Platinum: An Underappreciated Metal

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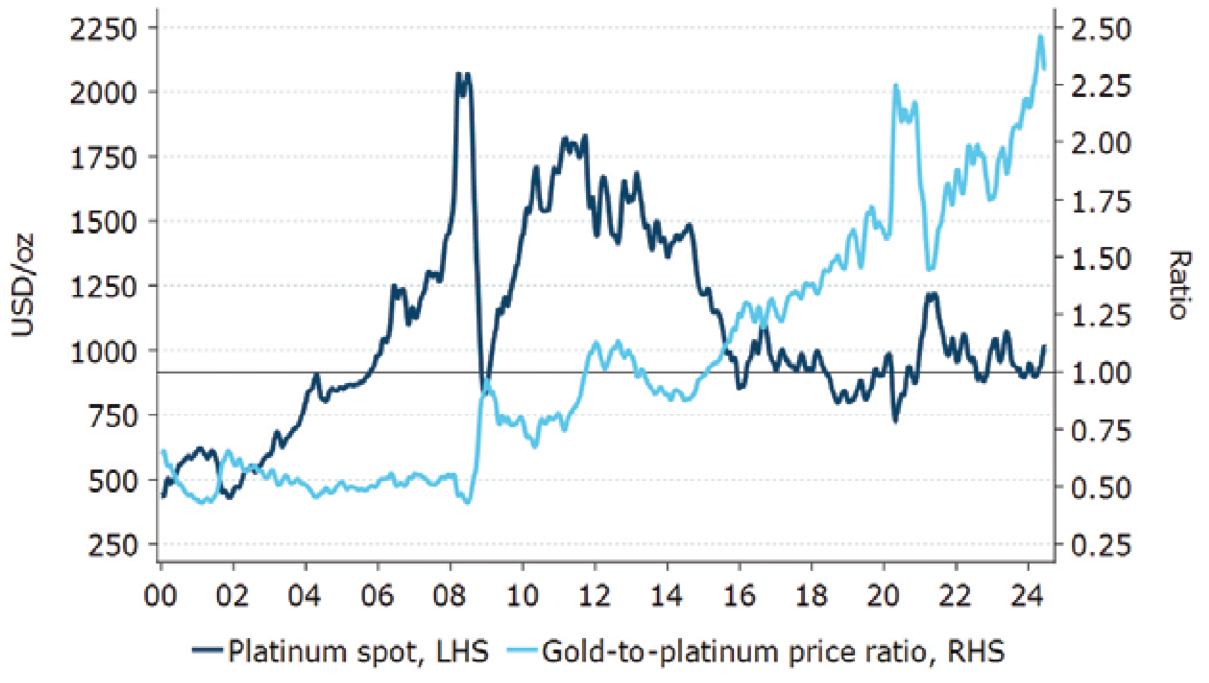
Compared to gold and silver, platinum has underperformed this year. Its price has been trading nearly 40% lower than at its peak in 2011. While rising gold prices have made platinum more attractive to some investors, that positive sentiment is missing from longer-term views of the price as evident in the forward curves.

Falling platinum lease rates (Libor-Platinum swap rate) imply an easing in supply tightness, despite being undersupplied for the second consecutive year. The weakness in platinum's forward curve is linked to the fact that above-ground inventories are falling but still high. While these will suppress the price in the short term, the widening supply shortfall will turn market sentiment in the medium term, in our view.

Platinum price touched a record low relative to gold



Source: Bloomberg, Macrobond, ANZ Research

Constrained supply
A protracted price downtrend in platinum group metals (PGM) is constraining both primary supply from mines and secondary supply from scrap.

Narrowing profit margins have prompted major miners to restructure to optimise costs. This will likely delay growth projects and keep some mines in "care and maintenance" mode. The closure of aging mines will weigh on production in 2024, while a delay in the expansion of capital expenditure might weaken long-term production growth.

A slew of operational challenges over the last two years has diminished supply from South Africa, which generally supplies about 70% of global output. With prices still below the cost of production, many mining companies are expected to downgrade production guidance. In South Africa, production is likely to be steady near 4,000koz in 2024, 10% below the long-term pre-pandemic average production of 4,421koz.
Mine production in Russia is set to decline after increasing by more than 300koz in 2023. This loss of supply will outweigh marginal gains in Zimbabwe and North America. Overall, global mine production is estimated to contract by 2% y/y to around 5,700koz in 2024.

