

PM Outlook 2018

Group Economics
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Research

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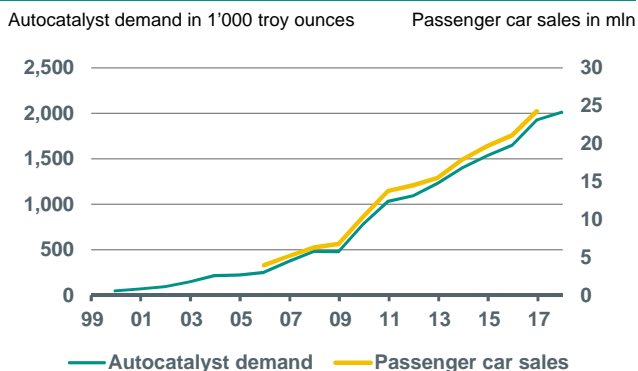
Platinum to outperform palladium

- Palladium prices strongly outperformed platinum prices in 2017...
- ...because all the stars were aligned for palladium...
- ...while negative sentiment on diesel cars weighed on platinum prices
- Platinum will probably outperform palladium in 2018
- ...because the negative scenario is reflected in platinum prices...
- ...and sentiment towards palladium cools somewhat

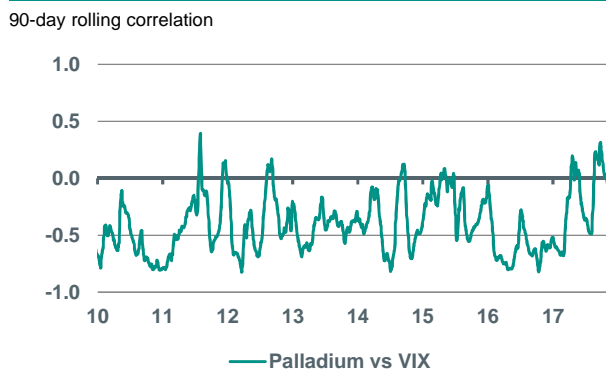
Introduction

Palladium prices have been by far the strongest precious metal in 2017. It has risen by 507% while runner-up gold prices have rallied by 11%. Platinum prices have risen by 4% and this is a sharp contrast compared to palladium prices. Palladium prices have even risen above platinum prices, something not seen since 2001. Why have palladium prices strongly outperformed platinum prices? For a start, the decline of market share of diesel cars in favour of petrol cars has weighed on platinum prices and this has supported palladium prices. Moreover, palladium has a substantial supply deficit and this has bolstered prices. In addition, the environment is just right for palladium prices: strong global growth, strong increase in Chinese autocatalyst demand and positive investor sentiment. The eurozone economy has also grown strongly and car sales have had a strong year. However, diesel cars, which use for a large part platinum in their catalysts, are losing market share in the eurozone so platinum prices have not been able to profit from the boom. In this report we focus on our outlook for 2018 and 2019.

Chinese car sales supported palladium prices



Palladium prices favour positive investor climate



Source: GFMS, Thomson Reuters Datastream, ABN AMRO Group Economics

Source: Bloomberg, ABN AMRO Group Economics

2018 a year of price weakness

For 2018 we expect lower platinum prices. First, it is unlikely that Chinese jewellery demand for platinum will take off. In fact, it will probably remain under some pressure in 2018. Platinum jewellery demand is next to autocatalyst demand an important demand source for platinum. Second, expectations that diesel cars will lose market share will continue to weigh on platinum prices. Third, platinum prices have a tendency to weaken if US Treasury yields and the US dollar rise. For 2018 we expect a modest rise in the dollar and US Treasury yields and the Fed to continue to hike interest rates. We think that the downside in platinum prices is modest though as speculative investors are neutral in their positioning and platinum prices are cheap versus gold, palladium and copper. Platinum is at relative attractive levels to compete with white gold and palladium. The latter is more difficult than assumed because of autocatalytic processes.

Platinum is cheap versus gold...



