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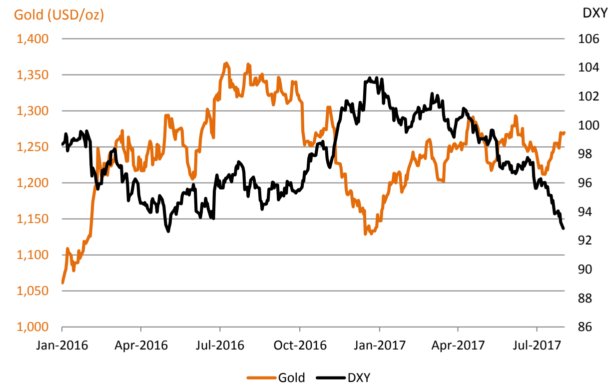
Precious Metals Weekly Update

1st August 2017

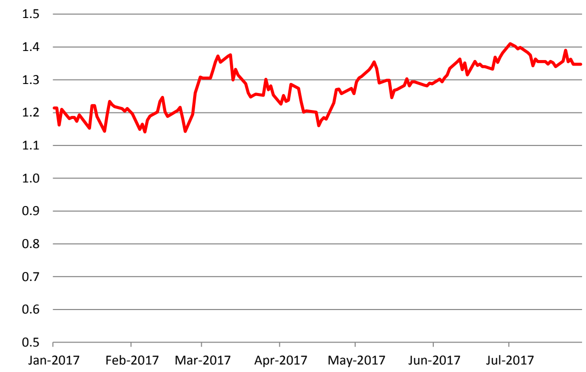
WEEK IN REVIEW:

The US dollar plunged to new 14-month lows against a basket of major traded currencies last week and again earlier this week following a dovish-sounding Fed and ongoing political turmoil in the White House. Buoyed by the weaker dollar and safe haven bids, gold has hit highs of over $1,271 in the last two trading sessions, the highest since mid-June. Last week's gains marked the third straight weekly price rise for gold, a trend also seen in silver. The Federal Reserve pulled few surprises in holding off raising interest rates last week, but Chairwoman Janet Yellen's warnings that stagnant US inflation could slow the Fed's current pace of rate tightening were seen as representing a shift to a more dovish stance by the Fed and the odds moved narrowly against a rate hike happening before the end of this year, according to the Fed funds futures market. Cheered by the prospects of continued cheap borrowing, US equity markets went on to reach new all-time record highs.

Gold ($/oz) and USD index (DXY):



2 year US Treasury yield (%)

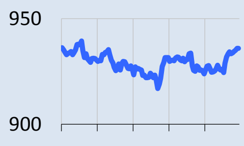


Sources: Mitsubishi form Bloomberg

Despite indications that the Fed will begin implementing its balance sheet normalization as soon as September, the US government bond market was relatively unperturbed, with Treasury yields remaining range-bound as investors perhaps took comfort from the lack of a firm timetable for the Fed to cease reinvesting the proceeds of its investment in US Treasury bonds and other debt securities. We view this forthcoming quantitative tightening to be a key downside risk for gold – Treasury yields are likely to rise as the Fed tapers its reinvestment, which would increase the cost of carry for non-interest bearing bullion. Furthermore, fixed income markets do not seem to be adequately pricing in the well-signposted policy normalization that is currently underway: having raised rates three times since December 2016, the Fed still remains committed to raising rates one more time before the year is out in order to follow through on its repeated market guidance. A change in market sentiment in the weeks ahead towards pricing in a rate rise in the fourth quarter, alongside monetary tightening, may rattle the bond markets and gold in the way that the taper tantrum did in 2013.

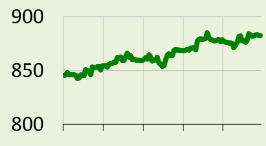
What could get in the way of this, and support gold and precious metals, is of course a further deterioration of the dysfunctional US political environment. With Congressional policymakers having adjourned for the summer without reaching a deal on lifting the $19.8 trillion debt 'ceiling', the US government has to continue to rely on a batch of so-called extraordinary measures to conserve cash, as it has since the debt limit was last raised in March. The Congressional Budget Office estimates that by October these measures will no longer be sufficient and the government will either need to slash spending or agree on a new debt limit. In the febrile atmosphere of Washington, agreement is a rare commodity these days and there is a heightened chance that without a deal the US government could shut down (as it did in 2013) or, more seriously still, technically default on its external bond payments – an event it narrowly averted in 2011. At the very least, political turmoil and consequent volatility in the bond markets could support gold and stay the Fed's hand in normalizing monetary policy, and in the extreme case of a technical default gold could become very well bid as a safe haven, just as it did in summer 2011. With these competing forces at play, our base case is that gold will trade at $1,250 on average this quarter, as we discussed in our latest quarterly report, but there remains a reasonable chance of an upside breakout.

