

With palladium oversold and platinum’s attractive fundamentals, both metals have upside

The fall in the palladium price has closed the differential with platinum, with the sister metals now priced near parity for the first time since 2018. As this fall has been long-expected, due to forecasts of palladium moving into surplus from 2025, investors are net short palladium, leaving it vulnerable to short covering rallies. In contrast, platinum’s fundamentals are much more attractive, with the current market deficit expected to continue until at least 2028, which should be reflected in the price after automaker inventory management has run its course.

Palladium’s price rose above platinum’s in 2018, after multi-year palladium market deficits, and remained at a premium to platinum of over \$1,000/oz for nearly three years. This incentivised significant automotive 1:1 substitution of platinum for palladium (2023, >600 koz). Palladium prices peaked in March 2022 at US\$3,012/oz (Fig. 1), a record US\$1,883/oz premium to platinum (Fig. 3), following Russia’s invasion of Ukraine, providing a further boost to substitution. Since then, the outlook for platinum and palladium have diverged. Palladium is weighed upon by automotive substitution (Fig. 5), overreliance on ICE autocatalyst demand, and expected growth in recycling supply. Conversely, substitution benefits platinum as do more diverse end-markets (Pt auto demand ~40%, vs. ~80% for Pd). WPIC expects platinum deficits from 2023 to at least 2028 (Fig. 2), but palladium is forecast to transition to a surplus from 2025 (Fig. 4). Net managed money positions highlight a build of investor short positions on palladium (Fig 6) while platinum’s average positioning has been less consistently directional (Fig. 7).

Edward Sterck
Director of Research
+44 203 696 8786
esterck@platinuminvestment.com

Wade Napier
Analyst
wnapier@platinuminvestment.com

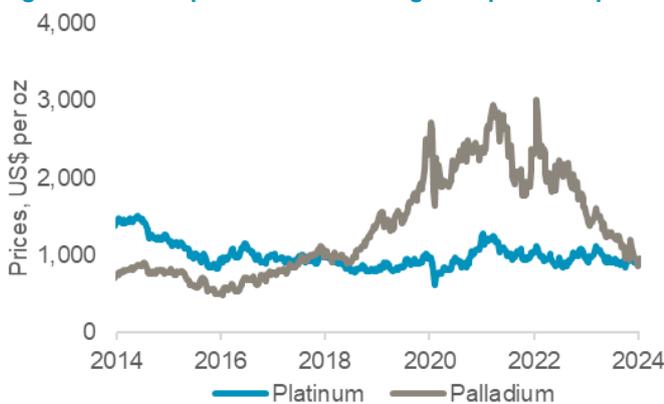
Jacob Hayhurst-Worthington
Associate Analyst
jworthington@platinuminvestment.com

Brendan Clifford
Head of Institutional Distribution
+44 203 696 8778
bclifford@platinuminvestment.com

World Platinum Investment Council
www.platinuminvestment.com
166 Piccadilly,
London, W1J 9EF

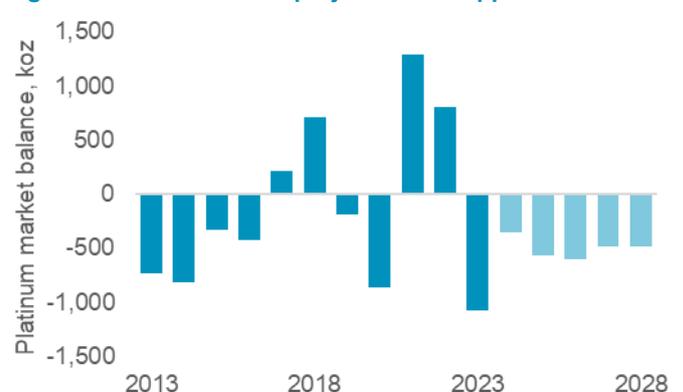
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Fig 1. Palladium prices have converged to platinum prices



Source: Bloomberg, WPIC Research, N.B. London trading hours

Fig 2. Platinum balances project undersupplied markets



Source: SFA (Oxford) 2013-2018, Metals Focus 2019-2024f, WPIC Research thereafter

