

Will new ETFs drive more investment demand?

PLTM is a new, physically-backed, U.S. listed platinum ETF launched by GraniteShares in January 2018. We believe that the launch of a new ETF in the U.S. could increase investor interest and investment demand for platinum.

Market assumption: The surge in investment demand for platinum (excluding retail bar and coin) in Q4'17 may not continue.

Our view: Forecasting investor demand is fraught with difficulty. However, we see current investor demand as robust considering the negative market sentiment. Moreover, platinum's ETF history, while extending only back to 2007 when PHPT was launched, shows that new platinum ETF launches have often been met with rapid growth and sustained demand. Therefore, **the launch of a new platinum ETF in the U.S. is interesting and likely to be keenly watched by retail and institutional investors**, particularly since the new ETF's pricing structure is apparently reflective of what is reportedly a trend toward lower costs generally in the US ETF market.

It is worth noting that the two most recent platinum ETF listings (NGPLT in April '13 and ETFPLT in April '14), were successful in a weak price environment. Both are South Africa domiciled, where supply constraint is more readily recognised, and the launch benefited from a weakening rand (ZAR) and that domestic fund managers could gain platinum ETF exposure without utilising their offshore allocation.

Top 10 platinum ETFs + PLTM - holdings and fees

Platinum - top 10 ETFs + PLTM					
Ticker	Holdings (koz)	Holdings (\$m)*	Domicile	Launched	Mgmt fee (bps)
NGPLT	807.2	795.5	S.A.	Apr-13	40
PPLT	566.6	558.5	U.S.	Jan-10	60
PHPT	366.6	361.3	U.K.	Apr-07	49
ZPLA	276.3	272.3	Switzerland	May-07	50
ETFPLT	147.1	145.0	S.A.	Apr-14	30
1541	102.9	101.4	Japan	Jul-10	59
JBPLUX	80.1	78.9	Switzerland	Jan-10	36
PTCHA	68.5	67.5	Switzerland	Sep-10	35
XAD3	97.4	96.0	Germany	Jul-10	75
SPPP**	34.4	33.9	U.S.	Dec-12	50
PLTM	4.5	4.4	U.S.	Jan-18	50

Source: Bloomberg, ETF providers. Correct as at 28th February 2018 *ETF holdings in isolation are not a proxy for market liquidity; given the presence of the OTC and futures markets – a theme that will be explored further in a future note **SPPP is Sprott Physical Platinum & Palladium ETF, i.e. not a pure platinum ETF. Only the 30% platinum share of SPPP holdings shown.

Our view: Lower ETF management fees are an additional incentive to allocate towards platinum. Platinum ETFs (which are physically backed) have management fees generally higher than gold, at 30-120 bps vs gold ETFs (some of which are physically backed) at 20-75 bps.

Fee pressure for active investment products are a headwind for the asset management industry, with MiFID II creating more uncertainty¹. It is helpful to have more platinum ETFs with fees below that of the growing number of actively managed products with fees under 60 bps.

Although some institutional investors use platinum futures or the OTC market (with typical trade sizes of \$50k and \$1m respectively); a lower cost product choice increases the potential for investment demand in platinum via ETFs for new and existing institutional and retail investors.

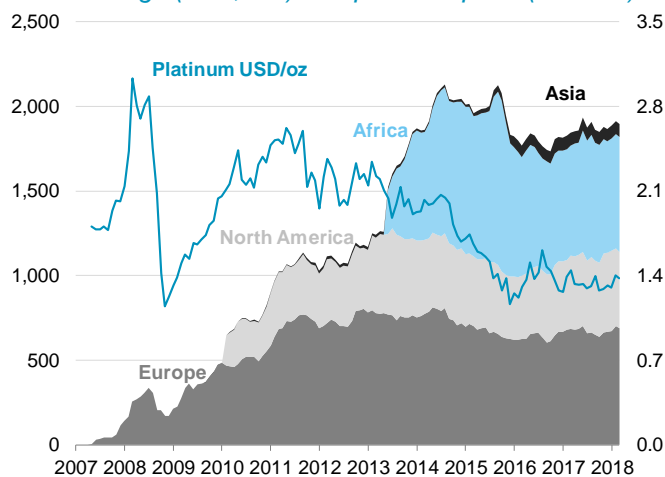
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ETF holdings (moz, rhs) and platinum price (USD/oz)



Source: Bloomberg, WPIIC Research

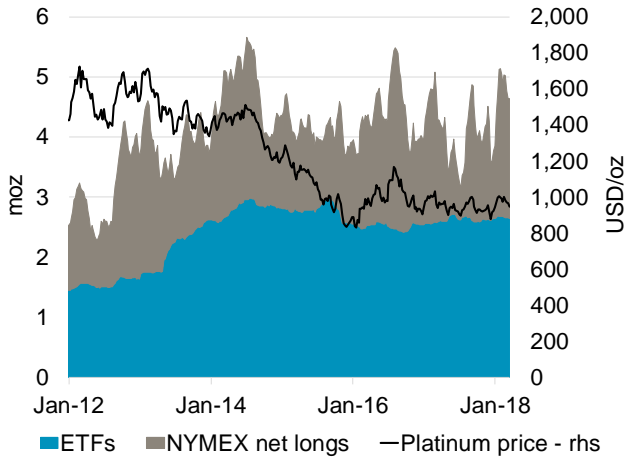
¹ E.g. - Financial Times, "Fidelity International outlines sliding management fee scale", 29th November 2017

