PLATINUM PERSPECTIVES

Can platinum market deficits be met by ETFs? Yes, but only at much higher prices.

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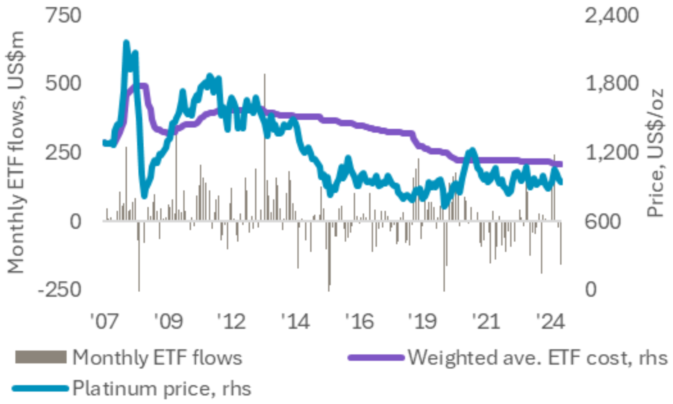
In our updated two-to-five-year platinum market outlook (*link*), we expect platinum market deficits to average 769 koz from 2025f to 2028f. Drawing on above ground stocks (AGS) will be needed to supply the market, however, these are expected to be depleted during 2028f. A common argument is that despite depleting AGS, platinum prices will not respond to consecutive years of market deficits since ETF disposals will fulfil metal shortfalls. While ETFs can act as a source of supply, it is incorrect to assume holders are price agnostic. Palladium demonstrated, most ETF disposals only occurred through a significant price rally that saw spot exceed the weighted average cost of the accumulated ETF holdings and more. Thus, platinum ETF disposals may occur if prices are above the US$1,100/oz weighted average cost of ETF holdings, but large disposals will require much higher prices.

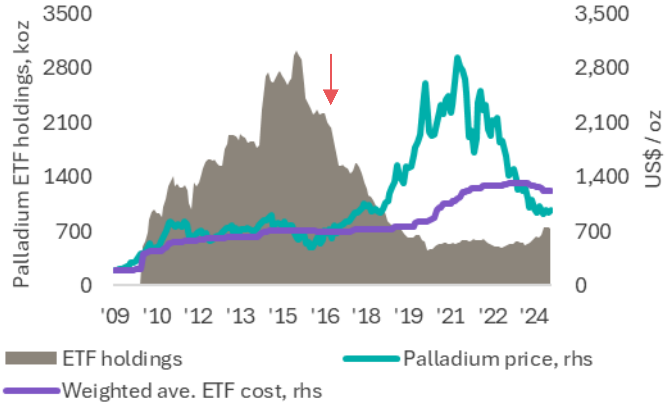
Platinum ETFs launched in 2007 and have accumulated around 3.2 Moz of physically backed holdings (Fig. 5). This has supported platinum demand, but vice versa, disposals would result in ETFs acting as a source of supply. However, it is often ignored that platinum ETF demand stems from investors seeking a return on capital via platinum price appreciation. Hence, ETF disposals are not price agnostic. By calculating the weighted average cost of metal held in ETFs, it is possible to estimate a price threshold required for metal to be sold. The cumulative cost of ETF holdings is determined by adding the monthly metal accumulations at the average price. Dividing this by the total number of ounces gives a weighted average cost on a per ounce basis which we estimate is US$1,100/oz for platinum ETFs currently (Fig. 1).

Fig 1. Weighted average cost of platinum ETF holdings is estimated at US$1,100/oz



Source: Bloomberg, WPIC Research

Fig 2. Most palladium ETF disposals occurred only after the spot price exceeded the weighted average cost



Source: Bloomberg, WPIC research

Palladium illustrates that the weighted average cost of ETF holdings is broadly the threshold at which ETF disposals occur in a market expecting consecutive years of deficits (Fig. 7). From 2015 to 2020, palladium prices tripled, and ETF holdings declined from 3.0 Moz to 0.6 Moz. However, most disposals occurred after spot prices exceeded the weighted average cost of ETF holdings (Fig. 2). Accordingly, unless the platinum price sustainably trends above US$1,100/oz, we do not anticipate large outflows and believe market deficits will only be met through the depletion of AGS. This could be compounded by the ongoing interest rate downcycle, which improves the competitiveness of non-yielding assets like commodity ETFs.

