

ADS Securities Market Strategy Team

Platinum Update

17:00 – 22nd January, 2014

Author: Max Knudsen, Chief Market Strategist

Miner Issue could be a Major Opportunity

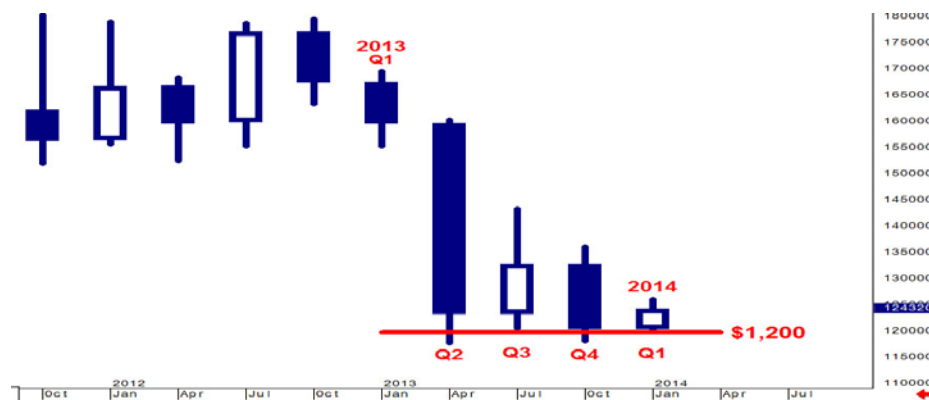
ADS Securities' is seeing strong buying interest in platinum as the metal starts to out-perform gold, even though gold is showing improvements. Increased global demand for platinum driven by the auto-industry and risks of prolonged strike action in South African mines makes platinum the metal to watch in Q1.

Gold stalling below US\$1,200

After the disastrous losses suffered by gold end of 2013, our Q1 forecast is for improved investor sentiment and a potential slowdown in last year's selling.

Our Q1 forecast continues the pattern of trading of the last three quarters of 2013. In this period, profit taking buying at prices below US\$1200.00 limited losses as it was regarded as a price level too close to the cost of gold production.

So far in 2014 we have seen four weeks of improved prices – the longest period of buying in 15 months – and there is potential for gold to recover more than 50% of its Q4 losses and go above the US\$1300.00 mark. Market data supports this view as holdings in gold-backed exchange-traded products had risen by 7.4 metric tonnes by 17th January, the biggest increase since October 2012. In addition, hedge funds and other speculators raised their forecast on higher prices by 7.6 per cent to an eight-week high of 43,277 contracts in the week ending 14th January (US Commodity Futures Trading Commission data).



Quarterly spot gold showing repeated buying near \$1,200 since Q2 2013

Platinum will continue to outperform gold

If gold is starting to get some of its lustre back, the outlook for platinum is potentially brighter. In October 2012, with platinum having fallen to a price US\$217 lower than gold, we published a forecast for this spread to return to positive, and platinum to once again trade higher than the gold price – at least US\$200 higher.

Platinum is 30 times rarer than gold, with an annual supply of only 130 tonnes, just 6% of the annual supply of gold. It takes 10 tonnes of ore and six months of mining to make just 1oz of platinum. In 2012, platinum reached its low point and now (January 2014) platinum is US\$1,466 a tonne versus US\$1254.00 for gold – a spread of plus US\$215.



Weekly difference between platinum & gold prices

Platinum buying after a 50% correction

A good case can be made for further improvements in platinum prices. From a low of US\$732.5 in 2008, the metal increased in value by 162% rallying to US\$1,921 in three years. Prices have corrected half of the rally since then by falling back to \$1,328, but this price level has repeatedly attracted buyers and is doing so again. In fact, the buying from this level in December and now January is set to record a bullish ‘morning star’ signal. This is a pattern of trading consistent with exhausted bear market momentum and the start of a new bullish bias.



Monthly platinum attracting buying after correcting 50% and a developing bullish signal

Potential for a new bull trend

In weekly trading the current buying interest has brought prices close to the 60 week moving average. Since 2000, breaks of this average have been correlated with each of the major bullish and bear trends. Buy or sell signals generated by prices moving through the average have been successful.



Weekly platinum and signals generated by breaks of the 60 week moving average

Buying longer than two months

But there is still cause for caution. With January's strong gains, prices will have risen for two consecutive months. Since the high in 2011, each of the four previous rallies in platinum failed to sustain gains for longer than two months.

