



Is Unloved Platinum the Top Precious Metals Play of 2019?

Description

While gold's latest rally has helped to buoy most precious metals, some have not performed as well as others. The yellow metal has gained almost 5% over the last six months, yet other precious metals — notably, platinum — have failed to keep pace. The lustrous white metal renowned for its resistance to the corrosive effects of chemicals has lost over 4% for the same period.

In fact, the precious metal, which is widely used in autocatalysts for diesel engines and the manufacture of jewelry, tumbled sharply over the last year to be down by 21%, leaving it attractively valued when compared to gold and palladium. It this in combination with improving fundamentals that make it an attractive play for investors seeking to profit from firmer precious metals during 2019. One Canadian [miner](#) that provides levered exposure to platinum is **Ivanhoe Mines** ([TSX:IVN](#)).

Improving outlook

Platinum is shaping up as a contrarian play which offers considerable upside for a range of reasons. Key among them is that platinum is relatively unloved compared to gold and palladium, which have soared in recent months, leading to speculation that both metals have entered a [bull market](#). There are signs that platinum could surge over the course of 2019 because it is heavily undervalued relative to gold and palladium, particularly with it trading at close to its lowest price since 2004.

Deteriorating demand and excess supply pushed platinum lower, despite the renewed interest in precious metals, which lifted gold to see it trade at a record premium over platinum earlier this month. There are signs that this downward trend could soon be arrested, not only because of platinum's increasingly attractive value relative to other precious metals, but also because its underlying fundamentals are improving.

Some analysts believe that because platinum is trading at lows not witnessed for over a decade, it will garner considerable interest from investors. Because the market for the metal is so small, even a slight increase in the uptake of the metal by investors and precious metal exchange-traded funds could significantly boost prices.

The World Platinum Investment Council anticipates that the global platinum supply overhang will ease during 2019, reducing its impact on prices, while demand should expand by around 2%, driven primarily by increased industrial consumption. These events will support firmer platinum prices.

There is also increasing speculation that the manufacturers of gasoline-powered vehicles will seek to substitute platinum for palladium in the fabrication of autocatalysts as they push to reduce costs. Palladium is the preferred metal for use in autocatalysts for gasoline-fueled vehicles because of its resistance to higher temperatures, but platinum can be utilized just as effectively.

Given that palladium is trading at close to record highs and at a US\$589-an-ounce premium to platinum, there is a considerable incentive for auto manufacturers to use it as a substitute. According to the World Platinum Investment Council, there is an established trend of platinum being substituted for palladium in gasoline-powered vehicles in the past when palladium prices have peaked. If this occurred, it would boost consumption, which would significantly close the gap between demand and supply, further bolstering platinum prices.

What does it mean for investors?

Among the best ways for investors to gain levered exposure to platinum is by investing in Ivanhoe Mines, which is developing the world-leading Platreef platinum group metals project in South Africa.

The mine has been assessed to have reserves of almost eight million ounces of platinum along with another eight million of palladium and over one million gold ounces. It is expected that upon commencing commercial operations, Platreef will produce 476,000 combined ounces of platinum, gold, palladium, and rhodium annually, while being one of the lowest-cost producing mines globally. Platreef's cash costs have been forecast to be an impressively low US\$351 per ounce produced, underscoring the mine's considerable profitability in an operating environment where platinum is trading at around US\$800 per ounce and palladium is at US\$1,388 an ounce.

Even if platinum firms marginally, it should give Ivanhoe's stock a solid lift, because of the miner's levered exposure to the precious metal.

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Date

2025/07/01

Date Created

2019/01/21

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