



WHAT IS FUNGIBILITY?

Platinum is fungible – an attribute useful to both those looking to invest in physical platinum and those buying platinum for use in industrial and automotive applications

Fungibility is an economic concept which implies equal value between two examples of the same asset, meaning that whatever form platinum takes, it is interchangeable. Typically, platinum producers choose the form of the platinum they produce at the final stage of their refining process, which mainly includes sponge (a powdered form of the metal) or ingot both at a purity of 99.95 per cent.

One of the main uses of platinum is in autocatalysts for reducing harmful emissions and improving air quality – in fact platinum was used in the very first autocatalysts ever made over 40 years ago. Platinum in sponge form is more readily dissolved to facilitate the application of small molecules of metal in a ‘washcoat’ that provides the active surface in an exhaust autocatalyst brick to reduce the amount of unburned hydrocarbons, turn toxic carbon monoxide into carbon dioxide and to reduce emissions of oxides of nitrogen or NOx. Today platinum sponge is used mainly in producing autocatalysts for diesel vehicles.

Platinum ingots, or bars, are another form of platinum often used by investors seeking exposure to platinum as an investment asset, for example through an exchange traded fund (ETF) that is backed by vaulted platinum bars. Platinum refiners, including many platinum mining companies, wishing to supply platinum that can be traded and vaulted must satisfy the strict requirements of the London Platinum and Palladium Market (LPPM). The LPPM Good Delivery

Standards require platinum traded across its market to be 99.95 per cent fine, as well as conforming strictly to other criteria, which ensures investors can have confidence in the purity of the platinum they buy and hold.

Meeting platinum demand

However, because of platinum’s fungibility, sponge can also be made into ingots, and vice versa, without any loss of intrinsic value per ounce or gram. This is useful in terms of managing the diverse needs of the industrial, automotive, jewellery and investment segments of platinum demand. While it is possible for a refiner to convert platinum between sponge and ingot form, in practice it is usually swapped as, although not meeting LPPM Good Delivery Standards, assaying ensures the purity of the platinum sponge at 99.95 per cent.



Where refining capacity is constrained and there is not time to convert platinum from one form to another, this type of swap may attract a premium over the cost of conversion. This is known as the sponge/ingot premium or discount, usually only present during periods where the one form of platinum is more in demand than the other.

The first half of 2019 has seen unprecedented investment demand of 855 koz, with 720 koz

coming from increased ETF holdings and 135 koz from purchases of bars and coins, while automotive demand for platinum during the first half of 2019 was 765 koz.

For investors, ETFs offer an affordable way to accumulate an investment in platinum, enhancing diversification and adding a physically-backed asset to a portfolio.

Contacts:

Brendan Clifford, Investor Development, bclifford@platinuminvestment.com

Trevor Raymond, Research, traymond@platinuminvestment.com

Vicki Barker, Investor Communications, vbarker@platinuminvestment.com



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