

Platinum Joins the Metals Rally

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Platinum is the value play in precious metals as gold continues to rally...there is limited downside given Pt prices are at historically low levels.

Platinum may claim 2019 as a turning point year despite a volatile first eight months. From the start of January to Friday, August 30, platinum's spot price has jumped **17.34%**.

Many indications point that platinum's multi-year period of stagnation may finally be ending. A year ago, I first wrote about The Platinum Opportunity, and we held the view that platinum was "too cheap to ignore." Since then, the metal has zig-zagged higher from \$791.21 (8/27/18) to \$917.10 (8/30/19), and we are seeing new headlines like "Is Platinum the New Gold?"

Figure 1. The Precious Metals Rally Gains Steam...Platinum Joins In

Periods Ending Friday, August 30 2019

Asset	YTD	1-YR
S&P 500 TR (\$USD)	15.34%	2.92%
Spot Gold (\$USD)	18.55%	26.54%
Spot Silver (\$USD)	18.59%	26.31%
Spot Platinum (\$USD)	17.34%	18.55%
Spot Palladium (\$USD)	21.76%	56.34%

Source: Bloomberg.

Today, platinum is being supported by compelling bullish drivers. There are several reasons to be confident that platinum's rise may continue:¹

- Highest quarterly platinum ETF growth since their launch in 2007;
- Investment demand has surged as institutions begin to factor low price and positive fundamental outlook;
- Supply is relatively constrained with limited investment in new platinum group metals (PGM) mines;
- Platinum price is undervalued relative to gold and palladium;
- Total PGM demand growth should continue due to increasingly restrictive emissions rules;
- Market balance mismatches between palladium and platinum argue for substitution (palladium's price premium to platinum reflects a tight market).

A Tale of Two Metals: Platinum vs. Palladium

In the past three years, platinum and palladium have experienced contrasting performance as shown in Figure 2. Platinum has weakened, while palladium shot to new highs. Between August 1, 2016, and July 31, 2019, palladium's price increased an astounding 112.24%, from \$716.13 to \$1,519.91, reaching record highs. Palladium's price per ounce is now on par with gold's price. By contrast, platinum fell 25.36% in the same period, reaching levels it had not seen since 2003 (its price per ounce dropping from \$1,158.55 to \$864.75).

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August 30, 2019

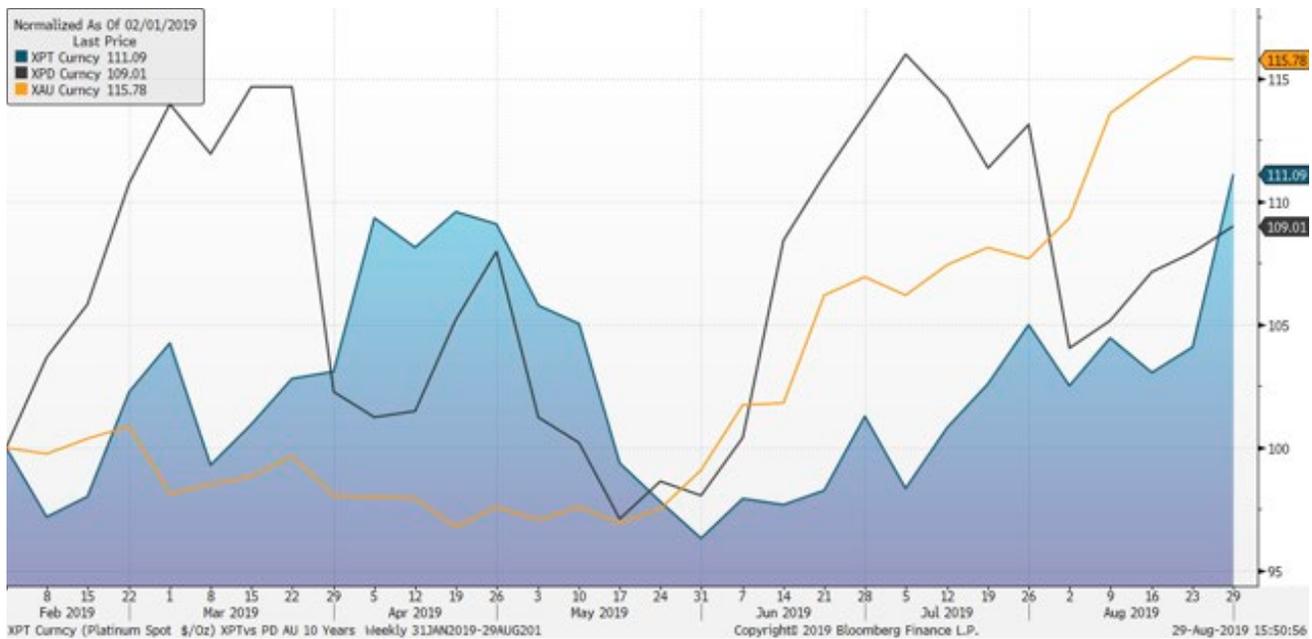
The good news? Twice this year, platinum has tested the \$900 mark, first in April and again at the time of this writing (Figure 3), indicating that its slump may be over.

