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STRUCTURAL DEFICIT

Edward Sterck, WPIC's Director of Research, discusses why the platinum market is in deficit and how this contributes to platinum's compelling investment case

In commodities markets, a market in deficit is one where there is insufficient supply of a commodity to satisfy demand. In the case of the platinum market, supply is continuing to lag demand, leading to a structural deficit. To put this in context, the platinum market is expected to record its third successive shortfall this year, at 966 koz. This follows deficits of 992 koz and 896 koz in 2024 and 2023, respectively. Moreover, looking at the WPIC two to five-year forecast, deficits are forecast to occur every year until 2029.

Using the most recent supply and demand data from WPIC, Edward Sterck explains what is driving these developments and their implications for investors.

What is causing platinum's structural deficit?

On the supply side, mine supply is projected to be at multi-year lows. Miners spent 2024 restructuring assets and reducing capital expenditure in the wake of the low platinum group metals basket price. As for recycling, volumes have struggled to return to historical levels. Notably, total platinum supply is expected to fall below 7 Moz in 2025 which, barring COVID, will be the lowest level in our data series going back to 2013. This reflects structural headwinds facing supply (which has seen -1% CAGR since 2015).

Meanwhile, demand is relatively robust and, while it is projected to be down 4% year-on-year in 2025, this is largely due to cyclicality within the glass manufacturing industry – significantly fewer new glass production facilities are due to be commissioned in 2025. As a result, glass demand for platinum is projected to be down 58% year-on-year at 289 koz, versus 690 koz previously.

We believe both supply and demand to be relatively price inelastic, meaning that quantities of either are unlikely to fluctuate much when the price changes, at least in the near-term, and this presents an attractive investment opportunity.

What is driving demand?

There is potential for demand growth above that shown in our estimates, driven mostly by upside potential to investment and jewellery demand. Bar and coin investment demand in China is currently running ahead of expectations, but the market is most excited about the change in jewellery demand currently being witnessed.

Six months ago, the global platinum jewellery trend was for steady demand growth in the world outside of China balancing declining demand within China.

However, the exceptionally high price of gold is having an impact on gold jewellery sales, which were down 32% year-on-year in China in the first quarter. This has led to medium-sized gold jewellery businesses responding to falling sales and stock value-related balance sheet stress by selling off gold jewellery inventory with some profit taking, while securing the manufacture of a range of platinum jewellery, stocking showrooms and commencing selling to retailers.

This has contributed to strong platinum jewellery fabrication which increased 26% year-on-year in the same quarter. In Europe and North America, both big white gold markets, the retail price of white gold jewellery is at a premium to platinum jewellery, which is also acting to further accelerate platinum jewellery sales.

To what extent is the switch to battery electric vehicles affecting platinum demand?

We do expect the global drivetrain to continue to electrify and the gradual decline in platinum demand will continue, albeit at a slower pace than was anticipated in the past. This means higher for longer automotive demand for platinum, despite the uncertain economic outlook, with the benefit of an additional boost from demand for hybrid vehicles.

How are above ground stocks (AGS) impacted by deficits?

The structural deficit in the platinum market is embedded and continues to deplete AGS which are expected to fall to barely three months of demand by the end of this year, an unsustainably low level. This is leading to market tightness, which is currently reflected in elevated lease rates, among other indicators.

Elevated lease rates have the effect of encouraging the lending of platinum to end users, which acts as a temporary source of supply until such time as the borrowers need to return metal to close out the loans. It remains to be seen whether sufficient platinum will be available at that time at current prices.

Could tariffs reduce the platinum deficit forecast for 2025?

Platinum's unique properties and associated uses in a diverse range of end markets help to mitigate the negative impacts of trade barriers and the associated potential negative impact on global GDP growth rates; as a result, the impact of tariffs on the 2025 platinum demand outlook is less than might be expected.

We have modelled the economic and tariff risks, and while they could erode platinum demand, the scale of the platinum market deficit forecast this year is so significant that it is difficult to envisage a scenario that would materially reduce it.

As an investment asset, what does a structural deficit mean for platinum?

Basic market economic theory suggests that a market in deficit will typically trigger a price reaction that stimulates new supply to the market or prices demand out of the market. The difficulty for platinum is that both supply and demand are highly price inelastic in the short-term, which can lead to sustained periods of market imbalances.

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There is growing appreciation of the extent to which platinum's strong supply/demand fundamentals, resulting in the structural deficit, are underpinning its compelling investment case. This is further boosted by platinum's robust and diverse drivers of existing demand, not to mention the emergence of a new demand driver for platinum through its use as a critical mineral in technologies that enable the use of hydrogen in the energy transition.

At the same time, platinum's wide price discount relative to gold and its current undervalue relative to its own historical levels present investors with an interesting opportunity.

Edward Sterck, Director of Research, WPIC

Contacts:
Vicki Barker, Investor Communications, vbarker@platinuminvestment.com
Edward Sterck, Research, esterck@platinuminvestment.com
Brendan Clifford, Institutional Distribution, bclifford@platinuminvestment.com