

PLATINUM PERSPECTIVES

NYMEX stock outflows continue to respond to physical market tightness from strong China imports

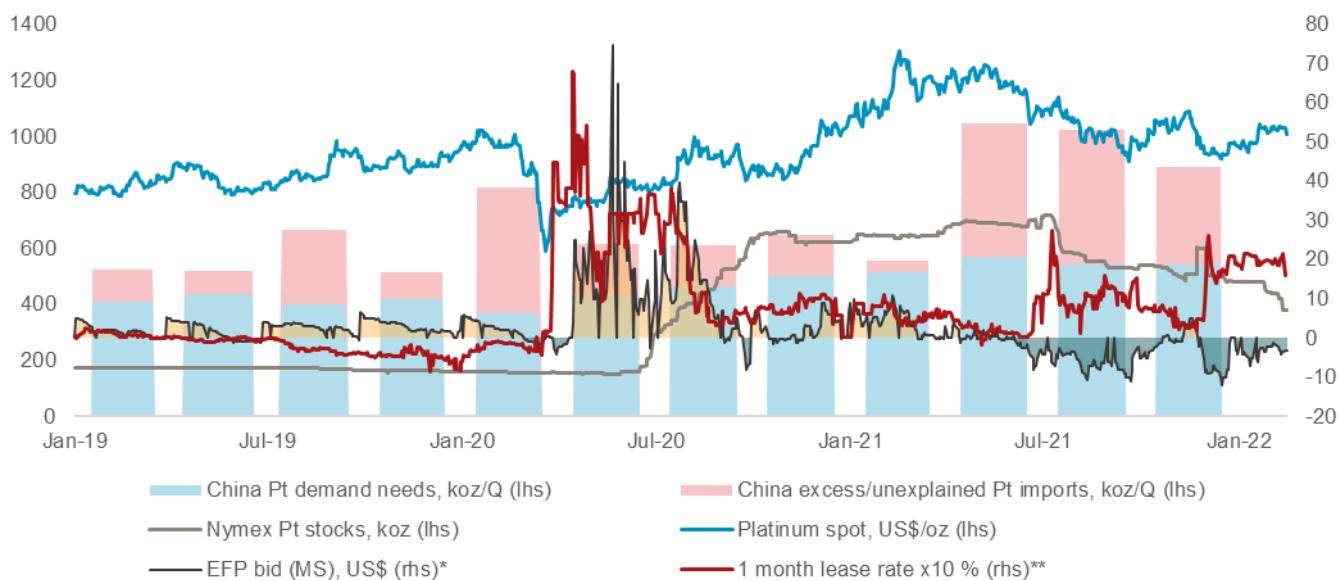
Physical demand for platinum in China is creating an arbitrage opportunity resulting in stocks flowing away from NYMEX. While this may at first look like negative investment demand it reflects real demand for metal to meet significant platinum imports into China.

China's platinum imports have been continuing to run well ahead of identified demand, with 'excess/unexplained' imports totalling ~1.4 moz in 2021, well in excess of the estimated global platinum surplus of 769 koz. Without an identified end use, the flow of excess China imports are not captured in our supply/demand analyses, yet falling NYMEX stocks are.

We are of the view that the excess platinum imports to China are resulting, at least in part, in tightness in the spot market. This market tightness has resulted in the spot price for platinum trading at a premium to the forward price of NYMEX futures contracts, putting the market into backwardation and resulting in the price of the exchange of futures for physical (EFP), being below par (negative/discount). Above a cost of transportation threshold, this incentivises market participants to access cheaper platinum from NYMEX, which is then transported and sold into the currently higher priced European spot market. As a result, NYMEX stocks have continued to shrink from the highs reached in 2020 when COVID-choked logistics significantly increased market-making risk, particularly the inability to deliver 50 oz bars against a maturing future. This resulted in a flow of metal into NYMEX inventories, enhanced by the high (positive/premium) EFP level. **Right now, in effect, reducing NYMEX inventories can be viewed as a supply of metal that is helping to meet strong physical demand, including that created by China imports.**

The real tightness of the physical market is also illustrated by elevated platinum lease rates. These initially spiked in Q2'20 when plant outages and COVID limited physical deliveries from South Africa, but have since remained elevated. In addition, the relatively muted fall in the platinum price in H2'21 further emphasises the market tightness, only declining c.\$100 / oz despite the faster than expected unwinding of Anglo American Platinum's semi-finished inventory and growing 2021 surplus forecasts.

Platinum price, lease rates, EFP price & NYMEX stocks respond to above-demand China imports



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Flow of platinum stocks out of NYMEX reflect a tight physical market creating arbitrage opportunities on high demand for metal, particularly in China where platinum imports continue to run ahead of identifiable demand.

