

PLATINUM SURFS ON GOLD'S RISING TIDE

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They say “a rising tide lifts all boats”. When applied to the precious metal markets we would argue that the boats need to be similar. Gold’s rally has lifted most of the precious metals complex over the past two months, with silver and platinum following closely on its coattails (Faster than a speeding (silver) bullet). The reason for gold’s rally is largely geopolitical, chiefly centred around trade wars (Gold could rise to over US\$1800/oz if geopolitical risks remain elevated). As we argue for silver, the source of stress in financial markets that is supporting the price of gold (and hence silver through correlation) may ultimately hurt demand for silver in industrial applications. So, the catalyst for the rally in silver is a double-edged sword. The stronger the historical correlation between a precious metal and gold, the better it is likely to fare in this period of trade war related geopolitical uncertainty.

As the correlation matrix below highlights, the relationship between gold and silver is the strongest, while the relationship between gold and palladium is the weakest. The correlation between gold and platinum is fairly strong and accords with recent price trends.

Correlation between precious metal prices

	Gold	Silver	Platinum	Palladium
Gold	1.00			
Silver	0.72	1.00		
Platinum	0.59	0.60	1.00	
Palladium	0.27	0.37	0.55	1.00

Source: WisdomTree, using monthly spot prices from Bloomberg, monthly data from August 1989 to August 2019

The correlation rank order follows the same rank order for industrial use of the various precious metals. Gold has the lowest demand from industrial applications while palladium has the highest.

Some precious metals are more industrial

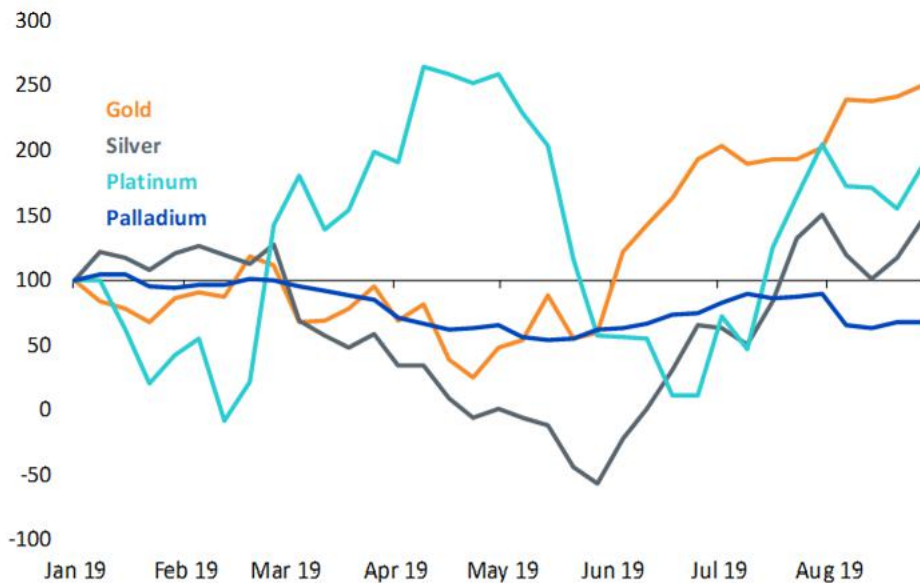
	% of demand in industrial fabrication*
Gold	10%
Silver	57%
Platinum	62%
Palladium	94%

Source: WisdomTree, Refinitiv, Johnson Matthey, average 2009 to 2018

* Industrial fabrication includes autocatalyst, chemical, electrical, dental/medical, photovoltaic, brazing alloys/solders, photography, ethylene oxide (i.e. demand categories that exclude investment and jewellery).

Looking at speculative positioning in futures markets, the rise in optimism for these metals seems to have followed a similar order to the rank of industrial application in the past year.

Figure 1: Net speculative positioning in precious metals futures (indexed to 100 on 01/01/2019)



Source: WisdomTree, Bloomberg, Data to 30 August 2019

Speculative positions are the non-commercial futures positions, netting the shorts from the longs in each respective commodity reported by the Commodity Futures Trading Commission. WisdomTree has indexed the series on 01/01/2019 so that all metals have the same starting point at the beginning of the timeseries shown.

Fundamentally, we don't think a lot has changed for platinum since we wrote Platinum's turn to shine in 2019. Platinum's performance has lagged palladium over the past few years because of a structural shift in demand away from diesel light passenger vehicles to gasoline light passenger vehicles (platinum is used more in the former and palladium is used more in the latter). But as we argued in that piece, platinum maybe a little oversold relative to palladium. Furthermore, an increase in diesel autocatalyst demand from China and India relating to tighter emission controls on heavy duty vehicles could stem further decline in platinum demand despite continued weakness in diesel passenger cars. An inevitable upward correction for platinum has received a tailwind from gold's rise.

In a similar vein to silver, industrial demand for palladium could take a hit after the initial momentum rally is over. Global auto sales – the driver behind both platinum and palladium demand – is slowing and likely to suffer from trade war-induced global recession (that appears to be increasingly priced into market expectations for central bank action). So, we also see a strong tactical opportunity in platinum here rather than a longer-term one based on longer-term fundamentals. Conversely, we still believe the long-term fundamentals for palladium are still very strong, but the short-term catalysts

are lacking.

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