

PRECIOUS APPRAISAL

No. 15  
9<sup>th</sup> May 2022





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## MARKET SPOTLIGHT

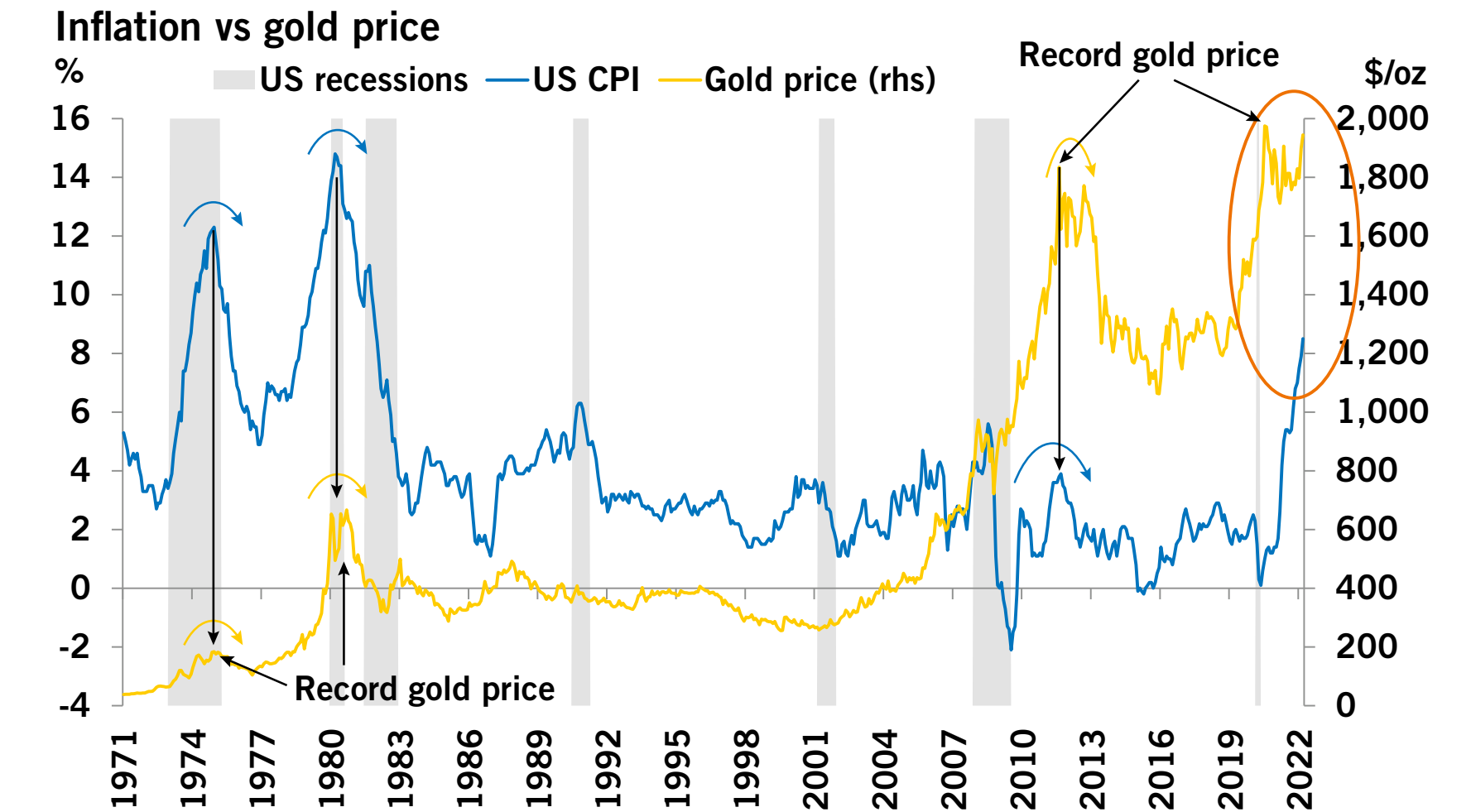
## Fed tightening continues. Is there any upside left for gold?

