

PRECIOUS APPRAISAL



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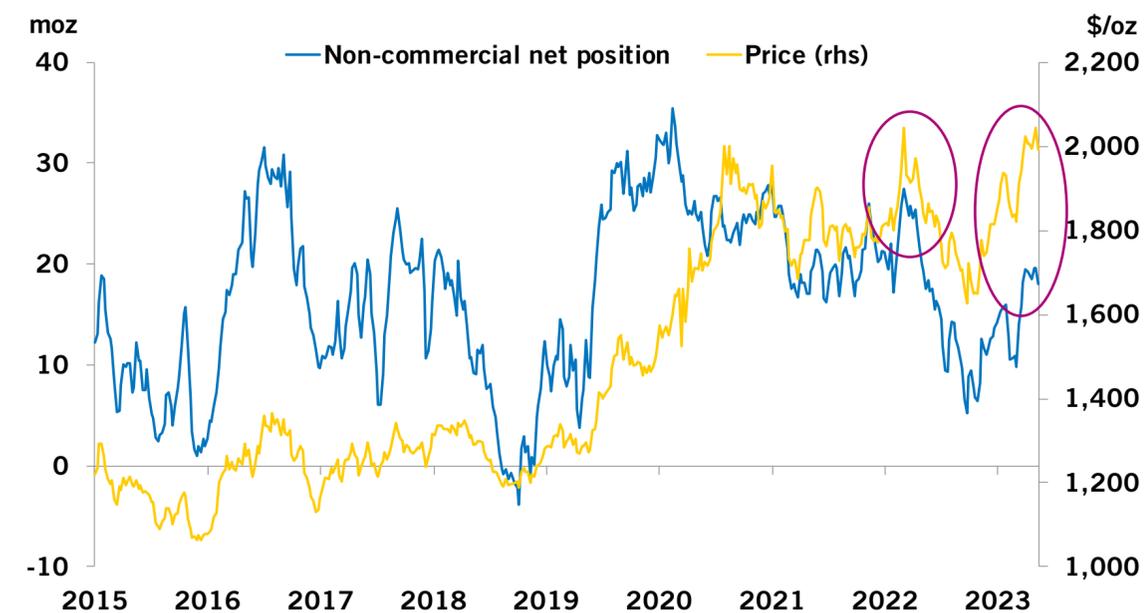
MARKET SPOTLIGHT

Gold rally pauses despite US debt ceiling crisis

The debt ceiling stand-off in the US had not helped to support the gold price. When the United States faces difficulties in servicing its debt or meeting payment obligations, it can lead to uncertainty and instability in the financial markets. After weeks of negotiations, expectations were met over the weekend, and a preliminary agreement was reached between Republicans and Democrats.

The gold price was looking likely to pause and consolidate its gains. Gold had managed to eke out a new record price, but met resistance around the previous highs. The net long speculative futures position was the highest level in a year, but nowhere near a record. There are two ways of looking at that: lack of conviction or room to attract more long positions as the price goes higher. Subsequent price action suggests it was lack of conviction. On a seasonal basis, gold returns are often weak over the next couple of months.

Gold futures



Source: SFA (Oxford), Bloomberg

Speculative futures position in US\$ vs dollar index



Source: SFA (Oxford), Bloomberg

The dollar looks likely to strengthen near term and that will be a headwind for gold. After reaching its highest level in over 20 years, the US Dollar Index (DXY) fell by more than 10% from 114 to 101, but the dollar has started to recover. The speculative FOREX futures positions had become very short against the US dollar and that typically is followed by a dollar rally. The latest Federal Open Market Committee (FOMC) meeting notes were relatively hawkish. Previously, the market positioning was indicating that a brief pause was expected before cuts became necessary as the economy deteriorated. However, even amid the debt ceiling debate there is now seen as being a >30% chance that the Fed will raise rates in June. That could be supportive of the dollar.

Longer term, gold could still go higher as the dollar decline resumes. While the Fed may be slow to cut rates as inflation remains a concern, a deteriorating economy will ultimately see rate cuts and that could remove support for the dollar and help to lift the gold price. Gold will remain a useful insurance policy in uncertain and volatile markets.