In the near-term palladium prices are likely to be volatile as investors continue to cover short positions, with two short squeezes since December 2023 alone. In addition, there are some supply risks to palladium’s move into surplus; palladium recycling supply is expected to grow by ~1 Moz p.a., but with the recycling industry facing a number of challenges, should this supply not materialise in full it could make palladium markets much more balanced or even keep them in deficit. However, it is more pertinent to understand why platinum, with its better outlook, did not see prices converge upwards towards palladium. From a sentiment perspective, platinum, as a non-yielding asset, was hampered by tightening monetary policy undertaken by central banks to contain inflation through 2022 and 2023. While physical platinum purchases were impacted by reduced automaker purchases after a period of large inventory accumulation as a result of under-producing vehicles during COVID and the semiconductor shortage. There are early signs that automakers are returning to normalised purchasing patterns. This comes as platinum is forecast to enter the second year of a protracted period of market deficits, arguably boding well for upward pressure on prices and investor returns.

Platinum and palladium prices have converged, trading at parity for the first time since 2018.

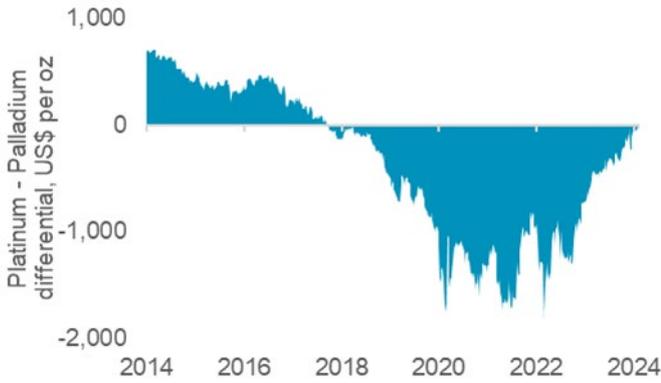
Futures positioning leaves palladium vulnerable to short covering rallies.

Platinum remains undervalued with prices not reflecting consecutive future market deficits.

Platinum's attraction as an investment asset arises from:

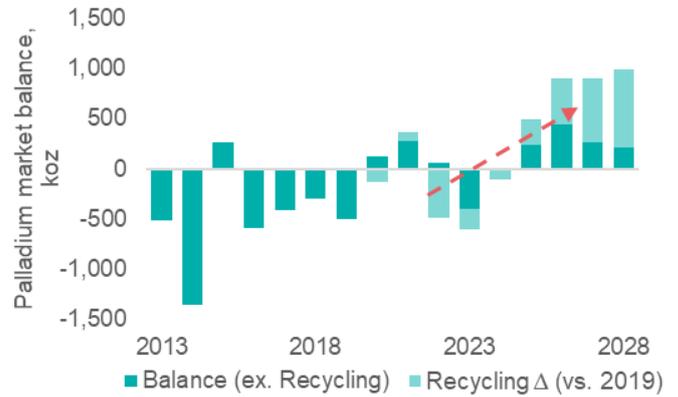
- WPIC research indicates the platinum market entering a period of consecutive supply deficits from 2023
- Platinum supply remains challenged, both from primary mining and secondary recycling
- Automotive platinum demand growth should continue through 2024 due principally to substitution of platinum for palladium in gasoline vehicles
- Platinum is a critical mineral in the global energy transition underpinning a key role in the hydrogen economy
- The platinum price remains historically undervalued and significantly below both that of gold

Figure 3: Platinum's price differential to palladium has closed for the first time since 2018