Platinum in six charts – March 2018

We believe there are many reasons supporting consideration of platinum as an investment asset:

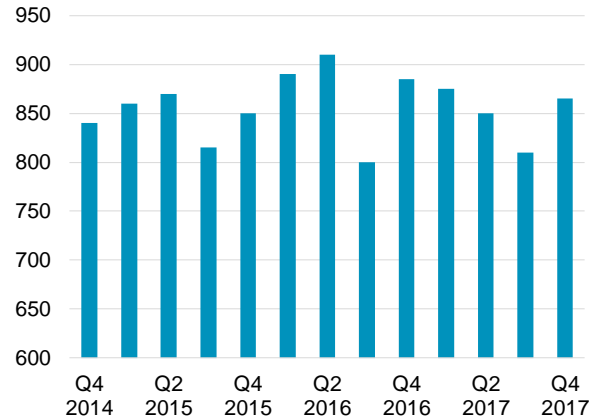
- Supply demand fundamentals are robust and ETF holdings are stable, despite price volatility
- Risks of supply declines are underestimated - cost pressure and falling mining investment continue
- Downside risks to platinum automotive demand are overestimated
- Futures positioning follows sentiment with high correlation to price
- Platinum is undervalued against its past, its production cost, palladium and gold

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



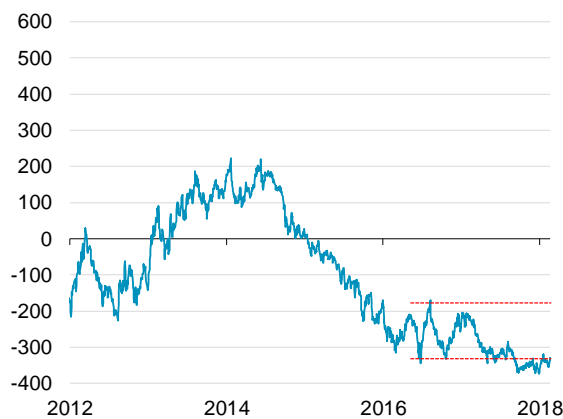
Source: Bloomberg, ETF providers, WPIC Research

Figure 4: Automotive demand starting to be impacted by European diesel share falls but usual Q4 rebound (koz)



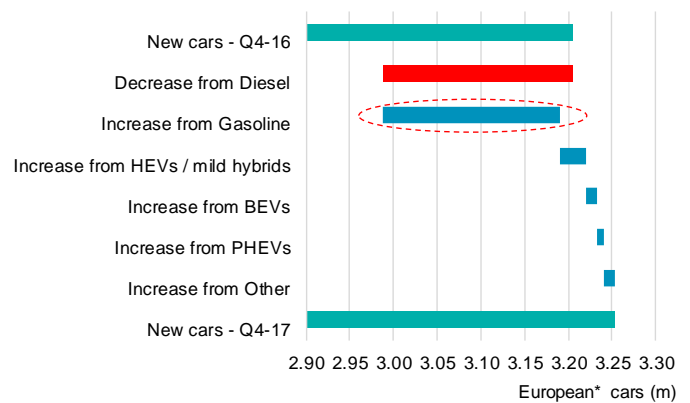
Source: WPIC Platinum Quarterly Q4 2017, SFA (Oxford)

Figure 2: Platinum discount to gold at an all-time high of c\$360/oz



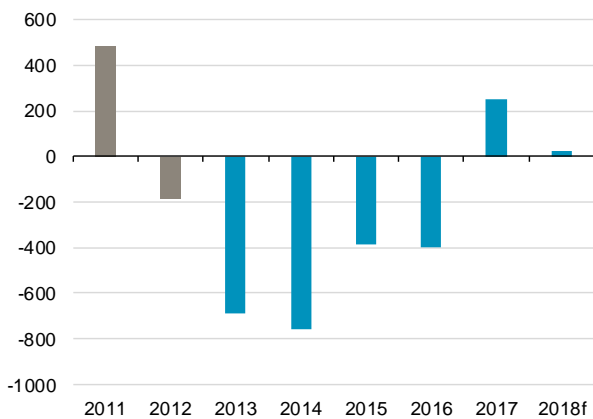
Source: Bloomberg, WPIC research

Figure 5: Diesel vehicles lost continue to be replaced by gasoline more than hybrid or battery vehicles



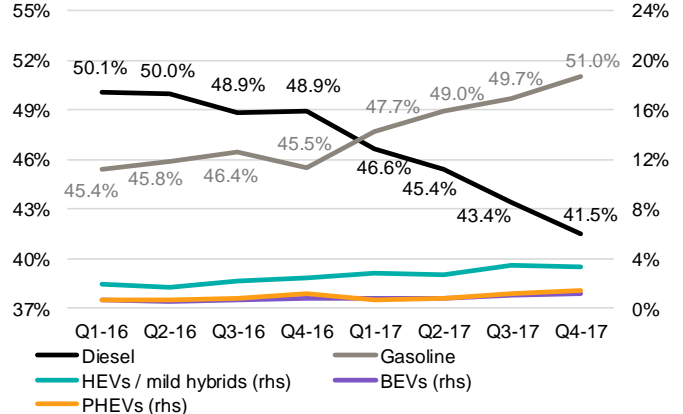
Source: LMC, ACEA, WPIC research

Figure 3: Platinum supply demand balance (koz)



Source: Johnson Matthey, WPIC Platinum Quarterly Q4 2017, SFA (Oxford)

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



Source: LMC, ACEA, WPIC research.

* 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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