PLATINUM PERSPECTIVES

Is platinum less available than widely thought?

Trevor Raymond
Director of Research
+44 203 696 8772
traymond@platinuminvestment.com

David Wilson
Manager, Investment Research
+44 203 696 8786
dwilson@platinuminvestment.com

Brendan Clifford
Head of Institutional Distribution
+44 203 696 8778
bclifford@platinuminvestment.com

World Platinum Investment Council
www.platinuminvestment.com
Foxglove House, 166 Piccadilly
London W1J 9EF

July 2021

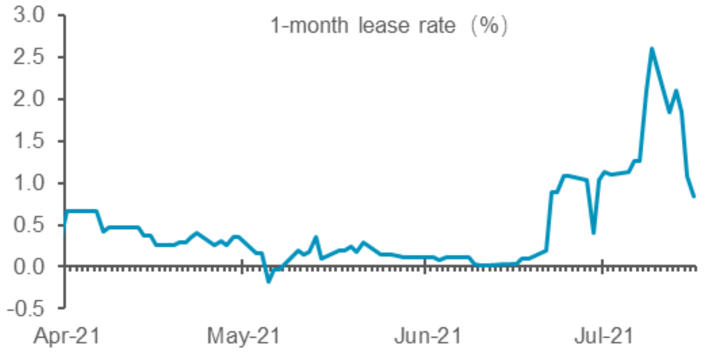
Over the last month, platinum lease rates, or going market 'prices' for borrowing or lending platinum metal, have spiked to well above historical norms. Lease rates began rising this year on 17th June, with the one-month rate rising from 0.03% in mid-June to 2.6% in mid-July. This year's sharp increase has attracted little comment or analysis, unlike (or perhaps because of) the March-2020 spike, when rates reached 7%. The rate surge in 2020 was due to the severe pandemic-related transport disruptions that limited the free flow of metal between markets. Low availability was widespread, hence the acute need to lease and the spike in rates, while delivery risk to market makers led to disruption of trading of NYMEX platinum futures. (See *Platinum Perspectives*, 29 July 2020)

Current futures activity and metal flows appear to be orderly and there has not been an identifiable disruptive event. Indeed, we believe the recent spike is driven by unavailability of platinum to meet stronger than expected demand. **Put more simply, parties contractually committed to supply platinum, that planned (as usual) to buy it, could not find a supplier with stock and had to lease the platinum.**

Unanticipated demand strength has come from two main sources. **Firstly, both retail and institutional investment demand has continued to grow this year.** ETF* trends have been the most visible, with US and European ETF holdings up 78 koz and 121 koz respectively year-to-date, following their respective increases in 2020 of 525 koz and 237 koz. Reports indicate that US retail H1 sales are near record 2020 levels, and that Swiss vault stock is down heavily. Strong Swiss Pt exports, most notably to the US where year-to-date exports are over 250% up on 2020 at 216 koz, are driven principally by investment demand.

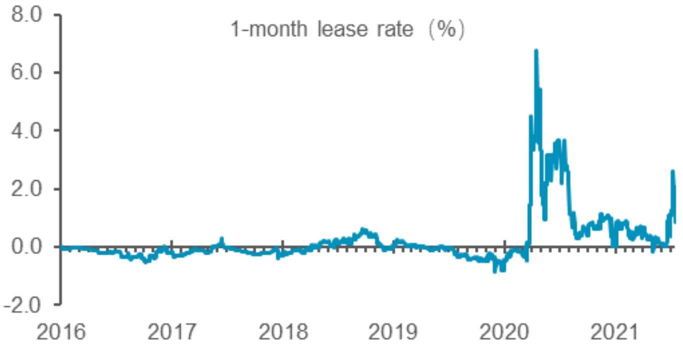
**Platinum that is kept in vaults for physically-backed platinum ETFs, is not able to be leased out. The growth in ETF holdings reduces the amount of over-the-counter (OTC) metal available for leasing*

Platinum lease rates have surged since mid-June, but unlike 2020, markets are operating in an orderly manner



Source: Bloomberg, WPIC Research. Note: Data as of 16th July 2021

Prior to the market disruption in 2020, 1-month platinum lease rates averaged -0.16%



Source: Bloomberg, WPIC Research. Note: Data as of 16th July 2021

Secondly, strong imports into China have continued in 2021, with a record 1.3 moz imported over the first 5 months of 2021, despite platinum prices being 40% higher than the same period in 2020. China's industrial demand has continued to pick up from last year's pandemic-impacted lows. Continued growth in glass capacity is expected to lift glass demand by 70% this year to 629 koz (China accounted for 93% of global glass platinum demand in 2020). China's automotive platinum demand is, we believe, running ahead of expectations, with heavy-duty (HD) vehicle production up 31% y-o-y in the first 5 months of 2021 (vs the expected full-year 25% decline). Also, there is continued substitution of platinum for palladium in the recovering Chinese passenger car sector.

