

SPOTLIGHT ON CHINA

Weibin Deng, the WPIC's Regional Head, Asia Pacific, discusses the potential for platinum investment in China

China is the second largest market for platinum consumption in the world, after Europe. In 2019, it accounted for 26 per cent of global demand. In fact, against the backdrop of the worldwide economic turmoil caused by the COVID-19 pandemic, purchases of platinum from the Shanghai Gold Exchange grew significantly in the first quarter of 2020, rising from an average of 171,000 oz per quarter in 2019 to 455,000 oz, as manufacturers in the jewellery and industrial sectors responded to the low platinum price and took the opportunity to increase their stock levels.

Despite its credentials for use in industry and jewellery fabrication, platinum as an investment product in China is still a relative newcomer, although one with enormous potential, as Weibin Deng explains.

Why the focus on China?

Over the last decade, China has become the biggest gold investment market in the world in terms of both exchange trading and physical investment – the Shanghai Gold Exchange is now the second largest precious metals trading exchange after those of the US's CME Group. The rapid development of gold investment has laid out an extraordinary foundation for platinum, a precious metal that is “as good as gold” in the view of many investors, who are aware of the historic correlation

between the price of platinum and the price of gold and platinum's diversification role in a portfolio, similar to gold.

In addition, consumers here have a well-established affinity for platinum as the pre-eminent jewellery metal, which has also created a useful stepping-stone for generating wider understanding of its potential as an investment asset. When you add into the mix China's economic status as the world's second largest economy, with a growing middle class that is looking for reliable investment products, we see that there are real possibilities to stimulate investment demand for platinum.

How does China differ from other platinum investment markets?

The Chinese banks have played an important role in the development of precious metal investment markets, which we haven't seen in the rest of world. Their strong distribution networks were an important factor in accelerating the growth of the gold investment market, and we are able to leverage on this to develop the platinum investment market also.

However, there are some barriers. There is a less developed platinum market infrastructure - that is, we lack platinum futures contracts in China and have an illiquid secondary spot market. This is

the barrier we are working hardest with Chinese partners to overcome in order to develop more investment products in platinum. While platinum investment bars and coins do not enjoy the same tax benefits in China as gold, they are no worse off than silver, which is a successful investment metal. More importantly, the 'long-only' cash-settled platinum account offered by Chinese banks has helped domestic investors obtain exposure to platinum that is fully backed by platinum vaulted offshore.

What success has the WPIC had in stimulating demand in China since it entered the market?

Before we came on the scene three years ago, platinum investment products were very limited. Platinum accounts offered by a small number of banks were little known to investors. Our approach is twofold. Firstly, we build relationships and then work with partners to increase product availability, for example through the launch of retail bars distributed through e-commerce platforms and offline.

Secondly, we work closely with banks to increase investment volumes. Underpinning this strategy has been our content-centric model, providing educational resources and training programmes on platinum investment.

In 2019, we trained more than 3,000 bank employees to help them better understand the platinum investment case so that they have the genuine knowledge and confidence to discuss platinum investment and investment products with their clients. We also harness the power of social media platforms like Wechat and Weibo to inform the market and share our insights.

Awareness and engagement levels have definitely risen and it is worth noting that China's sovereign mint, China Gold Coin, offered a commemorative platinum coin in 2019; the first platinum coin minted in 14 years, the previous one being the prestigious one ounce platinum Panda.

What factors are at play that give you confidence that future growth is achievable?

The investment case for platinum is the same in China as elsewhere – a rare precious metal, offering portfolio diversification and a long-term store of value, and an industrial metal with constrained supply and demand growth potential.

Platinum is currently at historic discounts to its sister metal palladium and to gold, offering upside potential should platinum revert to a position where its price reflects supply/demand fundamentals, its industrial value-in-use or its traditional premium to gold. In particular, platinum's demand growth potential in autocatalysis has been strengthened by tightening emissions control legislation – an issue that is well understood in China which has been working hard to reduce pollution levels.

Similarly, China is also making energy decarbonisation a priority and is one of the most proactive economies in terms of developing its hydrogen and fuel cell electric vehicle industry.

The nascent hydrogen economy is an important source of potential future platinum demand and investors in China have a growing understanding of this and – crucially – there is growing evidence here that hydrogen technologies, using platinum catalysts, are poised to move to scale, which is helpful in reinforcing the investment case for platinum.

Retail platinum investment markets in the US, Japan and Europe have seen strong demand in response to the COVID-19 pandemic. Is it the same in China?

Make no mistake, the impact of COVID-19 has been profound. On one hand, it hit the platinum price hard back in March, although this created an incredible opportunity to purchase for investors. Here, as in other markets, there was very strong

retail demand for platinum in the first quarter, mainly at banks.

What else will support the growth of platinum investment in China in future?

Clearly, the global economy is going to face economic headwinds for some time to come, which creates uncertainty and increases risk. Precious metals, including platinum, are alternative assets that can protect against risk and they will be in demand. This will be supported by the increased awareness in China of platinum as an investment asset – this is an aspect we are passionate about and have been successful in growing.

We have built strong relationships with major organisations and are working hard to ensure that the growth in product availability matches increasing investor demand.

Investment demand growth is supported and reinforced here by the awareness and strong drive to reduce harmful emissions from vehicles and embrace the hydrogen economy as a route to decarbonisation. The importance of platinum to these efforts and the potential for consequent growth in platinum demand is increasingly recognised by investors in China.



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