WHAT'S HOT: ARE PLATINUM AND PALLADIUM GEARING TO DEFY SHORT-TERM HEADWINDS?

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Despite a supportive medium-term outlook, sailing is unlikely to be entirely smooth for the two industrial precious metals. Nevertheless, what forces might help the two metals push through the headwinds in the short-term?

The fates of platinum and palladium are inextricably tied to the dynamics of the automobile market, given auto catalysts are the largest demand source for the two metals. While both metals are expected to be undersupplied in the coming years, the tightness is potentially more urgent in palladium today. According to Metals Focus, platinum is expected to be in a slight supply surplus of 182 thousand ounces (koz) in 2021 (in a market that totals 7933koz of supply). This surplus, however, may get absorbed by additional investment demand. Palladium, on the other hand, is already in a tight supply deficit of 1069koz in 2021 (with the total market supply of 9822koz)[1].

There are, however, headwinds in the near-term. With the Delta variant inducing growth concerns for the global economy, safe-haven assets including the US dollar have been supported in recent weeks. Higher dollar tends to reduce demand for dollar-denominated commodities and incentivises higher supply. In the case of platinum and palladium, the depreciation of the South African rand vs the US dollar can ignite this dynamic. Demand growth is also under the cloud of semiconductor shortages facing the automobile industry, i.e., fewer semiconductors for automobiles means fewer cars manufactured and, therefore, lower demand for auto catalyst materials.

But an unexpected source of potential price volatility has materialised in the form of unrest in South Africa – which produces around 40% of global palladium mining supply and 73% of global platinum mining supply[2]. While it is not clear yet how much disruption the unrest might cause to the mining sector, sustained outages could cause prices to rise sharply given the country’s substantial share of total supply.

Prices for both metals have, however, been buoyant since the middle of June. This is possibly being driven by the resurgence in gold prices. Platinum and palladium tend to have a lagged correlation with gold, i.e., when gold prices move, the two normally follow. Inflation figures have continued to rise across major economies with US inflation for June coming at 5.4%, up from 5.0% in May[3]. The US Federal Reserve (Fed), in the meanwhile, has maintained its dovish policy stance. This is helping lift gold and speculative positioning for the precious metal has started to bounce back in July. Since this is not yet the case for platinum and palladium, the two may find additional support if sentiment in their futures markets picks up as well.

The dynamic, therefore, boils down to how the gold effect can help overcome challenges facing the automobile industry in the short-term. The downside risk would be the Fed turning hawkish on inflation and causing gold prices to retreat again – a scenario that seems relatively unlikely for now. The upside risk is an extension of the supply disruption from South Africa.

Sources

[1] Metals Focus June 2021 Forecasts

[2] Metals Focus June 2021 Forecasts

[3] Trading Economics as of 15 July 2021

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