

Platinum's market shortage may not be transient, supporting increased investment demand

Some investors remain concerned that COVID-19 may increase the early estimate of the 2020 platinum surplus we published on 18th May of 247 koz. However, this sentiment does not appear to be reflected in the platinum physical market. There are clear indicators of a shortage of metal; surging lease rates (chart below left), and the emergence of backwardation in the forward price curve (chart below right). The lease rate, or market price/cost of borrowing metal, will be low in an oversupplied market and high in an undersupplied market. **1-month platinum lease rates jumped from 0.2% to 6.7% (per annum) between March 24th and April 16th and have subsequently averaged c.3%.** Historically, 1-month platinum lease rates typically ranged between -0.2% and 0%.

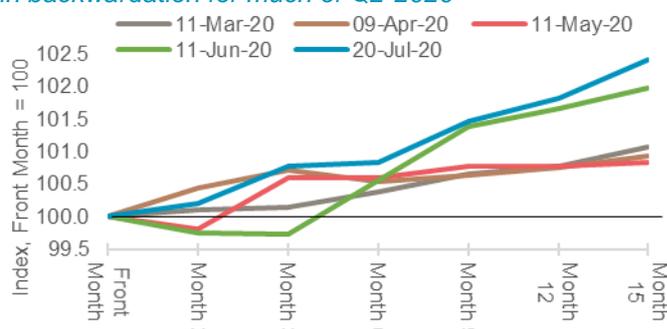
Several factors have driven this physical market shortage. **Reduced platinum supply of c.550 koz in 2020, announced on 6th March, was due to the 80-day repair of the Anglo American Platinum Converter Plant (ACP). A further reduction of over 200 koz of refined platinum sales is due to measures to contain COVID-19 as South African mines were completely locked down from 26th March to 30th April. The build up towards their full reopening only occurring after 1st June.**

Platinum annual lease rates for one-month leases have remained elevated since late March



Source: Bloomberg, WPIC Research

The front end of the NYMEX platinum forward curve was in backwardation for much of Q2-2020



Source: Bloomberg, WPIC Research

Platinum logistics were severely impacted by COVID-19, including commercial air traffic – the main method of global precious metal transport. This logistical bottleneck constrained producer and refiner exports, limiting bullion banks' ability to secure and deliver physical platinum against maturing NYMEX futures. This, and diminished market maker participation, reduced the liquidity of Exchange of Futures for Physical (EFPs) and drove an unusually large futures price premium over spot. Many investors chose to rather buy and transport 50 oz platinum bars (from Swiss refiners) to deliver against the futures than risk paying premiums. **In July, alone, 191 koz of 50 oz platinum bars were added to NYMEX depositories, somewhat reducing that metal shortage.**

Platinum's shortage has been compounded by increased buying and consumption. Platinum imports into China hit record highs over the first 5 months of this year, **up 30% YoY at 1.3 moz**, driven by manufacturers (industrial and jewellery) increasing stock levels on supply concerns and the large price dip. Strong platinum demand from trucks in China and global bars and coins are detailed in our [June](#) and [\(first\) July Platinum Perspectives](#). Additionally, institutional investor demand has rebounded, with **physically-backed ETF demand growth of 409 koz since May 12th**, principally driven by US funds appetites for precious metals exposure.

A lack of availability of suitable metal has impacted bank EFP transactions and futures premiums driving over 191 koz into NYMEX depositories

Institutional investor appetite for precious metals has boosted platinum ETF demand by 409 koz since mid-May

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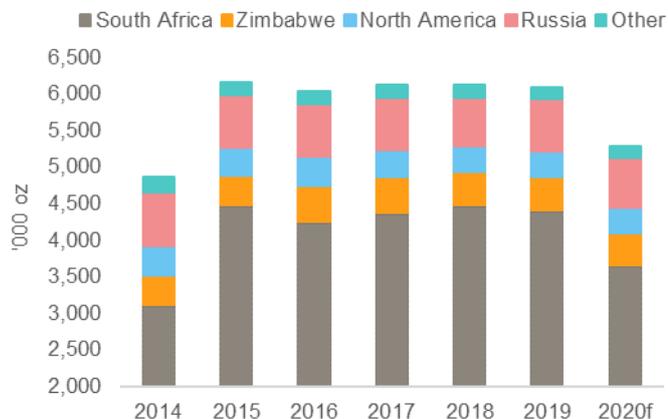
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Platinum's attraction as an investment asset arises from:

