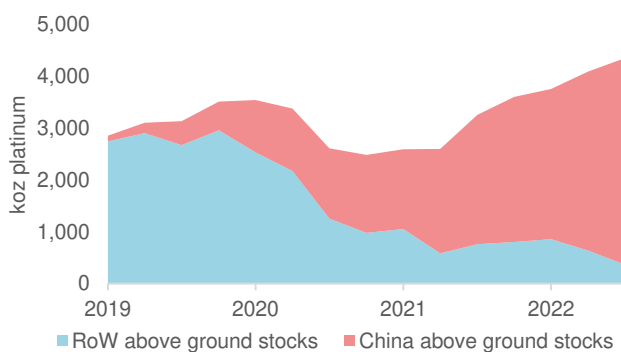


The nature and size of platinum above ground stocks now locked up in China combined with the 2023 forecast deficit could materially impact price discovery

Excess platinum imports into China leave limited above ground stocks for the rest of the world to meet supply/demand deficits. Evidence suggests that significantly higher platinum prices will likely be needed before inventories in China become available, even to the domestic market.

According to high-level customs data, China has been importing platinum well in excess of identified demand for a number of years. Although the precision of customs data should be treated with an element of caution, the scale of excess imports since March 2020 strongly suggests a change in behaviour. We note that the timing of purchases has been price opportunistic (*chart below right*), which suggests that there is a quasi-speculative component to them. However, there has also been a step-change in total volumes since early 2021, indicating that there may also have been an increase in real demand; i.e. that Chinese end users in the automotive, jewellery and industrial (including hydrogen) sectors have been using more platinum than identified in published demand data or have been adding to buffer inventories in anticipation of a supply shortage. Whilst total indentified demand for platinum in China has shrunk by about 1 Moz since 2013 (*fig. 5 page 2*), this reflects reduced demand from the jewellery industry, whilst demand from the automotive and industrial segments has grown consistently. *So who are the buyers of this excess platinum in China?*

Imports in excess of demand has resulted in above ground stocks becoming concentrated in China in recent years leaving limited material for the rest of the world.



Source: Metals Focus, Bloomberg, WPIC Research

Price opportunistic purchases suggest that release of inventories to the Chinese domestic market, will likely require significantly higher platinum prices.



Source: Bloomberg, WPIC Research

Excess China imports comprise both direct imports by industrial manufacturers for own uses, such as glass makers, and platinum traded through the Shanghai Gold Exchange (SGE) by traders or fabricators who need to reclaim VAT. The latter are likely to be automakers, as the jewellery market remains lacklustre, and suggests higher automotive demand than identified. Where direct imports are quasi-speculative or buffer stocks, this inventory build-up is not available to re-enter Western markets to address the deficit in 2023 due to domestic export controls. A similar situation with palladium occurred in the 2010's and the quasi-speculative inventories in China were only released after a significant increase – more than a doubling – in the price of palladium. The significant excess platinum imports since 2019 have resulted in a flow of metal out of Western vaults and into China (*chart above left*) and in 2020 and 2021 match or exceed the platinum market surpluses estimated for 2021 and forecast in 2022 (*fig. 4 page 2*).

The concentration of above ground stocks in China leaves limited excess inventory in the rest of the world to meet any market imbalances, such as the 303 koz deficit forecast for 2023. This, in combination with higher prices likely being needed to release Chinese inventories to the domestic market, could have a significant bearing on platinum market price discovery.

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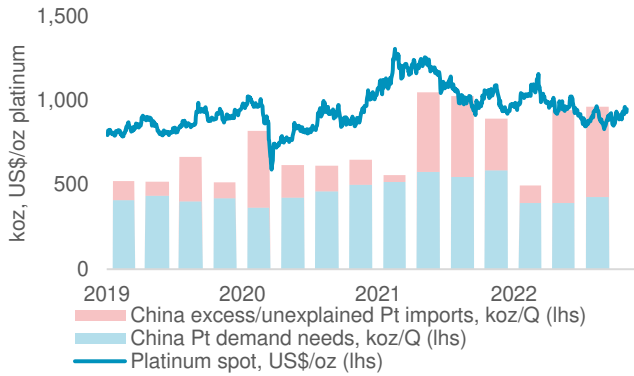
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14 December 2022

Platinum's attraction as an investment asset arises from:

- Supply remains challenged, despite some new investment in mining capacity
- Automotive platinum demand growth should continue due principally to substitution in gasoline vehicles
- The platinum price remains historically undervalued and significantly below both gold and palladium
- Significant excess imports into China is resulting in significant physical tightness and high lease rates
- WPIC research indicates platinum market entering sustained, growing deficits from 2023

Figure 1: Although customs data should be treated with a modicum of caution, platinum imports into China have exceeded identified demand for a number of years.



