

Precious Metals Watch

Group Economics
Macro & Financial Markets
Research

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Platinum: Cheap for a reason

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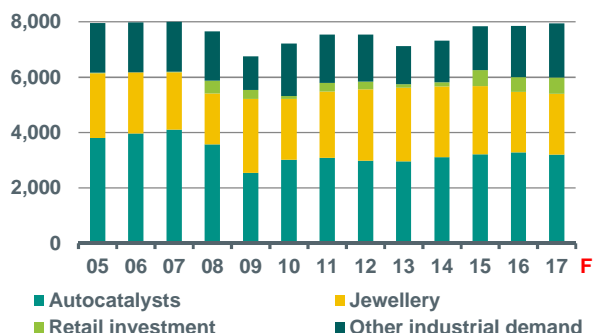
- **Platinum prices have disappointed...**
- **...because of a lower market share of diesel cars...**
- **...recent weakness in eurozone car sales...**
- **...and weak jewellery demand**
- **We expect a modest rise in platinum prices because of higher industrial demand, its relative price attractiveness and higher investor demand**
- **The ongoing structural change in the automotive sector will limit the upside in prices though.**

Introduction

On 5 April we upgraded our precious metals' price outlook, including our platinum price outlook. In this report we stated that platinum is relatively cheap. Since 5 April, platinum prices have declined by -1.4% while gold and palladium prices have risen. Its performance is rather disappointing. The largest sources of demand for platinum are autocatalysts of diesel cars (accounts for 40% of total), the use in jewellery (as competitor of white gold, 34%) and other industrial demand (8%). Meanwhile, demand from investors has become increasingly important and it is often the swing factor. In this report we zoom in on the reasons behind platinum's performance and our outlook.

Sources of platinum demand

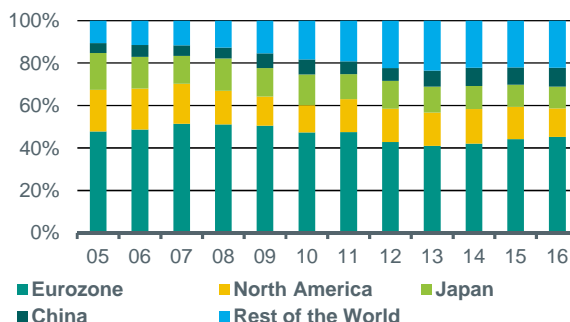
in thousand troy ounces



Source: Thomson Reuters GFMS, ABN AMRO Group Economics

...and the main countries of demand

As % of total



Source: Thomson Reuters GFMS, ABN AMRO Group Economics

Weakness in demand for diesel cars has weighed on platinum prices...

Why has the performance of platinum prices been disappointing? For a start, data from LMC automotive show that the diesel share of new car sales has declined year-to-date by 3.8% while overall car sales have risen by 4% year-to-date in Western Europe. This shows that diesel cars (which hold platinum in their catalyts) are losing market share. Another example is that the market share of gasoline cars has risen above that of diesel cars in France. Some years ago the market share of diesel cars in France was above 70%. This is a substantial decline. The increasing importance of sustainability and greener cars has played a role in this. The rise in popularity of hybrid cars (often with gasoline motors) and electric cars has weighed on diesel car demand. This also explains why palladium (used in autocatalysts of gasoline cars) prices have done relatively well.

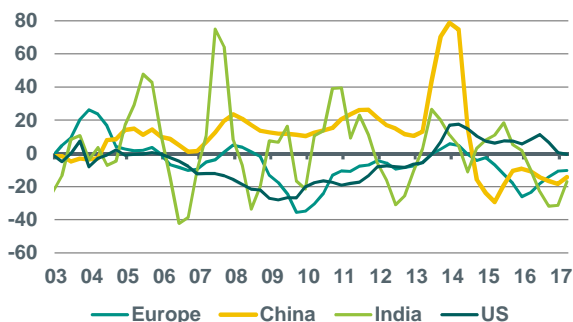
Moreover, in April overall car registrations in the Europe dropped considerably with weakness in main European car centres such as the UK, Germany and France. This could be a one-time event but there are signs that the uptrend, which has been in place since the start of 2013, may have come to a halt. Meanwhile, the trend has been negative in the US (% yoy 12m average). In Japan, however, a more positive trend has been developing. All-in all, expectations of a deterioration about the long-term outlook for diesel cars has weighed on platinum prices.

...as well as disappointing jewellery demand

Another important driver for platinum prices has been weaker jewellery demand, mainly in China, as platinum competes with white gold for jewellery. Gold jewellery demand (as a proxy for global jewellery demand) has been disappointing and the fate of platinum jewellery demand has been not much different. Relatively low expectations of jewellery demand have depressed platinum prices.

