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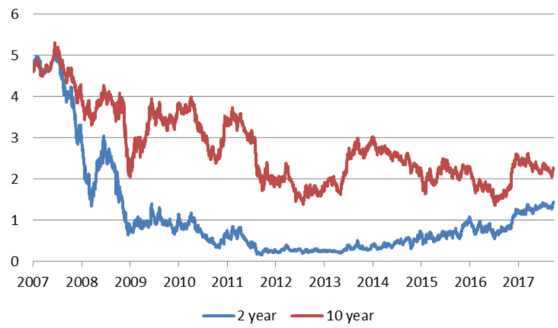
Precious Metals Weekly Update

25th September 2017

WEEK IN REVIEW:

Gold continues to tread water under $1,300 since experiencing heavy selling last week after the US Federal Reserve confirmed it would start to scale back its $4.5 trillion balance sheet in October. This 'quantitative tightening' (QT) will most likely be followed by an interest rate rise in December and three further rate hikes in 2018, according to the Fed's latest quarterly forecast. Fixed income markets appeared to be caught off-guard by the Fed's move, despite the central bank leaving its forecasts largely unchanged and repeating the guidance it has been giving for the last several months. Amid selling of US government debt securities, yields on the 2-year US Treasury note rose to 1.45% - the highest since 2008. The resulting flattening of the spread between 2 and 10 year US Treasury yields (close to the lowest since the financial crisis) illustrates how investors are rotating out of what is perceived as riskier short term government debt and into longer term securities – a factor that should be positive for gold as a traditional safe haven. Ongoing political and economic risks, from North Korea's nuclear ambitions to the second installment of the US debt ceiling crisis ahead of its December expiry, help explain why gold has not retreated further in recent days and ought to stay well supported, and will most likely once again break above $1,300 again if the dollar stays weak.

2 year and 10 year US Treasury yields (%)



Source: Mitsubishi from Bloomberg

Platinum

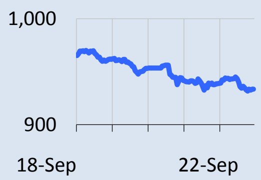
Platinum fell to a 2-month low of on Friday, closing the week at $936, having lost some 9% since its highs of just two weeks ago

After reaching a 6-month spot high of $1,023 on 8th September, up until today platinum has not seen a single day of gains. Investors have once again turned bearish and platinum has reached new all-time lows against gold (a 28% discount). The backdrop of negative sentiment towards diesel cars appears to have swayed investor sentiment to the downside, though reports of the 'death of diesel' are overdone and there are some encouraging signs that the South African supply side is tightening.

In its latest quarterly review, the World Platinum Investment Council highlighted the important role diesels and therefore platinum demand have in meeting forthcoming European vehicle carbon reduction targets in 2021. If diesel's market share were to fall to 15% by this date, as is projected by some pessimistic scenarios, battery electric vehicles would have to make up 16% of the European vehicle market share in order to meet the CO_2 targets – this seems unrealistic in just 4 years' time from today's current <2% level. If the CO_2 targets are missed, European automakers face fines potentially adding up to many billions of euros. To avoid these fines, automakers are likely to keep a substantial portion of diesel vehicles in their fleet – and potentially will increase PGM loadings to deal with NOx emissions as Daimler appear to be planning to do with their latest-generation diesels.

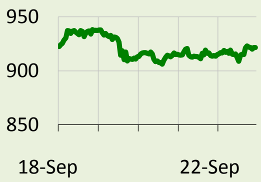
Johnson Matthey's announcement last week that it intends to become a key player in the development of advanced batteries for electric vehicles via £200m of investment starting next year grabbed many headlines and was seen by some as further evidence of the end of internal combustion engines and a major source of PGM demand. However JM highlighted that PGM catalysts will still be used in hybrid vehicles and heavy duty diesel engines, and that more complex PGM catalysts as a result of ever-tightening regulations will drive future value creation for the group.

