

PLATINUM PERSPECTIVES

NYMEX stock outflows continue to respond to physical market tightness from strong China imports

Physical demand for platinum in China is creating an arbitrage opportunity resulting in stocks flowing away from NYMEX. While this may at first look like negative investment demand it reflects real demand for metal to meet significant platinum imports into China.

China's platinum imports have been continuing to run well ahead of identified demand, with 'excess/unexplained' imports totalling ~1.4 moz in 2021, well in excess of the estimated global platinum surplus of 769 koz. Without an identified end use, the flow of excess China imports are not captured in our supply/demand analyses, yet falling NYMEX stocks are.

We are of the view that the excess platinum imports to China are resulting, at least in part, in tightness in the spot market. This market tightness has resulted in the spot price for platinum trading at a premium to the forward price of NYMEX futures contracts, putting the market into backwardation and resulting in the price of the exchange of futures for physical (EFP), being below par (negative/discount). Above a cost of transportation threshold, this incentivises market participants to access cheaper platinum from NYMEX, which is then transported and sold into the currently higher priced European spot market. As a result, NYMEX stocks have continued to shrink from the highs reached in 2020 when COVID-choked logistics significantly increased market-making risk, particularly the inability to deliver 50 oz bars against a maturing future. This resulted in a flow of metal into NYMEX inventories, enhanced by the high (positive/premium) EFP level. **Right now, in effect, reducing NYMEX inventories can be viewed as a supply of metal that is helping to meet strong physical demand, including that created by China imports.**

The real tightness of the physical market is also illustrated by elevated platinum lease rates. These initially spiked in Q2'20 when plant outages and COVID limited physical deliveries from South Africa, but have since remained elevated. In addition, the relatively muted fall in the platinum price in H2'21 further emphasises the market tightness, only declining c.\$100 / oz despite the faster than expected unwinding of Anglo American Platinum's semi-finished inventory and growing 2021 surplus forecasts.

Flow of platinum stocks out of NYMEX reflect a tight physical market creating arbitrage opportunities on high demand for metal, particularly in China where platinum imports continue to run ahead of identifiable demand.

Trevor Raymond
Director of Research
+44 203 696 8772
traymond@platinuminvestment.com

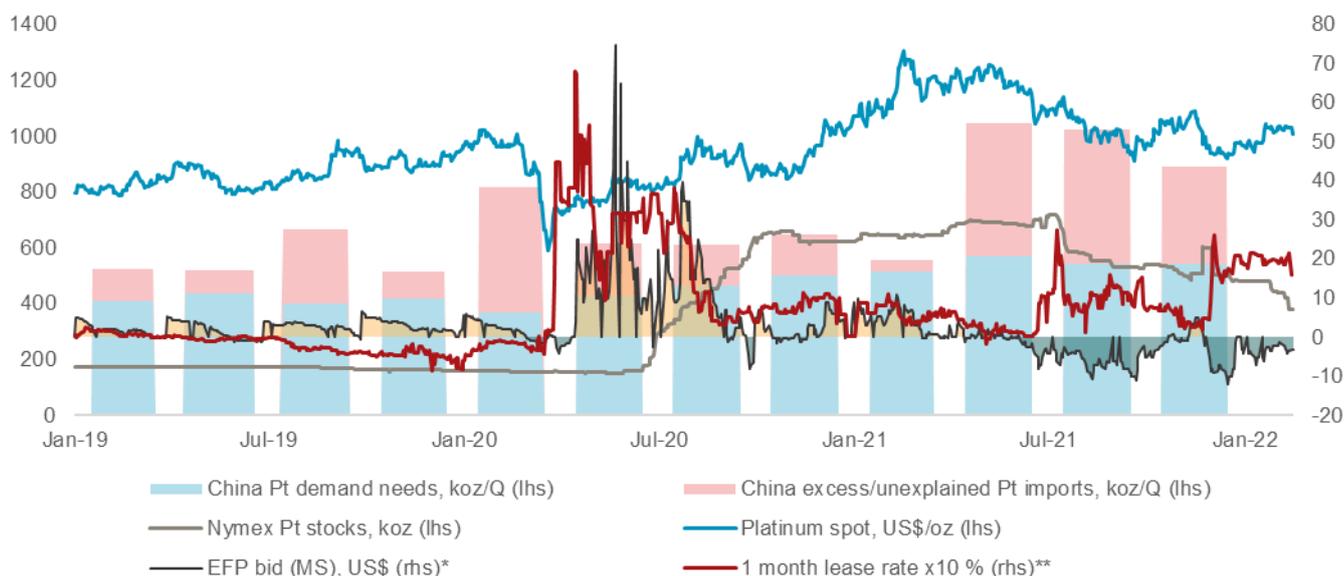
Edward Sterck
Analyst
+44 203 696 8786
esterck@platinuminvestment.com