**Inflation is at the highest level in 40 years in the US and Europe.** The gold price reached a record level in euros in early March and came close to its record level in US dollars, but gold is now trading 6% and 9% lower in euros and dollars, respectively, even though inflation continued to climb in March, coming in at 7.4% in the Eurozone and 8.5% in the US.

**The Federal Reserve is starting to get serious about raising interest rates.** As expected, the Fed increased the funds rate by 50 bp last week. A 75 bp rise appears to be off the agenda, with 50 bp rises at the next two meetings possible. However, the futures market has only modestly scaled back its predictions for the speed at which it is predicting rate rises at later meetings, with a 75 bp rise still possible.

**Is the Fed tightening into a recession?** The US Treasury yield curve inverted in April with the 10-year Treasury yield falling below the 2-year Treasury yield. In the past, this has been a reliable indicator of a recession, although the time from the inversion to the start of the recession has been quite variable. In the 1970s, inflation and gold prices kept rising in the first part of a recession, hitting records, but once inflation started to fall the gold price also declined.

**If inflation continues to climb, then there could be further upside for gold.** The Fed is six weeks from its next meeting and the upper bound rate is just 1%, leaving the real interest rate very negative. The question is how high will inflation be for the year to April? The US data will be released on Wednesday. The ECB is lagging behind the Fed and is not expected to start raising rates for some months. The euro has been weakening and that could continue while the Fed is raising rates and the ECB is not, supporting the gold price in euros.



Source: SFA (Oxford), IEA, Wards Intelligence, Cox Auto. \*2022 data is for Q1 only.

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## PRECIOUS METALS REVIEW

### Gold

79 Au	CLOSE		WEEKLY CHANGE		HIGH	DATE	LOW	DATE
	\$/oz							
	1,887		-1.21%		1,910	05/05/2022	1,851	03/05/2022
€/oz		1,785	-1.50%		1,809	05/05/2022	1,757	03/05/2022

**Central banks were net sellers of gold in March**, with reserves falling by 4 tonnes. This was as much a function of the limited purchases as the level of sales, both of which were the smallest in the last six months. Kazakhstan was the largest seller in the month, reducing its gold reserves by 12 tonnes. The central bank buys domestically produced gold which is sometimes sold on. Turkey was the largest purchaser with 5 tonnes and India's central bank added 1 tonne to its reserves. For the first quarter, central banks were net purchasers of 23 tonnes, an improvement on Q4'21's net sales of 7 tonnes. This year, central bank gold purchases are likely to be much lower than the 421 tonnes seen last year which included some large one-off purchases.

**An auspicious time for buying gold in India.** Anecdotal reports are that gold jewellery sales rebounded during Akshaya Tritiya (3 May), after two subdued years due to Covid. This year the gold price in India was still high, but it had fallen by about 4% in the two weeks before the festival which should have helped to provide some positive momentum to purchases. In the first quarter, Indian gold jewellery demand fell 26% year-on-year to 94 tonnes (source: World Gold Council). In 2021, jewellery demand rebounded strongly in the fourth quarter for an annual total of 611 tonnes which could be hard to beat this year.

**The Fed delivered a 50 bp rate increase, as widely expected.** The gold price jumped on the news and finished up for the day, but it ended the week lower. Now the trajectory of interest rates appears set for the next few months; if inflation continues to be high keeping the Fed behind the curve, gold could resume its rally. The price will need to clear its April high of \$2,000/oz to suggest there is more to any rally than just a rebound from oversold levels.

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## PRECIOUS METALS REVIEW

### Silver



	CLOSE	WEEKLY CHANGE	HIGH	DATE	LOW	DATE
\$/oz	22.44	-2.75%	23.28	05/05/2022	22.10	06/05/2022
€/oz	21.23	-3.04%	22.02	05/05/2022	21.02	06/05/2022

**Silver's industrial side could be holding it back.** The economic outlook has deteriorated globally, with high inflation reducing consumers' disposable incomes. In addition, while most countries are easing Covid restrictions, China is still pursuing a zero-Covid policy that is impacting a significant portion of the population. Nomura estimates that 345 million people are living with some form of restriction. China's economy has been disrupted as a result, with two different surveys of purchasing managers showing sharp declines in manufacturing and services activity in April.