Slower recycling rates have reduced scrap supply by 38% from the peak of 2,092koz in 2019. Recycled supply, as a share of overall supply, has fallen to 19% from the long-term pre-pandemic average of 25%. We expect a modest increase of 30koz in 2024, bringing it to 1,330koz.

The decline in the supply of scrap is linked to an increase in the average life of most vehicles over the last 15 years. For European vehicles, that rose from under nine years prior to 2009 to 12.3 years in 2022. Better durability, increasing ownership rates by lower income earners and a decline in new registrations due to supply bottlenecks (due to chip shortages, for instance) in 2020–22 together increased the number of old vehicles on the road and reduced the number being scrapped.

While secondary supply will be key in offsetting the decline in mine supply, a material recovery looks unlikely until 2026.

Demand looks protected
Auto catalyst demand usually accounts for 40% of the total platinum demand. But sluggish auto production for this year will have only a limited impact on overall demand for several reasons:

- A switch from palladium to platinum is favouring the latter. After palladium's premium over platinum reached a record high in 2019, auto manufacturers moved towards platinum. Although platinum has regained its premium over palladium, its use in vehicles is unlikely to fall materially until 2026 as these platforms normally last for seven years. The auto catalytic demand ratio for palladium to platinum is still above 2.6 against the ratio of 2.0 in 2013, so there is room for more substitution.

- **Stricter emission regulations favour higher PGM loadings, another tailwind for platinum demand.** Europe is set to switch from Euro 6 to Euro 7 in July 2025 for light-duty vehicles. The shift will result in stringent emission regulation for heavy-duty vehicles, favouring higher loadings. In North America, the phase-in of federal Tier 3 legislation will see a gradual increase in PGM loadings. The implementation of California's Heavy-Duty Low NOx omnibus regulation also bodes well for demand. Heavy-duty vehicle production is set to grow in 2024, which may require higher platinum loadings. This will offset some of the demand weakness due to a contraction in light-duty vehicles this year.

- **According to the Bloomberg New Energy Finance, hybrid car sales will rise annually by 12% through 2030.** Internal combustion engine (ICE) vehicle sales are set to slow by more than 2% annually over the coming years, but consumers may prefer hybrid vehicles before switching to battery-electric vehicles (BEV). Assuming 40% penetration of electric vehicles (EV), ICE vehicles will account for nearly 35–40% of total vehicle sales, which will sustain platinum demand for auto catalysts. Plug-in-hybrid (PHEV) and extended-range EVs are variations in the transition to BEVs.

- On balance, demand for platinum as an auto catalyst will grow by 1% to 3,375koz in 2024, the highest since 2016-17.

- **A critical metal in energy transition**
  Many countries are turning to hydrogen as a transitional fuel source in moves toward carbon neutrality. It can help decarbonise sectors such as steel, heavy-duty road transport, shipping, aviation, and chemicals. Platinum is a critical mineral in building this technology for upstream production via electrolysis and fuel cells for mobility and stationary power applications.

Demand for platinum for use in Fuel cell electric vehicle (FCEV) and stationary hydrogen fuel cells will outweigh demand losses from declining ICE vehicles.