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: China's COVID-related supply chain concerns and the price collapse appears to have supported strong platinum imports in Q1'20

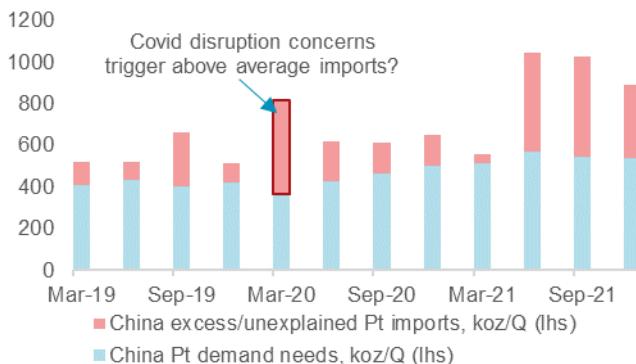


Figure 2: COVID related disruptions to the automotive market in Q2'20 resulted in a fall in the platinum price and the EFP being priced above 'break even' (A. Fig 2)...

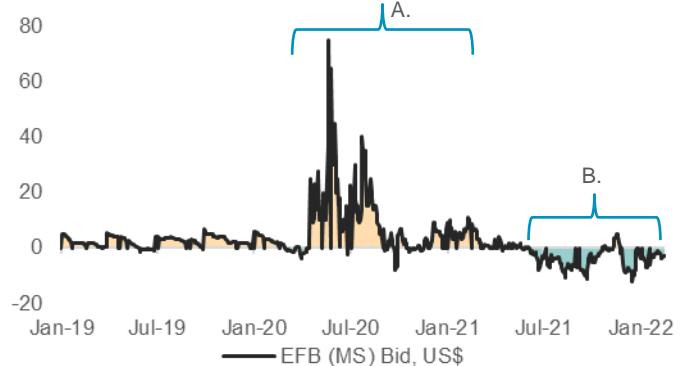


Figure 3: ... which in combination with reduced risk tolerance compelled traders to move metal from Europe to New York, increasing NYMEX stocks (X. Fig 3)

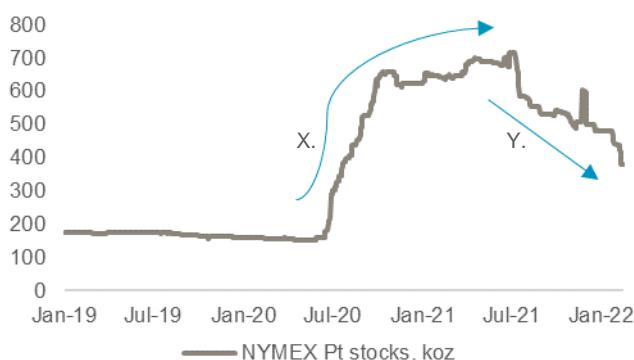


Figure 4: Recently, the massive increase in China above-requirement purchases (Z. Fig 4) has tightened the spot market, causing a negative EFP (B. Fig 2), incentivising the stock drawdown from NYMEX inventories (Y. Fig 3)



Figure 5: Spot market tightness is evident in lease rates remaining above historical norms supplemented by rising interest rate expectations...

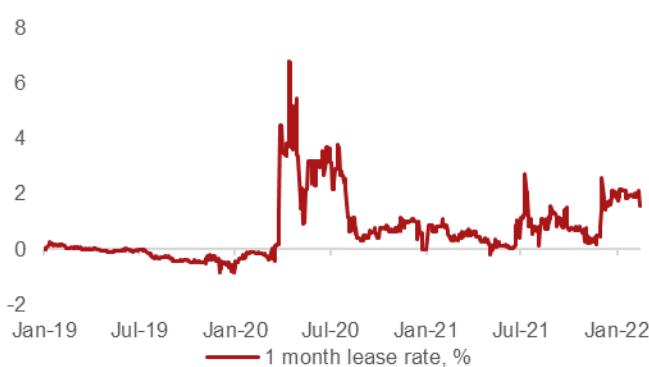
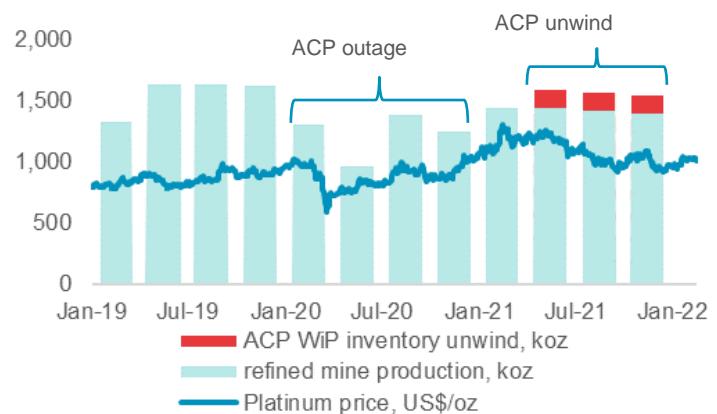


Figure 6: ...and a relatively strong platinum price through H2'21, despite higher than anticipated metal flow from Anglo American Platinum's semi-processed inventory



Source: Metals Focus, Anglo American Platinum, WPIC Research

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