

Is platinum as good as gold?

Platinum is a precious metal that is also industrial. As an investment asset, platinum's value is influenced by its supply demand fundamentals and also the macro trends that affect precious metals. **More investors are considering platinum's macro responses when looking for an alternative to equities**; this could increase platinum investment demand.

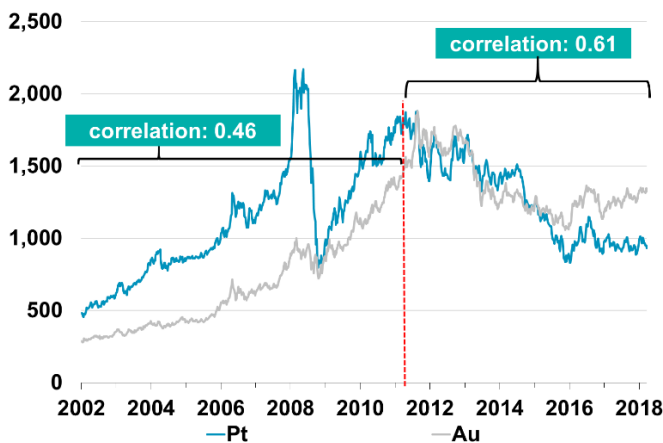
Market view: Gold is acknowledged as the investment asset least correlated with other investment classes. It's called a currency more often than a commodity but yet it is included in many commodity indices.

Our view: Platinum remains in lockstep with gold and consequently offers similar benefits.

The sustained high correlation between the price of platinum and the price of gold since 2011 suggests that platinum offers investors an alternative investment that is 'as good as gold'.

Many investors looking for asset classes largely to diversify risk, consider commodities or gold. Gold is included in many portfolios as a hedge against macro events, global risk, interest rates, inflation, etc., and is reliably traded on macro trends — more particularly those that directly impact the US dollar. Platinum offers similar qualities. When (or 'if' as critics suggest) platinum shrugs off the negative sentiment that currently overwhelms its supply demand fundamentals, this diversifier also offers interesting upside, in our view, but remains 'as good as gold' until then.

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



Platinum premium / discount to gold (US\$/oz)



Market view: Precious metal investors undervalue platinum's robust supply demand fundamentals and its multiple diverse industrial uses.

Our view: Platinum's premium to gold, in place for over 80% of the past 40 years, declined partly due to increased demand for gold-containing indices. From 2013, a massive move of global assets, from active to passive funds, significantly increased ownership of gold-containing commodity indices. This contributed to upward pressure on the gold price. Platinum is not in major commodity indices and did not benefit from the same effect. Additionally, it attracted negative sentiment as small adverse changes in market balance were used to 'explain' the growing price discount to gold. **Platinum's current discount to gold also makes platinum an interesting alternative for non-gold commodity investors.**

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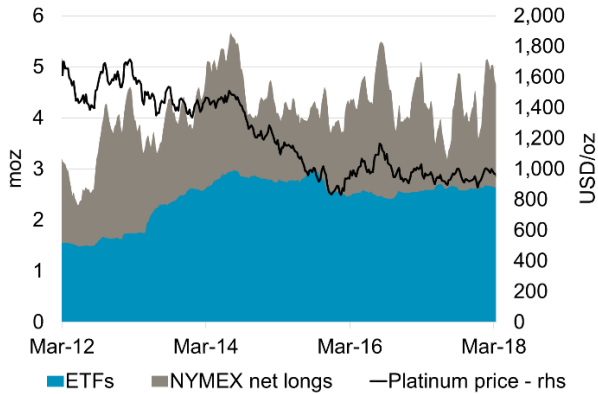
April 2018

Platinum in six charts – April 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



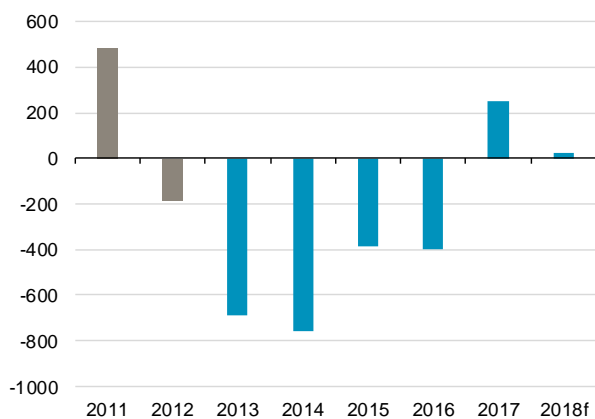
Source: Bloomberg, ETF providers, WPIC Research

Figure 2: Platinum discount to gold at an all-time high of c\$400/oz



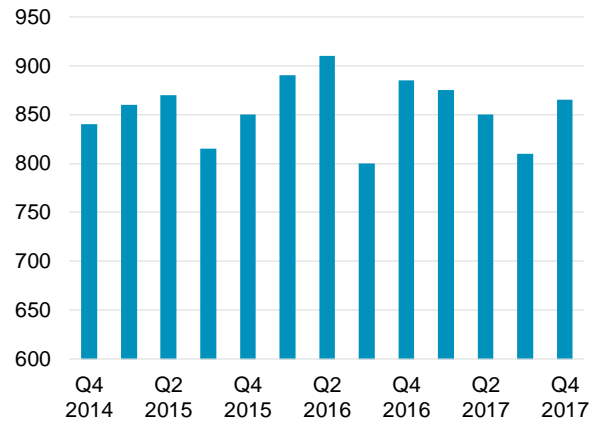
Source: Bloomberg, WPIC research

Figure 3: Platinum supply demand balance (koz)



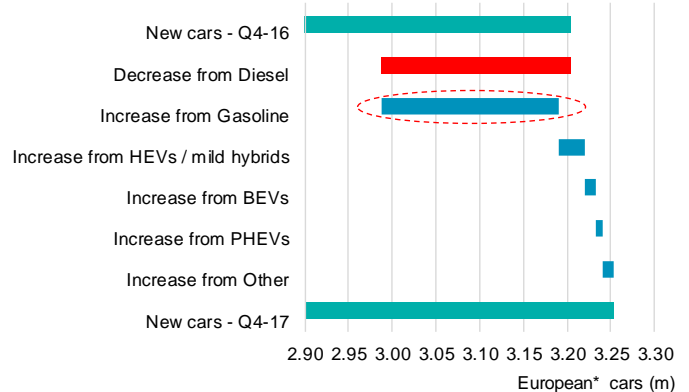
Source: Johnson Matthey, WPIC Platinum Quarterly Q4 2017, SFA (Oxford)

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



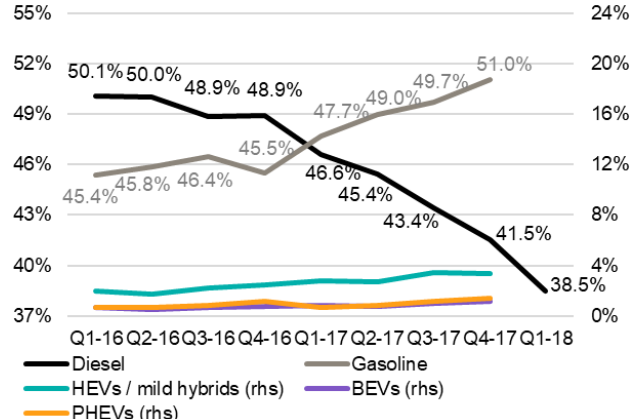
Source: WPIC Platinum Quarterly Q4 2017, SFA (Oxford)

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



Source: LMC, ACEA, 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

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