Gold jewellery demand has been weak in main centers

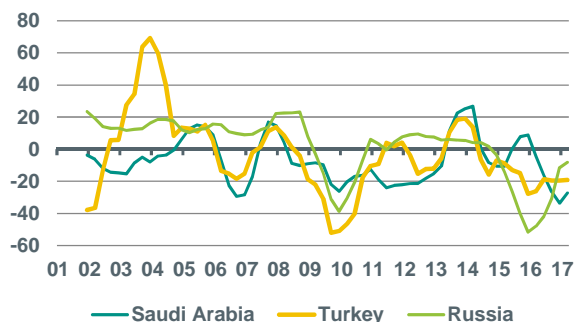
% yoy of sum 4q



Source: Thomson Reuters GFMS, ABN AMRO Group Economics

...and in other markets

% yoy of sum 4q

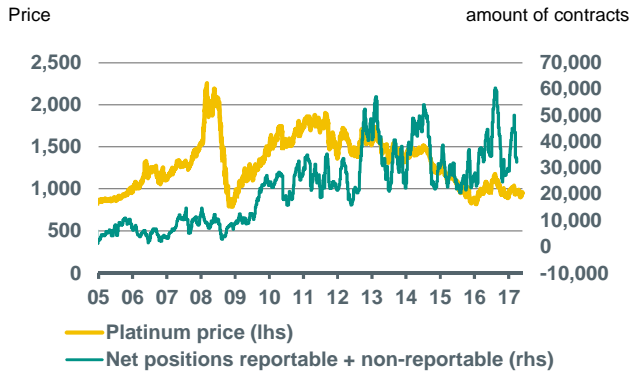


Source: Thomson Reuters GFMS, ABN AMRO Group Economics

Investors seem to be mixed though

Finally, the investment community has had a mixed attitude towards platinum as an investment asset. Recently, speculator investors have reduced their net-long exposure in platinum in the futures market, while the amount of total ETF positions has risen.

Lower demand in the futures market...



Source: Bloomberg

... but higher demand for platinum ETFs



Source: Bloomberg

Platinum remains cheap for a reason

We continue to hold the view that platinum is cheap. But there are reasons why it is cheap. The most important ones being the structural change ongoing in the automotive sector (diesel cars losing market share) and weak Chinese jewellery demand. A slowdown of the Chinese economy will probably weigh on consumer and jewellery spending and this should also depress platinum prices somewhat. However, there is also another dynamic playing out. Whereas gold prices have been relatively resilient, platinum prices are lagging behind. The gold/platinum ratio is at extremely high levels (see graph below), signalling that platinum is very cheap compared to gold. At these levels it is attractive to substitute white gold for platinum in jewellery. This should support the outlook for platinum jewellery demand. Furthermore, we expect industrial demand to rise because of an improvement in the global economic cycle. Platinum as a cyclical (precious) metal should profit from this.

Platinum is cheap compared to palladium...



Source: Bloomberg

... and compared to gold



Source: Bloomberg

Moreover, our eurozone economist expects the eurozone economy to grow above trend this year and next. Consumer spending will remain solid in our view. It is likely that overall car sales will also rise. Even though we expect a positive trend in car sales, platinum will unlikely profit substantially because of the ongoing structural change in the industry (diesel cars losing market share). Moreover, car sales in the UK could show a modest rise next year if real wages peak up. Also here, this does not automatically translate in higher

platinum demand. Overall, we think that platinum autocatalyst demand will probably be neutral at best.

Finally, we think it is likely that opportunistic investors will buy platinum later this year because it is at relatively attractive price levels. This will happen if:

- the global economic outlook remains positive,
- investor sentiment remains constructive,
- the US dollar declines,
- gold prices rise.

As a result, platinum prices could rise above the 200-day moving average of just above USD 970 per ounce. This will probably trigger a more substantial rally in platinum prices as the longer-term technical outlook will then turn positive. All-in-all, we expect a modest rise in prices this year and next year because of higher industrial demand, its relative price attractiveness and higher investor demand. But the long-term structural changes in the automotive industry will probably limit the upside potential in platinum prices. Our new platinum price outlook reflects these dynamics.

ABN AMRO precious metals forecasts

Changes and new forecasts in red/bold

End period	01-Jun	Dec-15	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18
Gold	1,263	1,061	1,147	1,249	1,250	1,275	1,300	1,325	1,350	1,375	1,400
Silver	17.1	13.9	15.92	18.27	18.50	18.50	19.00	19.50	20.00	20.50	21.00
Platinum	933	894	903	950	950	950	975	1,000	1,050	1,075	1,100
Palladium	819	562	681	799	800	825	825	850	850	850	850

Average	2016	Q1 17	Q2 17	Q3 17	Q4 17	2017	Q1 18	Q2 18	Q3 18	Q4 18	2018
Gold	1,248	1,218	1,250	1,263	1,288	1,254	1,313	1,338	1,363	1,388	1,350
Silver	17.1	17.5	18.4	18.5	18.8	18.3	19.3	19.8	20.3	20.8	20.0
Platinum	955	980	950	950	963	961	988	1,025	1,063	1,088	1,041
Palladium	614	766	799	813	825	801	838	850	850	850	847

Old											
End period	01-Jun	Dec-15	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18
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Silver	17.1	13.88	15.92	18.27	18.50	18.50	19.00	19.50	20.00	20.50	21.00
Platinum	933	894	903	950	1,000	1,050	1,100	1,150	1,200	1,225	1,250
Palladium	819	562	681	799	800	825	825	850	850	850	850

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Platinum	955	980	975	1,025	1,075	1,014	1,125	1,175	1,213	1,238	1,188
Palladium	614	766	799	813	825	801	838	850	850	850	847

Source: ABN AMRO Group Economics

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