

Precious Metals Weekly Update

WEEK IN REVIEW: Fire and Fury

The war of words between the US and North Korea escalated this week with comments from President Trump that the US would meet threats made by North Korea “with fire and fury like the world has never seen”. This has been sufficient to give something of a bid to gold and other safe haven assets, with bullion rising to 2-month highs of \$1,279, and has awoken the VIX ‘fear index’ from its recent slumber. The escalation of rhetoric between the two countries increases the chances of a confrontation and we may see further safe-haven inspired gains for gold in the coming days. After reaching a 15-month low against a basket of major traded currencies last week, the dollar has begun to recover from oversold levels and may also extend its rally fueled by geopolitical concerns – this could prove to be a headwind to further gains in dollar precious metal prices. With little on the macroeconomic calendar in the dog days of the northern hemisphere summer, US domestic and geopolitical spats could take centre stage and are likely to be generally supportive of precious metals. The one data point this week that could move the needle on gold is Friday’s US CPI reading – if as expected it shows an uptick towards the 2% inflation level it could lead to a rally in yields and damage gold; equally a stalling of inflation could push back expectations of rate rises and help bullion. The Jackson Hole Economic symposium in late August could also be a turning point, if the European Central Bank as expected announces a dialing back of quantitative easing – while this would be modestly supportive of gold if it means the dollar loses ground to the euro, any consequent rally in Eurozone bond yields could weigh on gold as a non-interest bearing asset.

Platinum

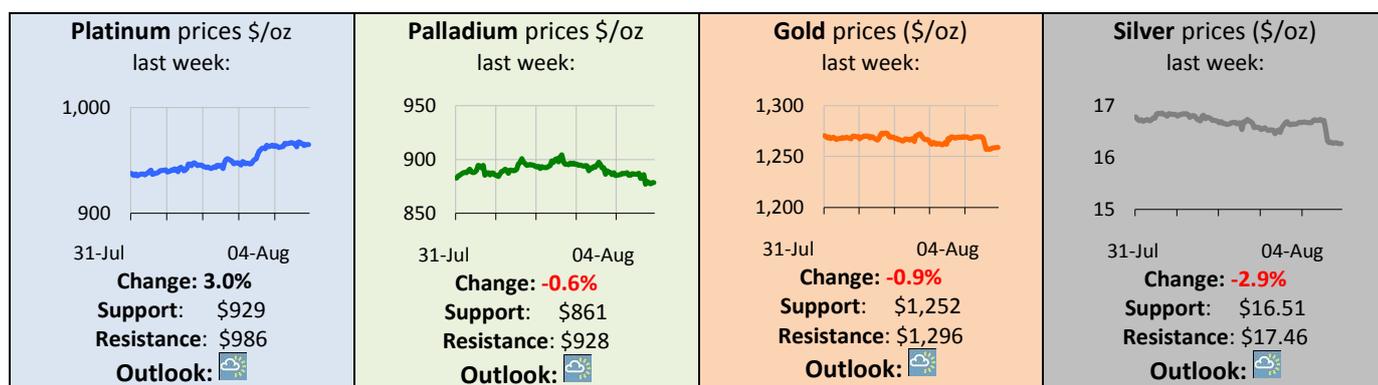
Platinum has broken above the half way point of its year to date high to low range and is looking to make further gains as investor sentiment becomes more positive

Platinum had its best weekly performance since January, rising \$28 (3%) last week and breaking out above the half way point of the year to date high to low move, at \$968. Platinum has since made further gains and is looking to break out above the next technical resistance level at \$986 and may go on to challenge the \$1,000 psychological level. Though the technical uptrend has been in place since mid-July, market sentiment towards platinum received a boost last week after an agreement between the German government and the country’s automakers to cut diesel vehicle emissions. Carmakers will update software in up to 5 million Euro-5 era cars, resulting in NOx emissions reductions of 25-30%. In return, regulations banning these vehicles from certain cities and regions will be staved off. While the updates to software will not affect the platinum loadings on these older cars, the move is important in terms of perceptions and public acceptance of diesels, and ergo platinum’s future demand prospects.

A bullish repositioning towards platinum was evident in the NYMEX non-commercial futures market, which saw the biggest increase in gross long positioning since mid-July and a third straight weekly reduction in the gross short book, which has taken the net long position to a 7-week high of 913 koz in the period to 1st August. The gross short book remains at 80% of the all-time high, with further scope for prices to be supported by short covering in the near future.

