

FINANCIAL POST

Platinum, Palladium Are Hot

Both Are Up 50%; Play crucial role in the auto industry

Peter Koven, Financial Post
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The smelting process in works at the Russian metals giant Norilsk Nickel. (Reuters File Photo)

While gold and base metals get most of the attention, platinum and palladium have emerged as a hot topic at this year's PDAC conference as the industry digests massive price increases with the possibility of even more on the horizon.

The two precious metals have been on a tear all year, with prices up about 50% for each, including a record high for platinum yesterday of US\$2,277.50 an ounce. Those gains accelerated in the last week amid blackouts and a worsening power crisis in South Africa, which is responsible for nearly 80% of the world's platinum and more than 30% of its palladium.

The sudden leap in prices serves as a stark reminder of the tightness of many metal markets -- and how much the world relies on a small number of sources for many of the secondary metals.

"This is a signal to go and find more of this stuff because we'll need it down the line," said Brian Gavin, chief executive of platinum explorer Franconia Minerals Corp.

The markets for platinum group metals (or PGMs) are very small, with annual consumption of both platinum and palladium below 10 million ounces. But they play a crucial role in the auto industry because of their use in catalytic converters to cut down on emissions. As a result, they are benefiting from the growth in emerging markets as more and more Chinese and Indians buy cars, and automakers take steps to reduce emissions.

At the same time, they are still precious metals and, like gold, have seen their prices rise on increased demand from jewellery manufacturers and investors looking for an alternative asset class.

Exchange-traded funds have continued to be aggressive buyers at elevated prices. And jewellery demand has been surprisingly resilient despite those increases.

"You really have to wonder whether platinum jewellery has reached the 'Gucci Bag' effect where the more they charge for it, the more people like it," said Mike Jones, chief executive of Platinum Group Metals Ltd., which operates in South Africa.

He has seen the power crunch in South Africa firsthand. Eskom, the beleaguered state utility, is forcing producers to cut usage to 90% of prior levels, which can have a disproportionately large effect on production. The big three producers (Anglo Platinum Ltd., Impala Platinum and Lonmin PLC) are all working in very close proximity and the market is worried about their ability to maintain supply.

"There's no commodity like platinum in terms of geographic focus," Mr. Jones said.

And there may not be any relief in sight. In a well-attended talk on platinum and palladium on the conference's first day, HSBC Securities analyst Victor Flores said his models suggested that while palladium is likely to be in surplus at the end of the year, platinum could be in a deficit.

The palladium situation is thought to be not as bad because of higher inventories and less geographic concentration, but auto and ETF demand for both are big wild cards.

"We believe the behaviour of two very different end users -- investors and auto companies -- will drive PGM prices this year. Negative elasticity of demand, due respectively to speculative demand and supply concerns, could lead to further price spikes," he said.

The sudden interest in platinum and palladium also highlights how few companies are focused on those metals. After the "Big Three" South African producers and Russia's Norilsk Nickel, there is a big drop-off before you get to companies like North American Palladium Ltd., which supplies about 5% of the global palladium market.

A number of exploration plays like Franconia and Marathon PGM Corp. are pushing projects in North America towards production, but there are no primary platinum mines on the continent, Mr. Jones said.

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