Figure 2. Three-Year Comparison: Platinum, Palladium and Gold (2016 - YTD 8/29/19)



Source: Bloomberg.

Figure 3. 2019 YTD Comparison: Platinum, Palladium and Gold (normalized)



Source: Bloomberg.

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August 30, 2019

Cars and the Platinum Group Metals

As we discussed in “The Palladium Play - Part 1,” palladium’s multi-year price resurgence has been driven by demand in the auto sector. The key component in the catalytic converters of non-diesel engines, autocatalysts, employ either platinum or palladium since there’s little difference between the two, aside from their price.

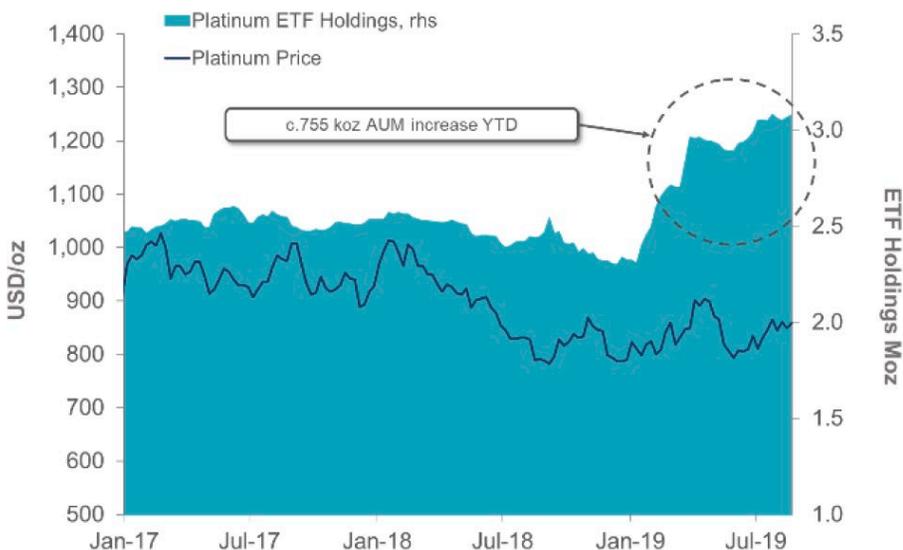
As the price of platinum reached all-time highs near \$2,000/oz in 2008, manufacturers began shifting the metal they were using in autocatalysts to palladium, the cheaper option at the time. This global transition in autocatalysts jumpstarted the palladium market, propelling the metal to its current record-high price point. Autocatalysts now account for 75% of the demand in the palladium sector.

Investment Demand on the Rise

Investors are now embracing the opportunity we predicted in the platinum space – demonstrating increased confidence that the metal’s price will correct upward toward more historic norms.

Earlier this year, **institutional investors** began to take notice that platinum was severely undervalued and began re-investing in the metal. YTD through the end of July, there has been net ETF (exchange-traded fund) inflows of 750,000oz (Figure 4), the most significant gain since 2007, when platinum ETFs were first introduced. We are now seeing this investment demand broaden to the individual investor.

Figure 4. Platinum ETF Holdings Increase by 755 Koz (YTD 7/31/19)



Source: World Platinum Investment Council.