Interestingly, looking at gold ETFs, spot prices have almost always traded above the weighted cost of ETF holdings (Fig. 8). However, where the gold price has entered a down trend, ETF outflows accelerate and vice versa with increasing prices. Under a Veblen scenario, increasing platinum prices may in fact cause investors to build additional platinum ETF holdings, potentially exacerbating the market deficits we forecast to at least 2028f.

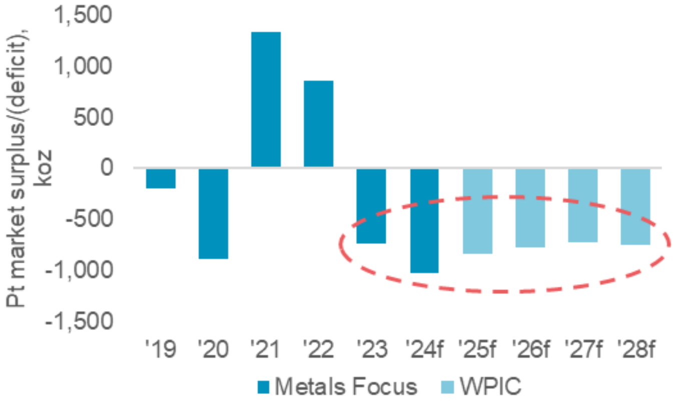
Consecutive years of platinum market deficits are projected to deplete above ground stocks during 2028f.

Platinum held as above ground stocks or in exchange traded funds is not price agnostic and requires a threshold to be met before potentially helping to meet market deficits.

Platinum's attraction as an investment asset arises from:

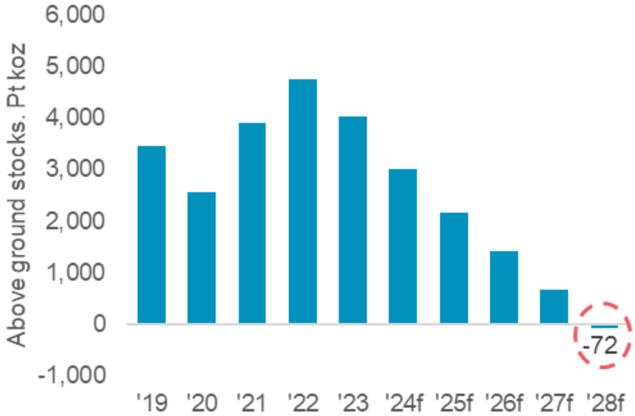
- WPIC research indicates the platinum market entering a period of consecutive supply deficits from 2023
- Platinum supply remains challenged, both from primary mining and secondary recycling
- Automotive platinum demand growth should continue into 2024f due principally to substitution of platinum for palladium in gasoline vehicles
- Platinum is a critical mineral in the global energy transition underpinning a key role in the hydrogen economy
- The platinum price remains historically undervalued and significantly below the price of gold

Figure 3: Platinum markets are expected to record consecutive deficits from 2023 until at least 2028f



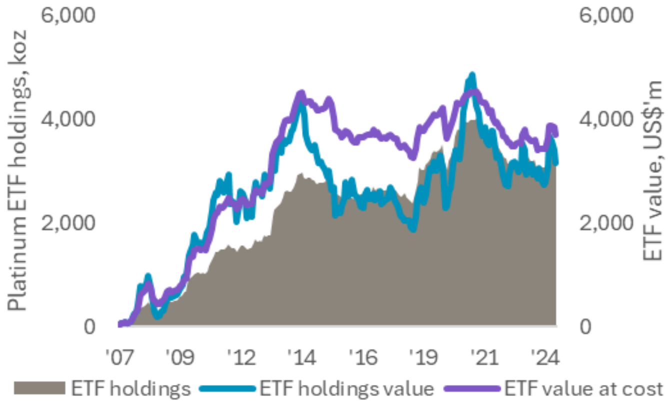
Source: Metals Focus 2019 to 2024f, WPIC Research thereafter