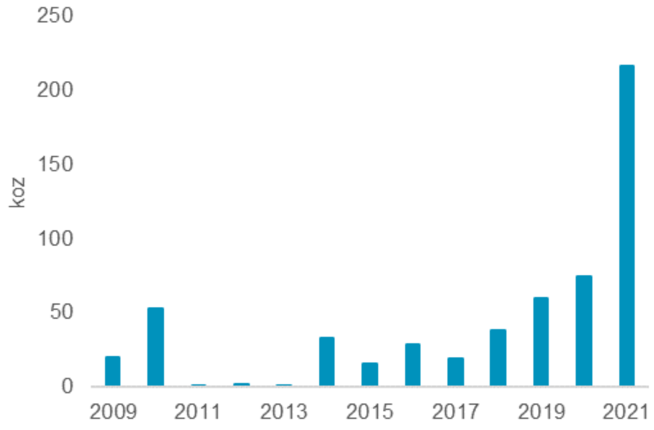
Availability of platinum appears to be limited for real physical demand reasons. As such, this market shortage is likely to be sustained through 2021, and could place further upward pressure on price.

Unlike 2020, 2021 has seen the NYMEX futures exchange run smoothly but it has provided physical supply. Over 60 koz of platinum has been removed from exchange warehouses to meet physical demand since 8th July. The wider unavailability of metal has resulted in market participants taking delivery of metal via maturing futures positions

Platinum's attraction as an investment asset arises from:

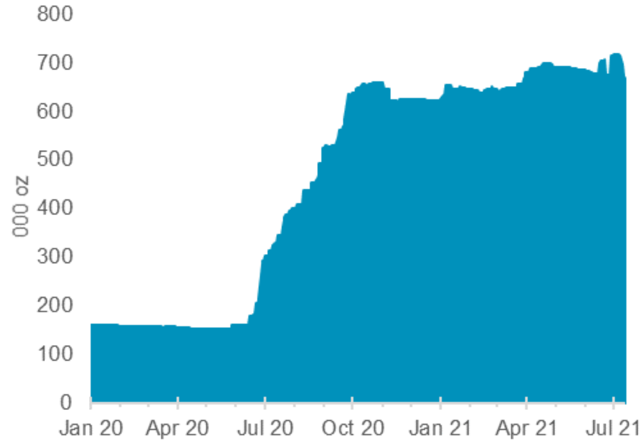
- Supply severely constrained for three more years despite some new investment in mining capacity
- Platinum price is near all-time lows relative to gold and at record lows relative to palladium
- Total PGM demand growth should continue due to increasingly restrictive emissions rules
- Market balance and price mismatches between palladium and platinum drives substitution
- Investment demand has surged as institutions begin to factor low price and positive fundamental outlook

Figure 1: Jan – May Swiss Pt exports to the US are up by over 250% to 216 koz on strong North American physical demand



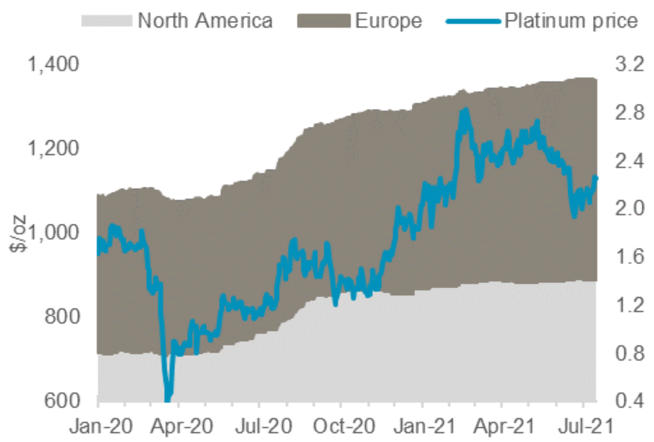
Source: Swiss Customs, WPIC Research

Figure 2: NYMEX Pt holdings, up c.95 koz at their peak in mid-July 2021, after surging by 464 koz in 2020



