

Is platinum's positive correlation to gold a negative?

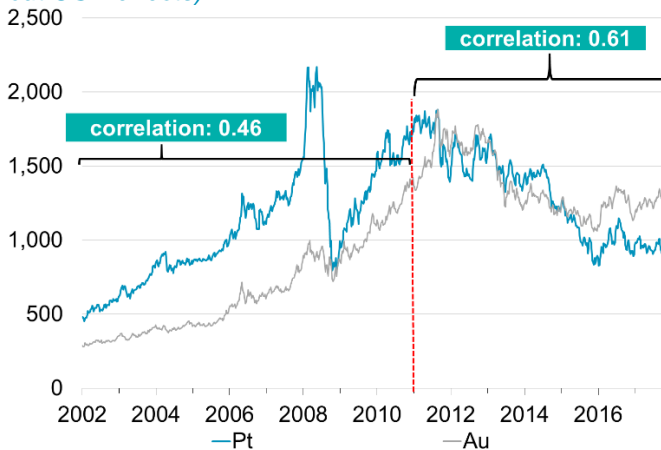
Platinum's poor price performance over the past five years has coincided with an increase in its correlation to gold (even excluding USD effects, as shown below). We believe the concurrence of these trends has led to the market view that the correlation with gold will stop platinum from being able to reflect any positive fundamentals. However, we believe that, unless gold suffers a 2011-esqe decline, platinum's correlation with gold is unlikely to stop platinum from being able to trade on its own merits.

Market assumption: Platinum will remain highly correlated to gold. Platinum's perceived lacklustre fundamentals means its price outlook (especially short term) is expected to be dependent on gold.

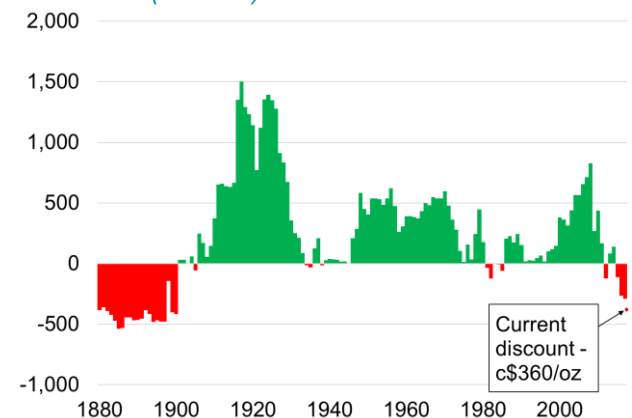
Our view: Platinum and gold share similarities; significant jewellery demand (gold 50%, platinum 30%)¹, precious physical characteristics, and similar macro drivers (e.g. USD strength); so some correlation between prices would be expected. However outside of this, gold is very different to platinum, as changes in gold's supply and non-investment demand have a negligible impact on the gold price; whereas for platinum, the markets' view on fundamentals is seen as a dominant price driver.

Poor price performance in the face of deficits have caused some to give up on trading platinum on fundamentals, allowing the correlation with gold to get stronger. However, we believe the difference in fundamentals of platinum and gold could lead to the **correlation falling over time**.

Platinum and gold prices and correlation (after stripping out USD effects)



Platinum premium / discount to gold – in real terms since 1880 (USD/oz)



Market assumption: Platinum's high discount to gold will remain.

Our view: We have argued that platinum's discount to gold has been driven by 1) persistent selling of previously "unseen" vaulted holdings (2011-2015); 2) a move of assets from active to passive funds (2013-2015 – a negative given platinum's absence from indices); and 3) market overestimating the platinum demand risk from changing powertrain trends (since 2016). However, these **negatives seem more than priced in**.

We believe that platinum has constructive fundamentals which should, over time, be reflected in its price. In this scenario, platinum prices could increase in absolute terms and remain equally correlated to gold (assuming gold prices were also increasing). However, in this scenario the positive price momentum in platinum would likely lead to less concern about its correlation with gold.

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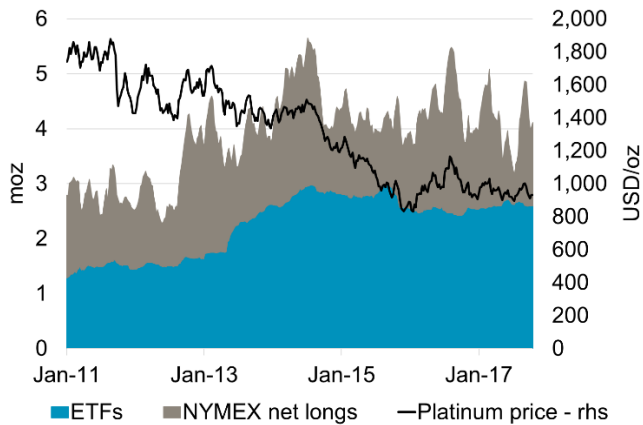
October 2017