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

February 2022

Platinum price, lease rates, EFP price & NYMEX stocks respond to above-demand China imports

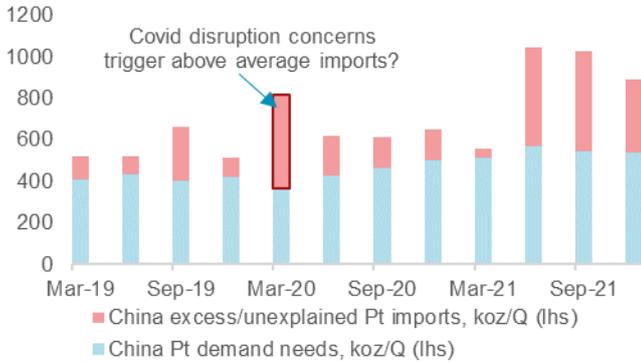


Source: Bloomberg, Metals Focus, WPIC Research, *Morgan Stanley platinum exchange for physical bid index, **Implied lease rate = LIBOR - forward price

Platinum's attraction as an investment asset arises from:

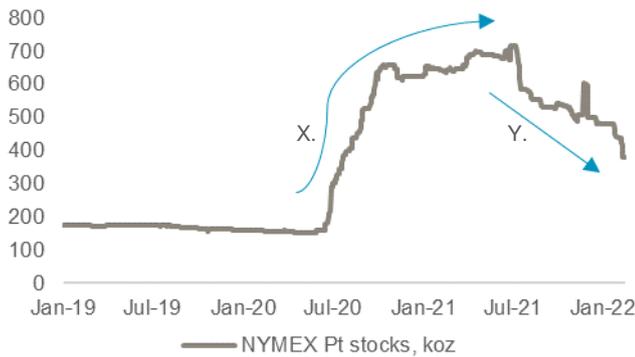
- Supply severely constrained for three more years despite some new investment in mining capacity
- Platinum price remains historically undervalued and significantly below both gold and palladium
- Automotive PGM demand growth should continue due to increasingly restrictive emissions rules
- Market balance and price mismatches between palladium and platinum drive substitution
- Investment demand is softer after two record years, but price and fundamentals remain attractive

Figure 1: China's COVID-related supply chain concerns and the price collapse appears to have supported strong platinum imports in Q1'20



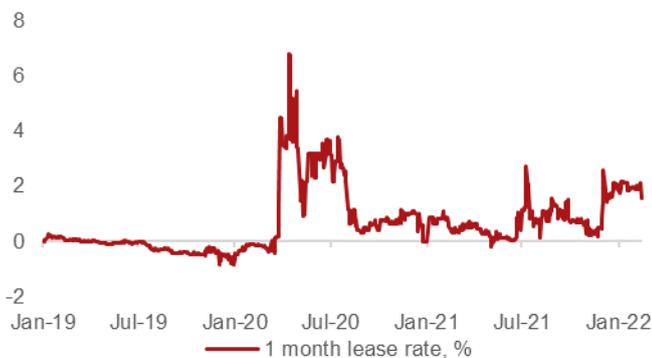
Source: Bloomberg

Figure 3: ... which in combination with reduced risk tolerance compelled traders to move metal from Europe to New York, increasing NYMEX stocks (X. Fig 3)



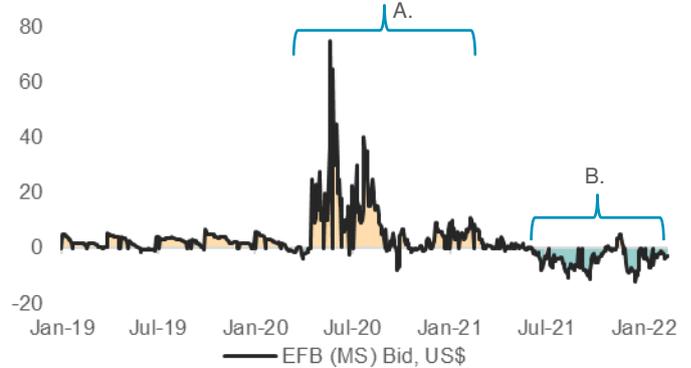
Source: Bloomberg

Figure 5: Spot market tightness is evident in lease rates remaining above historical norms supplemented by rising interest rate expectations...



Source: Bloomberg, WPIC Research

Figure 2: COVID related disruptions to the automotive market in Q2'20 resulted in a fall in the platinum price and the EFP being priced above 'break even' (A. Fig 2)...