Platinum prices $/oz
last week:



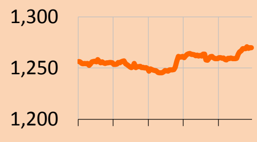
Change: -0.2%
Support: $929
Resistance: $968
Outlook:

Palladium prices $/oz
last week:



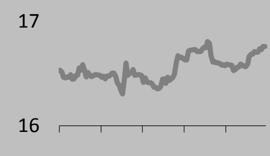
Change: 4.3%
Support: $861
Resistance: $928
Outlook:

Gold prices ($/oz)
last week:



Change: 1.1%
Support: $1,252
Resistance: $1,300
Outlook:

Silver prices ($/oz)
last week:



Change: 1.5%
Support: $16.51
Resistance: $17.33
Outlook:

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Platinum

Platinum continues to claw its way higher, reaching a 7-week high of $944

Platinum was helped by another bout of short covering in the NYMEX futures market last week, which at 93 koz was smaller than that seen the previous week but offset a small reduction in gross long positioning of 37 koz, leaving the net long position at a 5-week high of 764 koz. The net long speculative futures market still looks distinctly light in a historical comparison, at just 25% of the all-time high, while gross shorts are elevated at 83% off the all-time high: we believe there is considerable room for growth in bullish positioning.

What may be holding speculative investors back from becoming more bullish is the ongoing flurry of ostensibly negative news on the demand side regarding diesels specifically and internal combustion engines in general. The UK became the latest country last week to announce an ambitious if largely unworkable plan to ban internal combustion engine cars by 2040. The devil is once again in the detail here: *sales* of new *pure* internal combustion engine cars will be outlawed by that date (legislation to follow, so plenty of time for governments to change their minds) while sales of engine-battery hybrids will continue and indeed will be necessary for drivers to have a chance of driving long distances. As noted by the World Platinum Investment Council last week, hybrids in their many varieties typically contain similar PGM loadings to conventional vehicles (and may in some cases have higher loadings), so perhaps the recent negative sentiment towards PGMs is overdone. It is likely that most hybrids will utilize gasoline rather than diesel engines as their gasoline engines' operational characteristics are better suited to use in hybrids than diesels – longer term the move towards gasoline hybrids is still somewhat negative for platinum demand, while being potentially positive in terms of palladium demand.

On the supply side, it was announced last week that South Africa's Bokoni mine will be put on care and maintenance by its majority shareholder Atlatsa Resources, removing up to 3% from South African annual supply. This follows Anglo American Platinum selling its 49% stake in the loss-making joint venture. Amplats will buy two prospecting rights from Altatsa and in return cancel Altatsa's outstanding debt. While this is a good example of production discipline being exerted by miners, it is unlikely to move the needle on the expected oversupply of platinum this year.

Northam Platinum, South Africa's fourth largest PGM producer, announced it has purchased the former autocatalyst recycling facility of A1 Specialised Services in the US for $10.7million. This move at a shot gives Northam exposure to spent autocatalyst waste streams and also the US market – given the makeup of US vehicles this mainly increases the amount of palladium Northam will process. At its peak, A1's facility was processing around 300 koz per annum of PGM, and this will make a meaningful contribution to Northam's output.

Palladium

Palladium reaches new 7-week highs of $899 on positive investor sentiment and strong industrial demand. Palladium remains at a 5-6% discount to platinum, with just ~$50 between the two metals

The palladium market is tightening once again: forwards are heading deeper into backwardation territory while spot prices are back to 7-week highs. The superficial cause of this is much the same as it was when prices reached 16-year highs in June: a fundamental shortfall of mined and recycled supply versus strong and growing demand, plus speculative investors mopping up metal for immediate delivery in the hope of moving prices higher. Having taken profit in June, it appears that the speculators are back again – NYMEX non-commercial net long spec positioning reached a 3-week high last week and cut their short exposure for the fifth week in a row, while ETF holdings showed steady inflows during July, with similar (albeit larger) moves in the OTC market. This may turn out to be a month-end phenomenon, with investors taking profit in August, however market conditions are expected to remain fairly tight.

