



Boost Exposure to Palladium and Beat the Market in 2020

Description

I have been [bullish on palladium](#) for some time, originally predicting that the lustrous white metal would soar in early 2018. Since that prediction, palladium has risen by a whopping 127%. During 2019, palladium outperformed gold and other precious metals, rallying by a whopping 53%, which was more than double the **S&P/TSX Composite Index's** 19% and the notable 30% gain by the S&P500.

In a recent surprising development, palladium gained more than 9% in a day to hit a record high of US\$2,528 per ounce. While that has triggered profit-taking, there are signs of more strong gains ahead.

Higher prices ahead

Key to palladium's tremendous rally has been a substantial surge in demand because of its importance in the fabrication of auto catalysts for gasoline-powered vehicles, and that's coupled with considerable emerging supply constraints. In fact, the white metal has outperformed many analyst forecasts and should continue to do so for the foreseeable future.

An improved global economic outlook coupled with increased manufacturing activity, notably in China, will drive greater consumption of palladium, as demand for motor vehicles rises.

The ongoing crackdown on emissions in many nations, notably China, is leading to ever-greater amounts of palladium being required to fabricate auto-catalysts to improve their effectiveness.

A sharp decline in the popularity of diesel-fueled automobiles, triggered by the Volkswagen emissions scandal, has created greater demand for gasoline-fuelled vehicles. That has sparked further consumption of palladium, because of its crucial role in the manufacture of catalytic converters for gasoline-fuelled vehicles.

There has been considerable speculation, since palladium's price rallied to record highs, that automakers will switch to cheaper platinum, which is trading at less than half of palladium's price and is used as an auto-catalyst in diesel powered motor vehicles.

It has been estimated that it would take considerable technological improvements and changes in the manufacturing process for platinum to be substituted, making it highly unlikely that such a switch would ever occur.

Supply constraints

Aside from growing demand, a key driver of palladium's massive rally has been a wide range of supply issues, including production disruptions. Furthermore, the white metal is usually a by-product of platinum and nickel mining, meaning that decisions to boost production typically lag price gains.

When coupled with significant production outages in South Africa, which is the world's second-largest palladium producer, has experienced significant industrial unrest and electricity shortages, which have weighed heavily on mining operations.

U.S. sanctions against Russia have also fanned fears over global palladium supply being further crimped, helping to push its price higher. Gold's latest rally, triggered by rising geopolitical and economic risk, has been a boon for all precious metals, giving silver, platinum and palladium a solid lift.

What has emerged is a structural market deficit that won't be addressed anytime soon, meaning that palladium has further to rally.

Profiting from higher palladium

One of the best ways to profit from [higher palladium](#) since North American Palladium was acquired by **Impala Platinum Holdings** is to buy **Ivanhoe Mines** ([TSX:IVN](#)).

Ivanhoe gained a stunning 72% over the last year, vastly outstripping the **S&P/TSX Composite Index's** modest 15%. There are signs that Ivanhoe will soar higher, partly because of the promising outlook for palladium, but also due to plans to accelerate the commencement of production at its flagship Platreef mine. The project, located in South Africa, has been determined to have precious metals reserves of 17.6 million ounces of platinum, palladium, rhodium, and gold.

On reaching commercial production, it is anticipated that Platreef will produce 476,000 ounces of platinum, palladium, rhodium, and gold annually, which, with a cash cost of US\$351 per ounce mined, makes it a highly profitable operation in the current operating environment. Those industry-low cash costs are also expected to make it Africa's lowest-cost producer of platinum group metals, including palladium and rhodium.

Foolish takeaway

A structural supply deficit means it is impossible for global palladium production to meet growing consumption for the foreseeable future, meaning its price will continue to climb higher. That will be boon for palladium miners, and notably Ivanhoe, which is developing the large low-cost Platreef mine, making it likely that the miner will deliver considerable value during 2020 and outperform the broader market yet again.

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