Platinum prices $/oz
last week:



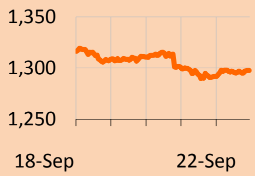
Change: -3.6%
Support: $890
Resistance: $967
Outlook:

Palladium prices $/oz
last week:



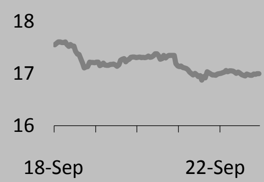
Change: 0.3%
Support: $861
Resistance: $1,000
Outlook:

Gold prices ($/oz)
last week:



Change: -1.7%
Support: $1,270
Resistance: $1,320
Outlook:

Silver prices ($/oz)
last week:



Change: -3.5%
Support: $16.50
Resistance: $17.50
Outlook:

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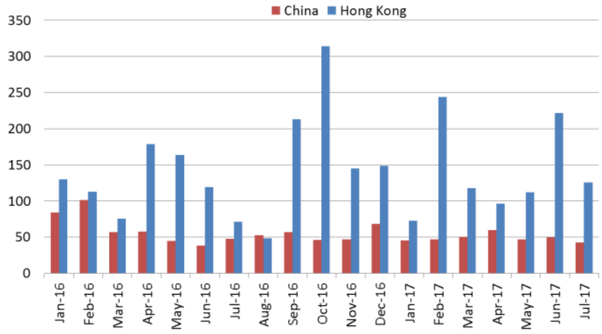
On the supply side, Impala Platinum recently reported a fourth annual loss and commented that low metal prices and rising costs may cause it to sell or rationalize some of its assets, which would follow the recently-announced closure of the Bokoni Platinum Mine by Anglo American Platinum and Atlatsa. While some parts of the industry, particularly Northam Platinum, present a strong growth proposition, other operators are planning to scale back operations in response to the current price environment which will keep output from South Africa roughly flat in future.

Palladium

Palladium has continued to come under selling pressure since reaching 16-year highs of $1,000 three weeks ago. Palladium is currently finding support above the 50 day moving average, which has put it on a short term uptrend since last week's sell-off

Investor sentiment towards palladium has not cooled much since the 16-year spot high of $1,000 was reached on 4th September. ETF holdings, which grew strongly in August, have held up well with not much appreciable profit taking, while gross length on NYMEX, having fallen by 11% in the two weeks to 19th September, still remains at 75% of the all-time high at 2.8 Moz, with net positioning remaining similarly elevated. A large part of the tightness in the palladium market, which is keeping forward rates deeply in backwardation, we believe relates to physical demand in China. Official imports into Hong Kong, one of the principal routes for palladium to reach the mainland increased by 16% in the first seven months of the year for which data is available. Much of this metal is likely to be used in the autocatalyst industry and, as such, represents effectively a terminal market from which metal remains in a 'closed loop' of being refined and re-used within Greater China and therefore never returns to the global market. In addition, there could be some speculative positioning by Chinese investors both locally in Asia and potentially in metal physically vaulted in Zurich. Though it is difficult to quantify this over-the-counter (OTC) trade, it makes intuitive sense since the physical tightness in palladium has been particularly marked in the ingot form of the metal and premia on palladium sponge as used by industry have therefore largely been flat. We foresee the current palladium market tightness as prevailing due to strong supply-demand fundamentals, though it remains possible that investors could take profit, especially if palladium reaches a premium against platinum.

Gross imports of palladium into Greater China:



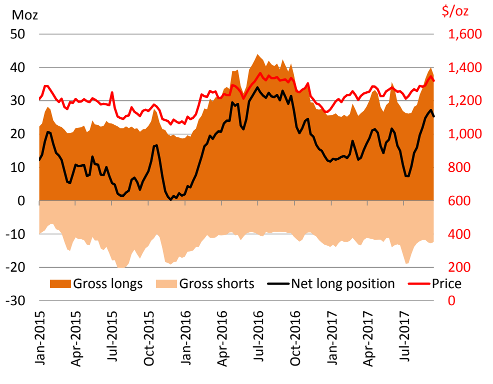
Source: Mitsubishi from GTIS

Gold

Gold comes under selling pressure and slips below $1,300 but remains supported above last week's lows