2014 could be different

However this time should be different. The improving sentiment in platinum is reflecting investors' belief that a worldwide economic rebound will increase demand for the metal. Jewellery takes 31% of platinum production but the main user of the metal is the auto-industry which takes 37%. Platinum is an important component in catalytic converters that control exhaust emissions. The traditional auto buying season is from February to May. Demand for platinum used in the auto industry continues to grow thanks to improving world economies and the need for more pollution control. Demand for cars in 2014 is expected to reach a record with notable gains projected in China, India, and North America. Sales in the US are expected to reach 16 million units. China, as the largest auto producer in the world, once again, is expected to exceed US production. New emissions rules in Europe set to take effect September 2014 and into 2015 will significantly raise the amount of platinum required in automobile anti-emission equipment.

Declining supply and industrial action

A declining supply of platinum is also a factor. Johnson Matthey estimated in a recent report that demand exceeded supply by 605,000 ounces in 2013, when total demand reached an estimated 8.42-million ounces. Another deficit is predicted in 2014. Reliability of supply is expected to add to concerns. Approximately three-quarters of the world's platinum production comes from South Africa and Zimbabwe. But it is unlikely that any South African producer can afford to significantly expand capacity.

The current buying interest is underpinned by the miners' strike in South Africa. In a strike over demands to more than double miners pay, at least 70,000 members of the Association of Mineworkers and Construction Union (AMCU) are just about to go on strike in South Africa's platinum belt run by Anglo American Platinum Ltd., Impala Platinum Ltd., and Lonmin. The area accounts for about 80% of global output of the metal. It is the first time that all three mines will have been on strike at the same time.

In addition, availability of electricity needed for mining some of the deepest mines in the world has become an issue. Rising employment costs, an unreliable power source, and a 16% drop in the price of platinum during the past year have prompted mining companies to curtail plans to increase production. Adding to the uncertainty, in November, Zimbabwe's President Robert Mugabe threatened to either halt exports of concentrate to South Africa or to introduce a 15% levy unless three of the country's platinum producers build a refinery costing US\$3billion by 2015. The platinum producers claim that Zimbabwe doesn't produce the 100 megawatts of power the refinery would need.

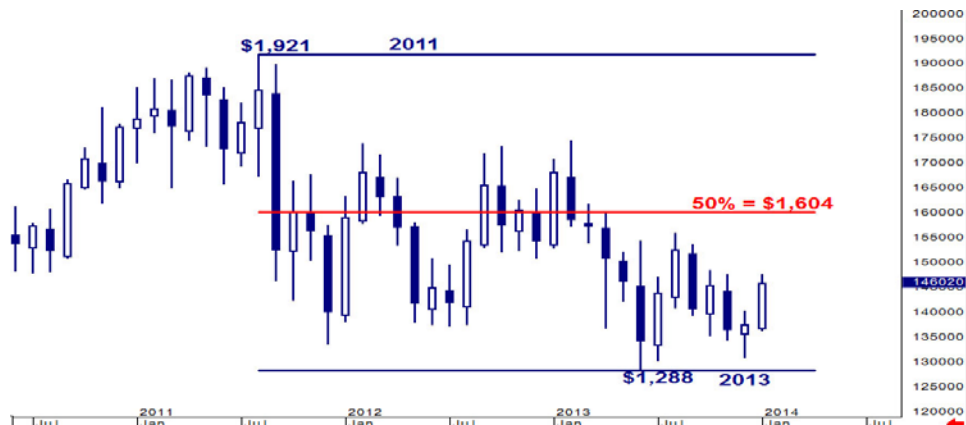
All these factors lead to the conclusion that South African production in 2014 is going to stagnate or decrease further.

Tonnes	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Supply	155.8	159.1	164.7	157.7	140.4	144.2	144.2	151.2	127.2	128.1
Share of world supply	77%	77%	77%	77%	76%	76%	76%	75%	73%	72%

South African platinum production Source: Johnson Matthey

Targets for an improvement in Q1 2014

The outright price of platinum would target an increase to the highs of last August at US\$1,561 which would also break the 60 week moving average to further confirm that a sustained bullish trend is underway in sentiment. This should then mean US\$1604.25 is achievable since it would target a recovery of half of all the last bear market since the 2011 high at US\$1,921, an important profit target for positive investor sentiment.



Monthly platinum recovering 50% of the losses since 2011

Continued increase over gold price in Q1 2014

Compared to gold, the potential is for the price of platinum to continue to outperform and so the differential can widen further in platinum's favour. World economic growth without inflation will be a negative for gold but a positive for platinum. From the peak in 2010, the differential between the two metals collapsed from platinum being US\$567 more than gold to being worth less, reaching a negative difference of US\$217. By January 2014, 50% of that loss has already been recovered and the potential over Q1 is for this improvement to continue to reach a 62% recovery. This should take the spread from its current level of US\$215 to at least US\$268.



Premium for platinum price over gold to widen & recover to 62% of historic level

Max Knudsen is Head of Research at ADS Securities.

mkk.mkt@ads-securities.com

<http://research.ads-securities.com>



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