PLATINUM PERSPECTIVES

Above ground stocks are not seen as a major headwind to platinum prices as deficits loom

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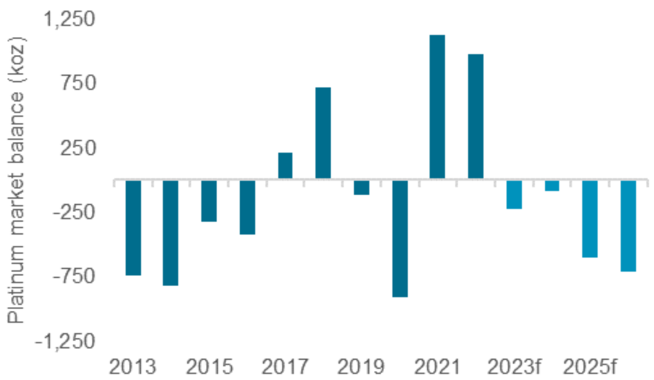
We are forecasting the platinum market to enter a sustained deficit from 2023. Unlike palladium in the 2010's, platinum prices are unlikely to be constrained by significant above ground inventories as there is no Russian equivalent inventory, and the above ground stocks that do exist are either mostly depleted, increasingly price sensitive, or geographically constrained to China.

Although the palladium market entered sustained deficits from 2012, it was not until 2016 that the price began to move higher. The delay was due to Russian above ground palladium inventories, that were well publicised but of unknown scale, that acted as a psychological overhang on price appreciation. Furthermore, once the price did begin to move higher, flows from ETF profit taking slowed the pace of price appreciation.

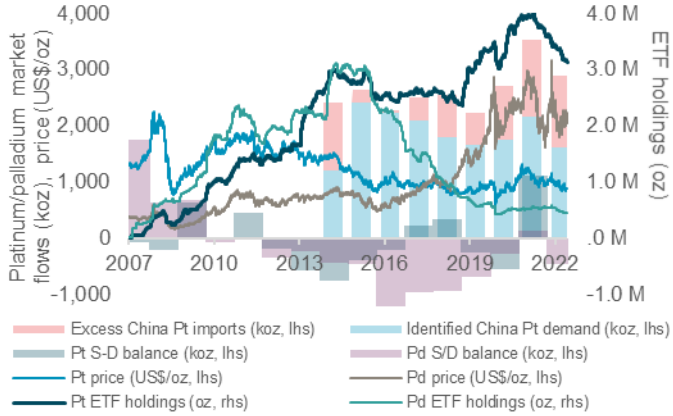
We are projecting the platinum market to enter deep and sustained deficits from 2023 for the foreseeable future (*chart below left*), with ongoing robust demand for automotive and industrial end uses supplemented with small but growing demand from the hydrogen economy. Despite this, there are concerns that platinum prices will be slow to react due to above ground stocks acting to supress the price re-rating. **However, we are of the opinion that the platinum market is in a very different situation to the palladium market in the 2010's; there is no Russian equivalent inventory, and the above ground stocks that do exist are either mostly depleted, increasingly price sensitive, or geographically constrained to China (*chart below right*).**

We forecast the platinum market to enter sustained and deepening deficits from 2023 to 2026.



Source: SFA (Oxford) 2013-2018, Metals Focus 2019-2022f, WPIC Research 2023-2026

China's excess platinum imports have restricted the geographical distribution of above ground stocks.



Source: Bloomberg, SFA (Oxford), Metals Focus, Johnson Matthey, WPIC Research

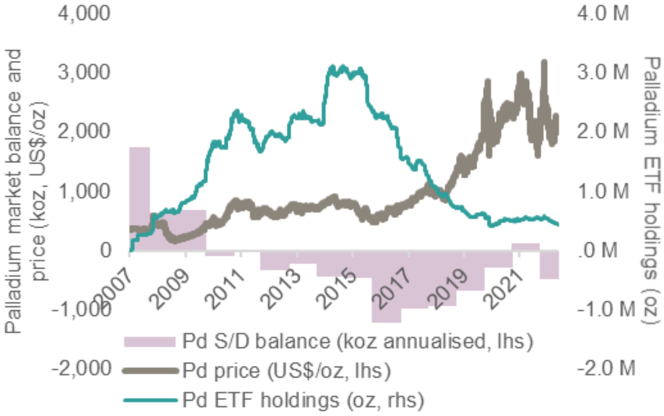
Looking at the platinum market in detail, we note that Bloomberg sourced customs data for China indicate that it has imported more than 4 Moz of platinum in excess of identified demand since 2019. Even allowing for data inaccuracies, this more than absorbs the aggregate 2 Moz of platinum surpluses in 2021 and 2022f. Whilst the accumulation of platinum inventories in China would be a local supply overhang, we think holders are only likely to release this material at significantly higher platinum prices. Similarly, current platinum ETF holders are more likely to have long-term views and higher value expectations given the outlook of platinum deficits, as well as growing investor awareness of platinum's key role in the hydrogen economy and global decarbonisation. However, some profit taking from ETFs will likely slow the pace of a platinum price run. Finally, we also think that exchange stocks are already at minimum levels from a risk management perspective, eliminating this source of supply, which has been significant since mid-2021. **In conclusion, we do not see above ground stocks of platinum as being a hinderance to price appreciation as the market enters a period of sustained deficits.**

Above ground stocks of platinum are either mostly depleted, increasingly price sensitive, or geographically constrained to China and are not expected to limit a re-rating of the platinum price as deficits loom.