China is the largest industrial user of silver (~120 moz), representing almost a quarter of global industrial silver demand. This includes the large photovoltaic (PV) and consumer electronics sectors, which have significant exports. While global PV installations are likely to remain robust, production and logistical challenges in China could curb exports, potentially slowing installations later this year.

The silver price followed gold higher after the Fed meeting on Wednesday and then reversed course on Thursday. Silver underperformed gold pushing the gold:silver ratio above 84.

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PRECIOUS METALS REVIEW

Platinum



	CLOSE	WEEKLY CHANGE	HIGH	DATE	LOW	DATE
\$/oz	968	2.76%	1,006	05/05/2022	918	02/05/2022
€/oz	916	2.49%	946	05/05/2022	873	02/05/2022

**Platinum production in South Africa was constrained in Q1’22.** Sibanye-Stillwater’s first-quarter production was down 5% at 250 koz owing to a slower than planned return to work after the Christmas holiday period. Impala Platinum also reported reduced output owing to a combination of safety stoppages and lower-grade material being processed. Impala reported an 11% year-on-year decline in refined output to 332 koz of platinum. On a 6E basis (platinum, palladium, rhodium, gold, iridium, ruthenium), refined production was 735 koz, while sales were 838 koz, boosted by destocking of finished metal inventory. However, after relatively poor first quarters both companies reiterated their existing guidance. Platinum production in South Africa is expected to be around 4.6 moz this year.



# Precious Appraisal

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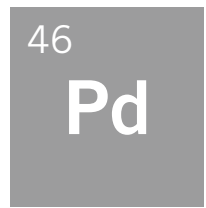
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# Precious Metals Review

## Palladium



	CLOSE	WEEKLY CHANGE	HIGH	DATE	LOW	DATE
\$/oz	2,058	-10.37%	2,292	04/05/2022	2,043	06/05/2022
€/oz	1,947	-10.65%	2,178	04/05/2022	1,935	06/05/2022

**North American palladium output is forecast to increase by 11% to over 1 moz this year** owing to a diminishing impact from the pandemic. This includes Sibanye-Stillwater’s US operation at Stillwater, Impala Canada and by-product production from nickel mines. However, both Impala Canada and Stillwater saw modest declines in output in the first quarter. Palladium output at Sibanye-Stillwater’s US operation was 95 koz, 4% lower quarter-on-quarter. Annual production guidance for Stillwater has been maintained at 424-447 koz. Impala Canada’s metal-in-concentrate production was 5% lower at about 58 koz of palladium.

**Headwinds continue for light-vehicle sales and palladium demand.** US light-vehicle sales were 1.2 million units in April (14.3 million at a seasonally adjusted annual rate), down 2% from March. Car sales edged up to 265,940, whereas light-truck sales slipped back to 961,010, and both were down sharply year-on-year owing to the ongoing semiconductor chip shortage. On top of the chip shortage, the impact of the Russia-Ukraine conflict and economic disruption in China from Covid restrictions has resulted in global light-vehicle production forecasts for 2022 being downgraded further from 81.6 million units in March to 80.6 million units in April (source: S&P Global Mobility). The estimate for palladium demand has been reduced by over 300 koz this year as a result. The market now looks set to be in surplus this year and this will weigh on the price.

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## PRECIOUS METALS REVIEW

### Rhodium, Ruthenium, Iridium



	RHODIUM	RUTHENIUM	IRIDIUM
Reporting Week	\$18,450/oz	\$695/oz	\$5,550/oz
Previous Week	\$19,550/oz	\$695/oz	\$5,550/oz

**Small PGM output in South Africa was down year-on-year in the first quarter** at two major producers. Impala Platinum reported a 3% year-on-year drop in sales to 838 koz (6E) in Q1'22 even with some destocking of finished metal inventory, as Q1'21 had been boosted by destocking of iridium and ruthenium. Refined rhodium production fell by 1 koz year-on-year to 47 koz.

