

## Publication of Platinum & Palladium Survey 2004

### *Both metals in fundamental deficit; consumers adopting flexible approach*



GFMS today launched its inaugural Platinum and Palladium Survey 2004 at simultaneous events in London and Johannesburg. The following details some of the highlights of the Survey.

GFMS, which reviewed fundamental production and consumption levels for both metals along with movements in inventory, forecast that the prevailing price differential between platinum and palladium will narrow and that the consuming markets are already responding to the massive premium that platinum currently commands over palladium. Because of their similar physical and chemical characteristics, the two metals are partially interchangeable in some of their end-uses, notably in automotive emission control catalysts. The price swing between

the two has exceeded \$1,100/ounce since the peak of palladium's price spike in 2001 and consumers are rapidly becoming more flexible in their ability to switch between, or mix, the two.

Both metals' markets are in fundamental deficits that have to date been met by the mobilisation of above-ground inventory, principally from Russia and the automotive industry. The key issue is for how much longer these circumstances will exist.

Platinum's deficit has been growing, year-on-year, since 1999. This is as a result of a 74% increase in demand for emission control catalysts (largely due to the high market share in Europe of diesel-powered vehicles), growth in China's jewellery industry that has offset contraction in jewellery in Japan and despite expanding, mine output has been unable to keep pace with the growth in demand. The outlook suggests that planned increases in mine supply should, if all plans are met, suffice to erode platinum's deficit. If not, then price strength will choke demand with jewellery the most likely casualty.

Palladium's deficit has eased considerably since 1999 and 2000. This results from substantial reductions in emission control usage, partly in response to the earlier price spike, while use in electronics has halved since 1999, exclusively in response to price movements (although palladium is now finding favour again in this sector), along with a 14% increase in mine production. Russian sales from inventory appear to have been considerably reduced in 2002 and 2003, with the void filled by the draw down of substantial inventory by the automotive sector. With the exception of inflated NYMEX inventories and of the palladium that was shipped into London as part of the Norilsk transaction for a 51% stake in Stillwater, and which is already placed in the market to consumers, there is no firm evidence as to the availability of fresh palladium inventory in the future. Consequently, the key to a balanced market lies in expanded mine and scrapped emission control catalyst supply and, if this is not sufficient to satisfy consumer needs, then the palladium price, also, will rise.

The statistical highlights of the report are outlined overleaf.





## Supply highlights:

- Global mine production of platinum increased by almost 1% to 5.92M ounces, while palladium production fell by 1.0%. The difference between the two reflects the global distribution of production. South Africa dominates platinum production (with 78% of last year's total) and is expanding, while producing platinum and palladium in an approximate 2:1 ratio. Russia is the largest palladium producer with 42% of last year's output. Russian production was reduced last year, a result of what is believed to be a decline in grades.
- Weighted average cash costs of refined PGM production rose in 2003 by 51% to \$323/ounce. The stronger rand, which appreciated by 28% against the dollar over 2002 (annual average basis), was instrumental in this, although operational issues were also important. South African cash costs in 2003 were 62% higher than in 2002. North American costs declined, but the fall in the basket PGM price severely reduced their margins.
- Scrap supply from emission control catalysts continued its upward march as the number of scrapped exhaust systems continued to rise. The rate of growth of palladium recovery was 19% against a 5% rise in platinum, reflecting the fact that the platinum:palladium loading ratio across the fleet has been coming down and exhausts are now being returned with a higher relative palladium content than heretofore.

## Demand highlights:

- Total fabrication of platinum increased by just over 1% in 2003, while palladium demand rose by almost 2%. Increases in emission control catalyst demand were most notable in the Far East and, while Europe's demand for platinum in catalysts on gasoline and hybrid vehicles was flat, the demand for platinum catalysts in diesel-powered vehicles in Europe grew by almost 6%. North American usage overall was very slightly lower than in 2002. Palladium demand in emission control catalysts continued to fall, reflecting thrifting in North America. Demand elsewhere in the world was slightly higher, reflecting tightening emissions legislation and a burgeoning Chinese automotive market. Production of catalyst-bearing vehicles in 2003 was sluggish overall, rising by just under 2%.
- Platinum demand in jewellery was reduced by 9% in 2003, while the use of palladium in jewellery rose by 8%. This reflects an adverse price-elastic response in the platinum market and the increased use of palladium in white gold, as an alloying element, plus an embryonic market in China for palladium jewellery.
- Platinum's use in glass soared by 66% as a result of the ballooning market for LCDs. Palladium demand in electronics rose by 35%, albeit only to half the level of 2000, as it again found favour with manufacturers of multi-layered ceramic capacitors.

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**Platinum & Palladium Survey 2004** contains 80 pages of statistics, commentary and analysis on all aspects of world platinum & palladium supply/demand and on PGM prices in various currencies. The publication can be ordered from GFMS for £265 or US\$495 / €395 per copy. For orders and to receive further product information please contact Ms L. Perrard on: Tel: +44 (0)20 7478 1777, Fax: +44 (0)20 7478 1779, Email: sales@gfms.co.uk, Web Site: www.gfms.co.uk

### Note to Editors about GFMS Limited:

GFMS Limited is the world's foremost precious metals consultancy, specialising in research into the global gold, silver, platinum and palladium markets. GFMS is based in London, UK, but has representation in Australia, China, India and Russia, and a vast range of contacts and associates across the world.

**Press Contacts:** Peter Ryan, Rhona O'Connell or Paul Walker, GFMS Limited, Hedges House, 153-155 Regent Street, London, W1B 4JE, UK, tel: +44 (0)20 7478 1777, fax: +44 (0)20 7478 1779, email: info@gfms.co.uk, web site: www.gfms.co.uk