumer demand remains soft.

**Steady ETF inflows, but is gold overpriced?** Investment inflows amid economic uncertainty are keeping the gold price close to a nine-year high, with total ETF holdings now at a record 102.8 moz. Recently, the price of gold relative to oil, silver and copper hit record highs. Despite trading shy of its record high price seen in 2011, gold is historically expensive compared to other commodities.

## 47 Ag Silver

	Close	Weekly change	High	Date	Low	Date
\$/oz	17.08	2.88%	17.63	20/05/2020	16.73	22/05/2020
€/oz	15.70	2.08%	16.16	18/05/2020	15.37	22/05/2020

**Silver production increasingly threatened by new pandemic hotspots.** Silver supply is dominated by producers in Central and South American countries which are now emerging as COVID-19 hotspots. Last year, Mexico and Peru together accounted for 325.7 moz of silver, which was 39% of global supply. While nationwide lockdowns have been in place for several weeks, which has already impacted silver production, the increasing

number of coronavirus cases suggests this disruption will continue. Mine supply is forecast to decline by 6.4% to 54.5 moz this year (source: The Silver Institute). The silver price has performed well over the past fortnight, and is now trading close to pre-pandemic levels at over \$17/oz. Nevertheless, the gold:silver ratio remains over 100 which is a historically high level.

## 78 Pt Platinum

	Close	Weekly change	High	Date	Low	Date
\$/oz	836	5.29%	868	20/05/2020	804	18/05/2020
€/oz	768	4.64%	790	20/05/2020	740	19/05/2020

**China expected to lead the decline of the platinum jewellery market this year.** Platinum jewellery demand is expected to shrink by more than 500 koz this year, owing largely to weak consumer demand in China. The Chinese jewellery market accounted for 14% of global platinum demand last year (~950 koz). Recovery is underway with support from the Platinum Guild International (PGI), however, which released its 2020 Platinum Jewellery Business Review last week. The report noted that the Chinese market could stand to benefit from jewellery gifting once life returns to normal, although consumers will be hesitant to spend money. As covered in an earlier spotlight, March's low prices did stimulate inventory building by Chinese jewellery manufacturers, but this is unlikely to continue moving forward as soft demand limits the need for further restocking.

Platinum Week was a much different affair under COVID-19 restrictions as webinars were held instead of the usual live presentations. Topics, of course, included the immediate impact of COVID-19 on supply (down), demand (down) and the refining of PGMs (still operating). Also discussed was the potential for fuel cells to lift platinum demand in the coming years. With decarbonisation firmly on the agenda, fuel cell and electrolyser demand has good growth potential, albeit from a low base today.

Platinum gained 5.3% last week (+\$49/oz). However, it remains the weakest PGM market fundamentally and further downside is expected this year.



# PRECIOUS METALS REVIEW

## <sup>46</sup> Pd **Palladium**

	Close	Weekly change	High	Date	Low	Date
\$/oz	1,934	2.19%	2,133	20/05/2020	1,913	22/05/2020
€/oz	1,775	1.61%	1,925	20/05/2020	1,757	22/05/2020

**Another knock for PGM mine supply this year as Impala suspends operations at its Marula mine** on the Eastern Limb in South Africa after on-site testing revealed 19 positive COVID-19 cases. This comes after Impala's Lac des Iles mine (Impala Canada) was forced to temporarily close in April following an outbreak of COVID-19. The temporary closure of Marula, combined with the nationwide South African lockdown in March/April and reduced production volumes for the remainder of 2020 is estimated to result in a loss of over 20 koz palladium production from the mine in 2020 (-23%). Similarly, the Lac des Iles mine is now forecast to produce around 50 koz palladium less in 2020 than previously estimated (-25%) as production only begins to return in late May

when the mine conducts a full shift change. South African palladium supply is forecast to decline by at least 500 koz this year owing to the impact of COVID-19 on production and mining capacity.

Palladium pushed back over the \$2,000/oz mark temporarily last week, recovering after several weeks of losses. It seems that buying has picked up now that car plants are returning to operation. Near term, the price could continue to climb, but palladium demand is expected to drop more than supply this year which may make it hard for the price to sustainably hold above \$2,000/oz.

