Background

Platinum and Palladium

While most investors are familiar with investing in gold and silver, there are other precious metals such as platinum and palladium that are less obvious but nevertheless just as valuable. Indeed research has shown that inclusion of these so called "white metals" can increase a portfolio's performance whilst at the same time adding valuable diversification benefits and reducing the portfolios volatility.

Supply

Platinum and palladium are extremely rare metals: only around 7m ounces of platinum are mined every year while palladium production totals just 8m ounces annually. By comparison, more than 76m ounces of gold are produced each year and nearly 680m ounces of silver. Clearly, both of the metals are very rare, which is part of the reason for their high relative values. As such, any new technological advances (such as the increase in Platinum Group Metals "PGM" recycling in recent years) or supply disruptions can have a major impact on prices. Both metals are only found in a select few locations: South Africa, Russia and North America make up virtually all of the production.

South Africa's Bushveld

Platinum

Platinum is an astonishingly rare metal. It's often obtained as a by-product of nickel and copper mining. It has highly concentrated mine production with the biggest producer being South Africa producing around 78% of the world's total in the Bushveld – an area about the size of Ireland. This means that any disruption of the mining facilities or political instability could have a major impact on the price. Power crises, insufficient skilled labour, strikes and ageing equipment are also common problems in the country. The majority of the rest comes from the large copper-nickel deposits near Norilsk in Russia (12%). There are also smaller reserves in the US, mostly in Montana (4%).

Palladium

Palladium is slightly less concentrated; its largest producer is Russia, accounting for approximately 50% of global production. South Africa is the second largest producer, producing approximately 35%. Palladium is renowned for having a particularly tight market, with peak production having been reached in 2007. One danger to supply is Russian nationalism, as seen with natural gas supplies, which could lead to price spikes. Some analysts believe Palladium may be in deficit for most of the next decade as Russia depletes stockpiles, industrial use rises and investment demand for the metal as a hedge against inflation increases.

Demand

Catalytic Converters

Although known as precious metals, their uses are largely industrial with more than 50% of each going into automotive catalytic converters that cut down on emissions of harmful gasses. Tighter emission laws are expected to support the metal prices for the foreseeable future and long-term auto demand appears well supported. Per capita demand in China, for example, is projected to rise more than 6-fold from 8.5 per 1,000 people in 1995 to 55 per 1,000 people in 2015 as per capita incomes rise. When combined with the rise in population, this translates into a forecast 66m increase in auto sales between 1995 and 2015, comparable to the estimated 70m increase projected for the US. These longer term structural factors should support robust platinum and palladium demand in the coming years.

Platinum

Platinum is predominantly used in diesel catalytic converters (but also gasoline), which are most common in the European automobile market.

Palladium

Palladium is predominantly used in gasoline catalytic converters which are most commonly found in the US and Asian markets. They also have a limited use in the diesel market.

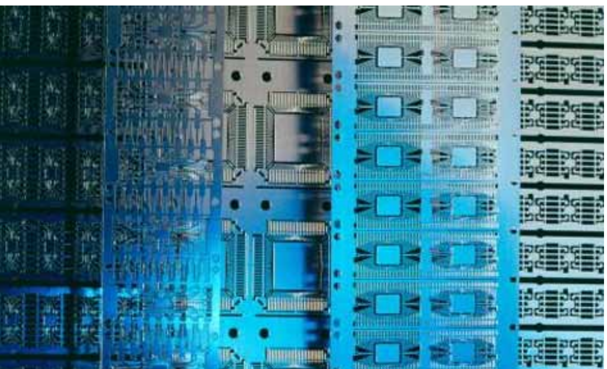
Jewellery

Platinum

Platinum has become very popular with high-quality jewellery accounting for 36% of world demand.

Palladium

Just 12% of world demand comes from the jewellery industry, which makes it highly sensitive to global economic prospects. However, as the price of platinum rises, many are turning towards a combination of gold and palladium for jewellery purposes in order to give the same effect as platinum but at a much lower price. This may help boost the price of palladium in the future.



Electronics

Platinum

Small amounts are used in the electronics industry.

Palladium

Palladium finds its second highest demand from the electronics industry.

Investment

Investment demand accounts for just 9% of total demand in both Platinum and Palladium. This is expected to increase following the introduction of exchange traded funds. Investment demand for gold, for example, surpassed that of jewellery in 2009 for the first time since its inflation-adjusted high in 1980.

Relationships

Platinum/Palladium and the BRIC Countries

There has been a relatively high correlation between BRIC growth (Brazil, Russian, India & China) and platinum and palladium price performance due to greater emerging market industrial demand and growing automobile use.

Platinum and Gold

The received wisdom is that during periods of sustained economic activity and growth, the price of platinum will trade at around twice the price of gold. That's because when economic growth is strong, industrial demand for platinum is high compared to demand for gold. However, during turbulent times demand for gold surges as people seek it out for its monetary wealth-preserving value. Meanwhile, when industrial demand falters, making platinum less attractive, the rate falls to around 1:1.

Platinum/Palladium and Car Sales

The main factor driving demand for platinum and palladium has been auto catalyst sales for use in new cars. Thus any rise in car sales will lead to a rise in PMG prices.

How to invest in Platinum and Palladium

The easiest way for investors to gain exposure to these white metals is via exchange traded commodities, where investors can buy Platinum or Palladium via a single share. The ETFS Physical Platinum (PHPT.L) and ETFS Physical Palladium (PHPD.L) can be bought on the London Stock Exchange during normal market hours, in US dollars (GAM can obtain a Sterling equivalent price with the market) with an annual management fee of just 0.49% which covers the cost of storage and management. Both these ETFs are physically backed with the metals being allocated in a vault with HSBC in the US.

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