

Platinum's demand growth potential suggests a breakout from gold and upward pressure on price

Most commodities' price levels are a function of supply/demand balances. The platinum price also shows a long-standing correlation to the gold price, but this relationship breaks down from time to time, with notable examples over the last three years. Coming into the end of 2021, the gold relationship appears to be weakening again, which is potentially a precursor to platinum outperforming in 2022 and beyond.

Correlation analysis indicates that platinum pricing through time is significantly influenced by short-term movements in the gold price. This is quite surprising, given that roughly two thirds of annual platinum demand comes from the automotive and industrial segments with the balance being a combination of jewellery and investment. The link to the gold price is potentially a result of trading strategies that use short-term gold moves as a prompt for platinum positioning (potentially counterintuitive, but with enough volume, potentially self-fulfilling).

However, there are demonstrable periods when the relationship with gold breaks down, usually due to demand changes, such as in mid-2019, when gold outperformed platinum (P1 in the table below and figure 4) and in late-2020 when platinum outperformed gold on expectations of demand bounce-back from automotive production (P3). Macro-industrial driven demand takes over when the short-term relationship with gold breaks-down. This demand is also an important longer-term driver of platinum pricing. As shown in figure 5, the platinum prices closely tracked the IMF Industrial Commodities Index until early in 2016 when the negative impact of Dieselgate on automotive demand, and falling jewellery demand, put downward pressure on the platinum price. Since then, the platinum price has continued to underperform the broader industrial market.

Platinum prices are generally strongly correlated to gold, but periodically overridden by supply/demand

Time Period	Start Date	End Date	Daily Return		Daily Log Return	
			R ²	Correl	R ²	Correl
P1	01/06/19	01/09/19	14%	38%	14%	38%
P2	14/08/20	27/10/20	40%	63%	40%	63%
P3	16/11/20	24/02/21	30%	55%	30%	55%
P4	15/07/21	07/12/21	97%	99%	16%	40%

Source: WPIC Research

It seems likely that the short-term gold price link will continue, with gold moves driving short-term platinum volatility. However, we believe macro-industrial drivers will set longer-term price. Looking at rolling correlations of daily price returns (above right), shows a clear breakdown of the link with gold in 2019. However, it also shows that the relationship appears to be weakening again now. This reflects relative gold price strength in recent months, but it could also be a precursor to platinum prices outperforming in 2022 on the back of [automotive demand recovering from the semiconductor crisis](#), coupled with [increased platinum for palladium substitution](#) and higher vehicle loadings. We must note, however that COVID remains an ongoing risk with the spread of the Omicron variant.

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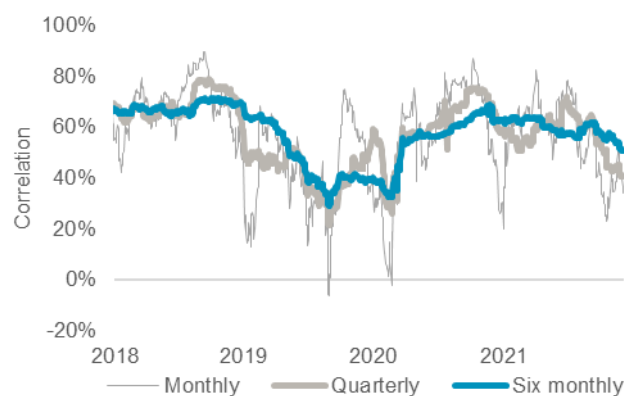
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Platinum's correlation with gold is weakening again; a possible precursor to outperformance in 2022



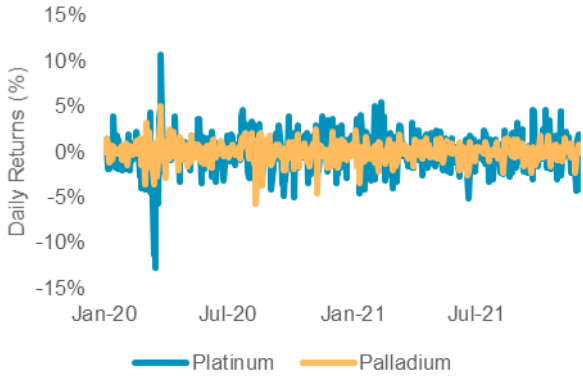
Source: Bloomberg, WPIC Research, Chart shows rolling correlations of daily returns

A recovery in automotive demand in 2022, enhanced by higher loadings and substitution could see platinum's outperformance again break the link to gold. But the increasing spread of the Omicron COVID variant may pose a headwind.

Platinum's attraction as an investment asset arises from:

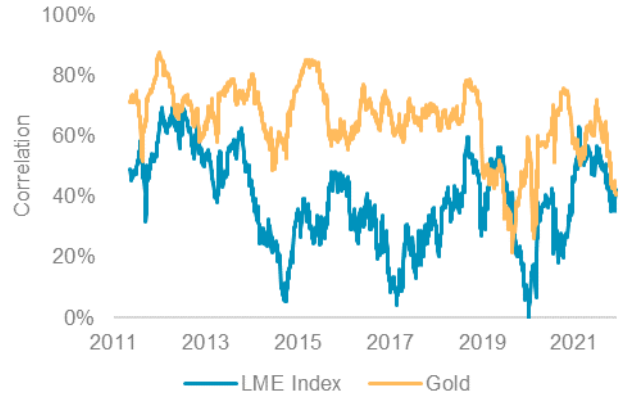
- Supply severely constrained for three more years despite some new investment in mining capacity
- Platinum price remains historically undervalued and significantly below both gold and palladium
- Automotive PGM demand growth should continue due to increasingly restrictive emissions rules
- Market balance 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: Platinum's daily returns are approximately twice as volatile as gold's, underlining platinum's attractiveness to systematic traders



Source: Bloomberg, WPIC Research

Figure 2: Consequently, short-term price moves are influenced by gold, although the relationship does break down occasionally, such as in 2019 and potentially now



Source: Bloomberg, WPIC Research, Chart shows rolling six-month correlations of daily returns

Figure 3: Platinum's relationship to gold weakens in periods when automotive and industrial segment drivers promote or suppress demand for platinum...

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P1	01/06/19	01/09/19	14%	38%	14%	38%
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Source: Bloomberg, WPIC Research

Figure 4: ...such as during late 2020 into 2021 when automotive demand was recovering from COVID headwinds



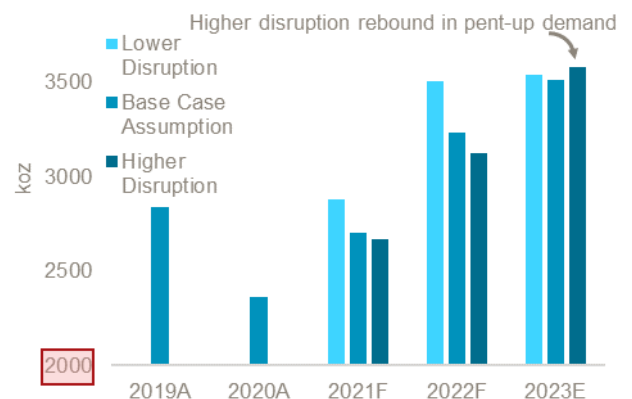
Source: Bloomberg, WPIC Research

Figure 5: The influence of the industrial complex on platinum pricing temporarily weakened in the wake of Dieselgate



Source: Bloomberg, IMF, WPIC Research

Figure 6: A weakening relationship with gold may be a precursor to platinum outperforming in 2022 supported by a bounce-back in automotive production with the easing of the semi-conductor shortage



Source: Metals Focus, WPIC Research

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