

# What has driven platinum to multi-year highs?

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Platinum prices have hit a 6-year high in February following a strong bounce back this year from a prolonged period of weakness. Given prices are still meaningfully below previous peaks seen between 2008 and 2014, the key question is whether there is significant firepower still in this possible rally. We outline some of the recent and potential future drivers of price.

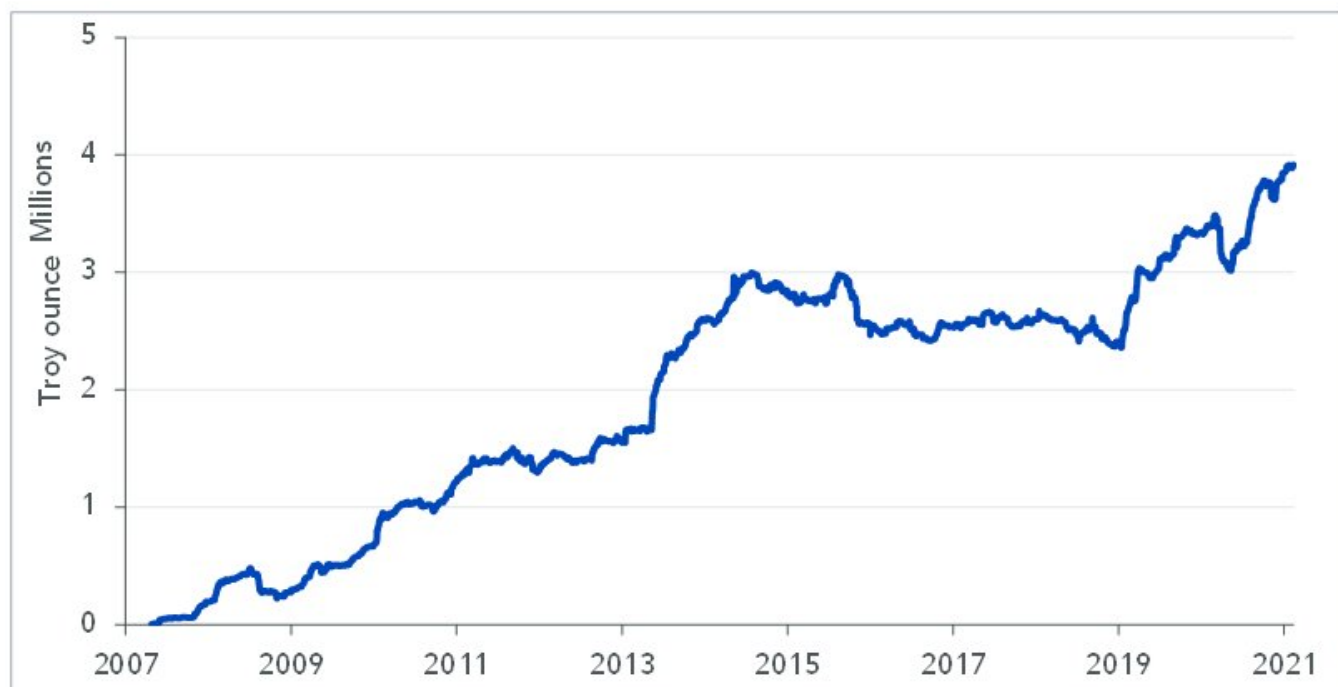
## A look at the markets

Platinum's gains have outshined those of other precious metals meaningfully so far this year. This is partly due to the metal 'recovering' from several years of price weakness. Platinum draws almost 85% of its demand from the automotive industry, particularly in diesel engine vehicles. The gradual decline in demand for diesel cars has been the primary headwind for the metal in recent years.

But investor sentiment towards platinum is getting stronger. Net speculative positioning in platinum has risen sharply since November last year, although it remains within one standard deviation above the preceding five-year average. A potential trigger for this could have been platinum's cheapness relative to gold, given the gold to platinum ratio was hovering close to record highs in November. It has come down since then but remains high relative to historic levels. This indicates that sentiment towards platinum is not overly stretched.

Holdings of platinum in exchange-traded products worldwide have, however, reached record levels (see figure below). But do the metal's fundamentals support this optimism among investors?

## Figure 1: Platinum held in exchange-traded products is at record highs



Source: WisdomTree, Bloomberg. From April 2007 to 18 February 2021.

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

### A look at the fundamentals

On the demand side, car sales are expected to recover post-pandemic. Despite the structural shift away from diesel engine cars, this could provide platinum with a demand boost in the year ahead. On the supply side, concerns still abound on Covid-related mining disruption in South Africa – the world’s largest platinum producer. According to the World Platinum Investment Council, platinum had a record supply deficit in 2020 and is expected to remain undersupplied in 2021, albeit to a lesser extent. A supply deficit should, in principle, be supportive of prices.

### A look into the future

Positive investor sentiment might not be limited only to a short-term boost in fundamentals. In addition to platinum continuing to make a case for itself as a cheaper potential safe-haven alternative to gold, its demand may rise with the advent of fuel cells. Fuel cells have the potential to become a viable alternative to battery technology for propelling electric vehicles. The technology not only requires platinum to catalyse the reaction between hydrogen in the fuel cell and oxygen in the air, but it also requires the precious metal in the production of hydrogen.

Jaguar Land Rover has recently announced its intention to test fuel cell powertrains within the next 12 months as it attempts to electrify its entire fleet by 2025. This is merely one of many examples of major

automakers seeking to explore this technology's potential. It is difficult to completely disassociate the growing interest in electric vehicles with platinum's recent rise.

*Unless noted otherwise, data has been sourced from Bloomberg as of 18 February 2021.*

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