PRECIOUS METALS REVIEW

Gold



	CLOSE	WEEKLY CHANGE	HIGH	DATE	LOW	DATE
\$/oz	1,944	-1.58%	1,985	24/05/2023	1,937	26/05/2023
€/oz	1,814	-0.61%	1,840	24/05/2023	1,805	25/05/2023

Central banks continue to buy gold. Poland’s central bank added 15 tonnes of gold to its reserves in April, increasing its total holdings to 244 tonnes. This is the largest addition to the country’s gold reserves since mid-2019 and the first time the country has bought gold in more than a year. The trend for central bank buying reached unprecedented levels last year as global central bank net purchases grew by 152% to 1,078 tonnes (source: World Gold Council). Q1’23 net central bank demand was 228 tonnes, also a record for the first quarter. The trend in central bank buying is partially a result of a shift in domestic reserve policy. In contrast to gold, foreign currency holdings fell by \$950 billion in aggregate during 2022. Although gold ETF holdings have increased modestly during the current rally, institutional investors have largely stayed on the side-lines. Total gold ETF holdings have seen a net decline of 125 koz since 4 November 2022. Gold buying from central banks is likely to see tailwinds during the rest of 2023 as some banks seek access to liquidity without counterparty risk, and wind down dollar exposure.

Copper-gold ratio adds to evidence of an approaching recession. Having fallen to just above 0.18, the ratio between copper and gold suggests that a contraction in industrial and construction activity is approaching. The outperformance of gold relative to copper suggests the physical economy is slowing, while gold is seeing buying and positive price action as a result of economic uncertainty and risk-off investments. In the past, the direction of the ratio has led the direction of the 10-year US Treasury yield. Where they have diverged, the yield has caught up. The current spread indicates the 10-year yield could see a drop in the short to medium term, which often coincides with US recessions.

The gold price was choppy last week, bouncing between \$1,935/oz and \$1,985/oz. It held up surprisingly well despite a marked rise in the yields of short-maturity US government debt. The pair usually move inversely, but haven demand counteracted this trend over debt ceiling uncertainty. Gold ultimately closed the week slightly lower at \$1,944/oz.

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PRECIOUS METALS REVIEW

Silver



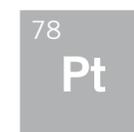
	CLOSE	WEEKLY CHANGE	HIGH	DATE	LOW	DATE
\$/oz	23.21	-2.70%	23.92	22/05/2023	22.68	26/05/2023
€/oz	21.67	-1.73%	22.10	22/05/2023	21.16	26/05/2023

Silver is set to underperform gold in Q2 as recessionary data weighs on industry and manufacturing. A deterioration in global output, combined with stickier-than-expected inflation, is likely to further erode disposable income and consumer demand for goods. Demand for silver in electronics and in solar manufacturing could fall as a result. Manufacturing PMIs from China softened again in April to below 50, indicating contraction. As China is by far the largest industrial user of silver (~27% of global demand in 2022), the outlook for industrial silver demand hinges on China’s ability to regain momentum in its return to pre-lockdown growth. Solar cell domestic installations and exports have continued to grow so far this year but may suffer later in the year if export demand falls from Europe, the largest market for Chinese-made solar cells. Domestic installations to April reached 48.3 GW, 186% higher year-on-year (source: China National Energy Administration), implying demand for silver paste has been strong year-to-date. The pace of installations could slow, however, as aside from the manufacturing PMI, data is also indicating a deceleration from the hot rebound in the first quarter. Slower industrial demand in China may remove some support for the silver price and could lead to gold outperformance owing to its preferential use as a store of value.

The silver price fell below \$23/oz last week for the first time since late March, but rallied to finish the week at \$23.21/oz.

PRECIOUS METALS REVIEW

Platinum



	CLOSE	WEEKLY CHANGE	HIGH	DATE	LOW	DATE
\$/oz	1,029	-3.75%	1,083	22/05/2023	1,019	24/05/2023
€/oz	961	-2.74%	1,000	22/05/2023	952	25/05/2023

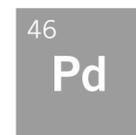
Platinum jewellery outshone by gold in China last year. China is the largest platinum jewellery market but demand there has been declining since 2014. Jewellery fabrication demand fell to 740 koz last year on the back of nearly two quarters of lost retail sales as lockdowns hit China. The industry organisation, Platinum Guild International, saw platinum jewellery demand fall by 32% among its partners in China, compared to a 15% decline in gold fabrication demand last year. Unlike some other sectors of the economy, platinum jewellery sales are unlikely to see a pronounced rebound this year as the headwinds of lower economic growth and competition from gold jewellery continue. Falling demand prior to the pandemic meant that after the lockdowns of 2022, the appetite amongst fabricators for significant restocking of platinum was likely to be mild, so it is anticipated that Chinese platinum jewellery consumption will decline again this year.