Norilsk Nickel, the world's largest palladium producer, reported its quarterly production yesterday – announcing a 41% QoQ jump in palladium output in the second quarter to 781 koz. This was however a pipeline effect whereby concentrate was stockpiled in the first quarter due to a reconfiguration of processing operations between the Kola and Polar divisions and for the half-year as a whole, palladium production was flat at 1.33 Moz. While the earlier stockpiling undoubtedly played a part in the extreme tightness in the market in May and June, the company is not expecting any disruption in the remainder of the year and expects to meet its previous guidance of 2.64-2.73 Moz of palladium sales to the market. Though there has been some speculation in the market that part of the run up in the price is related to investor positioning for potential supply disruption out of Russia after Congress and the Senate approved sanctions against state-owned Russian companies, this is unlikely to be a real threat. The measures are still to be signed into law by the president and although the bill includes some state-owned mining companies, Norilsk Nickel is not one of them and as a private company is not likely to be targeted.

Anglo American Platinum, the largest South African producer, reported last week that its refined production rose 11% to 727 koz in the first half (again this was largely due to a favourable comparison with H1 2016 when Amplats' refinery was disrupted). Nonetheless mined supplies from South Africa are also expected to remain flat overall which will help keep the market in a significant deficit, just as has been the case for the last 5 years. This may mean that the current squeeze in the market has further to run as investors drive up the price and metal for immediate delivery becomes less easily available.

Finally, a word on China: the country's official purchasing managers' index came in at 54.1 for July – slightly below the previous month's reading of 51.7 and economists' expectations of 51.5 but still above 50 and therefore signifying reasonably strong expansion. The July reading was nonetheless higher than the average for the first half of the year and metal prices appear to have reacted to this, with copper rising to 2-year highs of $6,400/t and palladium, as a key industrial metal with heavy demand in the country, rising highs of almost $900.

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Gold

Gold is at a critical juncture, having just broken out of a long term downtrend by closing above the monthly trend line that can be traced back to the all-time high of 2011. It is in danger of short term profit taking, however, and if US jobs and PMI data show strength this week a resurgent dollar will weigh on prices

Gold moved higher last week on the fall in the US dollar and renewed safe haven buying, making strong gains despite US equities reaching new all-time highs and the yield environment giving no particular relief to bullion. The COMEX non-commercial net long position jumped by almost 3 Moz (40%), the biggest weekly bullish change in positioning in two months, largely on the back of a 2.7 Moz reduction in gross short positions. Gross shorts are still elevated at 79% of the all-time high, at 16 Moz. A 226 koz increase in gross longs also helped gold. While the move in short covering was significant, net longs are still at 10.3 Moz – only 69% of the 2017 average and 30% of the all-time high.

Silver

Silver continued to trace a decent recovery, rising to a 4-week high of $16.82 last week and making further modest gains in this week's trading as it broke above the downtrend line that has been in place since April

Silver continued on its uptrend last week, rising at a faster rate than gold and hitting 3-week highs relative to the yellow metal. With the gold: silver ratio now firmly back below 76, silver looks to make further gains in the coming days and may dip below the 75 level. As we illustrate in our technical analysis section, silver has undergone a bullish breakout from a medium term downtrend and should show further upside from here, though gains may be capped as silver reaches overbought territory.

Speculative net long silver futures positioning on COMEX rose to a 3-week high of 148 Moz last week thanks to 51 Moz of short covering (the biggest cut to the gross short book since late May) which more than offset a 13 Moz decline in gross longs. The gross short book, at 430 Moz, still remains at 89% of the all-time high and almost twice as high as the year to date average and we believe there is further scope for short covering from here, which would be supportive of the price. Silver ETF holdings rose by 2% overall in July as investors became modestly more bullish. Buyers of US Mint silver 'Eagle' coins pushed up demand for silver in July, purchasing 2.2 Moz – a similar amount to June's total and the third best month since November.