Source: Bloomberg, ABN AMRO Group Economics

...and versus palladium

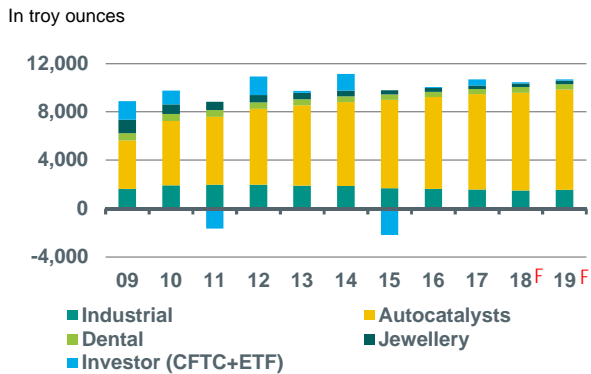


Source: Bloomberg, ABN AMRO Group Economics

In 2018 we expect palladium prices to decline as well because most of the positive news is reflected in the price. Investors (speculative) are currently substantial net-long palladium and we doubt that there is much room for further increases. This will result in lower overall demand for palladium and a smaller supply shortage. If investors were to decide to liquidate their net-long positions, prices could drop substantially though (this is not our base scenario). We expect weakness in other precious metal prices to weigh on palladium as well. A continuation of Fed rate hikes, a modest rise in US Treasury yields and the US dollar will probably result in modest price weakness in gold, silver and platinum.

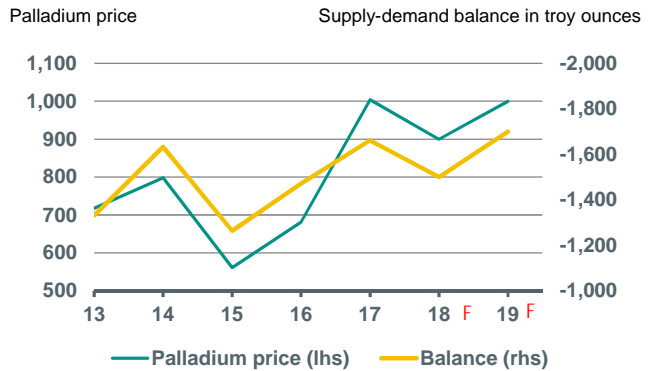
Despite the heavy positioning by investors, fundamentals of palladium remain strong. Our China analyst expects growth in Chinese car sales to level off somewhat but to remain positive. As a result, Chinese autocatalyst demand for palladium is set to increase resulting in overall higher global autocatalyst demand. Stricter emission standards will also result in higher palladium loadings in catalysts resulting in higher autocatalyst demand. We expect other sources of demand (dental and industrial) to hold up well as well. In short, the reluctance of more palladium position building by speculators will overshadow higher palladium autocatalyst demand in 2018.

Palladium demand (incl our 2018 & 2019 forecasts)



Source: GFMS, Thomson Reuters Datastream, ABN AMRO Group Economics

Palladium price moves in tandem with balance



Source: GFMS, ABN AMRO Group Economics

Positive outlook for 2019

For 2019 we expect platinum prices to rise. This is because a weaker US dollar and slightly lower US Treasury yields will be supportive for platinum prices. Moreover, we expect Chinese jewellery demand to bottom out. However, it is likely that the share of diesel cars will continue to decline and this will weigh on autocatalyst demand for platinum. Taken all together, platinum prices will probably have an upside momentum.

We expect palladium prices to move to USD 1,000 per ounce again. Autocatalyst demand for palladium will rise further because of stricter emission standards and a slight increase in Chinese car sales. Dental and industrial demand will probably hold up well and investor demand could increase somewhat again.

ABN AMRO platinum & palladium price forecasts

Changes and new forecasts in red/bold

New												
End period	01-Dec	Dec-15	Dec-16	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19
Platinum	939	894	903	950	925	900	900	900	950	1,000	1,050	1,100
Palladium	1,011	562	681	850	975	950	925	900	925	950	975	1,000
Average	2016	2017	Q1 18	Q2 18	Q3 18	Q4 18	2018	Q1 19	Q2 19	Q3 19	Q4 19	2019
Platinum	955	960	938	913	900	900	913	925	975	1,025	1,075	1,000
Palladium	614	840	970	963	938	913	931	913	938	963	988	950
Old												
End period	01-Dec	Dec-15	Dec-16	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18				
Platinum	939	894	903	950	975	1,000	1,050	1,100				
Palladium	1,011	562	681	850	850	850	850	850				
Average	2016	Q3 17	Q4 17	Q1 18	Q2 18	Q3 18	Q4 18	2018				
Platinum	955	954	950	963	988	1,025	1,075	1,013				
Palladium	614	902	850	850	850	850	850	850				

Source: ABN AMRO Group Economics

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