Figure 4: Sustained platinum market deficits are set to fully deplete above ground platinum stocks during 2028f



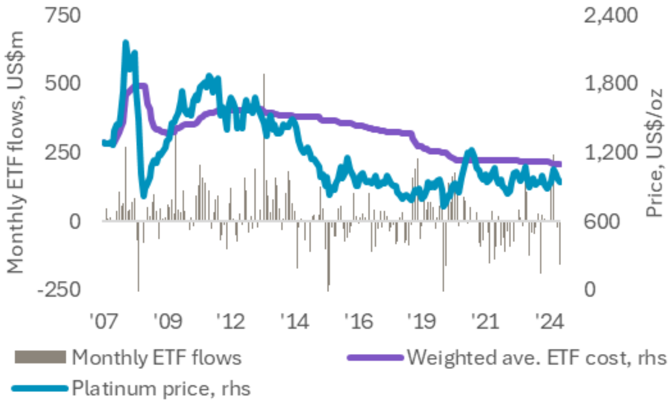
Source: Metals Focus 2019 to 2024f, WPIC Research thereafter

Figure 5: As platinum prices change, the value of metal held in ETFs will differ from the cost to purchase and accumulate that metal



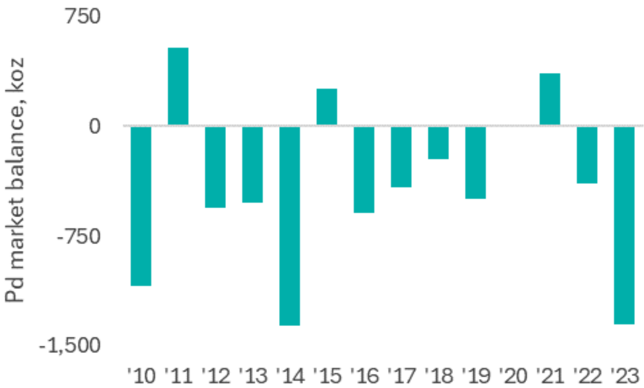
Source: Bloomberg, WPIC research

Figure 6: Depressed platinum prices since 2015 have slowly lowered the weighted average cost of ETF holdings as metal has been accumulated at lower prices



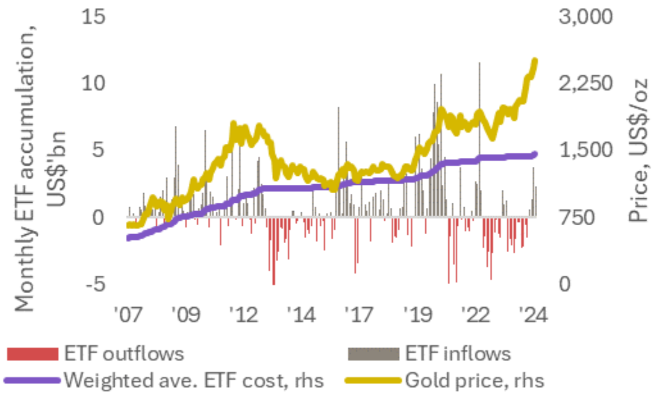
Source: Bloomberg, WPIC research

Figure 7: Palladium markets recorded multi-year deficits* from 2010 which resulted in a significant upward rerating of the palladium price, platinum looks similarly poised



*Source: Metals Focus, WPIC research, *After accounting for net ETF demand*

Figure 8: Gold ETF accumulations tend to positively correlation with prices where investors build holdings into upward price trends



Source: Bloomberg, World Gold Council, WPIC research

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