

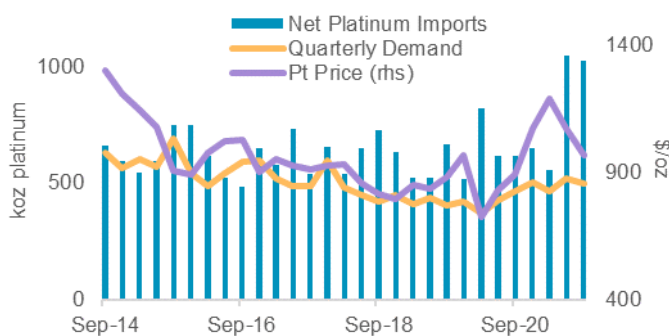
## Drivers behind China's excess import trend could move the global platinum market into deficit

*China's platinum imports have continued to run well ahead of its estimated demand. Identifying and quantifying this hidden underlying demand, and believing that the drivers continue into 2022, would move the platinum market from a significant surplus into a deficit.*

As discussed in our recent [Q3'21 Platinum Quarterly](#), the reason for China's platinum imports continuing to run significantly ahead of estimated demand remains unexplained. Indeed, it is possible that these 'excess' imports could have consumed the forecast 2021 surplus in just the first nine months of the year (769 koz, v excess 9 month imports of 1,154 koz). So why is China importing so much more than its estimated demand? Is consumption genuinely as much as twice estimated levels, or is there an element of speculation involved?

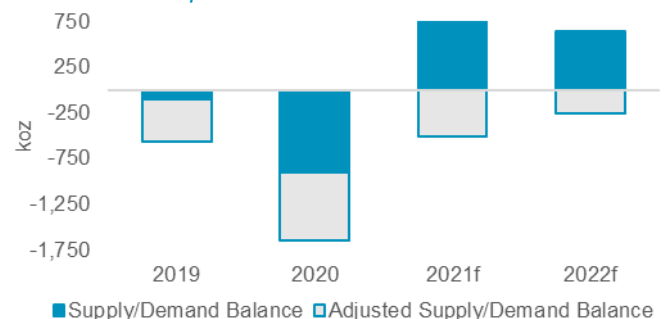
The answer is probably a bit of both: The biggest above-use 'excess' inflows have occurred during quarters of relative price weakness, which would be suggestive of speculation at least in terms of the timing of procuring raw materials. However, with China per-vehicle autocatalyst platinum loadings apparently well below comparable regions, and palladium imports below estimated needs, it is possible that actual platinum automotive demand is higher than forecast due to higher per-vehicle loadings as well as platinum substitution for palladium. Furthermore, there could be some stock-building by jewellery manufacturers and industrial users on availability and price grounds.

*China platinum imports have been running well above visible demand levels for a number of years*



Source: Bloomberg, Metals Focus, WPIC Research

*Including the excess China platinum imports would move the forecast surpluses into deficits*



Source: Metals Focus, WPIC Research, Excess imports are defined as total imports less visible demand. For clarity we reduce this by deducting a speculation component calculated by applying the global ratio of investment to total demand in each year to excess China imports.

VAT and import rules in China deter individuals from speculative investment in platinum, but it is possible for platinum fabricators to procure metal opportunistically when prices are seen as offering value. They could also do this, not only for their own needs, but with a view to selling on to other industry users of platinum. The most remarkable datapoint is heavy-duty (HD) autocatalyst loadings in China. Our published platinum automotive demand indicates per-HD vehicle loadings of c.3g Pt, well below the 20-25g seen in comparable regions. Illustrating our point, adding all excess imports to automotive demand in 2021 would increase China HD loadings to 25g, more aligned with the EU and US. In reality loadings are probably less, with substitution for palladium making up some of the difference and stock level uplifts in jewellery and industrial sharing the load.

**Currently available data does not adequately explain the reasons for China's significantly higher imports of platinum versus its visible demand requirements. However, there are a number of possible reasons which may contribute. Applying current demand trends to the 2022 outlook would move the market balance from a surplus to a deficit.**

**While we cannot present data behind the demand trends in China, we can show that if they continue at an average of the 2019-2021YTD rate, the forecast 2022 surplus of 637 koz would potentially become a deficit as large as -255 koz.**

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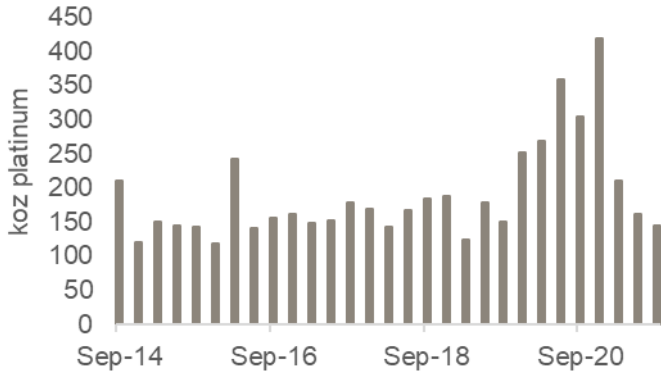
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**Platinum's attraction as an investment asset arises from:**

