



1 Top Miner to Get Exposure to Record Palladium Prices

Description

I have [been bullish](#) on the outlook for palladium for some time, having initially outlined a bull thesis for the precious metal in January 2018. Since then, palladium has hit record high after record high, gaining 30% for the year to date to be trading at US\$1,641 per ounce.

Even the trade war between the world's two largest economies, the U.S. and China, has done little to tarnish its lustre.

This has seen palladium overtake platinum and to be more valuable than gold. This has been a boon for palladium miners such as **North American Palladium** (TSX:PDL), which has gained 66% since the start of 2019.

While this has led to claims by some pundits that the white metal is due for a pullback, with many claiming that it had peaked in 2017, there are signs that it will continue to rally for the foreseeable future.

Palladium will rally further

I expect palladium to reach [new highs](#) before the end of 2019, as a combination of firmer precious metals, supply shortages, and growing demand push its price higher. Palladium is a key material used in the fabrication of catalytic converters for gasoline power cars, with it estimated that around 80% of the metal consumed winds up in the exhaust systems of cars.

There are fears that the demand for automobiles is softening because of softer global growth and the impact of the trade war between China and the U.S. on China's economy. That certainly isn't good news for palladium, but declining demand for motor vehicles is being offset by ever higher emission standards, which are driving greater demand for auto-catalysts, thereby triggering greater consumption of palladium.

China, which is the world's largest automobile market, has recently introduced tougher emission standards, and these will drive greater demand for palladium because of its crucial role in auto-

catalysts.

A shift away from diesel power vehicles in the wake of the Volkswagen emissions scandal has also helped to drive greater demand for gasoline-powered vehicles, further supporting the demand for platinum.

Another important driver of palladium is that like other precious metals, such as silver and platinum, its value is correlated to gold. The latest gold rally triggered by heightened geopolitical risk in the Middle East, fears of a recession in Germany, and the U.S. China trade war has helped to lift palladium in recent months.

There are signs that gold will rally further because softer global growth and greater geopolitical instability will trigger a flight to safety among investors, seeing them boost their exposure to gold, which is regarded to be the ultimate safe-haven asset. That will bolster the value of other precious metals, including palladium.

Supply constraints for palladium abound and current global production is not meeting demand. There are concerns that Russia, the world's largest producer of palladium, may crimp output and exports of the metal in response to U.S. sanctions.

Meanwhile, the second-largest producer, South Africa, continues to experience labour disputes and political unrest, which could see mining operations shuttered, leading to reduced palladium production.

For these reasons, it is not difficult to see palladium continuing its upward trajectory and break through US\$1,700 per ounce before the end of 2019.

Foolish takeaway

This will boost North American Palladium's earnings and give its stock a healthy lift. Higher prices will also offset lower palladium production, which, for the second quarter 2019, fell by 2% year over year to 56,472 palladium ounces due to reduced mining and processing of ore.

Disappointingly, North American Palladium's all-in sustaining costs (AISCs) have risen sharply over recent quarters. For the second quarter, AISCs rose substantially to US\$834 per ounce of palladium produced, which was 27% greater than the equivalent period in 2018.

Those higher costs were not caused by operational failings but by North American Palladium embarking on a range of initiatives to improve its operations and increase efficiencies.

These include expanding its underground mining operations, conducting mill maintenance and improving infrastructure. This means that as those activities are completed costs will fall and North American Palladium's production will grow allowing it to take full advantage of firmer palladium prices, giving its earnings, and hence stock, a solid lift.

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