

Carmakers' \$7 Billion Platinum Bill Shrinking Glut: Commodities
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By Nicholas Larkin and Glenys Sim

Dec. 6 (Bloomberg) -- Carmakers will use a record \$7 billion of platinum in catalytic converters next year, diminishing a glut just as mine production declines for the first time since 2008.

About 3.82 million ounces will go into auto catalysts, 17 percent more than this year and the most since 2007, Morgan Stanley estimates. Supply will exceed demand by 81,000 ounces, down from 295,000 ounces, as output contracts 1 percent, according to Barclays Capital. Prices that fell 14 percent this year will average \$1,845 an ounce in the fourth quarter of 2012, 22 percent more than now, the median of 12 analyst estimates compiled by Bloomberg shows.

While there is mounting concern about global economic growth, automakers will sell a record 79.5 million cars and light commercial vehicles in 2012, according to LMC Automotive Ltd., a research company in Oxford, England. The 6.5 percent increase will be led by gains in developing economies. Demand for platinum is also coming from investors, and holdings in exchange-traded products are within 13 percent of a record, data compiled by Bloomberg show.

"The price is very low and very near production costs," said Thorsten Proettel, the analyst at Landesbank Baden-Wuerttemberg in Stuttgart, Germany, who was the most accurate price forecaster tracked by Bloomberg over the past two years.

"We won't have a global recession next year. Emerging markets will still prosper."

Declining Supply

Platinum fell this year to \$1,516.75 an ounce at 11:30 a.m. in London today, declining in the first three quarters. The last time that happened, in 2001, prices rallied more than 10 percent in the final three months. The Standard & Poor's GSCI gauge of 24 commodities advanced 3.8 percent, led by gasoil, gold and cattle. The MSCI All-Country World Index of equities dropped 8.1 percent this year, while Treasuries returned 8.9 percent, a Bank of America Corp. index shows.

Supply will decline next year in both South Africa and Russia, which together account for 88 percent of the global total, Barclays estimates. Mining expenses rose 30 percent last year in South Africa and 13 percent in Russia, according to UBS AG. Anglo American Platinum Ltd., the world's biggest producer, said in July it expected costs to reach 12,600 rand (\$1,561) an ounce this year, 7.4 percent more than in 2010.

Digging Deeper

Mining companies are paying more for wages and energy, at a time when they are digging ever deeper to maintain production.

With shafts extending down as much as 1.4 miles, temperatures at the rock face of Northam Platinum Ltd.'s Zondereinde mine in South Africa can reach as high as 162 degrees Fahrenheit. It uses as many as seven refrigeration units to pump chilled air into the mine, according to data on the company's website.

The decline in production will be partly covered by a 0.3 percent increase in recycled metal, leaving supply 0.7 percent lower than this year, Barclays predicts. Demand will expand 1.9 percent, the bank estimates. Platinum is also used by the glass, chemicals and electronics industries.

Anglo American Platinum, based in Johannesburg, will report a 44 percent gain in net income in 2012, according to analyst estimates compiled by Bloomberg. Impala Platinum Holdings Ltd., the second-biggest producer, will earn 28 percent more in its next fiscal year, the estimates show.

The projected jump in demand may be curbed by slowing growth. While the International Monetary Fund expects the global economy to expand 4 percent next year, unchanged from 2011, it forecast a slowdown in Europe and China. Europe will account for 29 percent of consumption this year and China 26 percent, according to Johnson Matthey Plc, which makes one in three of the world's auto catalysts.

Lonmin's Outlook

Prices will probably be little changed in the next 12 months before rebounding "quite sharply" as early as the end of 2012, Lonmin Plc Chief Executive Officer Ian Farmer said in an interview Nov. 14. The London-based company is the world's third-biggest producer.

Platinum demand fell 15 percent in 2009, the most in almost three decades, as the global economy contracted 0.7 percent and use by automakers declined 40 percent, London-based Johnson Matthey estimates.

Cars use the metal in canisters, which have honeycomb-like surfaces that convert emissions into less harmful substances.

The devices contain about 4 grams (0.13 troy ounces) of platinum, palladium or rhodium, according to the company. At Morgan Stanley's anticipated average price of \$1,829 an ounce next year, auto catalysts will use metal valued at \$6.99 billion.

Vehicle Sales

Global sales of light vehicles fell about 3 percent in 2009, led by Europe and North America, according to LMC Automotive. China, now the world's largest car market, avoided the slump, with sales increasing 48 percent. General Motors Co., the biggest overseas automaker in the country, anticipates a 10 percent gain in nationwide sales next year, Kevin Wale, president of its China unit, said in an interview last month.

Four of the six largest automakers in the U.S. beat analysts' expectations in November, boosting industry sales to a 13.6 million seasonally adjusted annualized rate, the most in more than two years, Woodcliff Lake, New Jersey-based Autodata Corp. reported Dec. 1.

Palladium, extracted with platinum and also used in catalytic converters, jumped 13 percent last week, the most among 80 commodity contracts tracked by Bloomberg.

Investors held 40.33 metric tons of platinum in exchange-traded products yesterday, about 7 percent more than at the start of the year, data compiled by Bloomberg show. That's a bigger increase than in similar investment products backed by silver or palladium.

Gold's Premium

Gold cost 13.4 percent more than platinum today. That's the most since 1987, based on closing prices, and compares with an average discount of 28 percent over the past five years, data compiled by Bloomberg show. When the price of the two metals converged in 2008, platinum more than doubled in the following 16 months, outpacing gold's 38 percent advance.

Even after this year's decline, platinum is on track for a record annual average, boosting mining profits. Anglo American Platinum will report net income of 9.3 billion rand in 2012, compared with 6.45 billion rand this year, the mean of four analyst estimates show. Shares of the company declined 20 percent this year.

Impala, based in Johannesburg, will make 8.79 billion rand in the 12 months ending in June 2013, compared with 6.86 billion this fiscal year, according to the mean of five estimates. The shares dropped 25 percent in 2011.

"Platinum's supply outlook remains constrained," said Anne-Laure Tremblay, the analyst at BNP Paribas SA in London rated as the second-best precious-metals price forecaster tracked by Bloomberg over the past eight quarters. "Auto catalyst and industrial demand could rebound in the second half of 2012, when we expect economic growth to recover."

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