President Zuma of South Africa narrowly survived a motion of no-confidence in the country’s parliament yesterday – following three motions of no confidence in the president that have been voted on in the past two years, this was the first to have taken place via a secret ballot and was for the first time supported by 30 parliamentarians belonging to the president’s party. The rand retreated to a 1-month low against the dollar after the news. Yesterday’s development should ensure President Zuma sees out his final term, which ends in 2019, but there is likely to be a turbulent power struggle this December when the new leader of the ANC, and the party’s next presidential candidate, is chosen. While political turmoil in South Africa is not good news for the country’s investment environment, a weaker rand helps producers by driving up the local price of PGMs - rand denominated platinum prices hit a 4-month high of ZAR 13,165/oz earlier today while palladium prices are currently at an all-time record high of ZAR 12,000/oz.

South Africa’s third largest producer Lonmin this week announced a new strategic direction which will see the company sell up to 500 koz of excess processing capacity, seek partners for its mothballed K4 shaft and its undeveloped Limpopo and Akanani projects and seek funding partners for the MK2 project to guarantee the survival of the Rowland operation. Lonmin will in addition cut overhead costs by ZAR500 million (\$37 million) in the year to September 2018. This news was well received by the market and Lonmin’s share price jumped by over 10%. These plans not only offer to increase Lonmin’s cashflow and maintain its ~700 koz platinum production profile but also allow additional flexibility for other players to process concentrate at Lonmin and buy into longer term projects.



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Palladium

Despite strong industrial and investment demand and no signs of easing in the tight forward market, palladium's gains have been capped this week at the \$900 resistance level

Palladium prices hit spot highs of \$907 last week, the highest since mid-June and look to be challenging those levels once again this week. Though palladium underwent some profit taking late last week it has since recovered and once again is underpinned by solid industrial and investment demand. NYMEX non-commercial net long futures positions reached 5 week highs of 2.1 Moz in the week to 1st August amid renewed speculative interest – a 200 koz increase in bullish gross long positions (the biggest weekly increase since early June) wholly offset a modest (26 koz) increase in gross short bets. Nonetheless, the advance in the short book was significant in that it was the first time since late June that investors increased their short exposure. As palladium continues to ride high it may come under increasing pressure from speculative profit taking.

Passenger car sales in China increased by 5.5% to 1.7 million vehicles in July according to the China Passenger Car Association. In the first seven months of 2017 as a whole, sales were 0.6% higher than the same period last year, at 12.5 million units. This growth in sales is good news for palladium offtake in gasoline emissions control, all the more so since this year represents the first that China 5 emissions regulations have been fully implemented across the country, resulting in an uplift in average catalyst loadings.

Gold

Gold is pushing towards 2-month highs on heightened geopolitical concerns and looks like it could head higher in the near term. A stronger dollar may represent headwinds however

Gold prices retreated by around \$15 to a 1-week low of \$1,256 last Friday after the US non-farm payroll figure beat expectations, with new job creation in July totalling 209k against expectations of 180k. The dollar bounced higher on the news, coming off its recent 15-month lows below 93 on the DXY measure against other major currencies. While the dollar has continued to gain ground this week, so too has gold – with both supported by rising geopolitical tensions surrounding North Korea. After hitting new record highs yesterday, US equities began to fall and the VIX volatility index estimate of future volatility tracked to a 1-month peak.

Speculative investor interest in gold was already elevated and is likely to grow further from here in the short term. In the week to 1st August, speculative long positioning increased by 1.8 Moz (6.9%) – the largest increase since early June. Gross short positions were also cut for a third straight week, though with the gross short book still at 68% of the all-time high (13.8 Moz) there is scope for further short covering.

In the physical markets, imports of gold into India continued at a high level in July, according to data reported by Bloomberg, with gross imports rising to 1.7 Moz. In the first seven months of 2017, gross imports into India have risen by 25% to 18.7 Moz. As the World Gold Council pointed out in their latest quarterly demand trends report last week, gold jewellery demand in India drove global gold jewellery offtake growth almost single-handedly in the second quarter, with demand in the country increasing by 41% in Q2 to over 4 Moz. Bar and coin demand similarly showed a strong increase by 26% to just over 2 Moz in the second quarter. In the second half, the introduction of the 3% government sales tax is expected to cause some near-term disruption among importers, manufacturers, retailers and the buying public as purchases that took place in Q2 ahead of the sales tax introduction effectively cannibalise second half sales. However, there could be some new buying ahead of the October wedding and festival season.

