

WHAT'S HOT: PALLADIUM SUPPLY DEFICIT COULD WIDEN IN 2021

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In contrast to most precious metals, palladium has been on a winning streak in March 2021. This can be largely attributed to further supply shocks and continued recovery in demand.

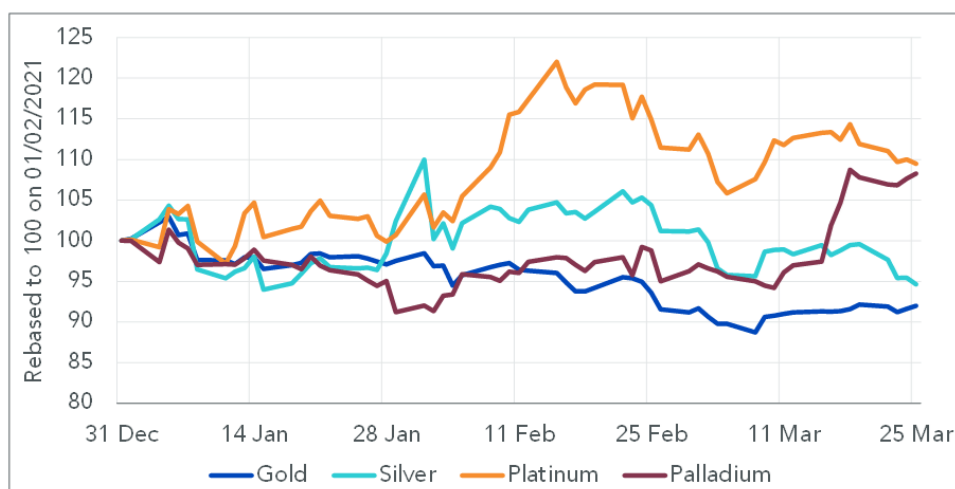
Palladium in deficit in 2020

Palladium has been a supply deficit for at least six years running. Demand for the metal in gasoline autocatalysts outstrips its supply. Mined palladium supply primarily comes from Russia and South Africa. Both regions have been struggling with supply in the past year. Covid-19 related social distancing has inhibited output. But, in addition, an outage at a processing plant at Anglo American Platinum in South Africa severely disrupted supply in 2020.

Seventh year of deficit likely

In 2021, MMC Norilsk Nickel has experienced an accident at a concentrator and flooding at another mine. This company accounts for 41% of global production. They expect a 3 to 4 months period to get supply back to normal. Overall, their guidance is for 20% lower platinum group metal (PGM) production this year. That should result in roughly 570k oz of palladium taken off the market in 2021 (which is equivalent to 6% of the average palladium demand over 2015 to 2020). For a market that was already tight this will deepen the supply deficit.

Figure 1: Year to Date Precious Metals' performance



Source: Bloomberg, WisdomTree. 31/12/20 – 25/03/2021

Historical performance is not an indication of future performance and any investments may go down in value.

Positive demand trends

On the demand side, auto sales are rebounding strongly this year driving higher the demand for palladium in autocatalysts. In China February 2021 car sales rebounded back to February 2019 levels following the sharp decline in 2020. Some concerns about the shortage in semiconductors will slow down vehicle production, which could slow down demand for palladium, but consumer demand is there. Autocatalyst manufacturers may also continue to substitute some palladium for platinum, but the technical hurdles may limit the scale.

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