Gold reached a four-week spot low of $1,288 on Thursday after last week's FOMC meeting in which the Fed committed itself to balance sheet reduction and a December rate hike. Having spent the last several months signaling its intentions and having left its updated quarterly forecast essentially unchanged, the scale of the market reaction to the Fed was somewhat surprising, with short dated Treasury yields jumping higher and the dollar recovering some ground, though remaining below the key 93 resistance level on the DXY index. Gold recovered some ground by the end of the week on renewed North Korean tensions but remained below the key $1,300 level. Concerns over the rise of the far right in the German election this weekend have taken some of the shine off the euro and led the dollar to advance in relative terms, putting gold under further pressure this morning. Investor futures positioning was cut on a gross basis by 6% in the week to 19th September (just before the Fed reported) but overall remained quite elevated at 25 Moz (74% of the all time high). Further reductions in long exposure are likely to have taken place since but we anticipate that many investors view gold as a haven amid ongoing political and economic risks and the need to hedge excessive equity market length.

COMEX non-commercial futures positioning in gold: **Source:** Mitsubishi from CFTC



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The Fed funds futures market currently gives a roughly 60% chance of a December rate hike, up from just a one-in-three chance earlier this month, which shows that the market is slowly aligning with the Fed's intentions. The Fed is unlikely to pull the trigger on another rate hike until the market is fairly unanimous in its acceptance of the Fed's intentions – and the current futures market shows there is still a little way to go before the rise is fully priced in, which could mean some downside for gold in the coming weeks as this gets priced in. Against this, political and economic tensions continue to run high, not least between the US and North Korea, while domestically the Trump administration is likely to tie the effort to lift the debt ceiling in mid-December to attempts to reform the tax system and provide fiscal stimulus (and potentially also reform the healthcare system) which overall serves to increase the likelihood of a protracted and potentially damaging set of negotiations that could help support gold.

Notable in last week's revised summary of economic projections from the Fed was that the 2019 interest rate projection based on consensus forecasts was downgraded to 2.75% (from 3.00%) and the Fed's expects that PCE inflation will slow in 2018 to below the target of 2% - potentially giving the Fed some latitude to slow interest rate rises next year, which would keep macroeconomic conditions largely favorable to gold. There will be one more set of forecasts (in December) before Fed Chair Yellen is expected to step down – given that there are effectively five vacancies on the FOMC which are likely to be filled by next year, there is still considerable uncertainty over the future focus and direction of the Fed.

Gross imports of gold into India rose 76% YoY to 1.47 Moz in August, according to data released by the Commerce Ministry. The surge in imports last month came after a strong month in July (when imports rose by 111% YoY). These impressive yearly increases represented a slowdown compared with the February-May period when imports grew at an average monthly rate of 230%. Greater certainty over the tax and duty regime following the increase of GST to 3% in July as well as a return of confidence in the gold market after last year's demonetization initiatives appear to have released a wave of stock building by the industry. However local premiums remain in discount ahead of the traditionally strong wedding and festival season.

Silver

Silver prices dropped below the $17 level late last week to a four week low, and remain just below this level today. Support at the 100 day moving average is keeping silver supported for now and the crossing of the 50 DMA above the 100 DMA gives some potential for upside from here

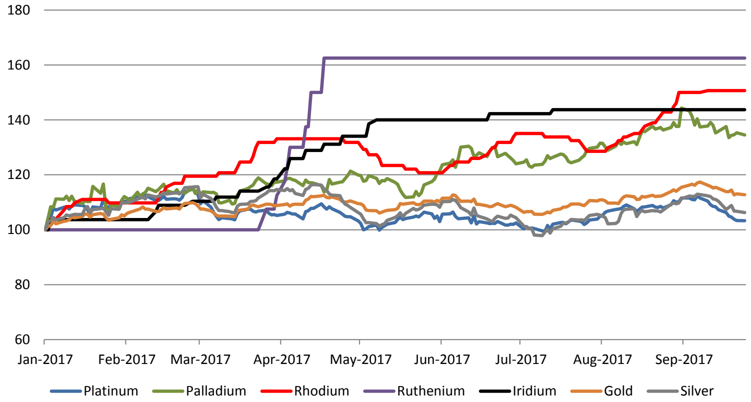
Bearish gross short speculative positioning in silver COMEX futures rose for the first time since mid-July last week, as investors grew increasingly uncomfortable with the recent downwards move in prices. Gross long speculative positions also declined for the first time in a month, though aggregate gross long positions remained at an elevated 80% of the all-time high (617 Moz). This indicates there is probably further scope to reduce long holdings, especially after last week's perceived hawkish Fed announcements, which could weigh on silver prices in the days ahead.