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 remains historically undervalued and significantly below both gold and palladium
- Automotive PGM demand growth should continue due to increasingly restrictive emissions rules
- Market balance and price mismatches between palladium and platinum drive substitution
- Investment demand is softer after two record years, but price and fundamentals remain attractive

Figure 1: Despite sustained deficits through much of the last decade, palladium prices were slow to react, held back by the overhang of significant Russian inventories.

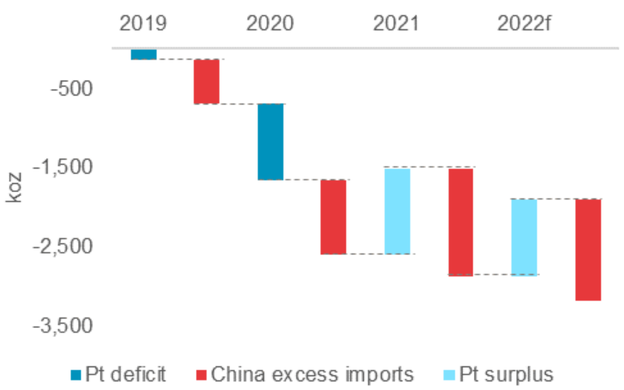


Source: Metals Focus, Johnson Matthey, Bloomberg, WPIC Research

Figure 2: Whilst we are forecasting the platinum market to enter sustained deficits from 2023, there are concerns that platinum prices may also take some years to react.

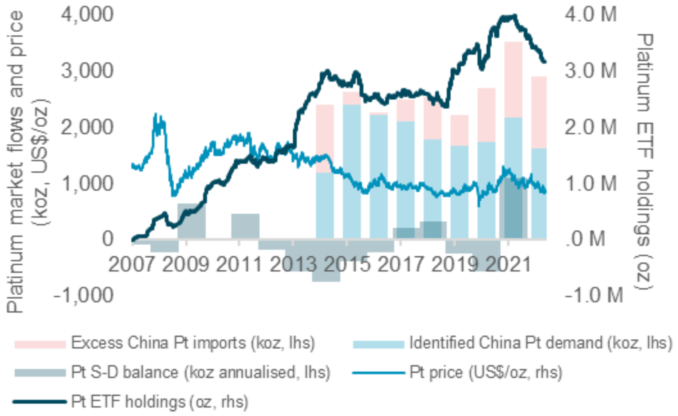
Source: SFA (Oxford) 2013-2018, Metals Focus 2019-2022f, WPIC Research 2023-2026

Figure 3: But the platinum market is in a very different position to palladium in the 2010's. As well as there being no equivalent to the Russian palladium stockpile, China has continued to import platinum in excess of identified demand, fully absorbing recent surpluses…*



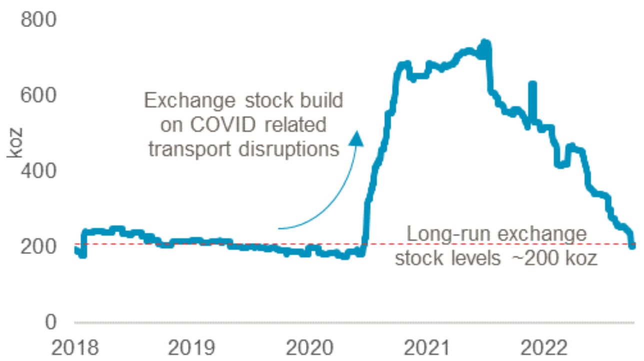
Source: Bloomberg, WPIC Research, *N.B. 2022 surplus is a forecast, 2022 China excess imports is 2x excess H1'22 imports

Figure 4: …as well as recent ETF and exchange stock outflows on capital reallocation and market arbitrage incentives respectively.



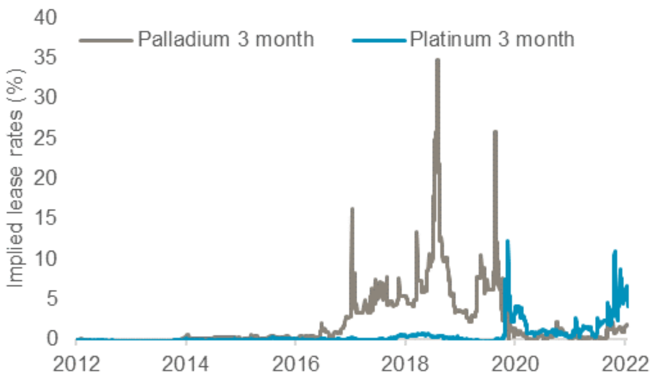
Source: Bloomberg, SFA (Oxford), Metals Focus, Johnson Matthey, WPIC Research

Figure 5: Platinum exchange stock outflows have been significant, but stocks have almost returned to historical levels, limiting expected future supply to the prompt physical market.



Source: Bloomberg, WPIC Research

Figure 6: China imports and dwindling exchange stocks are resulting in physical market tightness being evident in high platinum lease rates. High palladium lease rates were a precursor to price appreciation in 2016.



Source: Bloomberg, WPIC Research

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