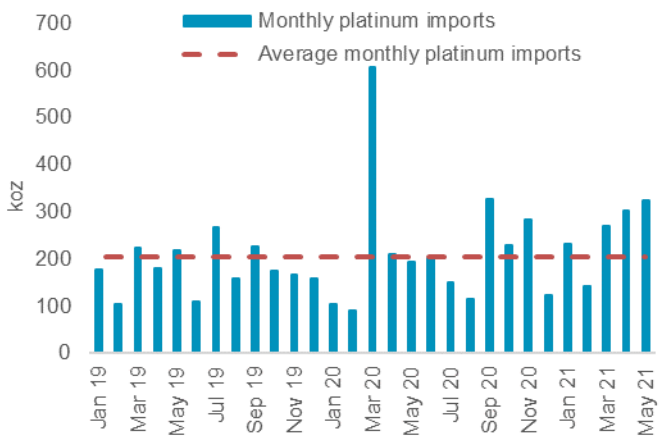
Source: NYMEX, WPIC Research. Note: Data as of 16th July 2021

Figure 3: US investors have added c78 koz to platinum ETF holdings in 2021, European funds added 121 koz



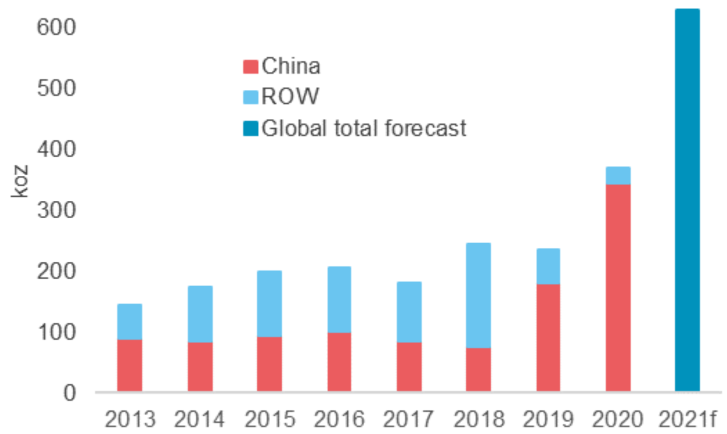
Source: Bloomberg, WPIC Research Note: Data as of 16th July 2021

Figure 4: From Jan-May 2021: average platinum price is up >40% YoY, but China imported a record 1.3 moz



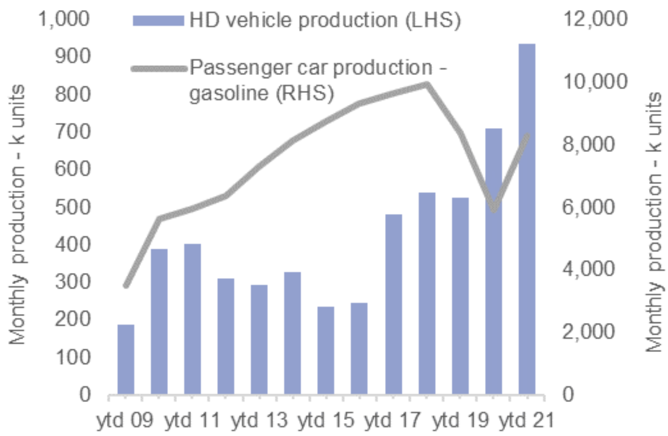
Source: China Customs, WPIC Research

Figure 5: Chinese glass manufacturing capacity additions have driven glass Pt demand in recent years, the trend continuing in 2021



Source: WPIC Research

Figure 6: Pt for Pd substitution in the recovering Chinese passenger car sector, and surging China VI compliant HD production is significantly adding to Chinese pt demand



Source: China Autoinformation.net, WPIC Research

WPIC Research MiFID II Status

The World Platinum Investment Council (WPIC) has undertaken an internal and external review of its content and services for MiFID II. As a result, WPIC highlights the following to the recipients of its research services, and their Compliance/Legal departments:

WPIC research content falls clearly within the Minor Non-Monetary Benefit Category and can continue to be consumed by all asset managers free of charge. WPIC research can be freely shared across investment organisations.

1. WPIC does not conduct any financial instrument execution business. WPIC does not have any market making, sales trading, trading or share dealing activity. (No possible inducement).

2. WPIC content is disseminated widely and made available to all interested parties through a range of different channels, therefore qualifying as a "Minor Non-Monetary Benefit" under MiFID II (ESMA/FCA/AMF). WPIC research is made freely available through the WPIC website. WPIC does not have any permissioning requirements on research aggregation platforms.

3. WPIC does not, and will not seek, any payment from consumers of our research services. WPIC makes it clear to institutional investors that it does not seek payment from them for our freely available content.

More detailed information is available on the WPIC website:
http://www.platinuminvestment.com/investment-research/mifid-ii