ECONOMIC CALENDAR: Source – Mitsubishi from Bloomberg

31-Jul	1-Aug	2-Aug	3-Aug	4-Aug
US: Chicago PMI (prev. 65.7, exp. 60.0). Pending home sales (MoM prev. -0.8%, exp. 1.0%).	**Japan:** Nikkei Manufacturing PMI (prev. 52.2). Vehicle sales (prev. 9.7%). **China:** Caixin Manufacturing PMI (exp. no change at 50.4). **EU:** Eurozone manufacturing PMI (exp. no change at 56.8). GDP (YoY prev. 1.9%, exp. 2.1%). **US:** Personal income (exp. no change at 0.4%), Personal spending (exp. no change at 0.1%). Markit US Manufacturing PMI (prev. 53.2, exp. 53.1). ISM manufacturing (prev. 57.8, exp. 56.4). Construction spending (prev. 0.0%, exp. 0.5%). New vehicle sales (annualised, prev. 16.41m, exp. 16.8m).	**Japan:** Change in monetary base (YoY 17.0%). **US:** MBA mortgage applications (prev. 0.4%). ADP employment change (prev. 158k, exp. 190k). San Francisco Fed President Williams speaks on monetary policy	**EU:** Retail sales (YoY prev. 2.6%, exp. 2.5%). **UK:** Bank of England Base Rate (exp. no change at 0.25%). BoE inflation report **US:** Initial jobless claims (prev. 244k, exp. 240k). Markit composite PMI (prev. 54.2). Factory orders (prev. -0.8%, exp. 2.8%). Durable goods orders (prev. 6.5%, exp. 6.0%).	**US:** Change in non-farm payrolls (prev. 222k, exp. 180k). Unemployment rate (prev. 4.4%, exp. 4.3%). Labour force participation rate (prev. 62.8%). Trade balance (prev. -$46.5bn, exp. -$44.8bn).

Mitsubishi Corporation International (Europe) Plc

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DATA BANK: Updated 10.00

Metal Price Indications (US$/oz)	Platinum	Palladium	Gold	Silver
Current spot price	944	890	1,269	16.81
Change from yesterday's close (%)	0.59	0.43	0.06	-0.06

Metal Forward Swap Indications (basis points)	1m	3m	6m	12m
Platinum				
Mid point of spreads	135.00	135.00	127.00	132.00
Daily change	0.00	0.00	-8.00	-1.00
Palladium				
Mid point of spreads	-400.00	-400.00	-400.00	-400.00
Daily change	0.00	0.00	0.00	0.00
Gold				
Mid point of spreads	140.00	143.00	146.00	149.00
Daily change	1.00	0.00	0.00	0.00
Silver				
Mid point of spreads	146.00	154.00	161.00	173.00
Daily change	0.00	1.00	1.00	-2.00

PGM Sponge Indications ($/oz)	JMUK sponge vs. Zurich ingot switch
Platinum	
Mid point of spreads	2.00
Palladium	
Mid point of spreads	0.00

LIBOR (%)	1m	3m	6m	12m
USD LIBOR Indication	1.23	1.31	1.46	1.73
Daily change	0.00	0.00	0.00	-0.00

Foreign exchange indications	EUR / USD	USD / JPY	ZAR / USD	DXY
Latest	1.18	110.38	13.19	92.88
Daily change (%)	-0.08	0.03	0.38	-0.02

Non commercial futures				
As at 28th July 2017	Platinum	Palladium	Gold	Silver
Net long position (Moz)	0.8	2.0	10.3	147.7
Weekly change (%)	8.0	0.4	40.0	34.8

Exchange Traded Funds	Platinum	Palladium	Gold	Silver
Total holdings (Moz)	2.5	1.5	66.3	677

Physical flows in China	Platinum		Gold	Silver
SGE turnover (kg)	38		28,610	4,800
Comparison with 30-day average (%)	-80		144	253
Local premium /discount (%)	7.0		0.6	
Daily change (%)	107.0		100.6	

PGM basket price indications	
USD basket price per ounce	937
Daily change (%)	0.5
ZAR basket price per ounce	12,351
Daily change (%)	0.1

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TECHNICAL ANALYSIS: Source – Mitsubishi from Bloomberg

Platinum

The downtrend channel since the highs of February was broken late last week as platinum broke up above the 50 day moving average and the first Fibonacci retracement of the March high to July low and went on to challenge the 100 DMA at $939. A break above the 38.2% retracement at $950 and the 200 day moving average, currently at $951/2, would be a bullish development and would open up a trading channel up to the 50% retracement at $967/8.