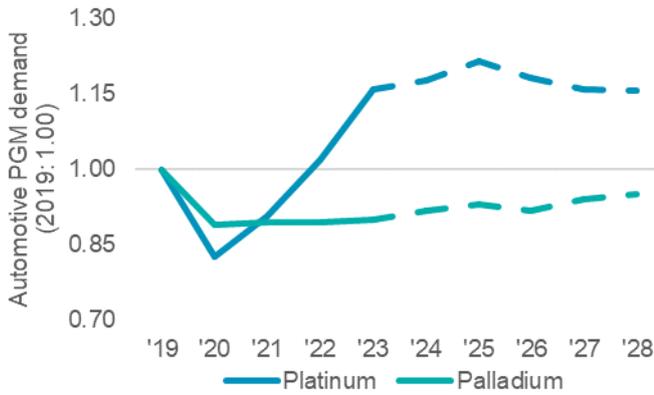
Source: Bloomberg, WPIC Research

Figure 4: Palladium's transition to a surplus market is primarily underpinned by rising recycled supply



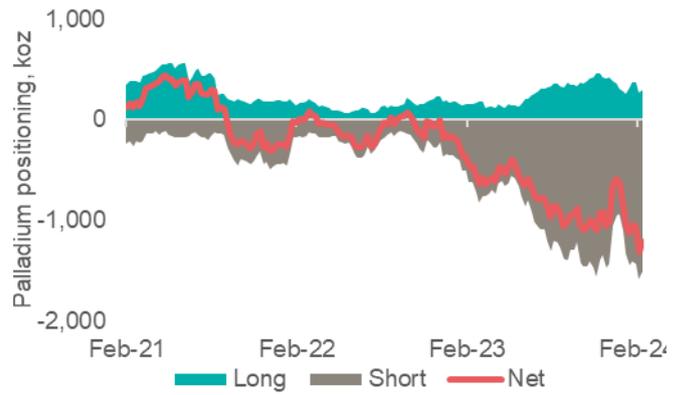
Source: Metals Focus to 2022, WPIC Research thereafter

Figure 5: Platinum for palladium substitution has supported relative automotive platinum demand growth ahead of palladium since 2019



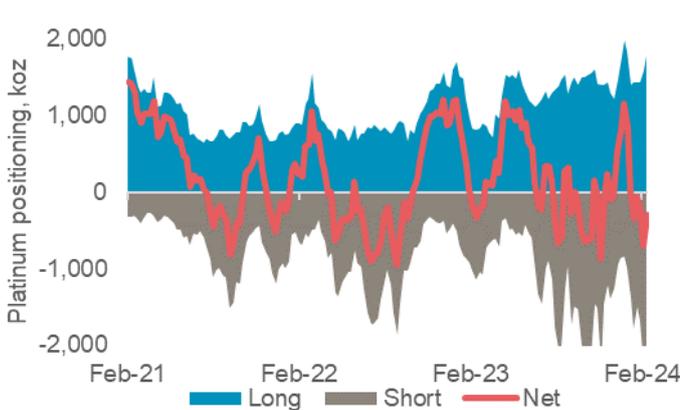
Source: Metals Focus (Pt to 2024) (Pd to 2022), WPIC research thereafter

Figure 6: Managed money palladium positions have transition from net long to net short highlighting a deteriorating supply demand outlook



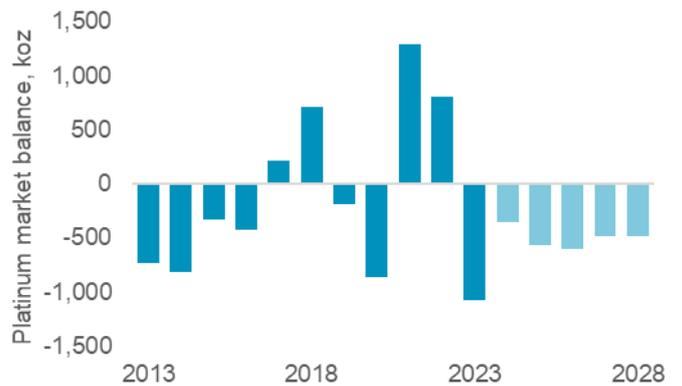
Source: Bloomberg, WPIC Research

Figure 7: Managed money platinum positions have rangebound reflecting both market fundamentals and external macroeconomic sentiment



Source: Bloomberg, WPIC research

Figure 8: Platinum markets are forecast to be in sustained deficits through to at least 2028f



Source: SFA (Oxford) 2013-2018, Metals Focus 2019-2024f, WPIC Research thereafter

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