It was announced last week that ICE Benchmark Administration, part of Intercontinental Exchange (ICE), will take over the running of the LBMA Silver Price as of 2nd October. The banks UBS and the China Construction Bank will not take place in the new benchmark, however the broker INTL FCStone and electronic traders Jane Street Global Trading will take place in the electronic auction which will include centralized clearing to help widen participation.

OPGMs

The 'other' PGMs (rhodium, ruthenium and iridium) get a mention all too rarely in this report but it is worth noting that iridium and ruthenium have been among the best performing precious metals this year. Ruthenium's performance has been flattered by the fact it increased by only $22 but off an extremely low base of $43 (close to the cost of production). Iridium has had a more impressive $190 (24%) rally. These metals' outperformance this year mainly comes down to strong industrial buying: in particular for the manufacturing organic LEDs (OLEDs) based on iridium compounds and ruthenium's use in ammonia production. Both should continue to benefit from growth in demand in these areas as well as in water purification applications where both Ru and Ir are used together in electrolysis.
Water purification is an area of strong potential future demand if ship builders and operators adopt electrolysis systems for the treatment of ballast water to control harmful invasive species: regulations from the International Maritime Organization governing this recently came into force. If you would like more information on the minor metals, please get in touch.

Indexed precious metals performance where 1st Jan 2017 = 100: **Source:** Mitsubishi from Bloomberg



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25th September 2017

DATA BANK: Updated at 14.15 on 25th September

Metal Price Indications (US$/oz)

	Platinum	Palladium	Gold	Silver
Current spot price	930	919	1,293	16.90
Change from yesterday's close (%)	-0.33	-0.22	-0.34	-0.60

Metal Forward Swap Indications (basis points)

	1m	3m	6m	12m
Platinum				
Mid point of spreads	150.00	147.00	146.00	145.00
Daily change	5.00	2.00	1.00	0.00
Palladium				
Mid point of spreads	-200.00	-200.00	-200.00	-200.00
Daily change	0.00	0.00	0.00	0.00
Gold				
Mid point of spreads	145.00	150.00	153.00	160.00
Daily change	0.00	1.00	0.00	0.00
Silver				
Mid point of spreads	153.50	159.00	167.00	175.00
Daily change	-1.50	-4.00	1.00	0.00

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	1.24	1.33	1.50	1.78
Daily change	0.00	0.00	0.01	0.01

Foreign exchange indications

	EUR / USD	USD / JPY	ZAR / USD	DXY
Latest	1.19	112.22	13.30	92.57
Daily change (%)	0.58	-0.20	-0.33	-0.43

Non commercial futures

As at 19th Sept 2017	Platinum	Palladium	Gold	Silver
Net long position (Moz)	1.9	2.3	25.3	392.0
Weekly change (%)	-14.4	-7.7	-7.0	-7.4

Exchange Traded Funds

	Platinum	Palladium	Gold	Silver
Total holdings (Moz)	2.4	1.6	69.0	652

Physical flows in China

	Platinum		Gold	Silver
SGE turnover (kg)	416		28,610	960
Comparison with 30-day average (%)	95		103	88
Local premium /discount (%)	7.0		0.6	
Daily change (%)	107.0		100.6	

PGM basket price indications

USD basket price per ounce	952
Daily change (%)	-0.3
ZAR basket price per ounce	12,664
Daily change (%)	0.1

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TECHNICAL ANALYSIS: Source – Mitsubishi from Bloomberg