Palladium

Palladium remains well supported above the 50 day moving average and continues to trace a series of higher highs. Resistance was found at the $900 psychological level yesterday but we are likely to see this level challenged again in the coming days. If palladium manages to get above $900 it could challenge the 16-year spot high of $928 seen in June. Support lies at $860/1, 38.2% Fibonacci retracement of May low to June high.

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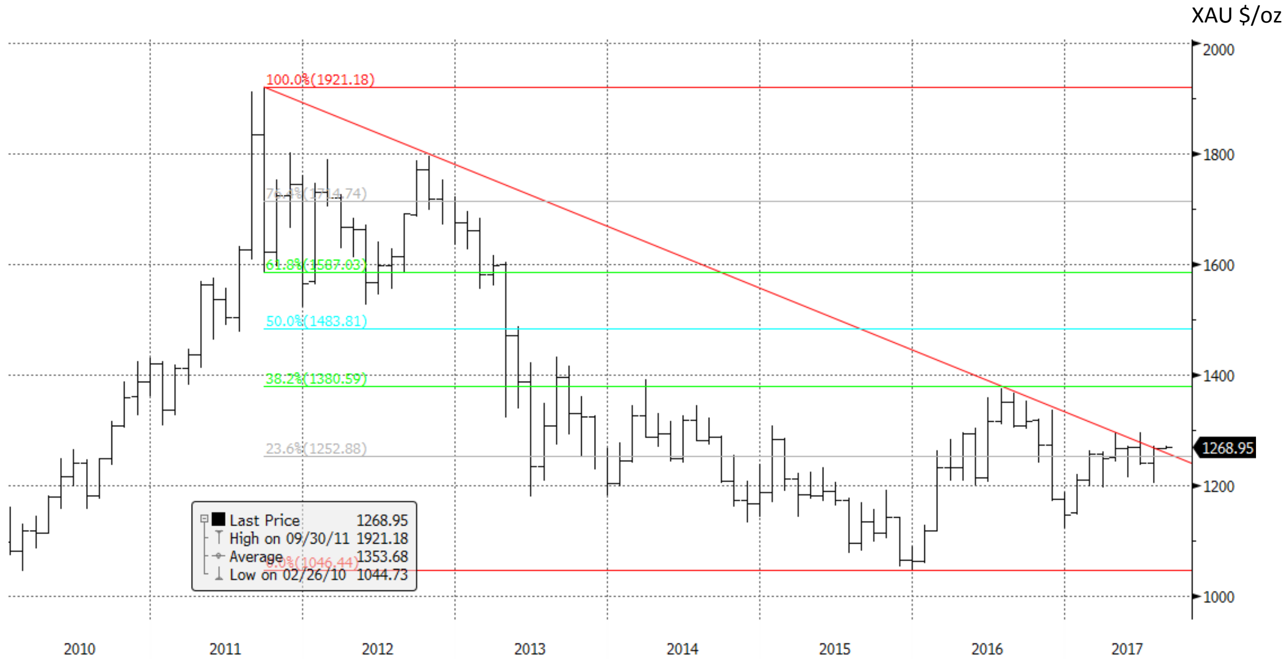
Gold

Gold just broke out of a long term downtrend line formed by a series of lower highs since the 2011 nominal high. This is a significant bullish development: gold has never before closed above this trendline and the move now puts it into a trading range of between $1,252/3 and $1,380/1 (23.6% and 38.2% Fibonacci retracements of 2011 high to 2015 low respectively.



Silver

Silver has broken above the 50 DMA and also the downtrend that has prevailed since the year-to-date highs of $18.65 seen in April. This bullish development opens up an immediate resistance level at $16.92 (50% retracement of April high to July low) and above that the 100 and 200 day moving averages which lie in close proximity on either side of $17.10. Above this, resistance comes in at $17.33 (61.8% retracement) but silver is in danger of moving into overbought territory at that level. Support remains at $16.51.

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Spot Forwards Leases Futures Options Swaps
Gold Silver Platinum Palladium Rhodium Ruthenium Iridium

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