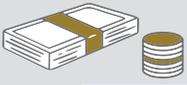
## <sup>45</sup> Rh <sup>44</sup> Ru <sup>77</sup> Ir **Rhodium, Ruthenium, Iridium**

	Rhodium	Ruthenium	Iridium
Reporting week	\$9,950/oz	\$305/oz	\$1,635/oz
Previous week	\$8,450/oz	\$315/oz	\$1,620/oz

**Coronavirus-busting electrochlorination systems supporting iridium and ruthenium demand.** Italy's Civil Protection Department has acquired four electrochlorination systems which will produce sodium hypochlorite for disinfecting surfaces. Hypochlorite has been proven as effective against the proliferation of the COVID-19 virus. Similar systems are already in place in China, Japan and Singapore for the disinfection of buildings and public areas in the fight against the virus. Electrochlorination uses iridium- and ruthenium-based catalysts to produce chlorine. On-site hypochlorite

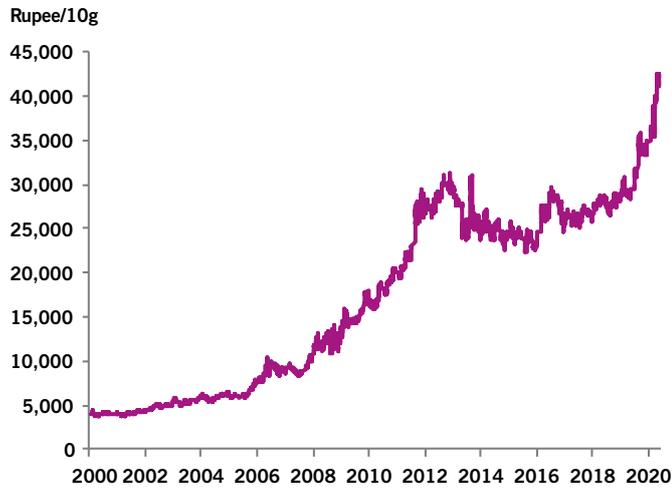
generations are used globally for a variety of applications, including drinking water treatment and microbiological control. Electrochemical demand, which includes these systems, is the second-largest end-use for iridium, accounting for more than 60 koz last year. The iridium price inched \$15/oz higher last week (+1%), closing at \$1,635/oz.

The rhodium price gained \$1,500/oz (+17.8%) last week and ruthenium slipped \$10/oz to \$305/oz.



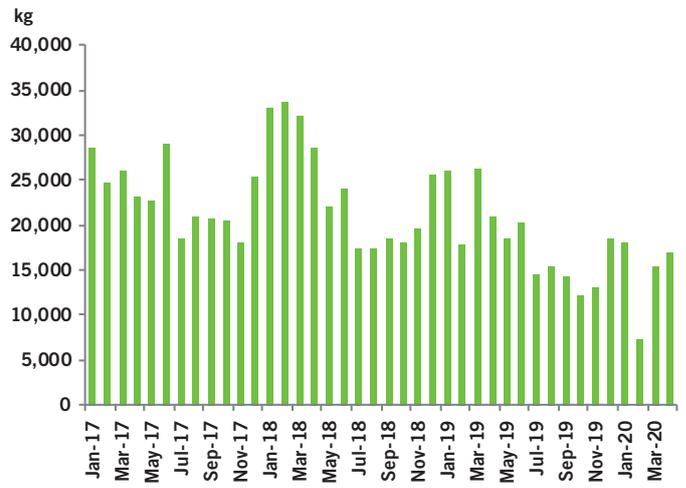
# TRENDS AND INVESTMENTS

## Gold price in India



Source: SFA (Oxford), Bloomberg

## SGE gold trading volumes



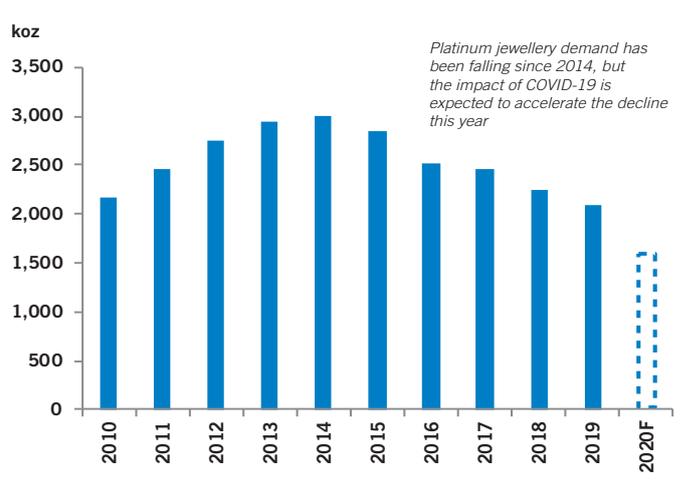
Source: SFA (Oxford), SGE

## Gold silver ratio



Source: SFA (Oxford), Bloomberg

## Platinum jewellery demand



Source: SFA (Oxford)

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