Platinum

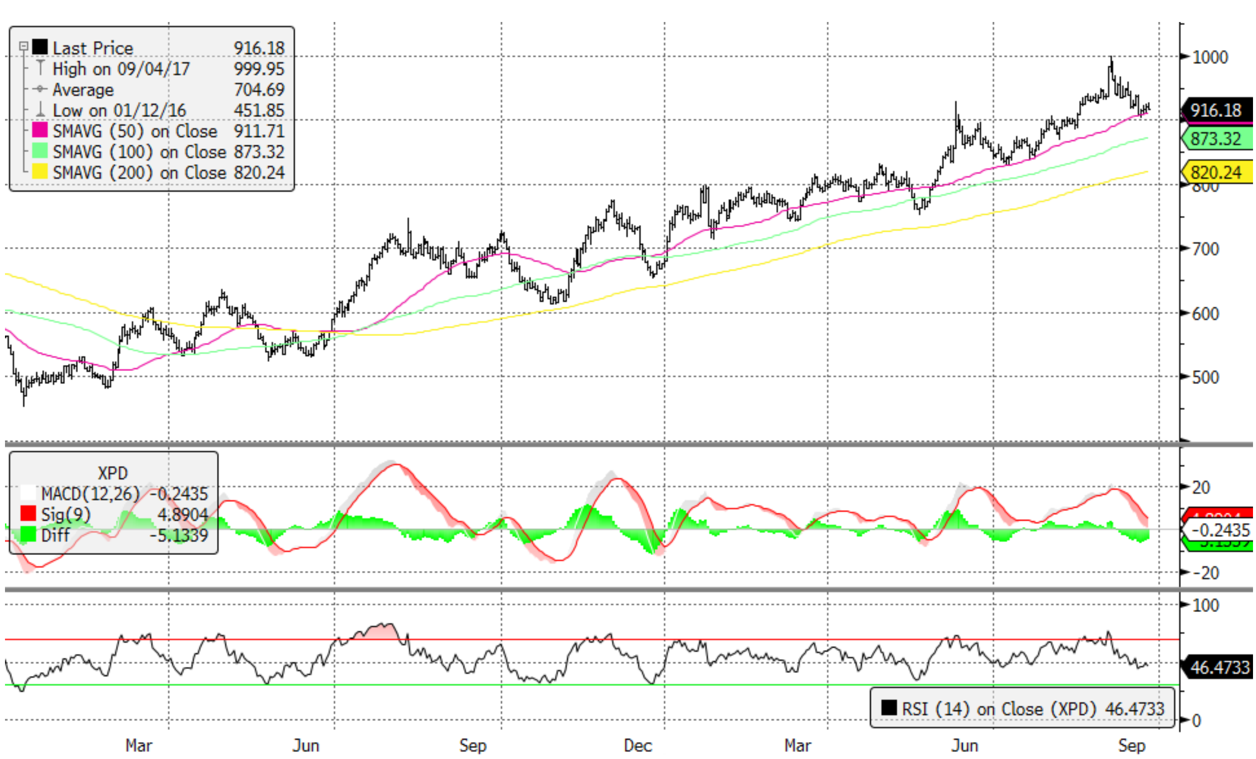
Platinum is now in the lower quartile of last year's high to the triple bottom formed by the lows of December, April and July. Having fallen below the 100 DMA at $948, platinum is now in danger of retreating back to the $900 level. However platinum is now entering oversold levels on the moving average convergence/divergence (MACD) and relative strength index (RSI) indicators) and could be ready to bounce higher.

XPT $/oz

Palladium

Palladium remains on a strong uptrend and for now remains supported by the 50 day moving average that comes in at $912. Having retreated from a 16-year high of $1,000 recently palladium is correctly in neutral territory on the technical momentum indicators, implying that palladium has room to move lower from here. We believe that palladium will remain on a medium term uptrend, however supported by strong supply-demand fundamentals.

XPD $/oz



Gold

Gold remains in a downtrend channel since the 13-month highs of $1,358 seen on 8th September. The $1,300 psychological support/resistance level has now been broken but gold has found support at the 50 DMA which currently comes in at $1,290/1. If gold breaks lower from here, support lies at the 100 DMA around $1,270 and below that the 200 DMA currently at $1,246.

Silver

Having dropped below $17 psychological support, silver is now challenging the 50% retracement of the year to date high to low, which comes in at $16.92. Silver is in a congestion zone between the major moving averages – since the 50 day moving average crossed above the 100 DMA (a 'golden cross' formation) we anticipate an upside breakout – however this normally bullish pattern was accompanied by two legs downwards in the last two weeks.

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25th September 2017

Spot *Forwards* *Leases* *Futures* *Options* *Swaps*

Gold *Silver* *Platinum* *Palladium* *Rhodium* *Ruthenium* *Iridium*

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