

PLATINUM PERSPECTIVES

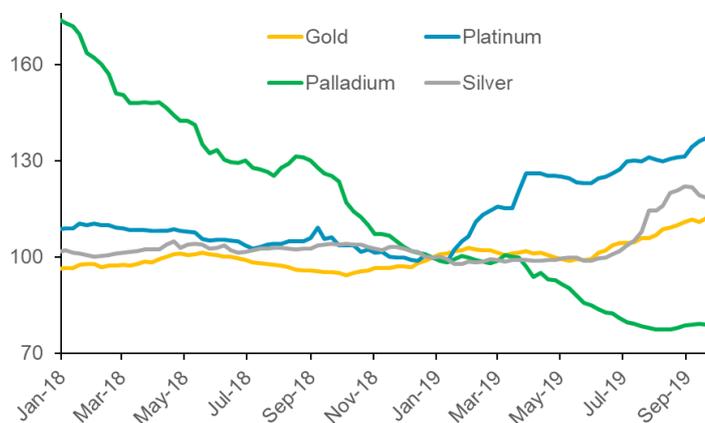
Is platinum's 'strong performance' in 2019 about price or supply-demand fundamentals?

Precious metals prices and ETF investment are having a stellar year as capital market uncertainty, including negative interest rates, and geopolitics combine to lift investor interest and ownership.

Platinum investment demand has the highest growth rate with **ETF holdings up 38% or 919 koz to a record 3.28 moz** in 2019 to date. By comparison, gold and silver ETF holdings are up 13% or 9.1 moz to 80 moz and 19% or 97.2 moz to 621 moz respectively. Against this trend, palladium ETF holdings declined 20% or 146 koz to 577 koz (see chart below left).

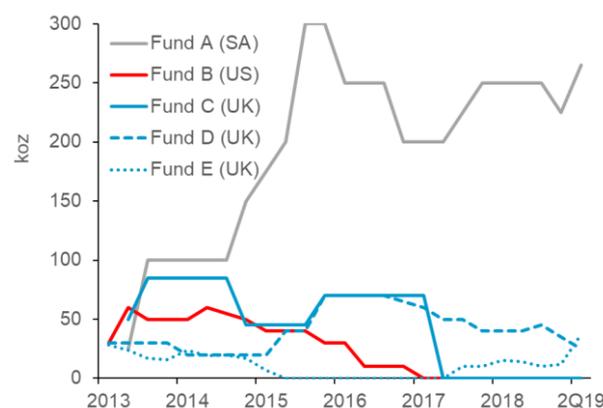
The **platinum price gain of 20% this year** is similar to that of gold (+19%) and silver (+20%) but palladium is up 31%. Many commentators argue that palladium is up due to favourable supply-demand fundamentals, while the rise in the prices of gold and silver are due to these metals' attraction as an alternative to negative yielding assets. However, many of the same commentators believe platinum's fundamentals remain poor and its price rise is solely due to investors who missed the early gold price rise and used platinum futures as a proxy. We agree that large macro funds have new exposure to platinum and believe that the strong historic correlation between changes in the short-term platinum price and changes in NYMEX futures positioning still holds, but **at what point do platinum's supply-demand fundamentals become relevant?**

Precious metal ETF holdings (indexed to 100 on 1 January 2019) show platinum's performance in 2019 to date.



Source: Bloomberg, WPI Research

Large institutional ownership of platinum ETFs, as seen in 2019, are typically held for 2-3 years



Source: Bloomberg, WPI Research

Changes in NYMEX managed-money platinum futures in 2019 reflect strong speculative interest (see Figure 2 on page 2). This net speculative futures position increased by over 2.4 moz between June and September (-1.15 moz net short on 25 June to +1.25 moz net long on 17 September) and the platinum price gained \$131/oz over the same period.

While the strong platinum investment demand in H1'19 led to the reduced platinum surplus forecast in 2019 of 345 koz, down from 675 koz in 2018, the nature of H1'19 ETF buying is far more important. The chart above right, shows that the type of funds responsible for the 909 koz increase typically hold positions for 2 to 3 years. Consequently, **we believe this tighter market increases the relevance of fundamentals to price.** With the platinum price at historically large discounts to both gold (\$577/oz discount) and to palladium (\$723/oz discount) we expect further growth in investment demand for the remainder of this year as investors continue to factor platinum's relatively low price and improving supply-demand outlook.

Trevor Raymond

Director of Research

+44 203 696 8772

traymond@platinuminvestment.com

Brendan Clifford

Manager, Investor Development

+44 203 696 8778

bclifford@platinuminvestment.com

World Platinum Investment Council

www.platinuminvestment.com

64 St James's Street

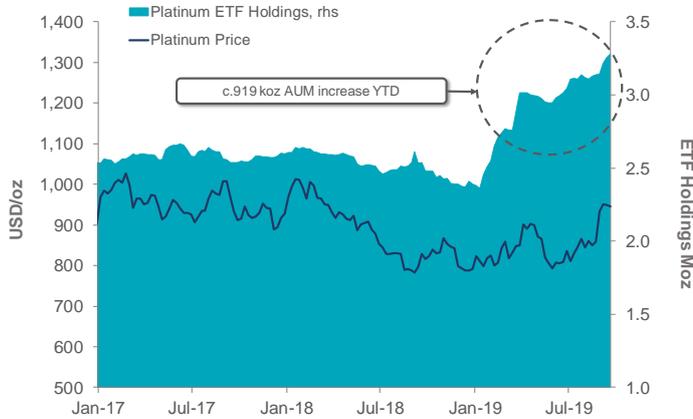
London SW1A 1NF

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Platinum's attraction as an investment asset arises from:

