

# Session 4: Chinese Platinum Market

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Good afternoon ladies and gentlemen. It's a pleasure to be here in Edinburgh, and I would like to thank the LBMA for inviting me to speak on this fascinating subject of the Chinese platinum market. I could also say that this is a highly challenging subject and David will know exactly what I mean by that.

My presentation today is going to follow the outline you can see on this slide: Starting with a review of supply to the Chinese market, I'll then address demand under three different chapters, and then I'll make some concluding remarks.

So, starting with the supply side: essentially, there are three main forms of supply of metal into the Chinese platinum market. One is official mainland imports, which have become increasingly important in recent years. Secondly, imports via Hong Kong, some of which represent metal that is subsequently transhipped and also rather confusingly features in the official mainland statistics. But there is still quite a significant amount of metal that crosses the frontier with the mainland unofficially. Finally, we have jewellery scrap, which surged in 2008, but was much less of a story in 2009. These are the main sources of supply of platinum to the market; there is also a limited amount of local PGM mine production and scrap from other recycled sources.

Let's look at these three main areas of supply in a little bit more detail and look at the trends over recent years. Back at the beginning of this decade, supply to the market was dominated by imports through Hong Kong, the majority of which were being essentially shipped in to the mainland on an unofficial basis to supply the burgeoning demand for platinum jewellery,

which was taking place at that time in Shenzhen. Shenzhen, of course, continues to be the main centre for the manufacture of all precious metals jewellery in China, with the partial exception of silver.

What we've seen since trading started on the Shanghai Gold Exchange in 2003 is that Hong Kong imports have tended to trend down until recently. With that slack being taken up by official imports through the mainland, through the conduit mostly of the CPC. In the last couple of years, we have seen not just a continuation of very strong China mainland imports but also a pickup in Hong Kong imports. I think this has reflected partly the strength this year at least of jewellery demand, with a little bit more unofficial going in, but also the fact that we are seeing an increasingly large amount of official metal being transhipped via Hong Kong to the mainland and therefore essentially being double-counted. I think an important lesson when you're looking at the Chinese market, is that the trade data needs to be interpreted with great care and, indeed I would say, the trade data alone can give you a very misleading or exaggerated

picture of what's going on in China. It's really essential to get out there into the field as we do, and as Johnson Matthey does.

If you look at the third source of supply, scrap, it blipped up very interestingly in 2008. We had a great deal of recycling of platinum jewellery in the first half of that year, under those very high local platinum prices. That quantity has dropped back significantly in 2009, not surprisingly given the very different price environment.

Talking about prices, you can see here, the platinum prices in Renminbi per gramme, and the effect that's had on turnover on the Shanghai Gold Exchange. Turnover has picked up considerably since the platinum price started to drop in the third quarter of last year. We've seen generally rather a high rate of turnover this year to date. That has continued despite a reasonable recovery in local platinum prices. As Edel said a few moments ago, we had quite a low turnover number, I think 3.5 tonnes in October this year, which I will explain shortly may indicate that things are starting to calm down a bit at these prices in the Chinese market. Also, it is a reflection as we'll see of the very large amount of metal that has already gone into the country in calendar 2009.

Let's now look at Chinese platinum demand in a bit more detail. I've grouped this under three headings but I am going to concentrate mainly on the jewellery story. Let's start though by having a brief look at auto-catalyst demand. But before doing that I'd like to shoot off into a little bit of a side bar to look at just how important China has become for the precious metals industry on a comparative basis and to look particularly at how important it is for platinum and palladium relative to gold and silver. You can see here that for platinum this year, we think that China could be representing by the end of the year in excess of 25% of global platinum demand and that is considerably higher as you can see than the figures for gold and silver. Note too that

palladium also has a very significant role as far as China is concerned.

Returning to the auto-catalyst story, I think this is very much a function of two things, as we heard from David. It's a function firstly of the fact that we are seeing a very considerable lift in vehicle sales. I believe the September numbers in China were up by some 84% year on year, and we've had a stunning year in terms of vehicle sales in that country, which is very much being prompted by the very generous fiscal policy of the Chinese government, the fact that people are making money again in stock and property markets, and the fact too that we have a generous incentive scheme, which is cutting taxes on vehicles of 1.6 litres and under. That has led to China this year becoming the world's largest passenger vehicle market. We're going to see in excess of 12 million vehicles sold in China in 2009. That is clearly driving consumption of PGMs in auto-catalysts. Most of that growth is coming in palladium but a good chunk is also being reflected in platinum.

The next slide is slightly confusing. It's the value of auto-catalyst exports and imports, but with a large health warning attached to it because this customs code category, does include a few other things that tend to muddy the waters. I wanted to share it because I think it shows two interesting trends: that China is an important and growing importer of auto-catalysts, and also quite an important exporter it would appear as well. This is an area that we certainly intend to focus on a bit more in future.

