OUTLOOK

- **A reduction of production capacity at Amplats will limit the potential for recovery in South African pgm supplies in 2014, but recycling will rise.**
- **Sales of pgm to auto makers should increase, lifted by rising output of gasoline cars in China and tighter diesel emissions limits in Europe.**
- **There is potential for growth in platinum jewellery demand in both China and India, but the outlook for palladium use in jewellery is weak.**
- **Sales of platinum via ETFs may retreat from 2013's record level, but a rand-denominated palladium fund could generate significant offtake.**

PLATINUM

Primary platinum supplies are unlikely to grow significantly in 2014. Industrial offtake will remain strong, while sales to auto makers should be boosted by new diesel emissions limits in Europe, and the outlook for jewellery demand is robust. Even with a further rise in recoveries of platinum from spent autocatalysts, and a drop in investment offtake compared to 2013's exceptional total, a third consecutive year of deficit is likely.

In the last few years, productive capacity in the South African platinum industry has been seriously eroded by mine closures, declining labour efficiencies, falling ore grades, and a failure to ensure the timely commissioning of replacement projects. Next year will see the full impact of a fresh round of shaft closures, this time at Amplats' Rustenburg mines, cutting capacity by 250,000 oz of platinum annually. Thus, even in the absence of further disruption due to industrial action, an early return to growth in platinum output is unlikely.

With both Impala and Lonmin commissioning and ramping up overdue replacement projects at their primary mining sites, and contributions from a handful of new projects such as Booysendal (Northam), Styldrift (Royal Bafokeng Platinum) and Eland Platinum (Glencore Xstrata), there is some prospect of a modest rebound in platinum supply in the 2-4 year time frame. This recovery will be fragile and could be at risk if pgm prices come under renewed pressure.

Elsewhere, only Zimbabwe is likely to produce more platinum in 2014, with the ramp up at Zimplats' Phase 2 expansion ensuring further growth in shipments. This may be the last increase for the time being: given on-going uncertainty over indigenisation and security of tenure, miners may prove reluctant to commit to further investment.

In contrast to the weak outlook for supplies, the prospects for demand are positive, with global industrial production expected to rise strongly in 2014 as the Eurozone begins to emerge from recession and the Chinese, Japanese and US economies enjoy continued growth. However, in the USA, a gradual reduction in quantitative easing and political gridlock represent downside risks.

A tentative Eurozone recovery should be positive for autocatalyst demand: in 2014, new vehicle registrations in Europe are forecast to rise for the first time in three years. Growth is expected in most of the continent's major diesel car markets, with the notable exception of Spain and Italy. However, of greater significance to demand will be the enforcement of tighter diesel emissions limits in some regions.

The roll-out of Euro 6 emissions limits for passenger cars will begin in September 2014, requiring the addition of NOx aftertreatment on new models. Most smaller cars will use a platinum-containing NOx trap to meet the new regulations, but many larger vehicles will use non-pgm selective catalytic reduction (SCR) technology in addition to a pgm-containing oxidation catalyst.

With Euro VI emissions limits fully applied to European heavy duty vehicles from January 2014, demand from this sector is certain to increase strongly next year. However, the magnitude of the rise will depend on the extent to which this year's additional buying of Euro V-compliant trucks has cannibalised 2014 sales.

We also anticipate an improvement in demand from the Chinese light duty diesel sector in 2014, with China 4 emissions standards being introduced across the country. Use of platinum on diesel catalysts could quadruple from current low levels if the legislation is rolled out as planned. However, implementation has already been postponed once and a further delay cannot be ruled out.

The immediate outlook for platinum usage in the gasoline sector is negative. In Japan, the only region where platinum is still widely employed in TWCs, light duty output is forecast to contract next year. However, beyond 2014, there is potential for growth in global platinum offtake on lean burn gasoline engines, which will employ NOx traps.

