PLATINUM PERSPECTIVES

World Platinum Investment Council

ETF disinvestment may reflect a change in investor preference to rather own physical platinum

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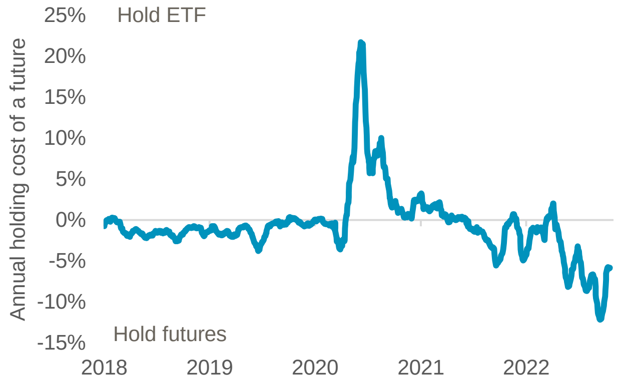
In an ideal world with total asset class flexibility, investors would choose the lowest cost option for exposure to an underlying asset. Since mid-2021, the lowest cost option for platinum exposure has switched first from ETFs to futures, and then from futures to holding physical metal.

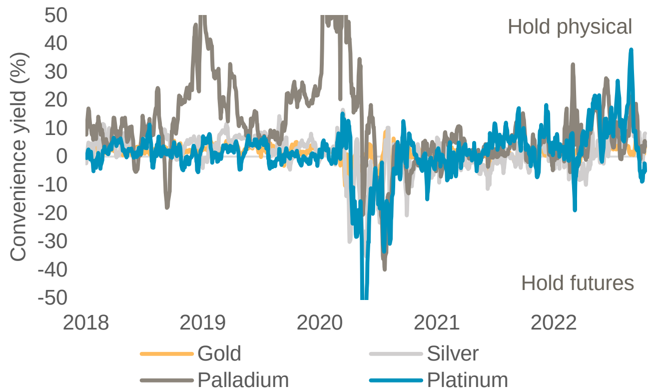
In an ideal world where investors have no asset class restrictive mandates, an investor seeking exposure to an underlying asset would seek the lowest cost option, with choices of holding the ETF, a futures position, or the underlying asset itself; in this case physical platinum. In reality of course, fund mandates and other factors can limit the asset class options available to most investors. In addition the movements discussed in this report may have more to do with macro asset allocation decisions which have created the conditions that would incentivise the theoretical flows of investment interest that are described below. The platinum forward curve has been in backwardation (fig 1 overleaf) since the middle of 2021 (fig 2). This has resulted in a situation where an asset class agnostic investor looking for platinum exposure is being paid* for holding and rolling a futures position versus holding an ETF and paying the typical 0.5% ETF annual management fee as well as forgoing the interest payable on equivalent cash deposits (below left and fig 3). This may be a factor in the significant disinvestment from platinum ETFs since the middle of 2021, which has totalled 850 koz (fig 4).

Since mid-2021 investors would have been better off holding a futures position over an ETF.



*Source: Bloomberg, WPIC Research, *When an asset is in backwardation the roll cost to maintain a futures position is negative, incentivising or paying to maintain the position*

But an extension of this is that investors would have generally been better off holding and lending out a physical position than rolling futures contracts.



Source: Bloomberg, WPIC Research Note: Convenience yield is the benefit or premium associated with holding an underlying product or physical good, rather than the associated derivative security or contract.

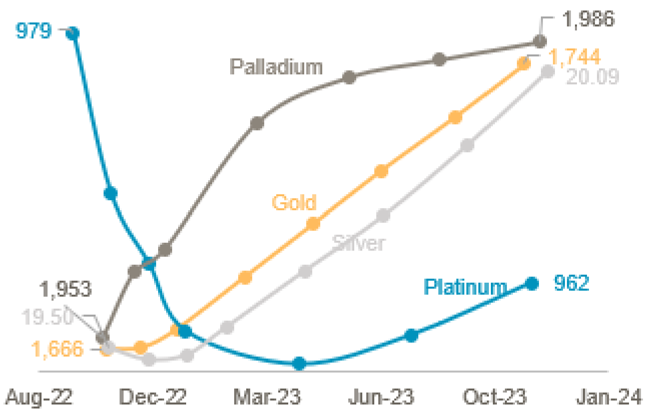
Taking this a step further, an investor with a futures position has a choice of where to position on the forward curve depending upon relative costs, or even whether to hold the physical. Platinum lease rates have been trending higher since the middle of 2021, which, together with significant outflows from exchange stocks, points to tightness in the prompt market (fig 5). This may incentivise platinum end users to hold physical metal over futures to ensure that future demand requirements can be met, and for investors to hold and lease out physical platinum over owning the futures. This is reflected in platinum's convenience yield, which has been in positive territory since mid-2021 (above right and fig 6), illustrating a financial preference for holding physical over a futures position. **In conclusion, an asset class agnostic investor would currently choose to hold physical platinum over a platinum ETF, which may in part explain the signficiant outlows from platinum ETFs since the middle of 2021.**

In an idealised world with no asset class restrictions, since the middle of 2021, investors would generally have been financially better off holding physical platinum over gaining platinum exposure through a futures position or an ETF.