Sell in May and go away? The platinum price is playing out its historical seasonality, slipping by 5% to a more than one-month low last week in line with the other precious metals. Pessimism over the global economic outlook and a stronger dollar helped to push the entire precious metals complex lower last week. Only palladium underperformed platinum. The platinum price finished the week 3.75% lower at \$1,029/oz.

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Palladium



	CLOSE	WEEKLY CHANGE	HIGH	DATE	LOW	DATE
\$/oz	1,434	-5.76%	1,529	22/05/2023	1,393	25/05/2023
€/oz	1,338	-4.77%	1,412	22/05/2023	1,298	24/05/2023

China’s car sales look strong but remain below pre-pandemic levels. Passenger car sales totalled 1.8 million units in April, nearly 90% higher than lockdown-impacted 2022 levels, yet cumulative year-to-date sales are more than 1 million units lower than in 2018. Adding to lower total sales and to the strain on palladium autocatalyst demand is a jump in the market share of BEVs, following a lull early in the year, as government subsidies were removed. On an annual basis, Chinese palladium autocatalyst demand is estimated to be in line with last year (2.6 moz), despite an expected year-on-year increase in nominal vehicle production and sales. This is due in part to the forecast for BEVs to continue capturing more of the market, and a programme of substitution of some palladium for platinum in autocatalysts that has been underway for more than a year. Globally, the same trends apply, with additional downside risk from curbed sales if recession hits Europe and the US. As a result, palladium autocatalyst demand is predicted to fall moderately and weigh on the palladium price for the rest of the year.

Loss of subsidies could extend the life of combustion two-wheelers in India. The Indian government is slashing subsidies for electric two-wheelers from 40% of RRP to 15%. Two-wheelers have been responsible for the majority of BEV sales in India to date, while they make up 75% of total vehicle sales volume. The cut to subsidies is likely to benefit palladium demand in India in the short term as it reduces the attractiveness of switching to an electric powertrain. The impact in global terms is likely to be modest, however, as although the Indian market for two-wheelers is large, palladium contained in motorcycle catalysts is, on average, much lower than in light vehicles. India is the largest market, with significant autocatalyst demand growth this year as its economy is expected to outperform most of the developed world.

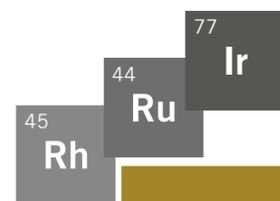
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Rhodium, Ruthenium, Iridium



	RHODIUM	RUTHENIUM	IRIDIUM
Reporting Week	\$7,750/oz	\$525/oz	\$5,150/oz
Previous Week	\$7,850/oz	\$525/oz	\$5,150/oz

Investment continues to roll in to green hydrogen projects, underpinning future iridium demand. Europe has an expanding pipeline of water electrolysis projects due to start up in the next few years. At present, the region’s planned projects total 25 GW of electrolysis. Latest estimates show iridium-based proton exchange membrane (PEM) electrolyzers could comprise up to 40% of the total. Regulatory support from the Inflation Reduction Act has also led to an influx of investments into hydrogen production in the US. Elsewhere, Saudi Arabia’s NEOM infrastructure megaproject has closed on \$8.4 billion in funding for the world’s largest green hydrogen production facility, and a \$10 billion green hydrogen project in Namibia has advanced to the next phase of planning. Regardless of the technology (PEM or alkaline water electrolysis), the investment in hydrogen infrastructure is positive, not only for the production of hydrogen but also for the downstream applications that use PGMs. By improving the availability of hydrogen, proliferation of fuel cell mobility can be accelerated, potentially boosting demand for ruthenium and platinum.

Ruthenium and iridium prices remained unchanged last week, while rhodium plumbed new lows at \$7,750/oz.