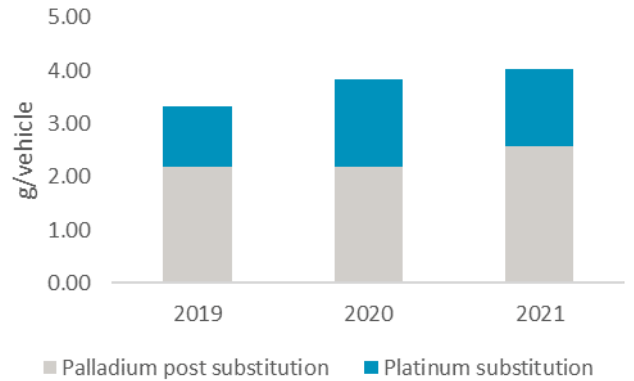
- Supply severely constrained for three more years despite some new investment in mining capacity
- Platinum price remains historically undervalued and significantly below both gold and palladium
- Automotive PGM demand growth should continue due to increasingly restrictive emissions rules
- Market balance 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 platinum imports have run ahead of visible demand but its palladium imports have tailed off, suggestive of platinum substitution for palladium



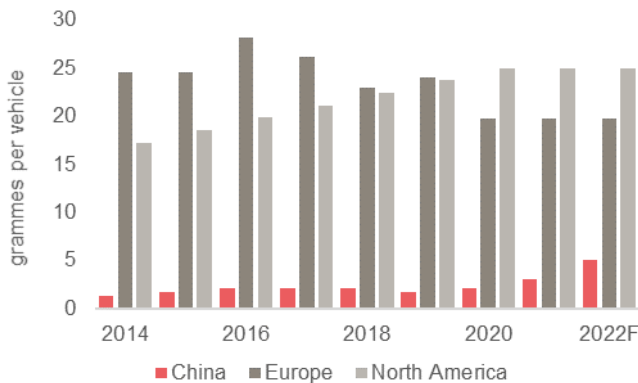
Source: Bloomberg

Figure 2: For illustration, allocating all excess China platinum imports, net of speculation, to light duty gasoline vehicles suggests 30-45% substitution for palladium



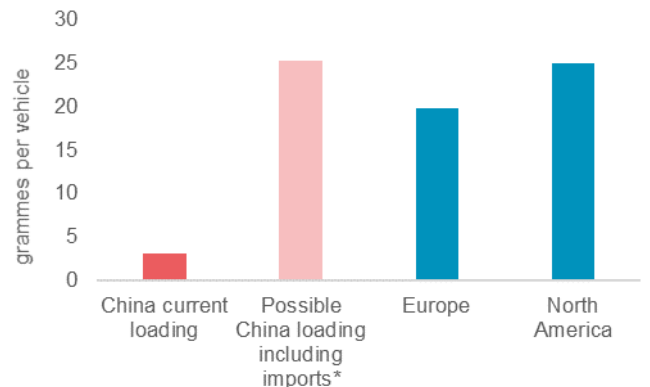
Source: LMC Automotive, WPIC Research, Note: illustration shows all excess platinum imports, also reduced by deducting a speculation component, substituted for palladium

Figure 3: China's excess platinum imports could also mean that per-vehicle loadings are far higher than platinum automotive forecasts suggest



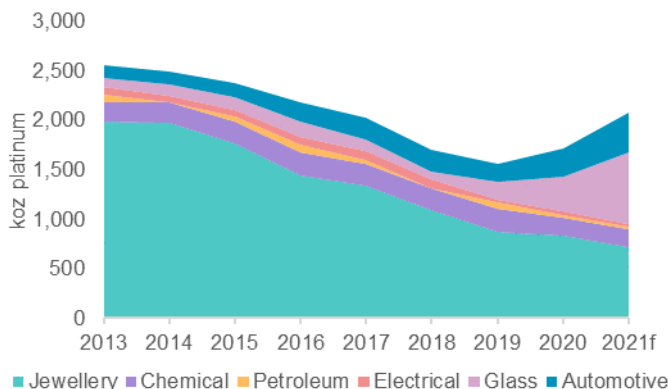
Source: Metals Focus, OICA, WPIC Research

Figure 4: For illustration, allocating all excess China platinum imports to HD loadings in 2021 brings them up to loading levels in comparable regions



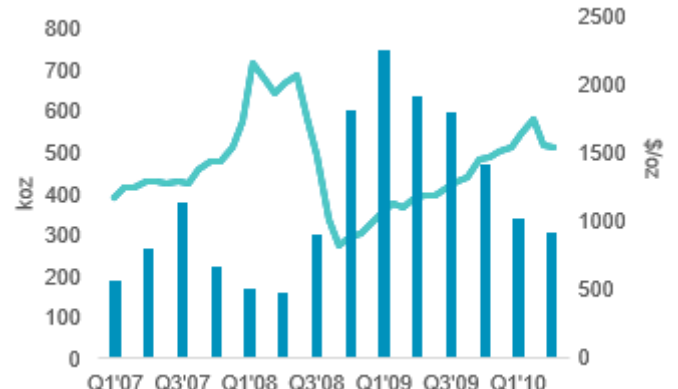
Source: Metals Focus, OICA, WPIC Research, Note: Illustration shows all excess platinum imports allocated to HD loadings

Figure 5: Although glass and automotive demand have grown, they have not yet offset the decline in jewellery demand, which may well benefit from higher stock levels



Source: Bloomberg, WPIC Research

Figure 6: We do know that jewellery manufacturers in China bought more than a million ounces in 2009 on weak price caused by the Global Financial Crisis



Source: Johnson Matthey, WPIC Research

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