Platinum's attraction as an investment asset arises from:

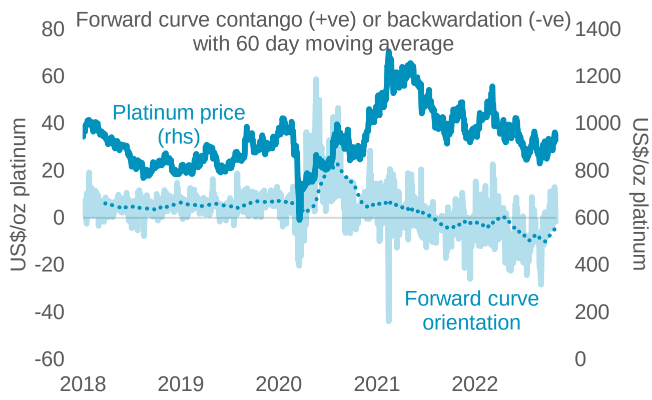
- Supply remains challenged, despite some new investment in mining capacity
- Automotive platinum demand growth should continue due principally to substitution in gasoline engines
- The platinum price remains historically undervalued and significantly below both gold and palladium
- Significant excess 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: In contrast to palladium, gold and silver, the platinum market is currently in backwardation.



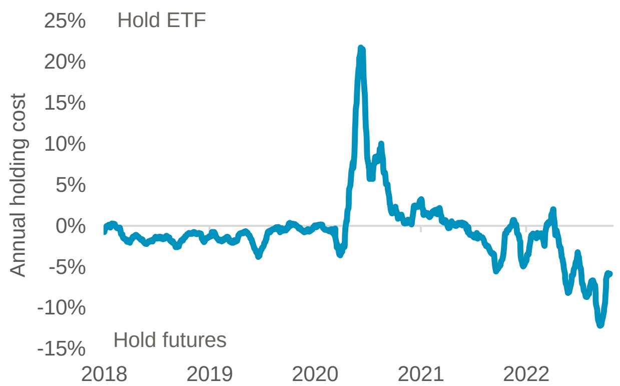
Source: Bloomberg, WPIC Research, priced 26th October

Figure 2: A situation which has prevailed since around the middle of 2021.



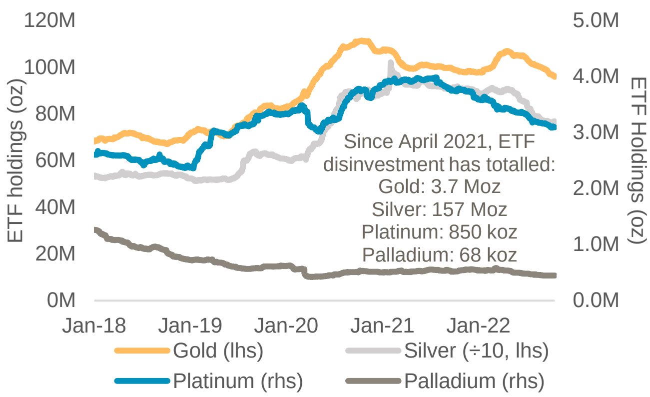
Source: Bloomberg, WPIC Research

Figure 3: If an investor can choose between asset classes, since mid-2021, It has been more cost effective to hold and roll the platinum futures than it has been to buy and hold the ETF.



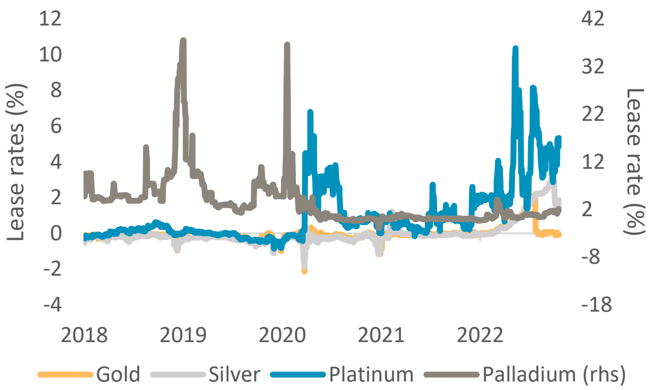
Source: Bloomberg, WPIC Research

Figure 4: This may have been a contributing factor behind the 850 koz of platinum ETF disinvestment since mid-2021, although outflows have also been seen in other precious metal ETFs.



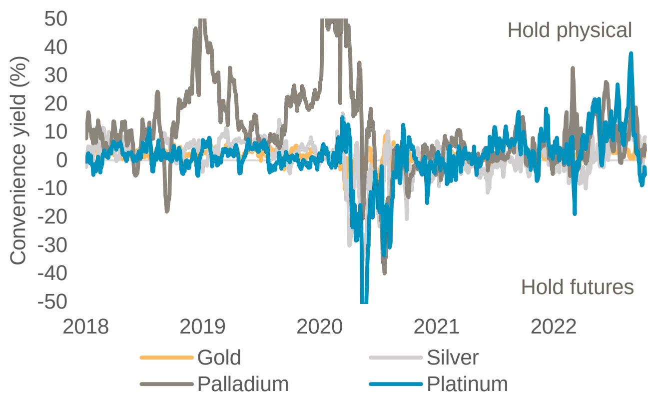
Source: Bloomberg, WPIC Research

Figure 5: High implied platinum one month lease rates and dramatically falling exchange stocks point to relative scarcity of platinum in the prompt market at certain price levels.



Source: Bloomberg, WPIC Research

Figure 6: This incentivises platinum end users to hold physical metal over futures to meet future demand requirements, and for investors to hold and lease physical platinum over owning the futures and is reflected in platinum's convenience yield, which has been in positive territory since mid-2021.



Source: Bloomberg, WPIC Research Note: Convenience yield is the benefit or premium associated with holding an underlying product or physical good, rather than the associated derivative security or contract.

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