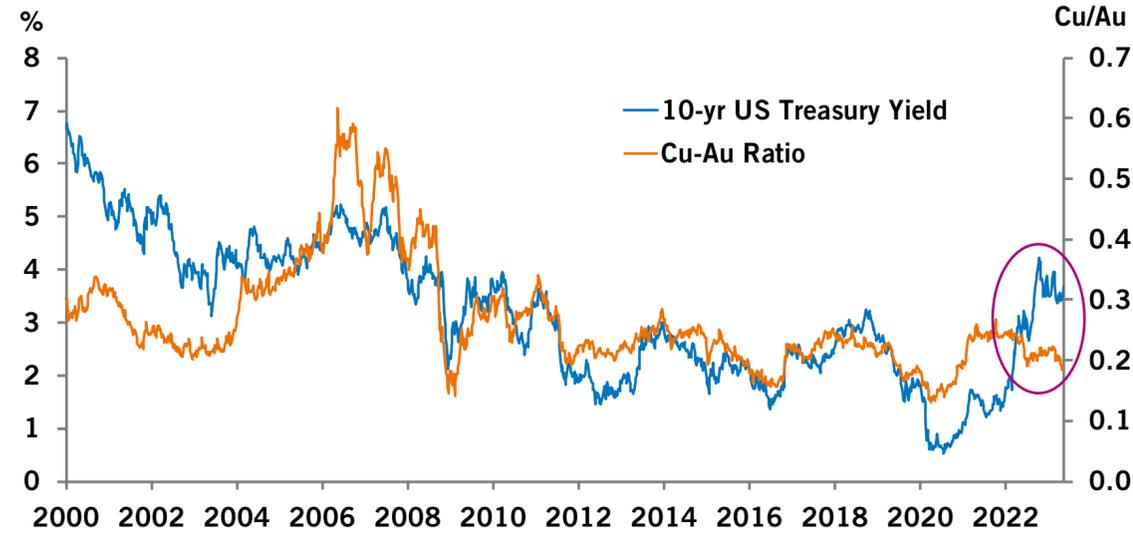
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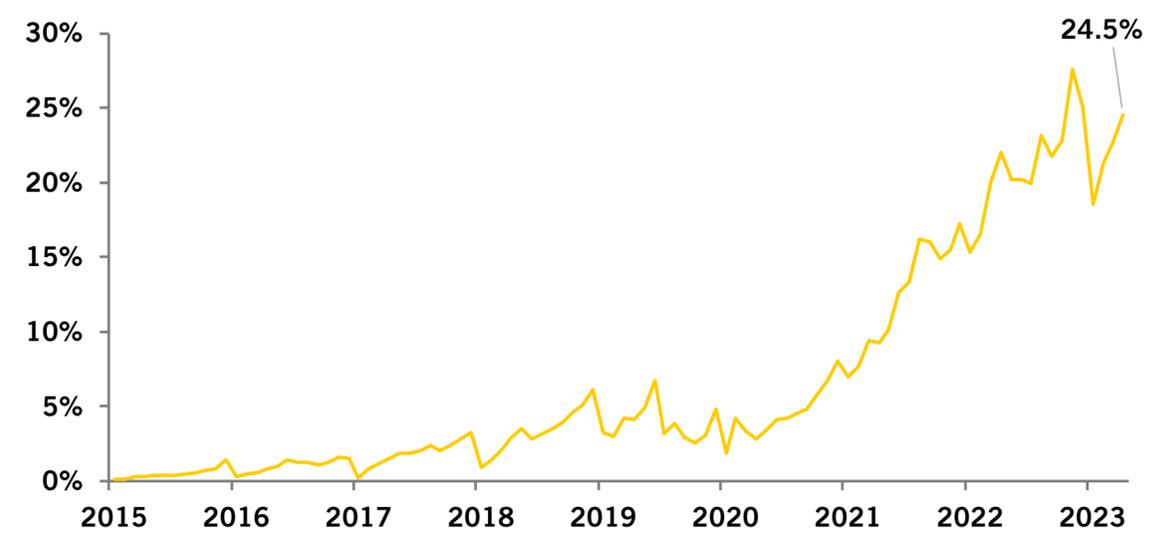
TRENDS AND INVESTMENTS