Coming to Chinese platinum jewellery demand, this year, we think that the market in China will account for at least 60% of global demand for platinum in jewellery, with the vast majority (99%) being manufactured in China itself, mostly in Shenzhen. These figures that I'm showing here, I would suggest are arguably somewhat conservative. We made an extensive research trip, which ended just a

couple of weeks ago, to Shenzhen and Hong Kong, and having made that trip and reviewed what we found, my conclusion would be that these are probably rather conservative numbers for 2009. In other words, rather than the Chinese platinum jewellery market representing this year, shall we say, a little over 40 tonnes, we could see a market that is somewhat closer to 50 tonnes. That would represent the second-best performance ever that we've seen in terms of Chinese platinum jewellery sales.

Why is the market doing so well? Well clearly, price is an important factor. The platinum price has fallen very considerably in local currency terms. Indeed we've had prices down at one stage comfortably below 200 renminbi per gramme. They've climbed back up recently to nearer 300, or in fact a bit above 300 if we look at local prices.

When we look at price, we don't have to just think in terms of absolute price, which still is relatively low compared to where things got to during the peak last year, but also at the price relative to competing metals, because essentially in the Chinese market, we have at least a three-way competition between gold, platinum and palladium. In the case of gold as you can see, the price gap with platinum in the local Chinese market remains very narrow; it has grown a little bit but it still is historically rather low and favourable for platinum, so what we have tended to see at the manufacturing level and also at the retail sales level is some degree of defection away from white 18 carat gold towards platinum. Likewise, if we look at palladium, although here we have a price gap that is large and therefore very favourable for palladium, the challenge that palladium has been making in recent years in the Chinese market has lately tended to fade. It is tending to fade for all sorts of non-price reasons, which I don't really have time here to go into in any depth. If you like, we can perhaps pick up on them in the Q and A.

If we look at the inter-metal competition, platinum even at 300+ renminbi per gramme is looking reasonably solid. I would say, only "reasonably solid" because in recent weeks the demand for platinum has tended to soften somewhat since the major holiday in October. This relative weakness of demand is borne out by what we've seen in terms of lower Shanghai Gold Exchange turnover. I think this drop is partly related to price, the price has now reached a level that is starting to have an effect on demand. It's also related to the fact that stocks have been built up in a major fashion in the Chinese market. We've seen a growth in retail outlets stocking platinum jewellery and we've also seen more manufacturers get into manufacturing platinum jewellery, moving away in some cases from palladium or from 18 carat gold, and producing platinum or in some cases expanding their capacity for the manufacture of platinum jewellery, which has all led to a bigger, longer pipeline. That has tended to have its effect on the country's bullion import levels.

Just returning to why demand has been quite so good this year, I think we have to take into account the macro backdrop. We are here looking at a country where consumer spending is growing at about 15% per annum; it's being supported very much by government stimulus programmes and platinum is being very effectively marketed within the jewellery space, competing indeed also against other luxury goods. So platinum is performing, I think, extremely well under current circumstances.

One other thing I would mention, and I mentioned it just a moment ago in the context of cars sales, is that demand for platinum jewellery is also being buoyed by the fact that asset prices have been on the rise again in China and that's tending to support demand for luxury goods.

I won't spend any time on the other smaller sources of demand, except to mention that there clearly seems to be - and I'm talking here also about the side-effects of the

massive injection of liquidity into the Chinese economy and the very easy access that for example businessmen have to loans - some degree of hoarding taking place at the margin. We certainly have anecdotal evidence that in the platinum market, as we're seeing in palladium, as we're seeing in copper, there is some demand from speculators in the market who are sitting on physical metal. I think that is a story that will warrant further investigation over the next few months.

My conclusion is that, firstly, China is already the world's largest platinum market in terms of its demand or call on the international market. That call on the international market will only grow as its demand rises and that will necessarily mean that Chinese imports will have to increase. Imports will have to increase because domestic sources of platinum are extremely limited. We have very low mine production, we have some degree of jewellery recycling, but if prices remain under control, that scrap number will remain limited. We will see auto-catalyst recycling come into play, but that will be mainly in terms of palladium and there are several years to go before we see end-of-life vehicles with catalysis being scrapped.

China's dominance of global platinum jewellery demand, which this year will reach I think close to 2/3 of the world market, will only grow further. The Chinese market is by far the most interesting in terms of future prospects for platinum jewellery and I think there is still substantial demand that could emerge if local prices are more or less attractive.

I think, finally, that China will also, given current trends in terms of vehicle sales and given tighter legislation – we're going to have Euro 4 introduced nationwide next year, for example – eventually become the world's largest source of auto-catalyst demand. As you've seen, we already have the country becoming this year the world's largest light passenger vehicle market. And as both

emission control standards get ever tighter in that country, and vehicle sales continue to increase rapidly China will become the world's largest single market in terms of PGMs demand in auto-catalysts.

Thank you.