

PRECIOUS APPRAISAL

No. 34
24th October 2022



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MARKET SPOTLIGHT

More petroleum platinum demand at risk once Russian oil dries up in Europe

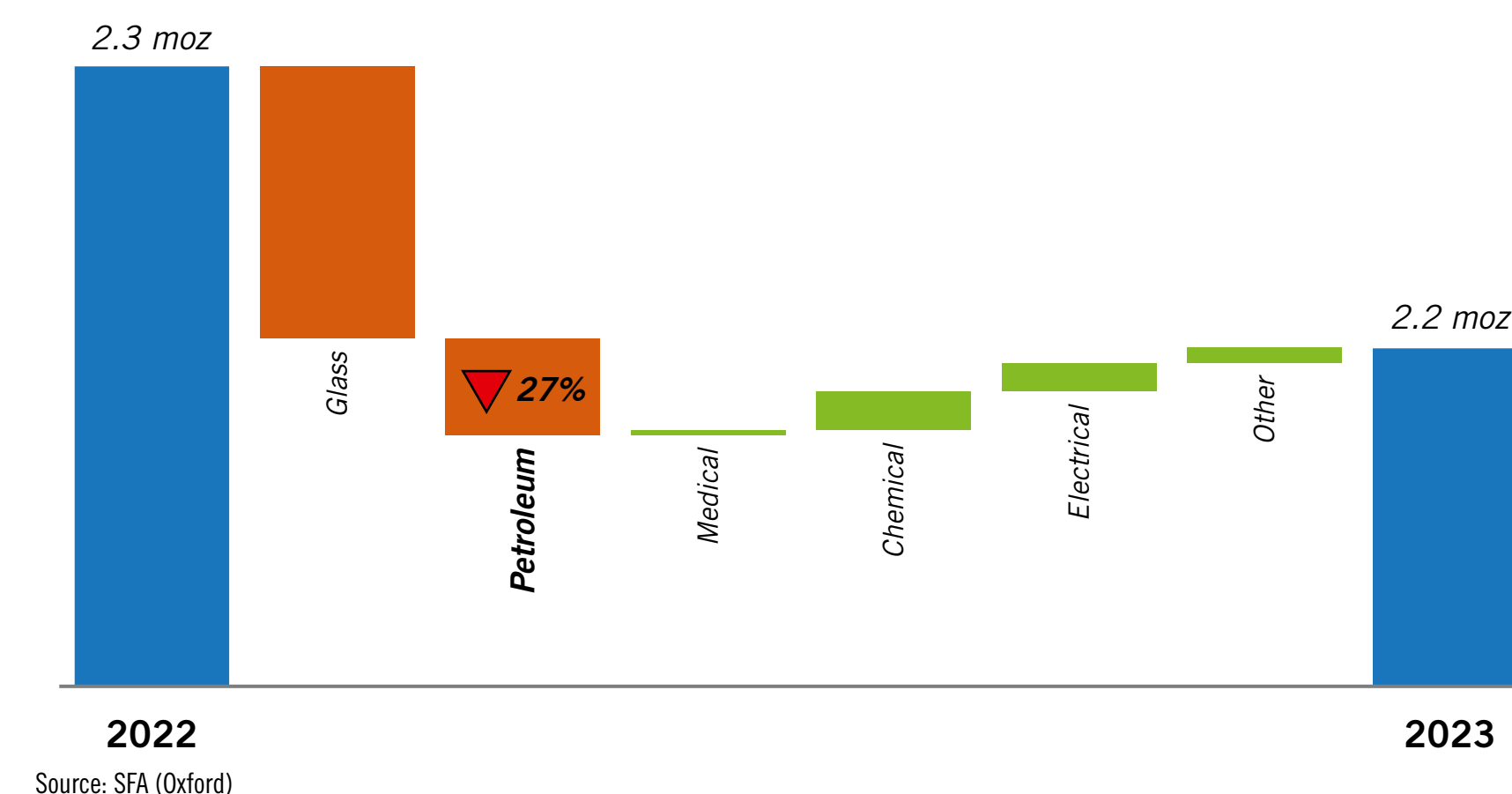
Platinum demand from the petroleum industry bounced back in 2022 after being heavily reduced during the pandemic owing to accelerated global refinery closures. Between 2020 and mid-2022, 3.8 million barrels per day (mb/d) of global crude distillation capacity was closed (including 800 kb/d in Europe), while global oil demand has grown by 5.6 mb/d (source: International Energy Forum). Many closures had been predicted to occur, but over a timescale of 5+ years. Top-up demand from catalyst regeneration combined with new plant capacity means petroleum platinum demand is forecast to total 180 koz in 2022.

