



Why You Should Buy Platinum Now

Description

Firmer precious metal prices and an increasingly positive outlook now make investing in precious metals such as gold and silver more attractive. However, there are a range of factors that make platinum even more attractive than those traditional choices.

There is a range of unique industry-specific factors at play, coupled with an almost guaranteed industrial demand that will drive platinum prices higher, increasing the potential returns available to investors.

Platinum demand continues to grow with a solid long-term outlook

Demand for platinum in 2013 grew 5% compared to 2012, and has grown strongly, with a compound annual growth rate of almost 3% over the last 10 years. Steadily increasing demand for platinum can only continue, as it has a wide range of industrial uses, particularly as a key component in the manufacture of catalytic converters, which accounts for 40% of its use.

Stronger-than-expected U.S. economic growth and the recent implementation of economic stimulus packages in China and Western Europe will cause the demand for new cars to soar, thereby increasing the demand for platinum. Even more telling is that as emerging economies like China and those across Latin America continue to grow, the demand for new cars will surge, creating a growing long-term demand for the precious metal.

Jewelry and other industrial uses make up 32% and 16% of platinum demand respectively. China accounts for 23% of world platinum jewelry demand. As China's economy continues to grow and its population becomes more affluent, this demand will continue growing.

Global platinum supplies are declining

Mining strikes and ongoing turmoil in South Africa, the world's largest producer of platinum, continue to hamper supply. This is creating short-term shortages, which can only drive the price higher. It has been estimated that this industrial turmoil has seen production losses of over 340,000 ounces of platinum and this will only grow as the turmoil continues.

Furthermore, the global supply of platinum between 2004 and 2013 fell 12%. This was partly due to the turmoil in South Africa but also because platinum miners wound down a range of projects due to softer platinum prices.

This declining supply is working to push prices higher, with platinum now up by 8% over the last year to \$1,509 per ounce. With platinum supply set to decline and demand growing strongly across both industrial and non-industrial uses, its price can only continue to grow. The key question now is what the best way is for investors to cash in on higher platinum prices.

What are the best ways for investors to make a bet on firmer platinum prices?

One way for investors to gain exposure to platinum is through **ETFS Physical Platinum Shares** ([NYSEMKT: PPLT](#)), the largest, most liquid exchange-traded fund. This also creates opportunities for investors among platinum miners, particularly with Canada having the world's fourth-largest platinum reserves and a far more stable and lower-risk operating environment than South Africa.

However, the key problem with investing in Canadian platinum miners is that there are very few pure plays, with the majority being gold, silver, and base metal miners and with platinum only making up a small amount of their overall production. Those that are pure play platinum miners tend to be smaller explorers and producers, with the majority of their projects in the assessment and start-up phases.

Canada's largest listed pure platinum miner is **Platinum Group Metals** ([TSX: PTM](#))(NYSE: PLG). However, the majority of the company's platinum exploration assets are located in the Bushveld Igneous Complex of South Africa, exposing it to the same unrest that is curtailing platinum production there.

One standout is **Wellgreen Platinum** (TSX: WG), which is in the process of assessing and developing one of the largest underground platinum deposits outside of Russia and South Africa in the Yukon Territory. Investors should be wary, though — this is a micro-cap stock, and the company has a history of making somewhat misleading disclosures. There is also a considerable amount of work to be completed and capital investment required before mining can commence, making this a high-risk bet for investors.

Canadian-listed base metals miner **First Quantum Minerals** ([TSX: FM](#)) is another choice, mining around 26,000 ounces of platinum annually from its Kevista mine in the stable jurisdiction of Finland. Any investment in First Quantum also gives broad-based exposure to a range of base metal prices, including copper, zinc, and nickel, as well as gold and palladium.

Investors can also consider precious metals streaming company **Franco-Nevada** ([TSX: FNV](#))(NYSE: FNV), which derived 12% of its first quarter of 2014 revenue from platinum streaming contracts. It also comes with the advantage of having a lower-cost structure than miners, as it is not obligated to make significant capital investments in order to sustain ore reserves and production. This means it can

generate significantly higher margins.

Platinum is shaping up as a solid investment for investors seeking to make a bet on a broad-based recovery in precious metal prices, while seeking precious metal exposure that provides greater exposure to the global economic recovery. Clearly, with it being a core component in the manufacture of catalytic converters — which is the single largest market for platinum — it is not constrained by the usual factors like investment demand, which drives gold prices. Despite this, given the limited investment options among miners, this is one bet where the best option is the ETF.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:FNV (Franco-Nevada)
2. NYSEMKT:PPLT (Aberdeen Standard Platinum ETF Trust - Aberdeen Standard Physical Platinum Shares ETF)
3. TSX:FM (First Quantum Minerals Ltd.)
4. TSX:FNV (Franco-Nevada)
5. TSX:PTM (Platinum Group Metals Ltd.)

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