Sales of platinum to the jewellery trade could reach new heights in 2014. The conditions are in place for further growth in the Chinese market: manufacturing and retail margins on platinum jewellery remain high compared with other metals, disposable incomes are increasing, and the process of urbanisation continues. There is also potential for more demand from India in 2014, although recent changes in precious metal import regulations have been disruptive to the jewellery trade and could act as a temporary brake on growth.

Capacity additions in China and other Asian countries will remain the key driver of industrial demand for platinum: we expect further investment in new chemical and glass-making facilities by producers seeking to locate capacity closer to their end markets. Electrical demand is forecast to continue its recovery, supported by strong demand for "enterprise" hard drives used to store commercial data.

Next year, investment will be less critical in determining the overall market balance: combined demand from the autocatalyst, jewellery and industrial sectors alone should be sufficient to absorb primary and secondary supplies of platinum for the first time since 2005. In the absence of large price movements, it is likely that investors will continue to accumulate metal, although at a slower rate than this year.

In 2014, the platinum market is expected to be in significant deficit for a third consecutive year. However, this may not be sufficient to support higher platinum prices as long as the market remains adequately supplied from above-ground stocks. The risk of disruption in South Africa remains high, but investor fatigue appears to have set in, and sporadic strikes in 2013 have had increasingly little influence on the price.

PALLADIUM

Recent trends in palladium supply and demand look set to continue into 2014. Primary supply will fall in the absence of Russian stock sales, but this will be offset by additional recycling. Higher auto demand will be balanced by lower jewellery purchases and further substitution in industrial applications. This leaves investment as the wild card in the overall supply-demand picture: a proposed rand-denominated palladium ETF could generate additional demand from South African investors and push the market further into deficit.

In 2014, primary palladium supplies are likely to fall for the third year running. South African production is expected to be flat; in Russia, output of palladium has been drifting lower over the past several years, due to declining grades at Norilsk Nickel, and we expect this trend to continue. It is not possible to rule out further small sales of palladium from Russian government-controlled inventories, but we do not believe that any further shipments are planned at present. With stocks now minimal this source of metal will no longer play any significant role in determining the overall market balance.

Excluding investment, gross demand should be little changed next year. The economic outlook is broadly favourable, with forecasters anticipating a tentative recovery in Europe and continued growth in China and the USA. This will be positive for global vehicle output. However, there is little prospect of a revival in palladium usage in the electronics, dental or jewellery sectors.

Gross demand for palladium in autocatalysts is expected to top 7 million ounces next year, mainly due to growth in the Chinese market, where another year of double digit growth in car sales should translate directly into higher palladium demand. China will consolidate its position as the second largest automotive consumer of palladium, ahead of Europe, where demand is expected to be flat, and just behind North America, where higher vehicle output will be offset by a continued trend towards smaller engine sizes.

In the diesel sector, the use of palladium on heavy duty trucks is guaranteed to see growth, albeit from a low base, as Euro VI emissions limits become compulsory from January 2014. However, the roll out of Euro 6 regulations for passenger cars, starting in September 2014, will favour increased use of platinum, halting or even reversing the growth in palladium loadings on light duty diesel catalysts in Europe.

Industrial offtake of palladium is likely to weaken again. There is limited potential for further substitution in MLCC, because the use of palladium has retreated to a core of speciality applications, but 2014 may see a reduction in sales of palladium catalysts to the chemical sector, as a wave of investment in new PTA plants comes to an end.

The downward trend in the Chinese palladium jewellery sector is expected to continue. After allowing for recycling, net jewellery offtake in China is likely to be close to zero, and could even move into negative territory.

The biggest uncertainty facing the palladium market next year is the extent to which Absa's proposed palladium ETF will generate new investment demand. The company's platinum ETF has been a huge success, but it remains to be seen whether a palladium product will enjoy the same degree of interest from South African investors. On the one hand, South Africa is primarily a platinum producer, accounting for over 70% of world platinum output but only 37% of palladium production. However, local institutional investors are keenly aware of the fundamental deficit in the palladium market, and this may encourage significant uptake of a palladium ETF.