



Johnson Matthey
Precious Metals Management

News Release

PGM MARKET REPORT NOVEMBER 2015

**PLATINUM DEMAND IN 2015 IS FORECAST TO EXCEED PRIMARY AND SECONDARY SUPPLIES BY 652,000 OZ.
STRONG AUTO, INDUSTRIAL AND INVESTMENT DEMAND TO OUTWEIGH WEAKNESS IN CHINESE JEWELLERY.
THE PLATINUM MARKET IS EXPECTED TO REMAIN IN DEFICIT INTO 2016.**

Price weakness and poor market sentiment have overshadowed the platinum market in 2015, but underlying demand trends have been positive. Strong automotive, industrial and investment demand will outweigh a drop in purchasing by Chinese jewellers, lifting gross demand by 100,000 oz to 8.3 million oz. A recovery in platinum supplies from South Africa will be partly offset by a drop in autocatalyst recycling, leaving the market in a fundamental deficit of 652,000 oz.

Platinum supplies from South Africa will rise by over 20% to 4.3 million oz, a four year high. Despite expectations of disruption due to electricity shortages, and some losses due to safety stoppages, community unrest and industrial action, interruptions to production have been less significant than in recent years.

However the business environment for pgm producers remains very difficult. In rand terms, platinum's price fell by 8% between January and October 2015 (versus a fall of over 20% in the dollar-denominated price). The result has been a series of mine sales, rationalisation and reductions to capital spending.

In the autocatalyst recycling sector, 2015 has witnessed a significant slowdown in the volume of catalytic converters being collected, processed and refined. Low steel and pgm prices have reduced the incentive for owners to recycle older vehicles, and have also stimulated some hoarding by scrap collectors. Low platinum prices have also hit jewellery recycling, and total secondary supplies in 2015 will fall 13% to 1.81 million oz.

Automotive demand for platinum will total 3.47 million oz this year, a 6% gain. Since September 2015, Euro 6b emissions limits have been enforced on all new passenger cars registered in Europe. As a result, overall platinum loadings will increase. This gain will be magnified by moderate growth in European diesel car output.

In contrast, jewellery demand will fall by 9% to 2.65 million oz. There has been a sharp decline in sales to jewellery markets in China, where the pace of retail expansion has slowed, and the rate of store closures has increased, reducing the need for retailers to purchase new stock. A long period of low prices has rendered platinum less attractive to Chinese consumers, who like to see the value of their purchases appreciate over time.

However, Indian platinum jewellery demand will expand by nearly a third in 2015 following successful industry marketing campaigns to promote the purchase of platinum jewellery sets as a wedding gift. The aim is to create a new bridal segment for platinum jewellery, rather than positioning platinum as a direct competitor with gold in the traditional wedding jewellery market.

Investment demand is expected to rise by a third to 367,000 oz in 2015, due to strong buying in Japan. Since July, falls in the yen platinum price have prompted a surge of interest in platinum bars. In contrast, we expect global investment in ETFs to be neutral in 2015.

The platinum market will remain in significant fundamental deficit this year, despite the recovery in primary supplies. While investment flows remain an important factor in determining platinum's supply-demand balance, it is worth noting that in the last two years, the market would have been in deficit even if investment demand had been zero.

GROSS PALLADIUM DEMAND WILL FALL, DUE TO DRAMATIC SWINGS IN INVESTMENT OFFTAKE

THE MARKET WILL REMAIN IN A FUNDAMENTAL DEFICIT OF 427,000 OZ

Palladium demand is set to fall sharply, as investment swings from strongly positive last year to significantly negative in 2015. This will greatly outweigh modest growth in auto and industrial consumption. On the supply side, a recovery in South African output will be offset by a fall in the recovery of palladium from autocatalyst scrap, leaving combined primary and secondary supplies up only 1%. The gap between supply and demand will narrow, but the market will remain in an overall deficit of 427,000 oz.

Primary supplies of palladium are forecast to rise 6% to 6.45 million oz in 2015. Sales of palladium by South African miners will rebound strongly, reaching a four year high, but Russian shipments are expected to fall slightly, with no further sales of government stocks.

Global recovery of palladium from scrapped catalytic converters will fall by 10% this year, due to hoarding by scrap collectors, combined with a decline in the number of vehicles being retired in the USA and Europe. Jewellery recycling will also contract, as returns of old jewellery by Chinese consumers dry up. Overall, secondary supplies of palladium will fall by 9% to 2.52 million oz.

Total gross demand for palladium will register a decline of nearly 1.3 million oz, to 9.39 million oz, all of which is explained by changes in ETF purchasing. Between January and late October, ETF investors in the USA, Europe and South Africa sold over 420,000 oz of palladium holdings, with selling intensifying in the September-October period. Much of this disinvestment relates to perceptions of poorer prospects for palladium demand in China, in line with slower economic growth and weaker vehicle production.

While investment remains the 'swing' factor in the palladium market, the automotive sector continues to dominate consumption: sales to automakers are forecast to set a new record of 7.5 million oz in 2015. However, the rate of growth in palladium auto demand has slackened this year, due to a slowdown in the Chinese light duty market, and some switching from palladium back to platinum on diesel catalysts.

Palladium consumption in industrial applications will rise slightly this year, but with strong sales of palladium catalysts to the chemicals industry offsetting gradual erosion of demand in the electronics and dental sectors. However, jewellery demand is forecast to fall by a further 12%, due to the collapse in the palladium jewellery market in China.

Despite lower jewellery demand and liquidation in the investment sector, the palladium market remains in fundamental deficit. This year, palladium usage in the 'consuming applications' – automotive, industrial and jewellery – will exceed supplies by more than 800,000 oz. However, negative investment demand will reduce our headline deficit figure to 427,000 oz.

The full text of the November 2015 PGM Market Report will be available from 18th November 2015 at www.platinum.matthey.com.

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The PGM Market Report is Johnson Matthey's free survey of the platinum group metals market. Johnson Matthey is the world's leading authority on production, supply and use of the platinum group metals.

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