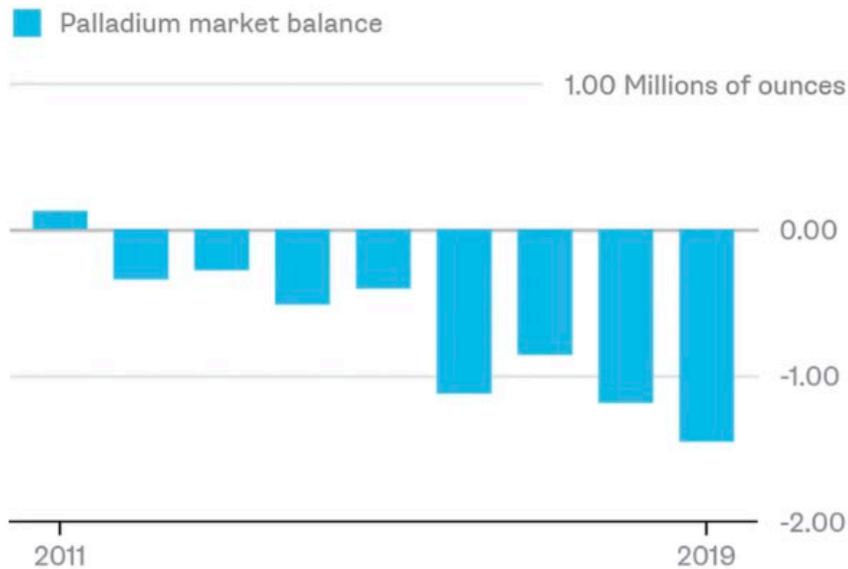
As we have detailed in our previous reports, “Platinum Opportunity Part 1” and “Part 2,” palladium’s higher price is forcing catalytic converter manufacturers to rethink their use of the metal. Not only does palladium trade at more than a \$600/oz premium to platinum, but it also faces a supply crunch. Despite the doubling of palladium’s price since 2015, production increases have not moved forward in a meaningful fashion. With a supply shortfall in palladium and a lack of production increases or new palladium mines (Figure 5), this supply-demand imbalance will likely continue for the foreseeable future.

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August 30, 2019

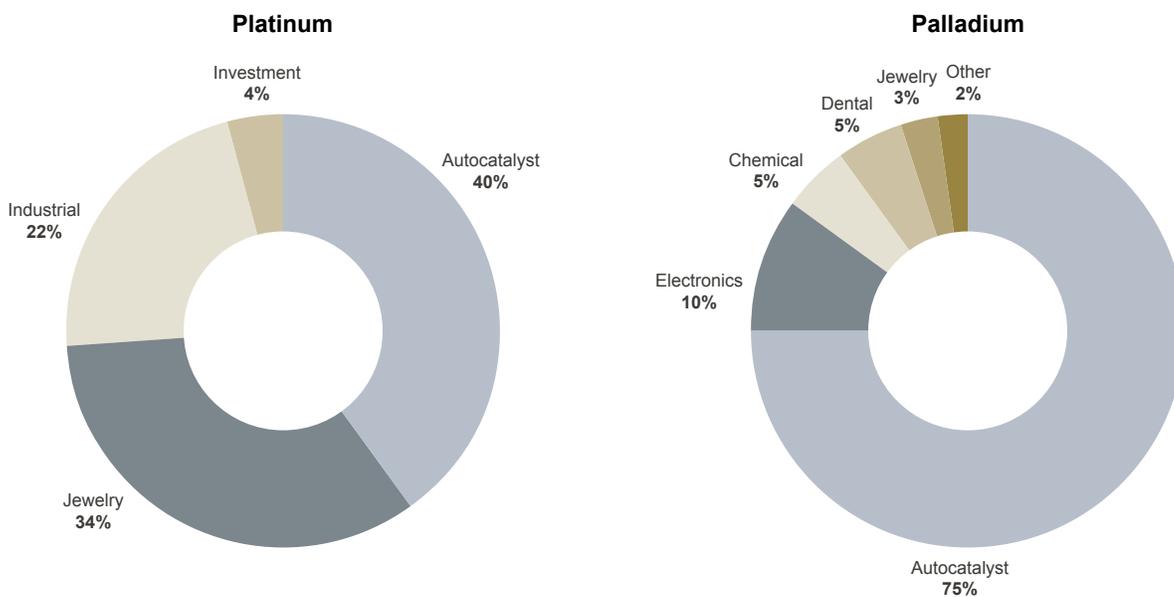
A switch back to platinum will take time on the part of manufacturers. When analysts factor in switching costs, they predict it will take at least 18-24 months for an industry-wide transition. Despite this, we expect multiple trends will continue to push platinum higher.

Figure 5. Growing Shortage: Palladium Supply has been in Deficit Since 2012



Source: World Platinum Investment Council.

Figure 6. Uses of Platinum (Pt) - Palladium (Pd)



Source: Johnson Matthey: PGM Market Report, May 2018.

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¹ World Platinum Investment Council. August 2019.

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