

Net Zero: Automakers and Consumers Putting Up Resistance

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Proposed global Net Zero emissions target schedules have been debatable from the outset due to the number of stakeholders involved, from government bodies to consumers wary of change. Some of this is now becoming outright pressure.

The significance to the PGM is their use in emission control catalysts in gasoline-fuelled cars, plus platinum's importance in treating diesel particulate emissions. Autos account for 40-42% of global industrial platinum fabrication and 80-82% of palladium. The US EPA estimates that greenhouse gas (GHG) emissions from transportation account for ~28% of US GHG; the European Commission pegs its equivalent at ~19%.

Europe rules require a 100% cut in CO2 emissions from new cars sold, i.e. no new fossil fuel vehicles, by 2035. There are already signs of slippage, however, with the EU planning a 2026 review and the rightward shift in some European nations is potentially disruptive. The European Automobile Manufacturers Association called in September for urgent action over "a continuous trend of shrinking market share for battery electric cars... sends an extremely worrying signal to industry and policymakers. European auto manufacturers... call on the EU institutions to [provide] urgent relief measures before new CO2 targets for cars and vans come into effect in 2025 and to accelerate the CO2 regulation reviews for light-duty and heavy-duty vehicles, currently scheduled for 2026 and 2027 respectively, to 2025". The onward march of hybrid vehicles is due not least to consumers' concern about BEV ranges and slow implementation of charging infrastructure globally.

The United States has set a 2035 target for 100% clean electricity by 2035, and net zero by 2050; this may of course come under review after November. Electric vehicles continue to increase market share in China, and cost-cutting is bringing prices down locally and in Europe.

More than one auto company is changing tack. Most recently Volvo announced that it is to drop its plan to sell only BEVs by 2030, shifting to a combination of BEV and PHEV. (Note hybrids include ICE engines, usually with heavier loadings than 100% ICE vehicles).

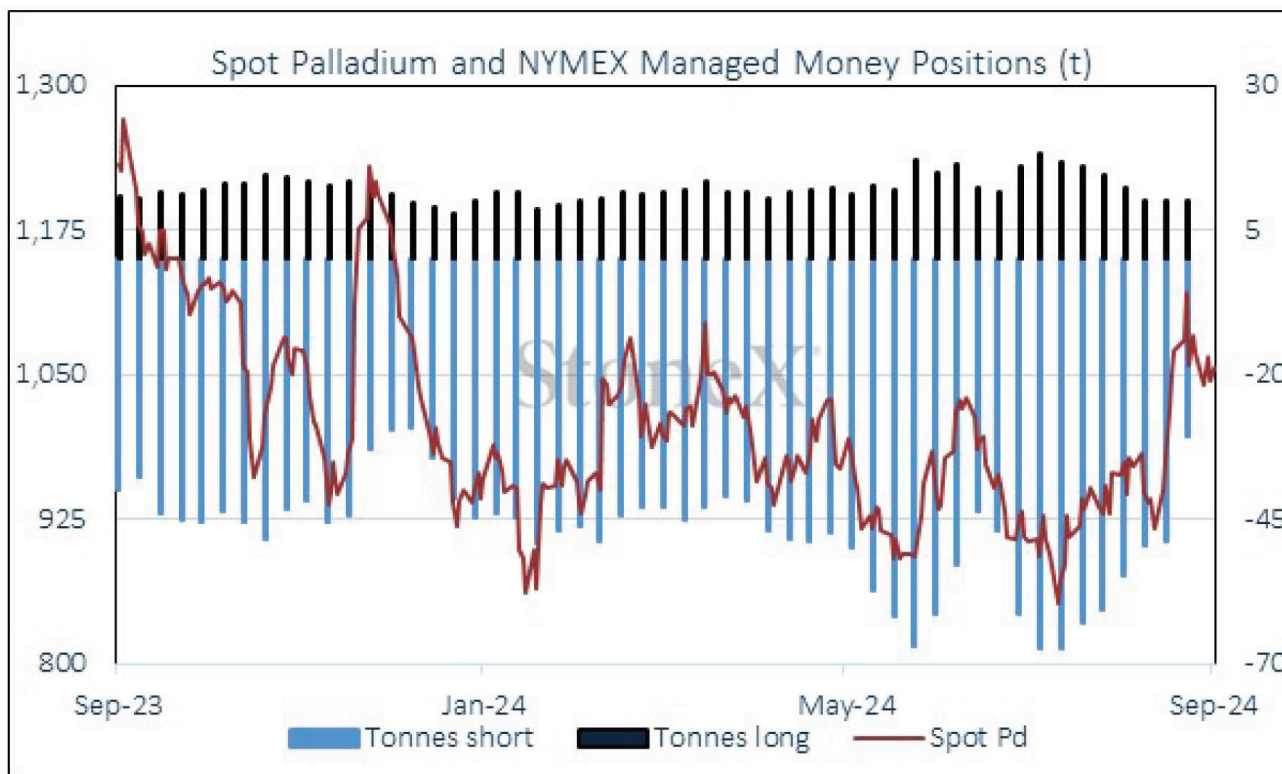
So while the demand profiles for palladium and rhodium are threatened, long-term forecasts are fraught with uncertainties. What we can say is that, worst case, by the late 2030s an industry that currently comprises 80% of palladium demand could be becoming a net supplier of metal into the market.

On the supply-side, the palladium and rhodium price falls, and issues with supply of South African energy, are still key issues. Load-shedding in South Africa ceased on 1st April, although the CEO of Eskom, the State energy supplier, has warned that outstanding large bills may yet threaten the company's operations. The major South African producers (70% of world platinum mine production and 54% of global supply) have been restructuring with impact on workforce numbers but not, as yet, production. In North America, the Sibanye-Stillwater mine, which has been burning cash, is being put onto partial care and maintenance as part of a restructuring programme.

Nornickel, the world's largest palladium producer, has reported that it is ahead of its 2024 production schedule although Red Sea navigation issues mean that it has had to increase its inventories. Amplats and Implats in South Africa, meanwhile, are working off some of the inventory of untreated material that built up during load shedding.

Platinum is likely to post a deficit this year equivalent to roughly two weeks' global industrial demand and three weeks' in 2025; palladium looks like a six-week deficit this year and five weeks' in 2025.

Meanwhile the stay of execution for demand, prompted by the hybrids' incursion at the expense of BEVs, is currently supporting palladium and the massive NYMEX shorts, in place for much of 2024 in anticipation of long-term developments, have recently contracted heavily to levels prevailing as far back as January. This, with the Sibanye announcement, helped to fuel the September rally towards \$1,120.



Source: CFTC via Bloomberg; Design: StoneX

The longer term outlook makes it difficult to justify any sustainable recovery in palladium prices. Probably the best that can be said is that industrial de-stocking will come to a halt eventually, but for now the market remains hamstrung. The outlook for platinum is better, especially if fuel cells gain traction on the road. Meanwhile the industries' sabres remain drawn.