Global net petroleum platinum demand is estimated to slump more than a quarter year-on-year in 2023, owing to further refinery closures in Europe. The lasting effects of Covid-19 and the fallout from the Russia-Ukraine conflict are expected to result in a net reduction in refining capacity and thus petroleum-sector platinum demand in 2023, which is forecast to fall to 130 koz. Europe's liquid fuel consumption is also forecast to decline year-on-year in 2023 to 14.19 mb/d from 14.30 mb/d this year (source: EIA) owing to regional economic growth slowing down.

More refining capacity is at risk of lower utilisation and closure. From 5 December, the EU will enact a ban on Russian seaborne crude imports followed by a refined commodities ban from February 2023. There is a downside risk to platinum demand, as refineries within the bloc that rely on Russian feedstocks may not have any oil and refineries within Russia will no longer export to the EU from February and may have to reduce output owing to limited domestic storage. Landlocked refineries in central Europe that relied on pipeline supply may be at greater risk than coastal counterparts as securing an alternative supply of crude will be more challenging and costly. As EU countries have yet to diversify more than half of their pre-war import levels away from Russia (source: IEA), utilisation rates may decrease once supply from Russia dries up.

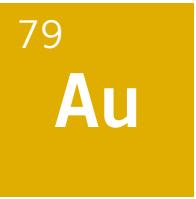
A projected market surplus of more than 500 koz in 2023 means that the platinum price will likely remain subdued. The risk is that additional refinery closures could see more platinum returned to the market, increasing the surplus and capping potential price upside.

Industrial platinum demand



PRECIOUS METALS REVIEW

Gold



	CLOSE	WEEKLY CHANGE	HIGH	DATE	LOW	DATE
\$/oz	1,651	0.39%	1,668	17/10/2022	1,617	21/10/2022
€/oz	1,675	-0.80%	1,709	17/10/2022	1,656	21/10/2022

Lower gold prices and travel freedom entice Chinese consumers.

Luk Fook, a major jewellery retailer, recorded same-store sales growth of 40% year-on-year in Q3 for gold jewellery. Demand for gold jewellery was subdued in Q2’22 for the retailer, and a 1% contraction in jewellery sales across all gold products was reported. Total Chinese gold jewellery demand fell 29% year-on-year in Q2’22 (source: World Gold Council) amid Covid lockdowns. The surge in demand in Q3 may be attributed to a softer gold price and fewer highly restrictive anti-Covid measures on the mainland. Fourth-quarter demand may be helped further by price declines and less stringent travel quarantine requirements in China and Hong Kong.

14-year high bond yields drive demand for the greenback, pinning gold

last week. United States Treasury 10-year bond yields have increased for 11 weeks running, the longest streak in over 40 years, and have broken the long-term trend of falling yields in motion since 1981. The yield on the 10-year notes exceeded 4.2% last week, up from 1.63% in January. Increased buying of dollar-denominated US Treasuries by non-US investors has helped the dollar strengthen. Higher bond yields and a stronger dollar put more downward pressure on the gold price. This, and the expectation of further aggressive interest rate hikes by the Fed, is likely to continue to suppress gold prices in the short term. The gold price rose 0.4% last week to \$1,651/oz, underperforming silver which rose by 4.8%.

