

Is there a shortage of platinum in the spot market? Lease and EFP rates suggest there may be.

Platinum lease and exchange for physical (EFP) rates have spiked to over 10% and dropped below negative US\$20/oz respectively in the past fortnight. Together they suggest that there is a shortage of readily available metal in the spot market, possibly due to logistical challenges. While we do not know the exact reason behind the shortage, we saw similar moves in 2020 due to COVID disruptions, exacerbated by the ACP which led to a 12-month uplift in platinum prices. Could the Russia question be the ACP outage of 2022?

Implied platinum lease rates averaged 0.8% during 2021, but last week they spiked to over 10%. The greatest increases were in the three-month (>12%) then one-month (>10%) lease rates, with gains falling away from six months out, reflecting the near-term forward curve moving from being relatively flat, into backwardation (fig. 4). The move in the forward curve reflects two competing issues. First, there appears to be a shortage of readily available platinum in the spot market, which is keeping the front end of the curve elevated. Second, concerns around automotive demand for platinum being hindered by production challenges as well as general economic and inflationary concerns have weighed on prices and pushed down the curve from three months out. This suggests that whatever issues are causing the near-term shortage are expected to be short-term in nature, and indeed rates have eased slightly. The current spike is significantly greater than that (to ~7%) seen during peak COVID in 2020 when severe transport and supply challenges exacerbated by ACP outages precipitated a 12-month platinum price rally. The question today is whether the potential unavailability of Russian origin platinum could have the same effect and precipitate a similar move in the platinum price?

A consequence of the transport challenges and metal shortages in 2020 was a change in the risk management of platinum stocks used as collateral for or delivery against NYMEX platinum futures with more metal being moved on-exchange to ensure that commitments could be met. This was reflected in positive EFP rates (over +\$70/oz) that attracted metal out of Europe and into the US. Conversely, over the past 12 months we have mostly seen negative EFP rates (averaging -\$4/oz) that have incentivised the movement of metal out of exchange stocks, likely to meet demand for physical metal engendered by China's voracious appetite for platinum, well in excess of its consumption. Concurrently with the recent spike in lease rates, the EFP rate moved to -US\$22/oz, its lowest level since 2014. We expect this strongly negative EFP rate to incentivise a further movement of platinum off-exchange. While this would reflect in our data as negative investment demand, it is in effect the removal of metal from visible inventories to satisfy end user demand due to a shortage of platinum in the spot market. **Thus, the movement of material away from NYMEX is indicative of healthy demand for platinum and a spot market shortage.** However, there is the question of how low NYMEX inventories can be drawn. For the decade before COVID they averaged c.175 koz, before rising in 2020 to over 700 koz then reducing to c.400 koz today. We are of the view that the current minimum level for those inventories is above the historical 175 koz level due to increased risk awareness of potential transportation challenges, particularly given the potential un-availability of Russian material due to escalating sanctions or export bans. **Therefore, there is a potential limit to how much platinum can be drawn out from NYMEX stocks with the corresponding risk of the market tightening further once that level is reached.**

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May 2022

Platinum lease rates have spiked, potentially presaging a period of sustained gains in the platinum price, as seen in 2020.

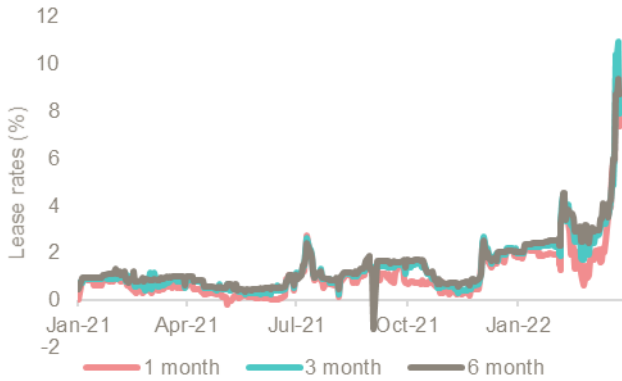


Source: Bloomberg, WPIC Research

Platinum's attraction as an investment asset arises from:

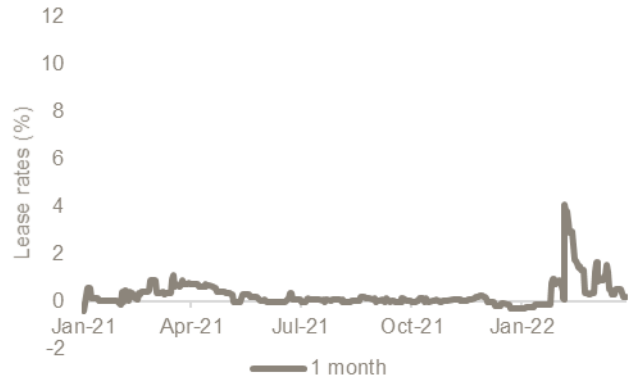
- Supply severely constrained for three more years despite some new investment in mining capacity
- Platinum price remains historically undervalued and significantly below both gold and palladium
- Automotive PGM demand growth should continue due to increasingly restrictive emissions rules
- Market balance 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: One-, three- and six-month **implied platinum lease rates** have spiked, pointing to potential tightness in the spot market with the greatest move in the three month time period.



