



Is it Time to Invest in Palladium?

Description

Rare precious metal palladium has shot out the lights this year, continuing to climb to record highs ever since rallying substantially in mid-2018. This has been a confusing event for some pundits, because the metal has traditionally performed poorly, trailing behind other precious metals, including [platinum](#) and gold. Palladium has performed so strongly that the amount of the white metal required to buy an ounce of gold has gone from 1.7 ounces to now be less than half of that amount at 0.82 ounces.

This makes palladium the most valuable of the precious metals and sparked claims that it is overbought and has entered a bubble that could burst at any moment. While there may be some truth to the last statement, there are signs that palladium has further to run, mostly because it is one of the most widely used precious metals in industrial applications.

The strong run-up in palladium prices has been a [boon](#) for **North American Palladium** (TSX:PDL), which has gained a whopping 85% since the start of 2019, despite palladium only gaining around 26%. This has been a startling return for a miner, which, only around five years ago, was on the verge of collapse.

Supply remains tight

The primary driver of the sharp rally in palladium has been an uptick in demand at time when supplies are growing increasingly constrained. While palladium appears overbought, it is likely to hit further record highs in coming months because there are no signs of the supply scenario easing. Palladium has been in an ever-growing deficit since 2012, and it is expected to get worse.

You see, a key problem is, the precious metal is a by-product of mining other metals — notably, platinum and nickel. That means production typically lags any gains in its price. Sharply weaker platinum, which has lost 10% over the last year, and nickel have reduced the incentive for miners to grow production of either metal, thereby impacting the amount of palladium mined.

That is being exacerbated by concerns that Russia, which is the world's leading producer of palladium, will move to restrict scrap and tailing exports of the metal as it moves to shore up its own supply. U.S.

sanctions against Russia, including Trump's recent decision to extend and expand existing punitive measures, is further aggravating those fears over supply.

It also needs to be considered that demand for palladium, which is a key catalyst used in the fabrication of catalytic converters for gasoline-powered vehicles, remains strong. This is because China, the world's largest auto market and manufacturer, remains focused on improving air quality and substantially reducing pollution. That has seen vehicle manufacturers consume more of the metal as they step up the quality of their pollution control devices, thereby causing demand to rise. The shift to gasoline-powered vehicles in preference to diesel in the wake of the Volkswagen diesel emissions scandal, which began in 2015, is also driving the consumption of palladium higher.

The growing likelihood that a trade war between the U.S. and China has been averted is also a positive catalyst for palladium, because it eliminates a critical headwind for global economic growth. Any improvement in the world economy will drive greater demand for automobiles.

Why buy North American Palladium?

This all bodes well for North American Palladium, which has palladium reserves of three million ounces. A combination of record 2018 production, firmer palladium and lower all-in sustaining costs (AISCs) saw the miner report its best-ever financial results for the year. Palladium output shot up by 18% year over year to 237,461 ounces, while AISCs fell by almost 1% to US\$690 per ounce produced to see net income grow more than threefold to \$119 million.

The positive outlook for palladium will more than offset the slight decline and increased AISCs forecast for 2019. That means the miner should continue to report stronger earnings in 2019 and going into 2020 if palladium prices hold at current levels, which will drive its stock higher.

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