PRECIOUS METALS REVIEW

Silver



	CLOSE	WEEKLY CHANGE	HIGH	DATE	LOW	DATE
\$/oz	19.10	4.80%	19.10	21/10/2022	18.23	20/10/2022
€/oz	19.38	3.54%	19.38	21/10/2022	18.69	20/10/2022

Solar installations defy the effects of Covid and lift silver demand. New global solar installations reached an estimated 173.5 GW in 2021, representing 22% year-on-year growth despite experiencing significant supply chain disruptions. New capacity installation rates could reach 250-260 GW (+44%) by the end of 2022 (source: IEA PVPS). Average silver prices in 2022 have been 13% lower than in 2021 year-to-date. Higher silver prices last year spurred manufacturers to work towards reducing silver consumption in photovoltaic (PV) modules. Solar module production is centred in China, which is also the largest market, and installations have been increasing despite weak economic growth. Global photovoltaic silver demand, which accounts for around 24% of the industrial silver market, grew by an estimated 13% in 2021, totalling 114 moz, and was forecast to continue growth at 12% year-on-year in 2022 to 127 moz (source: The Silver Institute). However, with such strong growth in PV installations expected, silver PV demand could be closer to 150 moz.

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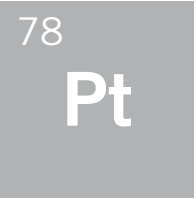
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Platinum

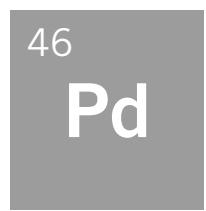


	CLOSE	WEEKLY CHANGE	HIGH	DATE	LOW	DATE
\$/oz	921	2.87%	926	18/10/2022	880	20/10/2022
€/oz	934	4.36%	944	17/10/2022	902	20/10/2022

Platinum price holding up despite a weak rand. The platinum price and South African rand have a long-term, strong negative correlation, i.e. the platinum price increases when the rand strengthens.Unusually, since the end of August the platinum price has rallied 9.1% to \$921/oz, while the rand has fallen in value versus the dollar by 6.1%, from ZAR17.11 per dollar to ZAR18.16 per dollar. To return to trend, either the platinum price falls or the rand strengthens versus the dollar. Forex futures traders are net long the USDZAR currency pair (betting on further rand weakness), so a further decline in value is more likely in the near term, suggesting it may be the platinum price that declines. This move would be supported by the market fundamentals, as the platinum market is currently in surplus which is expected to keep the price subdued.

PRECIOUS METALS REVIEW

Palladium



	CLOSE	WEEKLY CHANGE	HIGH	DATE	LOW	DATE
\$/oz	2,006	-0.90%	2,095	20/10/2022	1,959	21/10/2022
€/oz	2,036	-2.05%	2,135	20/10/2022	2,006	19/10/2022

European car sales picking up speed but could stall. The European Automobile Manufacturers’ Association reports that new passenger car registrations rose by 9.6% year-on-year in September, marking the second monthly increase in a row after August’s smaller 4.4% growth. The increase in August was the first year-on-year gain in more than 12 months. Despite the growth, sales remain far lower than in 2019 as semiconductor chip supply shocks linger, while concurrently, demand shows signs of faltering. EU economic growth is forecast to grow just 0.5% on average in 2023. However, the bloc’s largest economy and automotive market, Germany, is predicted to contract by 0.3% next year (source: IMF), with a consequent contraction in automotive production and sales likely. Lower automotive output in Germany will result in lower palladium demand in Western Europe than 2022’s already depressed growth rate as it is the largest automotive manufacturer in the region, accounting for a third of Western Europe’s autocatalyst demand (1.2 moz in 2022). On the upside for PGM demand, Euro 7 emissions regulation, now expected to be announced in November, could result in a boost to PGM demand once implemented (likely to be 2026).

The palladium price rose by more than 5% on Thursday last week, before finishing the week slightly lower. Palladium prices are currently holding near to \$2,000/oz, supported by tight supply due to processing plant maintenance in South Africa. Supply should improve in 2023 as stock is processed in South Africa, which, along with the potential for reduced automotive demand, is likely to lead to lower palladium prices.