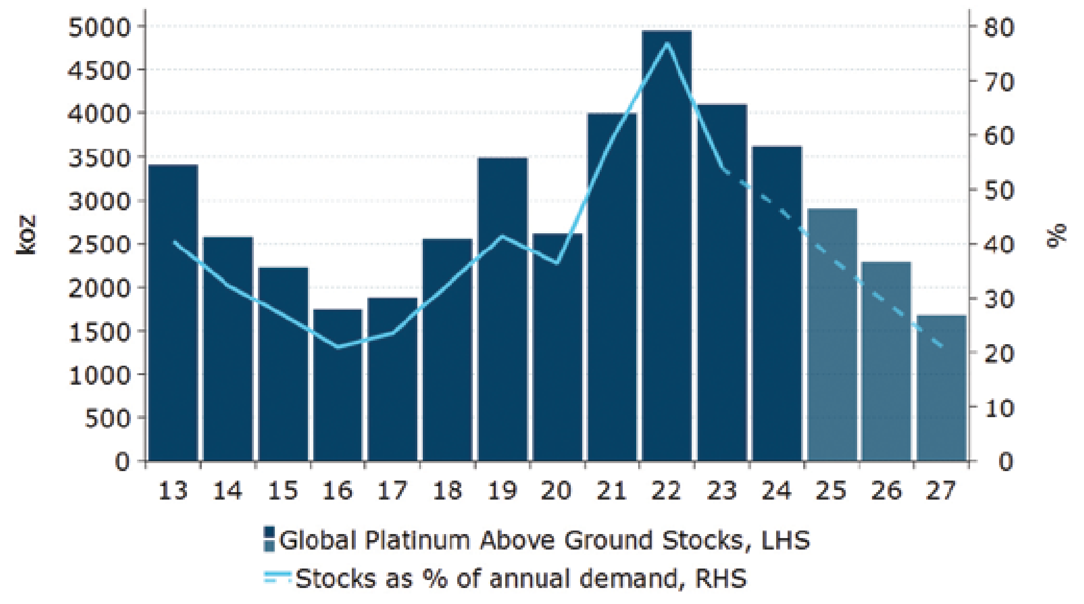
- The World Platinum Investment Council estimates platinum demand will increase from 40koz in 2023 to 875koz by 2030 – approximately 50% of annual demand growth. This will contribute more than 10% to total platinum demand.

A sustained market deficit

Constrained supply and healthy demand will keep the platinum market undersupplied over the coming years. We estimate the market deficit will widen from 518koz to above 650koz in 2024 and 2025, a shortfall equal to nearly 8% of annual demand. The widening deficit will gradually eat into above-ground inventories, which currently hold enough to meet about 47% of annual demand.

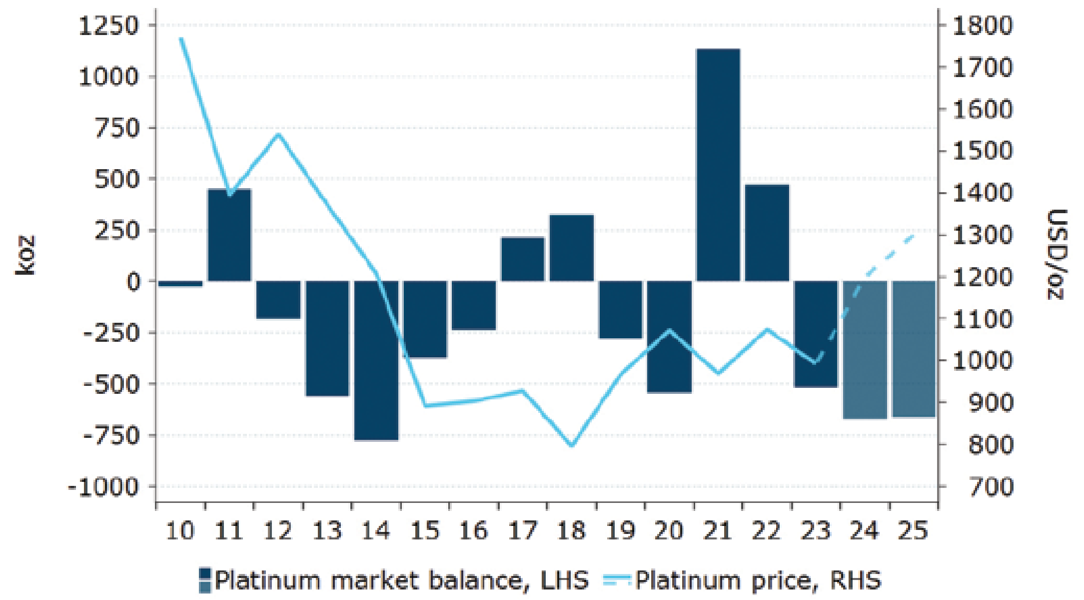
- While the market takes time to clear built-up stock, the structural deficit should help reverse the downtrend in platinum prices.

Platinum above-ground stocks



Source: JM, WPIC, Bloomberg, Macrobond, ANZ Research

Platinum market balance



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