Cu-Au price ratio vs US Treasury yield



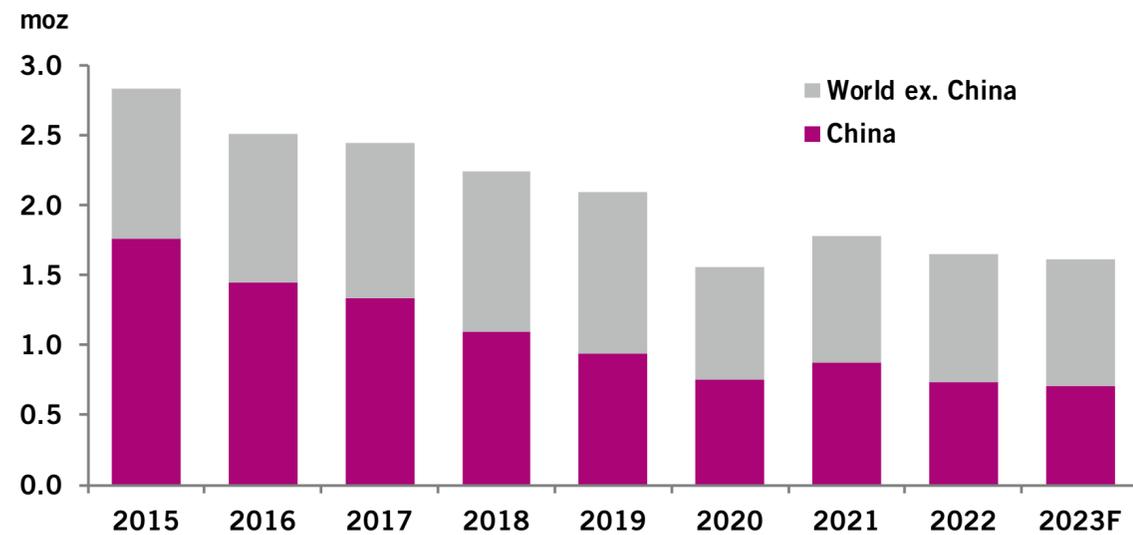
Source: SFA (Oxford), Bloomberg

China's BEV market share



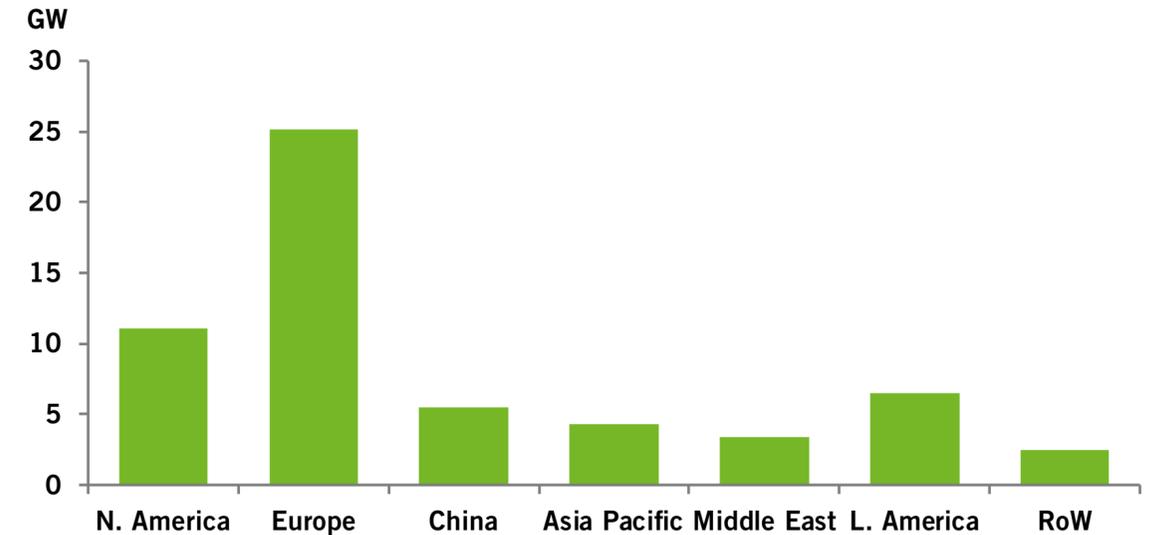
Source: SFA (Oxford), Bloomberg

Platinum jewellery demand



Source: SFA (Oxford)

H₂ electrolysis capacity additions: 2023-26



Source: SFA (Oxford), IEA

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