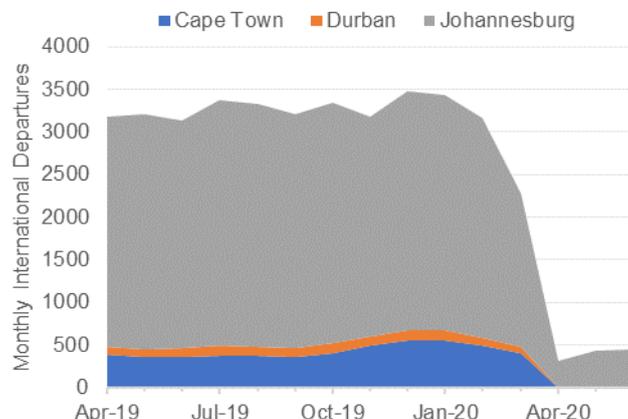
- Supply is relatively constrained with limited investment in new platinum group metal (PGM) mines
- Platinum price is near all-time lows relative to gold and at record lows relative to palladium
- Total PGM demand growth should continue due to increasingly restrictive emissions rules
- Market balance and price mismatches between palladium and platinum argues for substitution
- Investment demand has surged as institutions begin to factor low price and positive fundamental outlook

Figure 1: Anglo Platinum's ACP outage and COVID-19 mitigation reduces 2020f platinum supply by 755 koz



Source: SFA (Oxford) (to 2018), Metals Focus (from 2019), WPIC Research

Figure 2: South Africa's lockdown reduced flights more than global levels, constraining metal exports



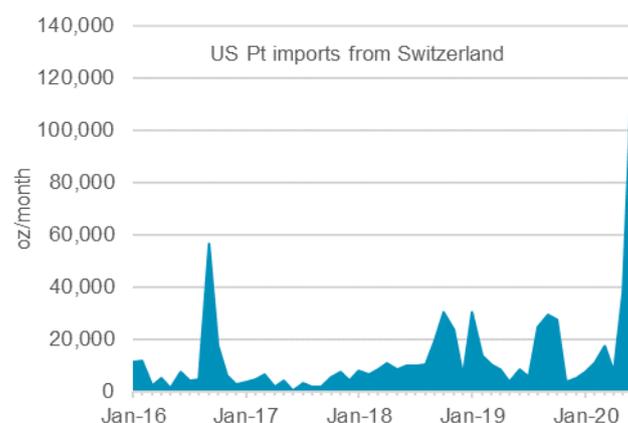
Source: Airports Company South Africa, WPIC Research, at 30th June 2020

Figure 3: Pt unavailability in North America prompted the massive increase in NYMEX depositories



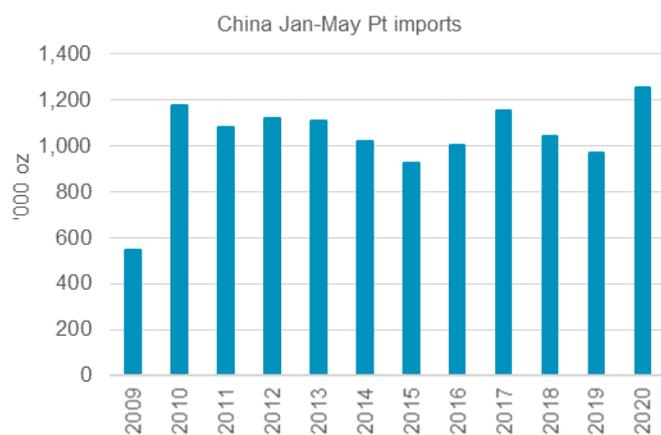
Source: NYMEX, WPIC Research, at 27th July 2020

Figure 4: Most metal that flowed into US depositories from late June onwards came from Switzerland



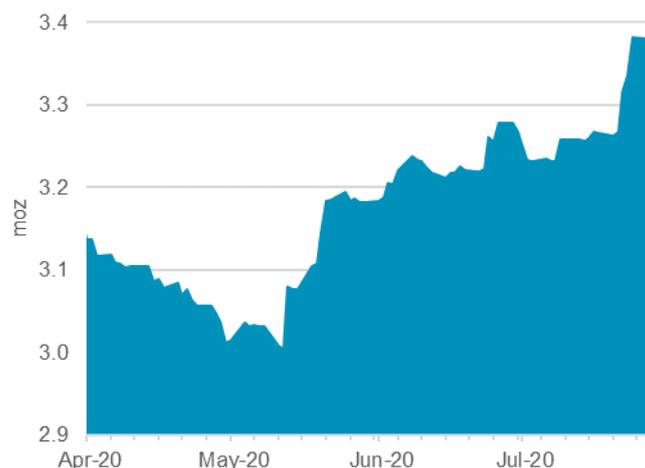
Source: Swiss Customs, WPIC Research, at 30th June 2020

Figure 5: Chinese platinum imports at record highs over the first 5 months of 2020.



Source: China Customs, WPIC Research, at 31st May 2020

Figure 6: 2020 Platinum ETF holdings, up 409 koz since mid-May lows, driven by 238 koz additions in US funds



Source: Bloomberg, WPIC Research, at 28th July 2020

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