As reported by the London Bullion Market Association (LBMA) earlier this month in its drive towards greater transparency, there were 7,449 tonnes of gold sitting in loco London vaults and 32,078 tonnes of silver as of the end of March this year: these physical holdings include gold held by the Bank of England on behalf of the UK Treasury and other central banks (gold held at the Bank of England is believed to account for around two thirds of loco London bullion). Collectively, these holdings underpin the gross daily trading and net clearing of gold and silver in the over-the-counter market in London. The data will be updated monthly (with a 3-month time lag) by the LBMA in future and we will analyse trends in these physical holdings in due course as the dataset grows.

Silver

Silver gave back nearly half of its gains since mid-July last week, dropping by almost half a dollar (2.7%). It has found itself on the up again this week and will soon challenge the \$17 level.

Silver came under heavy selling pressure late last week after the unexpectedly strong US non-farm payrolls reading for July. Renewed geopolitical concerns centring on North Korea have seen silver make strong gains today, despite a rising dollar, and we expect further gains are possible beyond the early August high of \$16.94.

While gross long silver futures positioning on COMEX remained steady last week, there was another substantial (51 Moz) cut in the gross short book, which helped push the net long position to a 5-week high of 198 Moz. There is still considerable scope for further short covering from here – since the gross short book remains at an elevated 79% of the all-time high at 380 Moz, which should be price supportive in the near term.

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DATA BANK: Updated 17.45 on 9th August

Metal Price Indications (US\$/oz)				
	Platinum	Palladium	Gold	Silver
Current spot price	972	891	1,272	16.87
Change from yesterday's close (%)	0.16	-0.90	1.26	2.76
Metal Forward Swap Indications (basis points)				
	1m	3m	6m	12m
Platinum				
Mid point of spreads	135.00	135.00	132.00	137.00
Daily change	0.00	0.00	-3.00	-3.00
Palladium				
Mid point of spreads	-300.00	-300.00	-300.00	-300.00
Daily change	0.00	0.00	0.00	0.00
Gold				
Mid point of spreads	139.00	142.00	143.00	151.00
Daily change	-1.00	0.00	#VALUE!	#VALUE!
Silver				
Mid point of spreads	148.00	153.00	161.00	173.00
Daily change	0.00	0.00	0.00	-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	1.45	1.73
Daily change	0.00	-0.00	0.00	0.01
Foreign exchange indications				
	EUR / USD	USD / JPY	ZAR / USD	DXY
Latest	1.17	110	13.46	93.65
Daily change (%)	0.09	0.45	-0.52	-0.01
Non commercial futures				
As at 1st August 2017	Platinum	Palladium	Gold	Silver
Net long position (Moz)	0.9	2.1	13.8	198.3
Weekly change (%)	19.5	8.9	38.7	34.3
Exchange Traded Funds				
	Platinum	Palladium	Gold	Silver
Total holdings (Moz)	2.5	1.5	66.2	672
Physical flows in China				
	Platinum		Gold	Silver
SGE turnover (kg)	22		28,610	3,030
Comparison with 30-day average (%)	-88		159	90
Local premium /discount (%)	7.0		0.6	
Daily change (%)	107.0		-25.4	
PGM basket price indications				
USD basket price per ounce	956			
Daily change (%)	-0.1			
ZAR basket price per ounce	12,866			
Daily change (%)	0.4			

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TECHNICAL ANALYSIS: Source – Mitsubishi from Bloomberg