Sibanye-Stillwater saw rhodium, iridium and ruthenium output in the first quarter decline year-on-year by 5% to 37 koz, 6% to 15 koz and 4% to 59 koz, respectively. Lower production was blamed on a slow restart at some operations following the Christmas break. The company has maintained its full-year production guidance (4E) which implies rhodium output of 153-161 koz this year. For South Africa as a whole, rhodium output is predicted to drop by around 8% in 2022. The decline is mostly due to the boost that output received in 2021 from the processing of stockpiled material, as rhodium output this year is expected to be roughly in line with pre-pandemic production.

The rhodium price fell by \$1,100/oz last week, possibly owing to the negative implications of the ongoing Covid restrictions in China for automotive production. The ruthenium and iridium prices remained unchanged.

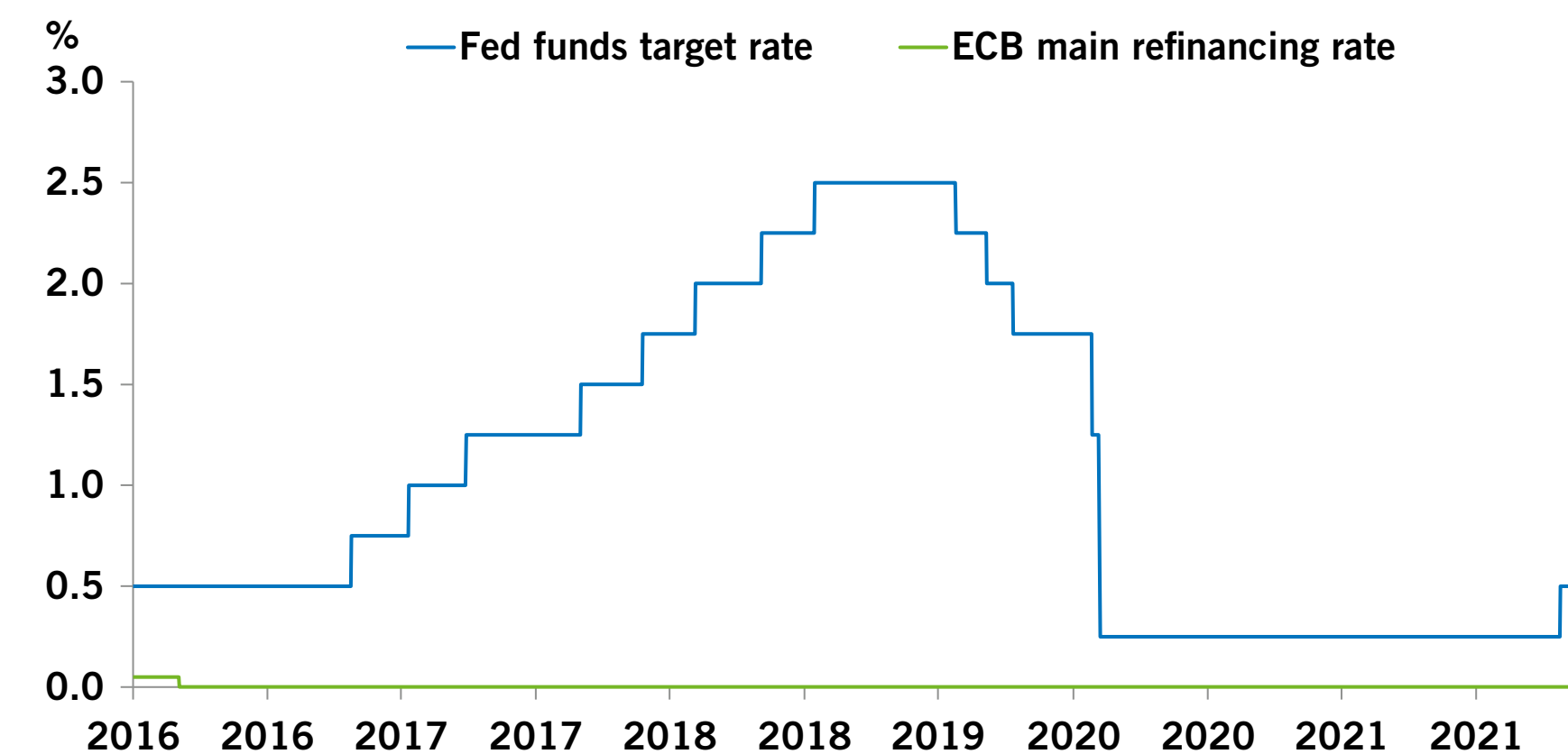
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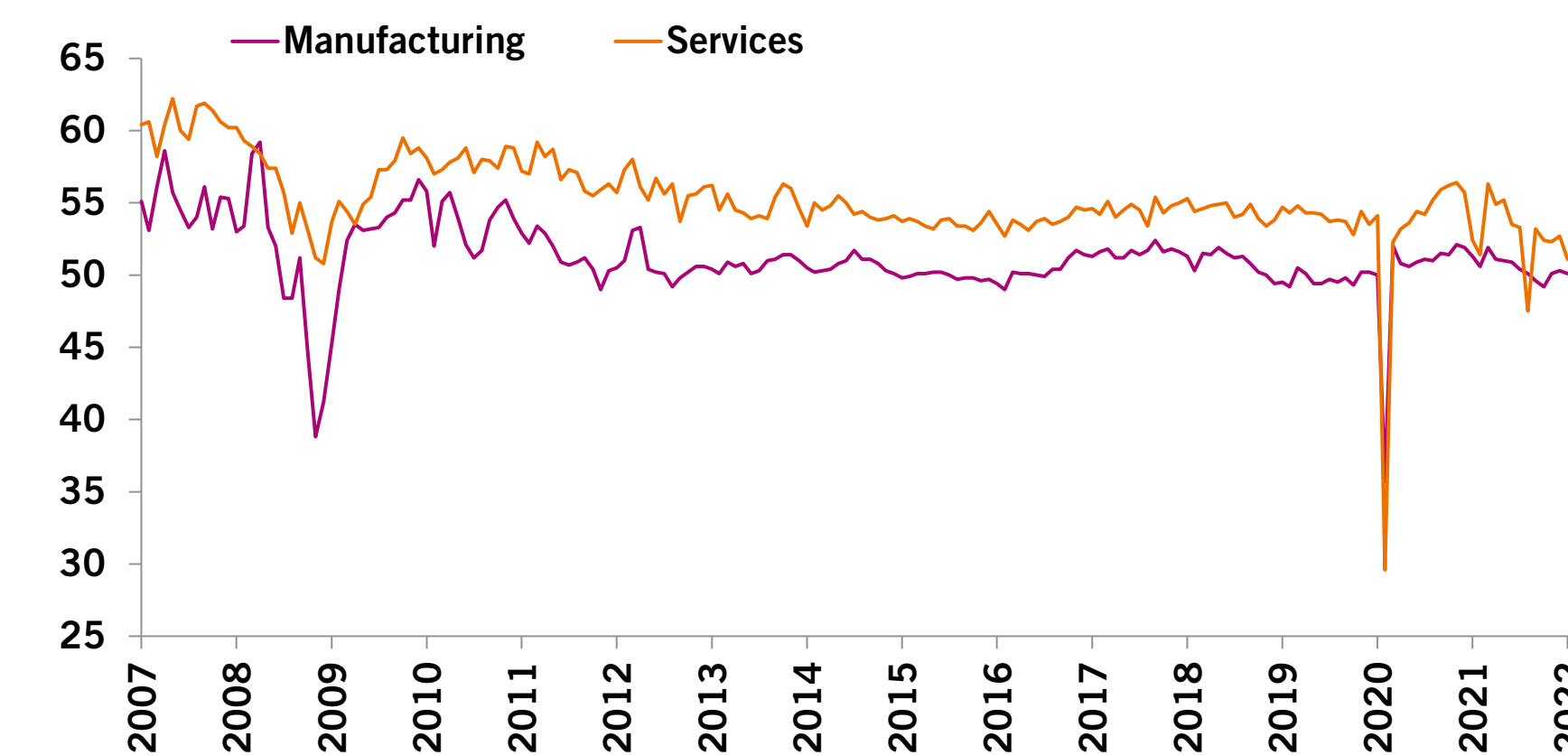
## TRENDS AND INVESTMENTS