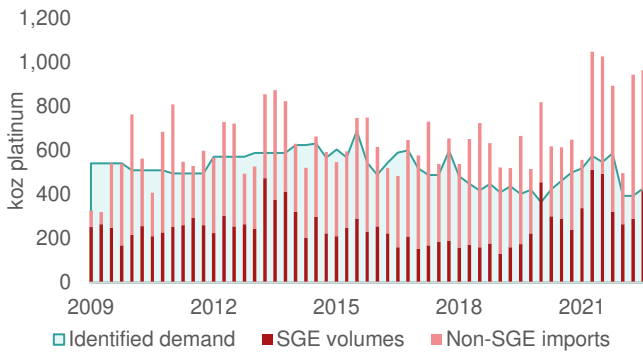
Source: Bloomberg, WPIC Research

Figure 2: Price opportunistic buying points to quasi-speculative buying strategies, but a step-up in purchases from early 2021 suggest that real demand could be higher than identified (possibly 45% higher).



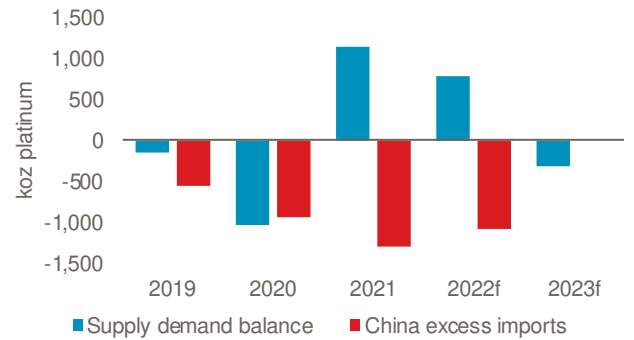
Source: Bloomberg, WPIC Research

Figure 3: VAT considerations link SGE volumes to the automotive and jewellery industries and non-SGE imports are likely industrial end users.



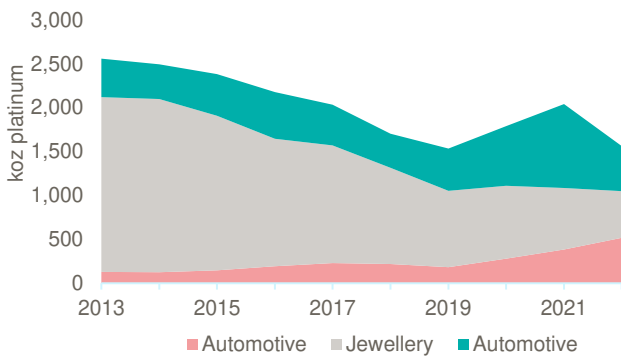
Source: Metas Focus 2019-present, SFA (Oxford) 2013-2018, Johnson Matthey pre-2013, Bloomberg, WPIC Research

Figure 4: China excess imports in 2021 and 2022 exceed 2.4 Moz, absorbed both surpluses, are not mobile and are not captured in published demand data



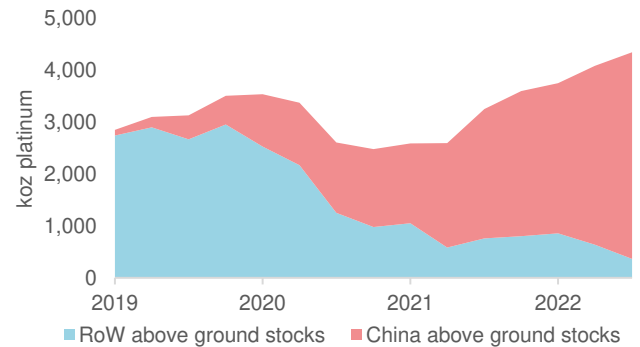
Source: Metas Focus, WPIC Research, Bloomberg

Figure 5: China identified demand for platinum: automotive and industrial applications have been growing significantly in recent years, whilst jewellery demand has been consistently shrinking.



Source: Metas Focus 2019-2022f, SFA (Oxford) 2013-2018, Bloomberg, WPIC Research

Figure 6: Excess imports into China have effectively resulted in a flow of platinum from Western vaults into China, leaving limited above ground stocks in the rest of the world to meet any supply shortages such as the 303 koz deficit forecast for 2023.



Source: Metas Focus, Bloomberg, WPIC Research

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