Platinum in six charts – October 2017

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

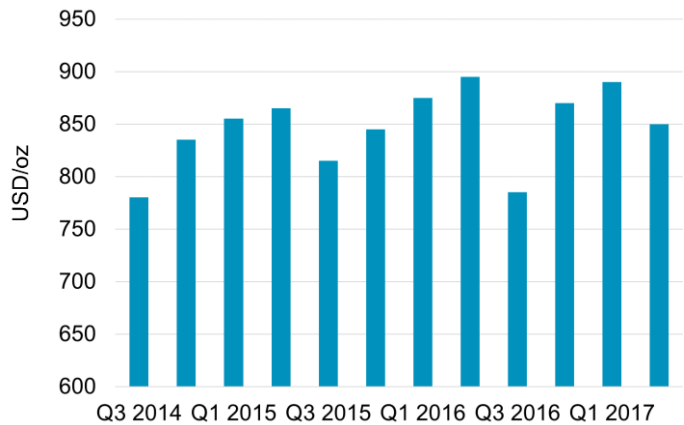
- Supply demand fundamentals are strong and ETF holdings are stable, despite price volatility
- Risks of supply declines are underestimated - cost pressure and falling mining investment continue
- Downside risks to platinum automotive demand are overestimated
- Futures positioning follows sentiment with 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



Source: Bloomberg, WPIC Research

Figure 4: Automotive platinum demand starting to be impacted by European diesel share falls



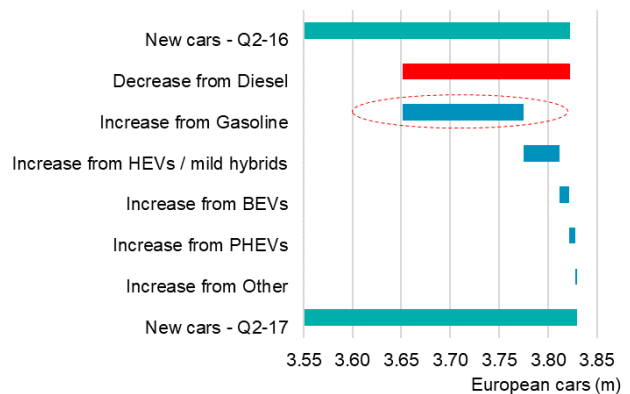
Source: WPIC Platinum Quarterly Q2 2017, SFA (Oxford)

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



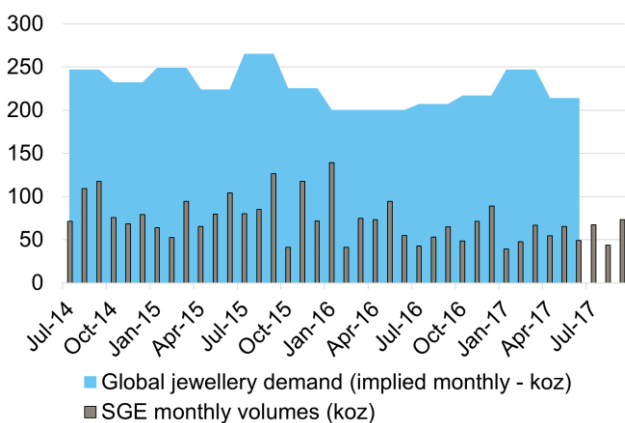
Source: Bloomberg, WPIC research

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



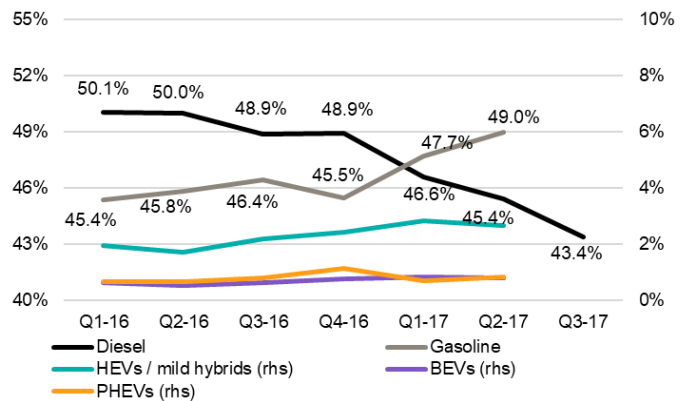
Source: LMC, ACEA, WPIC research

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



Source: Bloomberg, SFA (Oxford), WPIC research

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