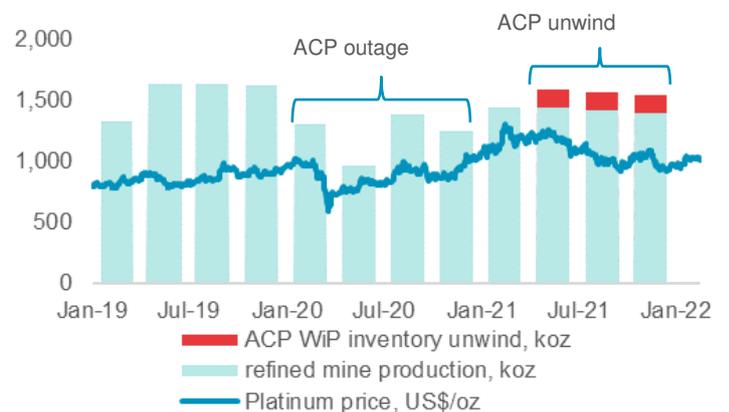
Source: Bloomberg, Morgan Stanley platinum exchange for physical bid index

Figure 4: Recently, the massive increase in China above-requirement purchases (Z. Fig 4) has tightened the spot market, causing a negative EFP (B. Fig 2), incentivising the stock drawdown from NYMEX inventories (Y. Fig 3)



Source: Bloomberg

Figure 6: ...and a relatively strong platinum price through H2'21, despite higher than anticipated metal flow from Anglo American Platinum's semi-processed inventory



Source: Metals Focus, Anglo American Platinum, WPIC Research

IMPORTANT NOTICE AND DISCLAIMER: This publication is general and solely for educational purposes. The publisher, The World Platinum Investment Council, has been formed by the world's leading platinum producers to develop the market for platinum investment demand. Its mission is to stimulate investor demand for physical platinum through both actionable insights and targeted development: providing investors with the information to support informed decisions regarding platinum; working with financial institutions and market participants to develop products and channels that investors need.

This publication is not, and should not be construed to be, an offer to sell or a solicitation of an offer to buy any security. With this publication, the publisher does not intend to transmit any order for, arrange for, advise on, act as agent in relation to, or otherwise facilitate any transaction involving securities or commodities regardless of whether such are otherwise referenced in it. This publication is not intended to provide tax, legal, or investment advice and nothing in it should be construed as a recommendation to buy, sell, or hold any investment or security or to engage in any investment strategy or transaction. The publisher is not, and does not purport to be, a broker-dealer, a registered investment advisor, or otherwise registered under the laws of the United States or the United Kingdom, including under the Financial Services and Markets Act 2000 or Senior Managers and Certifications Regime or by the Financial Conduct Authority.

This publication is not, and should not be construed to be, personalized investment advice directed to or appropriate for any particular investor. Any investment should be made only after consulting a professional investment advisor. You are solely responsible for determining whether any investment, investment strategy, security or related transaction is appropriate for you based on your investment objectives, financial circumstances and risk tolerance. You should consult your business, legal, tax or accounting advisors regarding your specific business, legal or tax situation or circumstances.

The information on which this publication is based is believed to be reliable. Nevertheless, the publisher cannot guarantee the accuracy or completeness of the information. This publication contains forward-looking statements, including statements regarding expected continual growth of the industry. The publisher notes that statements contained in the publication that look forward in time, which include everything other than historical information, involve risks and uncertainties that may affect actual results. The logos, services marks and trademarks of the World Platinum Investment Council are owned exclusively by it. All other trademarks used in this publication are the property of their respective trademark holders. The publisher is not affiliated, connected, or associated with, and is not sponsored, approved, or originated by, the trademark holders unless otherwise stated. No claim is made by the publisher to any rights in any third-party trademarks

WPIC Research MiFID II Status

The World Platinum Investment Council (WPIC) has undertaken an internal and external review of its content and services for MiFID II. As a result, WPIC highlights the following to the recipients of its research services, and their Compliance/Legal departments:

WPIC research content falls clearly within the Minor Non-Monetary Benefit Category and can continue to be consumed by all asset managers free of charge. WPIC research can be freely shared across investment organisations.

1. WPIC does not conduct any financial instrument execution business. WPIC does not have any market making, sales trading, trading or share dealing activity. (No possible inducement).
2. WPIC content is disseminated widely and made available to all interested parties through a range of different channels, therefore qualifying as a "Minor Non-Monetary Benefit" under MiFID II (ESMA/FCA/AMF). WPIC research is made freely available through the WPIC website. WPIC does not have any permissioning requirements on research aggregation platforms.
3. WPIC does not, and will not seek, any payment from consumers of our research services. WPIC makes it clear to institutional investors that it does not seek payment from them for our freely available content.

More detailed information is available on the WPIC website:

<http://www.platinuminvestment.com/investment-research/mifid-ii>