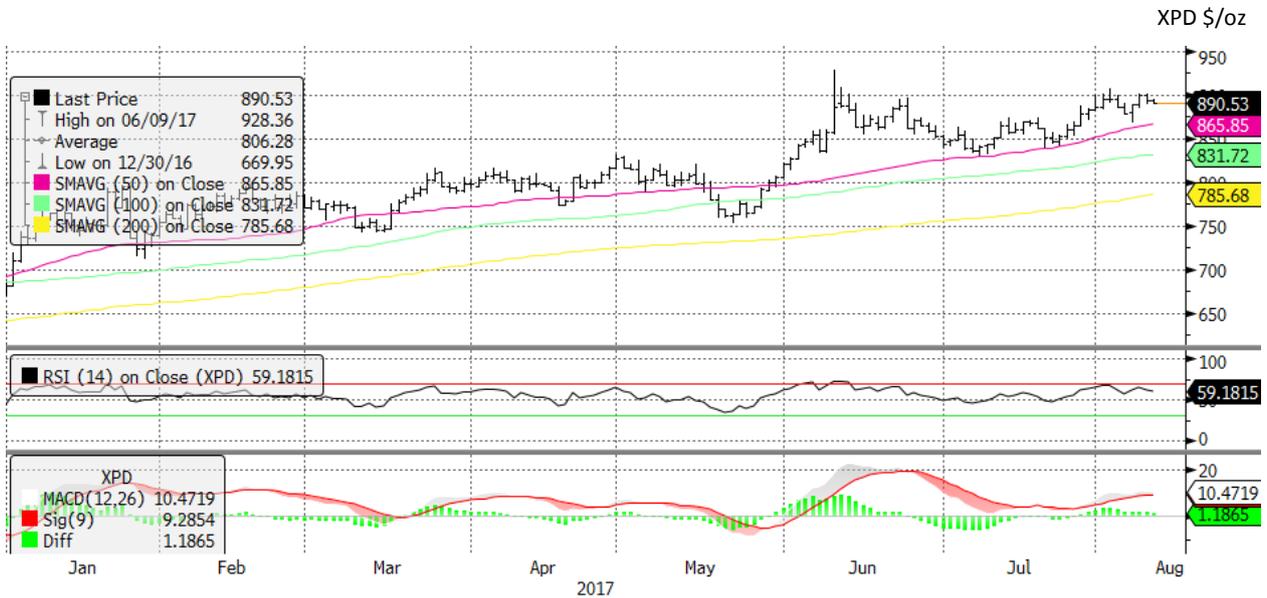
Platinum

Platinum has now broken above the 200 DMA and the 50% Fibonacci retracement of the March high to July low and continues to be supported on the uptrend that has prevailed since mid-July. Next resistance is at \$986 (61.8% Fibonacci retracement) and above that the \$1,000 psychological level.



Palladium

Palladium's recent gains have been capped at the \$900 resistance level, but prices appear to be consolidating ahead of another move higher that will bring in vogue the recent 16-year high of \$928.



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Gold

Gold is now in the upper quartile retracement of the December low to April and June double top and looking to break out of a downtrend since last year's highs. Resistance is marked by this double top formation at \$1,296. The uptrend since early/mid July remains intact and gold remains above the major moving averages, with further near term gains likely



Silver

Silver is challenging the 100 and 200 day moving averages, which lie roughly coincident at \$17.00. Next resistance is \$17.46 (38.2% Fibonacci retracement of 2016 high to 2017 low, which the long term downtrend also intersects).



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<i>Spot</i>	<i>Forwards</i>		<i>Leases</i>		<i>Futures</i>	<i>Options</i>	<i>Swaps</i>
<i>Gold</i>	<i>Silver</i>	<i>Platinum</i>	<i>Palladium</i>	<i>Rhodium</i>	<i>Ruthenium</i>	<i>Iridium</i>	

PRECIOUS METALS CONTACTS:**Mitsubishi Corporation RtM (Europe) a division of Mitsubishi Corporation International (Europe) Plc – London****Vice President**

Masaki Komi +44 (0)20 7025 3103 masaki.komi@mitsubishicorp.com

Trading

Peter Roberts +44 (0)20 7025 3204 peter.roberts@mitsubishicorp.com

Tony Hill +44 (0)20 7025 3202 anthony.hill@mitsubishicorp.com

Marketing

Greg Hill +44 (0)20 7025 3195 gregory.hill@mitsubishicorp.com

Robert Padden +44 (0)20 7025 3207 robert.padden@mitsubishicorp.com

Strategy / Business Development

Jonathan Butler +44 (0)20 7025 3221 jonathan.butler@mitsubishicorp.com

Mitsubishi Corporation RtM Japan Ltd – Tokyo**Trading (Dealing Head)**

Kota Ikenishi +81 3 5221 1953 kota.ikenishi@rtm.mitsubishicorp.com

Mitsubishi Corporation RtM (Americas) a division of Mitsubishi International Corporation – New York**Dept. Manager**

Mitsuru Kusakabe +1 212 605 2130 mitsuru.kusakabe@mitsubishicorp.com

Marketing

Joseph Brooks +1 212 605 2169 joseph.brooks@mitsubishicorp.com

Niel Taitt +1 212 605 2166 niel.taitt@mitsubishicorp.com

Randy Weirnerman +1 212 605 2145 Randy.Weirnerman@mitsubishicorp.com

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