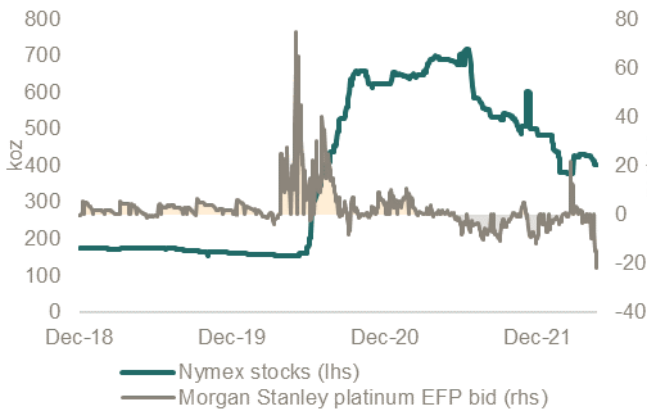
Source: Bloomberg, WPIC Research, N.B. The implied lease rate is calculated by deducting the platinum forward swap rate for a given period from the equivalent LIBOR rate

Figure 2: Aside from an initial move after the start of the Russian invasion, the lack of movement in **palladium lease rates** suggests that whatever is happening, this is predominantly a platinum event.



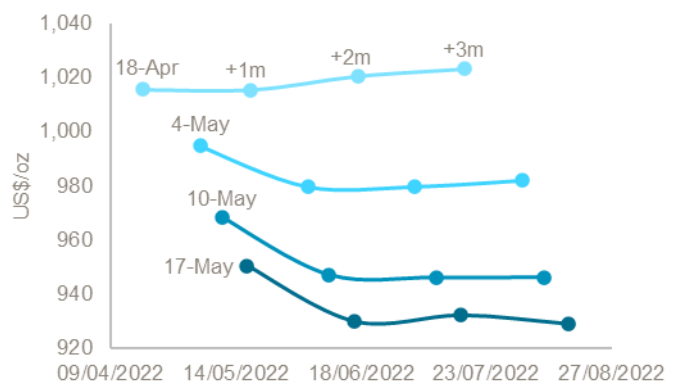
Source: Metals Focus, WPIC Research

Figure 3: A steeply negative **implied EFP rate** is likely to draw material off **NYMEX stocks** to Europe to meet demand for physical metal, but we don't expect stocks to fall all the way to historic minimum levels.



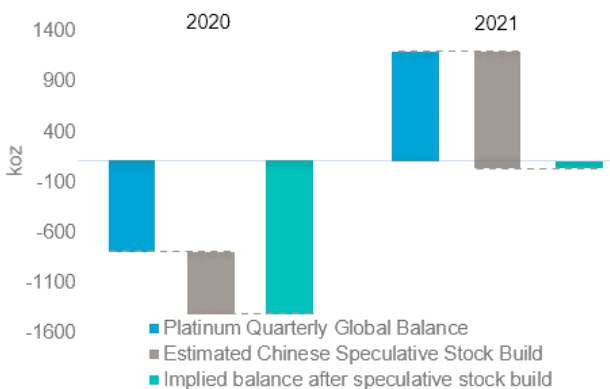
Source: Bloomberg, WPIC Research

Figure 4: Demand concerns have weighed on the **forward platinum price** outlook but an apparent shortage of readily available metal in the spot market has sustained higher prices on a relative basis.



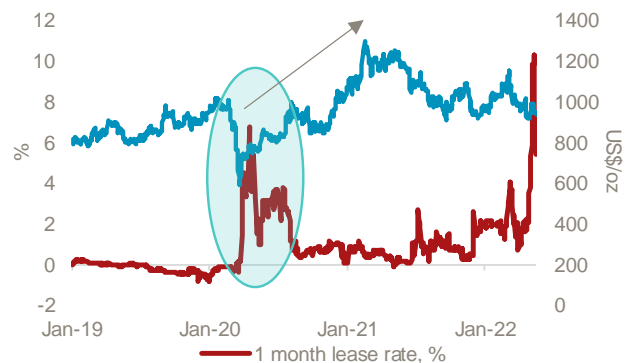
Source: Bloomberg, WPIC Research

Figure 5: **China's excess imports** in 2020 and 2021 (of c.1,200 koz) more than offset the NYMEX inventory outflows (of c.139 koz).



Source: WPIC Research

Figure 6: The spike in **lease rates**, coupled with the Anglo American Platinum converter (ACP) outages, in 2020 pre-empted a sustained **platinum price rally**.



Source: Bloomberg, WPIC Research

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