We believe that, although the outlook for China jewellery demand (including platinum) is challenging for the next 2-3 years, its impact on overall platinum demand is being overestimated. Additionally, China’s decline will likely be offset by increases in the ROW (especially in India).

**Market assumption:** Structural challenges in China may lead to a decline in jewellery demand. Challenges include an increasing emphasis on branded jewellery. Some market participants believe that this will lead to a material drag on jewellery demand.

**Our view:** We agree that China faces structural demand challenges. However, we believe the market is overlooking two crucial considerations:

1) **U.S. and India growth can offset China decline in 2017.** China is declining moderately, with PGI’s Q2 2017 review showing a 6.6% y/y decline in Q2 (plain jewellery, at 70% of the market -8% y/y, and gem set jewellery +1.6% y/y). U.S. demand seems robust (+12% y/y in Q2).

Additionally, India (+48% y/y in Q2) continues to be a bright spot. Although India is only 10% of jewellery demand (i.e. similar to U.S. or Europe); it is growing significantly, responding to marketing spend, and has potential to continue to positively surprise vs expectations. This is especially pertinent since many participants do not forecast India jewellery demand separately. Overall, the PGI’s expectations for China (-4-7%), U.S. (+5-7%), Japan (+1-3%) and India (+24-30%), and flat elsewhere would suggest total platinum retail jewellery demand +0.4% y/y in 2017.

![Graph showing global quarterly platinum jewellery manufacturer demand](source: WPIC Platinum Quarterly Q1 2017, SFA (Oxford)).

![Graph showing China platinum jewellery retail demand change in Q2 2017 – (selected) winners and losers, and total (y/y, %)](source: PGI Platinum Jewellery Business Review, Q2 2017)

2) **Significant inventory drawdown unlikely to be repeated in 2017.**

**REMINDER:** Gross jewellery retail demand = jewellery manufacturer purchases + change in manufacturer inventory + recycled jewellery

Jewellery manufacturer demand is usually the value that is included in consensus supply demand models. This is different to jewellery retail demand (i.e. PGI data referred to in the above). We have previously highlighted that 2016 saw China jewellery retailers and manufacturers reduce inventory significantly (given elevated inventory in 2015 and the tendency to reduce inventory in challenging periods). Given the significant reduction in China inventories in 2016, we are unlikely to see further significant inventory reduction in 2017.

This suggests gross manufacturing jewellery demand will be at least as high as retail demand in 2017, with potential for upside surprise.

![Regional split – 2016 manufacturer platinum jewellery demand](source: SFA (Oxford)).
We believe there are many reasons supporting consideration of platinum as an investment asset:
- Supply demand fundamentals are strong and ETF holdings are stable, despite price volatility
- Risks of supply declines are underestimated - cost pressure and falling mining investment continue
- Downside risks to platinum automotive demand are overestimated
- Futures positioning follows poor sentiment with high correlation to price
- Platinum is undervalued against its past, its production cost and against gold

Figure 1: ETF holdings stable despite price volatility; high correlation between futures positioning and price

Figure 4: Automotive platinum demand surprised to the upside in Q1-17 and revisions all positive to date

Figure 2: Platinum discount to gold appears to have bottomed out at cUSD200-300/oz

Figure 5: Western Europe light vehicle car sales remain stable, China resurgent

Figure 3: ROW platinum jewellery demand growth offsets implied dip in China demand

Figure 6: European* passenger powertrain market share (%)

* Europe includes passenger vehicles in Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Netherlands, Portugal, Spain, UK, Norway and Switzerland (based on the availability of both diesel market share data and Alternative Fuel Vehicle data); HEVs – Hybrid Electric Vehicles; BEVs – Battery Electric Vehicles; PHEVs – Plug-in Hybrid Electric Vehicles

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