### Central banks' policy rates



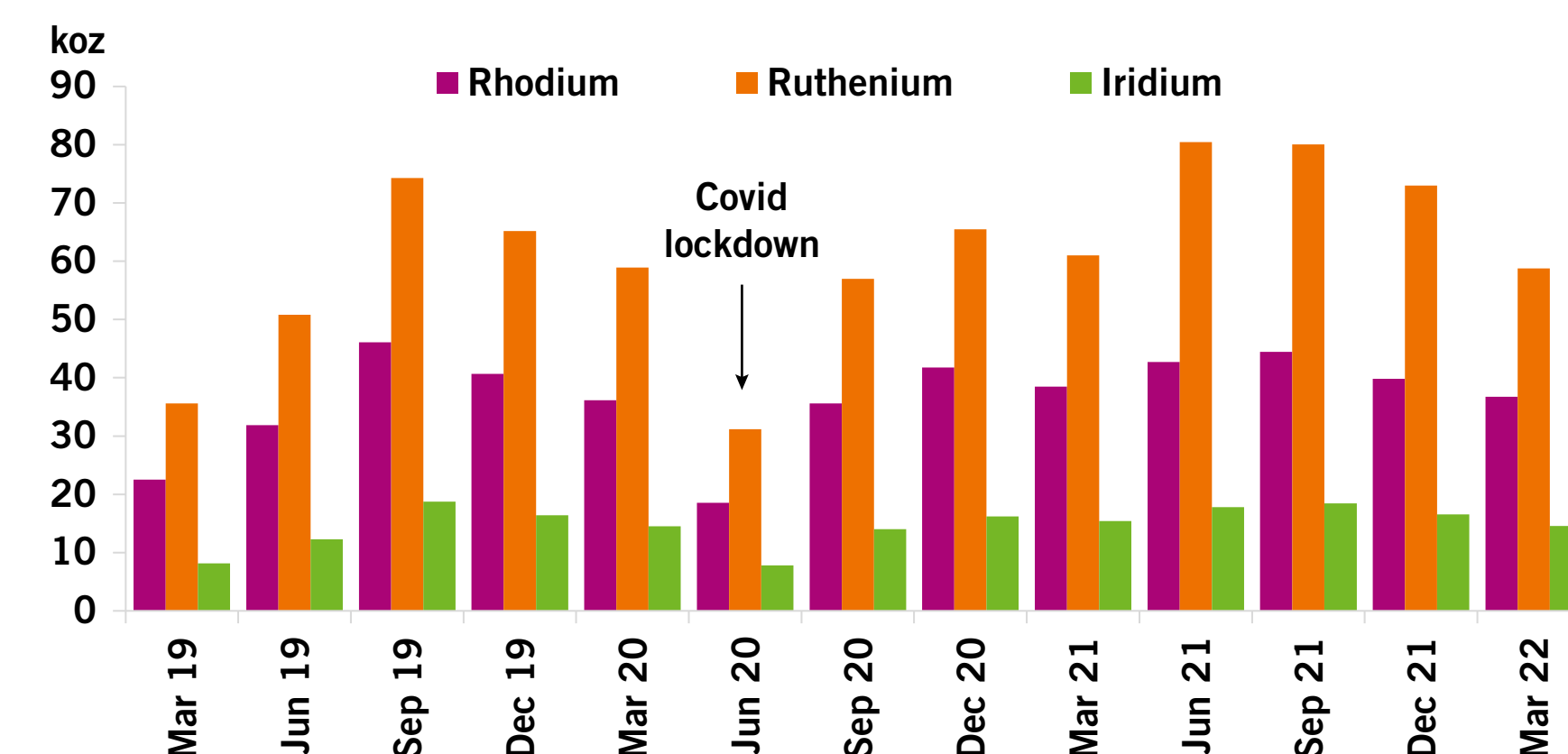
Source: SFA (Oxford), Bloomberg

### China PMIs



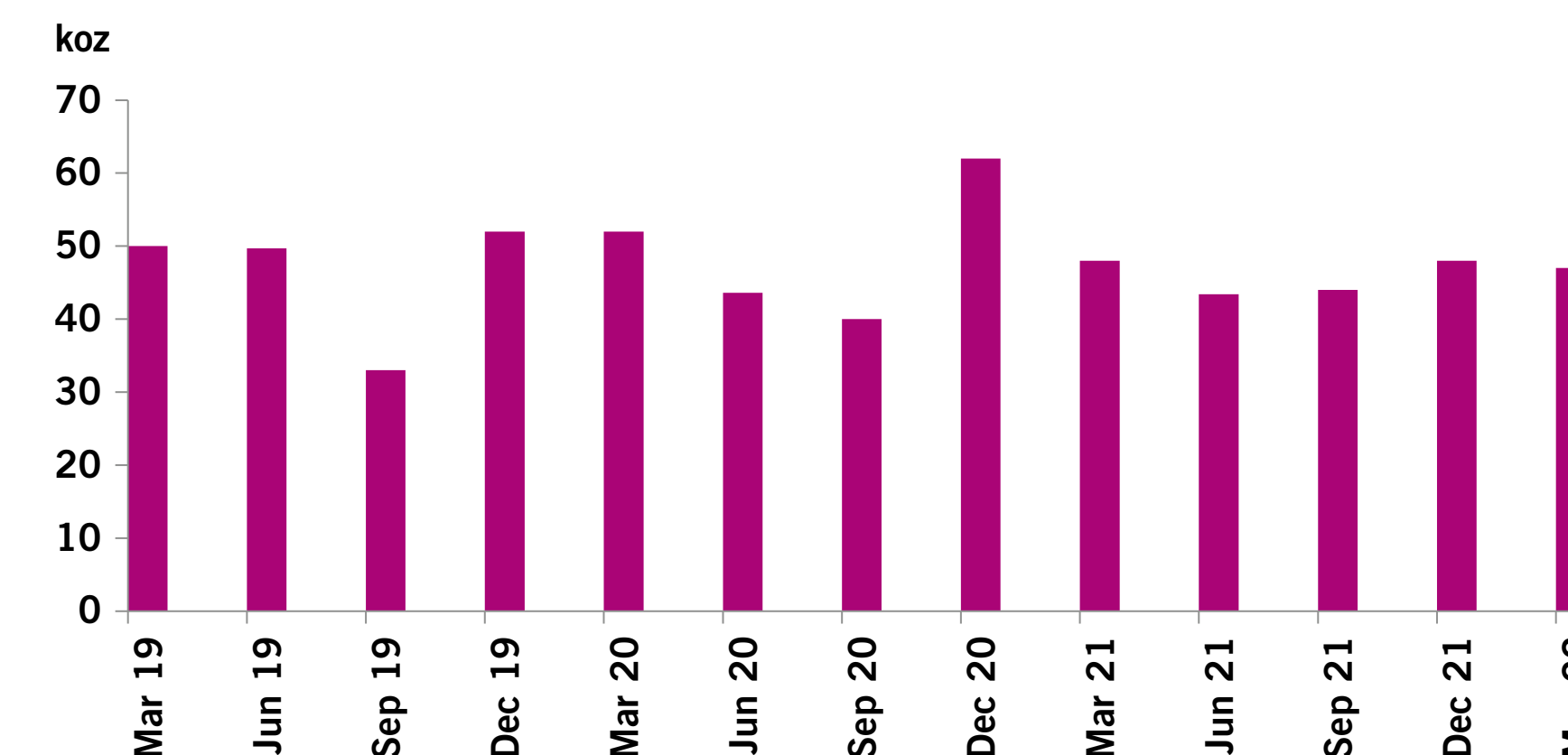
Source: SFA (Oxford), Bloomberg, China Federation of Logistics

### Sibanye-Stillwater S.A. small PGM production



Source: SFA (Oxford), Sibanye-Stillwater. Note: S.A. refers to South Africa.

### Impala rhodium production



Source: SFA (Oxford), Impala Platinum



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