PRECIOUS METALS REVIEW

Rhodium, Ruthenium, Iridium



	RHODIUM	RUTHENIUM	IRIDIUM
Reporting Week	\$15,250/oz	\$505/oz	\$4,050/oz
Previous Week	\$15,150/oz	\$505/oz	\$4,050/oz

Consumer fuel cell car adoption takes a backward step in the UK. This month, Shell closed its consumer hydrogen refuelling stations in the UK which were launched between 2017 and 2019. The lack of available hydrogen cars on the UK consumer market has contributed to the stations’ closure. Just 484 hydrogen cars have ever been sold in the UK, resulting in low demand for hydrogen refuelling. The adoption of the new technology, however, requires investment in hydrogen refuelling infrastructure to encourage uptake. Europe has 161 hydrogen refuelling stations currently in operation, 95 of which are in Germany where station density will allow more than 6 million motorists easy access to the network (source: H2 Mobility), making fuel cell vehicle use more practical. Ruthenium demand from fuel cells is a small part of overall demand, but is expected to grow as fuel cell vehicle use increases, although that may be supported more by heavy-duty vehicles than passenger cars in the near term.

Iridium and ruthenium prices stayed flat last week, while the rhodium price edged up to \$15,250/oz.

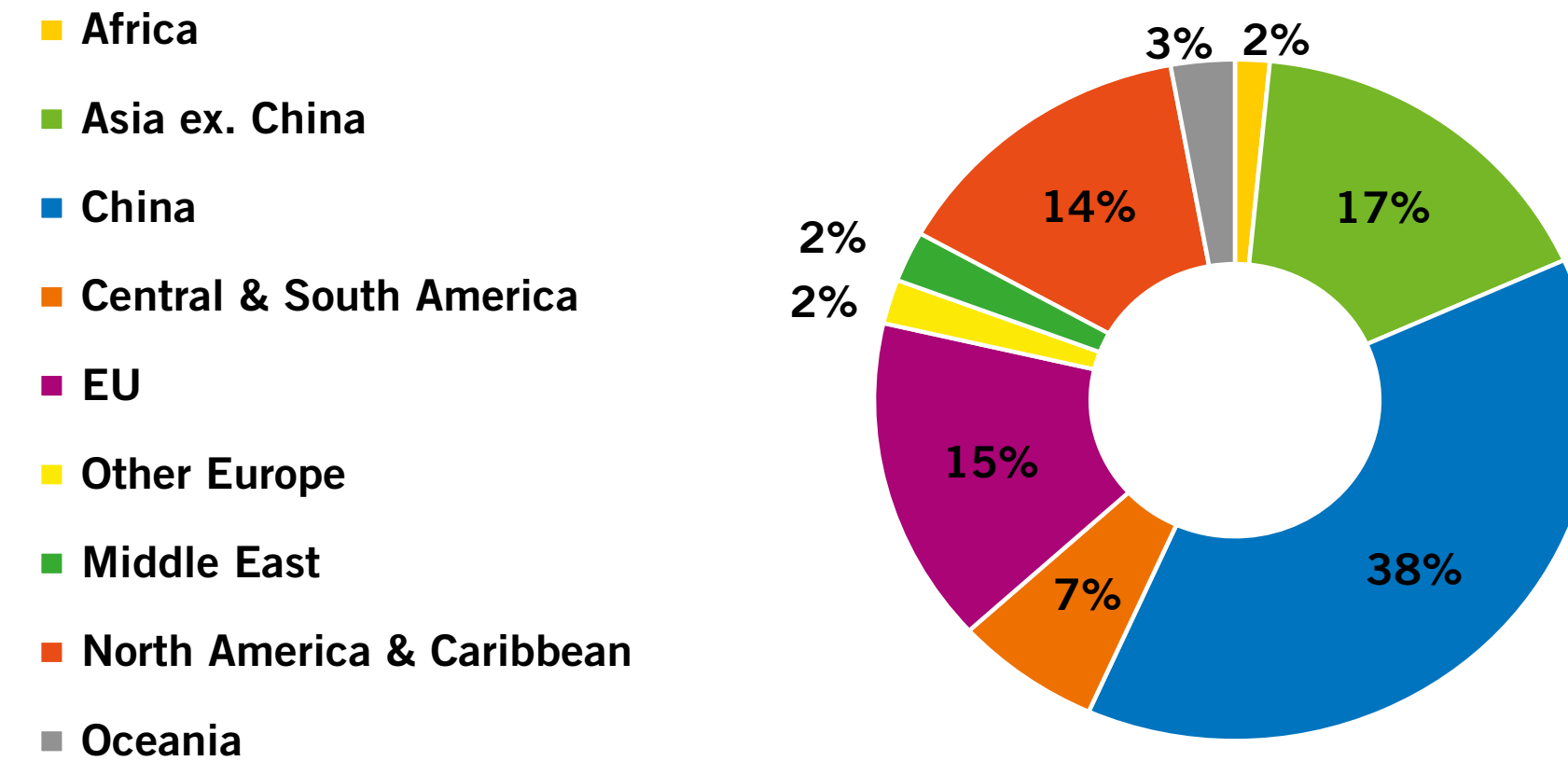
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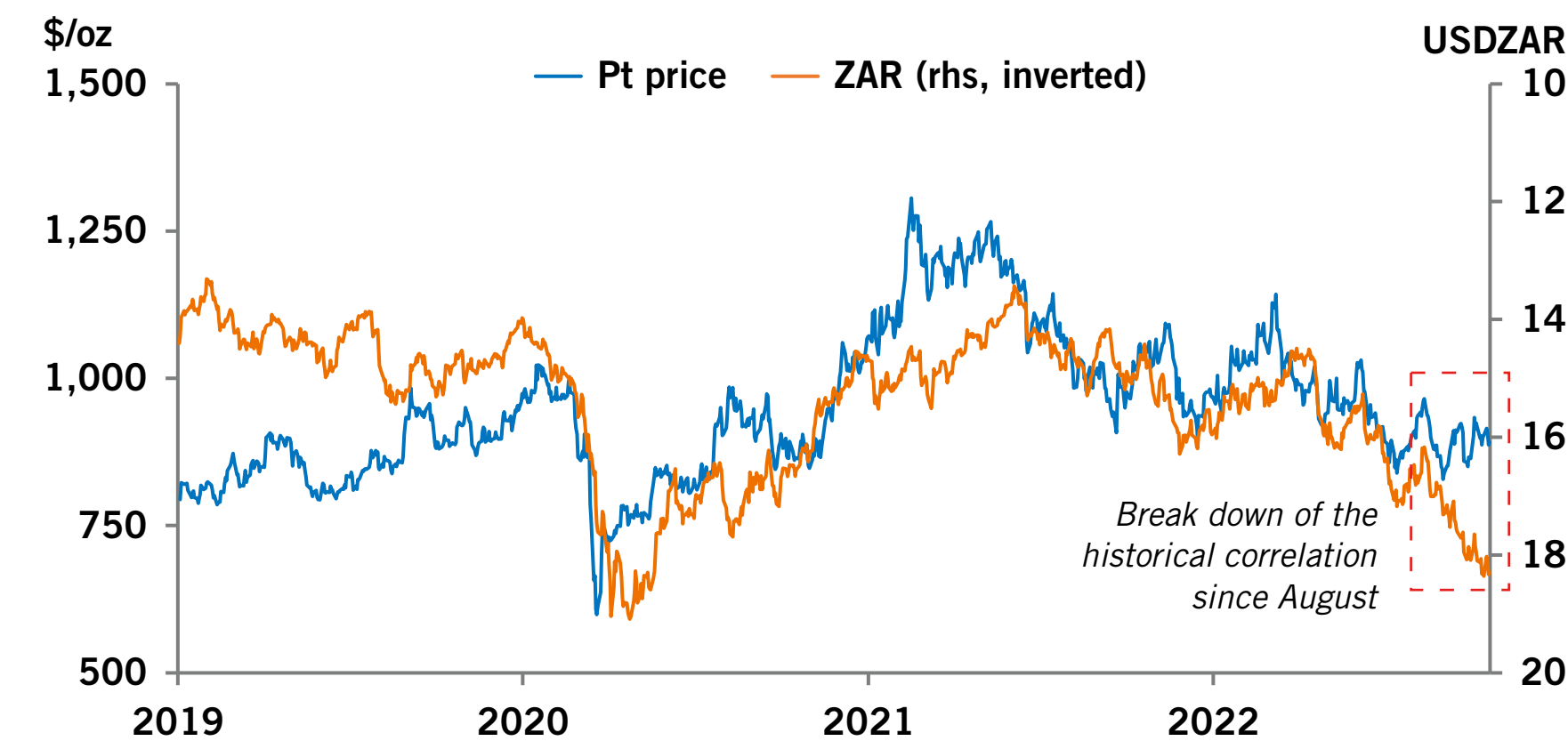
TRENDS AND INVESTMENTS

