

## Platinum and Palladium: Bull Markets and Wild Cards

By Jonathan Salmon, Senior Precious Metals Analyst, EVR Bullion 11.8.2016

Prior to the June 23rd Brexit referendum, we warned how platinum was clearly underperforming in relation to gold. In 'Are Investors Missing A Hidden Opportunity?', I wrote: 'Historically, Platinum tends to trade higher than gold. Since hitting its deepest discount to the yellow metal in over 30 years, is platinum signalling it's about to correct and it's time to buy?'

Hard to believe it's been 6 weeks since the shock UK vote to leave the European Union. All the uncertainty in markets drove investors into safe haven investments, the most popular remains gold and silver.

But it just so happens the lesser known precious metals - Platinum and Palladium, having bottomed at the beginning of the year, have now clearly broken out of their 2015-2016 ranges and poised for significant upside.

### Platinum

After underperforming gold this year, and trading at the deepest discount to Gold in more than 30 years, platinum has now overtaken the yellow metal with a year to date advance of 34%. The metal was up nearly 13% in July and started August with a rally of 6% to trade as high as \$1,199 per ounce in early afternoon trading on Wednesday.

In my previous article on Platinum, I highlighted how historically, platinum trades higher than gold. It has greater supply scarcity, higher production costs and broader demand factors than the more famous yellow metal, so it has a strong tendency to *usually* be the more expensive of the two metals.

This special relationship is measured with the so-called "platinum:gold ratio." When the ratio is high, it means platinum is more expensive than gold. If its low, platinum is cheaper than gold.

**\$PLAT:\$GOLD** Platinum (EOD)/Gold (EOD) CME

10-Aug-2016



Despite the strong performance from Platinum so far this year, the ratio is still reversed, meaning platinum is still presenting an extraordinary opportunity to investors to trade platinum.

### Palladium

Palladium has enjoyed its best month for nearly a decade, soaring over 19% in July. Its performance year to date from its January 12 low means the metal is up an astonishing 60.4% or \$281 an ounce trading at \$747.00 on Wednesday. From trough to peak in 2016, palladium is now even besting silver, the best performing precious metal to date.



**Palladium day chart as of 10-Aug-2016**

Speculation about the impact of China's introduction of some of the most stringent vehicle emissions regulations have also buoyed sentiment towards PGMs. Chinese imports of palladium jumped 30% in the first half of this year as auto output began steadily rising. Reported Chinese vehicle sales in July gained the most in 17 months, data showed this week, adding to increasing concerns over insufficient supply.

### **A South African Wildcard**

Platinum and palladium prices tend to be volatile thanks in part to a highly concentrated supply environment. Russia and South Africa together, control between 70-80% of the world's supply of PGMs.

South Africa, which has strong trade unions, is often affected by major strikes and large, occasionally violent, street protests during pay negotiations. Investors will recall the gruelling 20-week strike by South African workers back in mid-2014. The strike idled nearly 60% of global supply and sent platinum to highs above \$1,500 and palladium to a 13-year high above \$900 by September.

Platinum miners are once again locked in collective wage negotiations with increasing numbers of union workers going on strike, despite pleas from South African Mines Minister Mosebenzi Zwane calling on all sides to negotiate to avoid further disruption that has hit the country in recent weeks.

At least 20,000 workers are currently picketing outside refineries and fuel depots, vowing to push for a nine percent pay rise from companies including Sasol, Chevron and Total SA.

At the same time, 15,000 members of the National Union of Mineworkers [NUM] went on strike at Eskom, South Africa's state run power station utility company after wage talks stalled.

If the situation deteriorates further, supply disruptions similar to two years ago could bolster Platinum and Palladium prices as high as they were in 2014.

### **Conclusion**

Because we believe this bull-run is far from over, we advise investors to take exposure to platinum and palladium now, not only because both markets have a lot more upside to come, but as the possibility of supply disruption is looking increasingly likely, that upside might come sooner than anyone expects.

**Do not miss out on this profitable trade.** To discuss further, please contact me as soon as possible. I believe you'll be very glad you did.

Good investing,

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