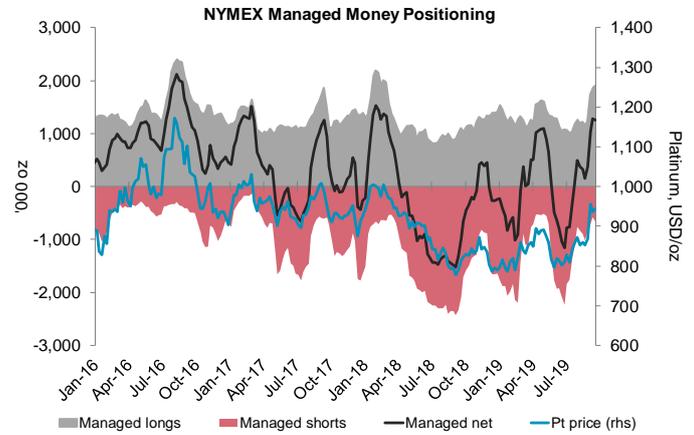
- Supply is relatively constrained with limited investment in new platinum group metal (PGM) mines
- Platinum price is near all-time lows relative to gold and palladium
- Total PGM demand growth should continue due to increasingly restrictive emissions rules
- Market balance mismatches between palladium and platinum argues for substitution
- Investment demand has surged as institutions begin to factor low price and positive fundamental outlook

Figure 1: Platinum's ETF holdings increased by 919 koz year-to-date



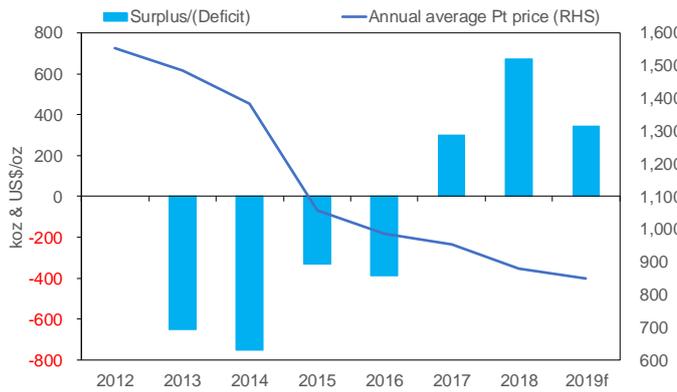
Source: Bloomberg, WPIC Research, as at 26 September 2019

Figure 2: NYMEX positioning shows easing short- and growing long positions in September (net 1.25 Moz long)



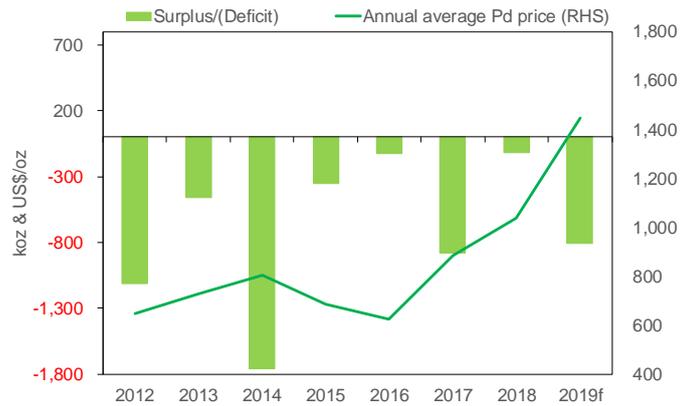
Source: Bloomberg, WPIC Research, as at 17 September 2019

Figure 3: Platinum annual market balance and average metal price



Source: SFA (Oxford), Bloomberg, WPIC Research, as at 26 September 2019

Figure 4: Palladium annual market balance and average metal price



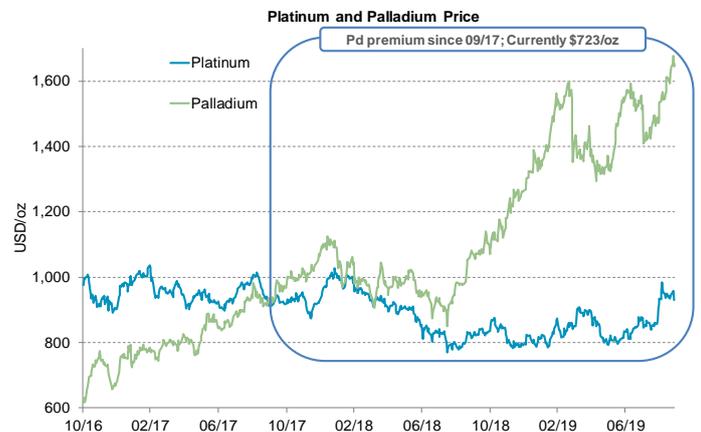
Source: Johnson Matthey, WPIC Research, as at 26 September 2019

Figure 5: As with platinum's deep discount to palladium, the discount to gold remains historically steep



Source: Bloomberg, WPIC Research, as at 26 September 2019

Figure 6: Palladium's price premium to platinum reflects a tight market and highlights the potential for substitution



Source: Bloomberg, WPIC research, as at 26 September 2019

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