PV installations in 2021



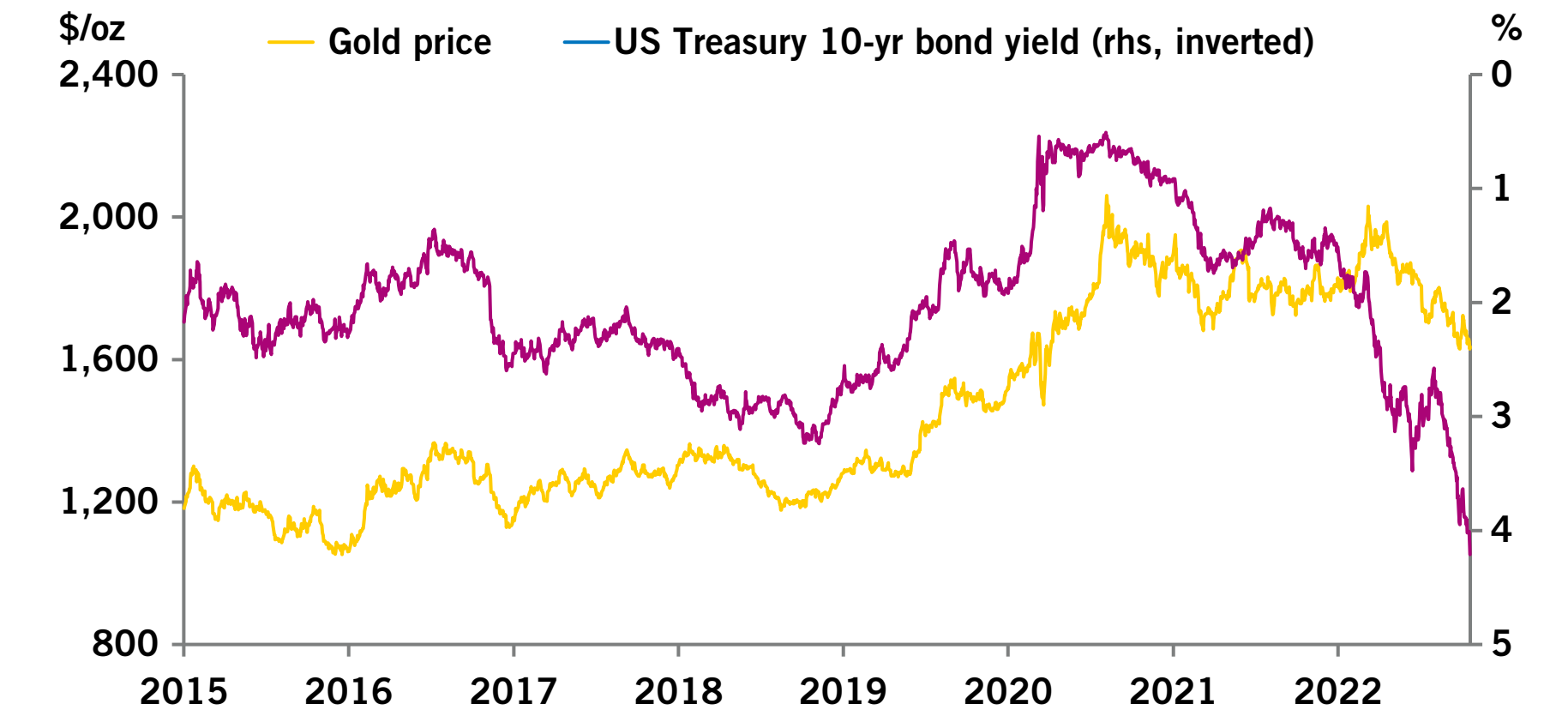
Source: SFA (Oxford), Bloomberg

Platinum price vs rand



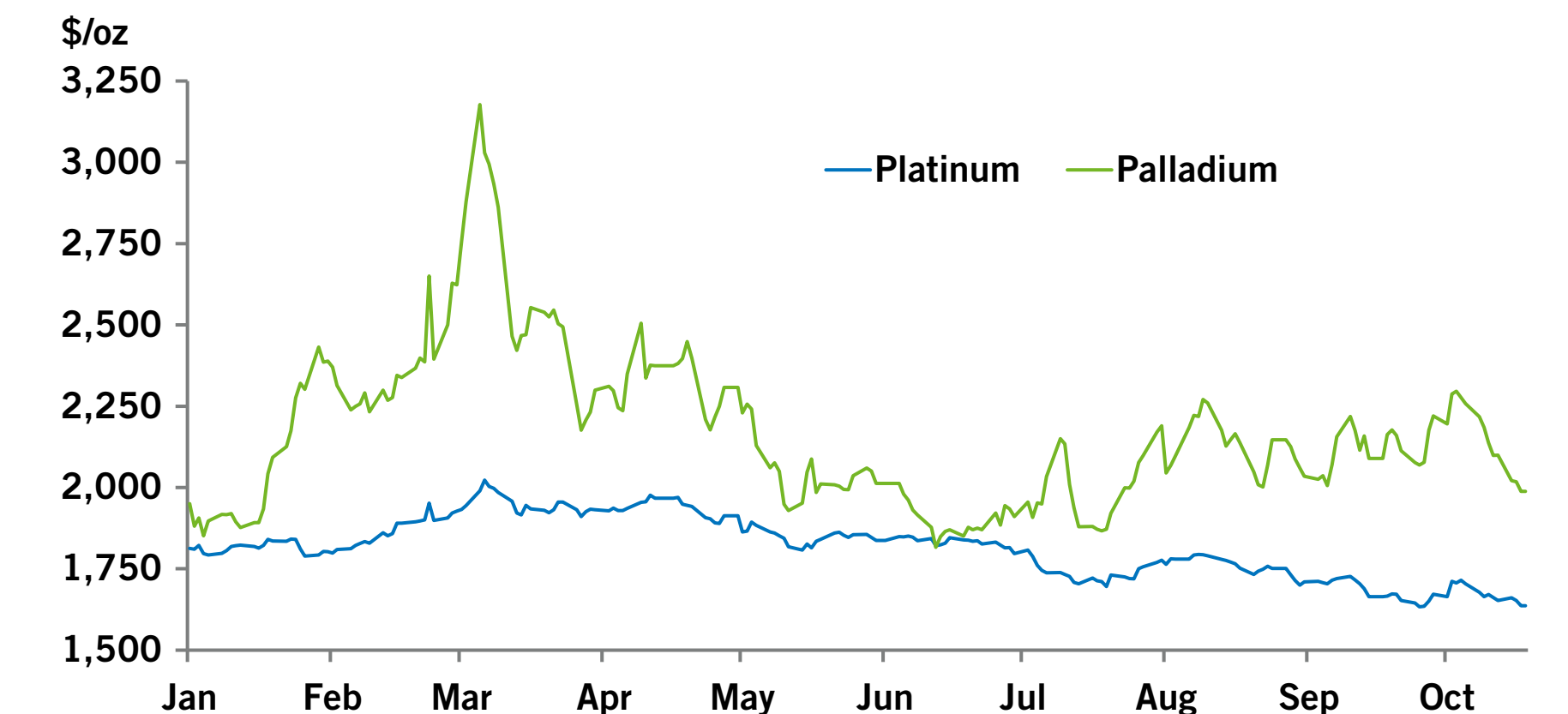
Source: SFA (Oxford), Bloomberg

Gold price vs 10 year US Treasury yield



Source: SFA (Oxford), Bloomberg

Year-to-date Pt & Pd prices



Source: SFA (Oxford), Bloomberg

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