

Gold-Platinum Ratio Set to Decline

April 11, 2018



Randall Abramson, CFA
Portfolio Manager



Ronald Steinhoff, CFA
Portfolio Manager

The gold-platinum ratio hit a new 20-year high of 1.46x in the first week of April. The two precious metals have diverged dramatically since 2008 when platinum hit an all-time high of \$2,251/oz and the gold-platinum ratio bottomed at 0.4x. As seen in Chart 1, the gold-platinum ratio has been rising ever since.

While both metals have a similar crustal abundances of 4-5 parts per billion, end use cases and supply/demand dynamics are very different. Jewelry and investment demand (e.g., bars, coins, ETFs) represent over 82% of total gold demand. For platinum, over 60% of total demand comes from the auto, chemical, and petroleum industries.

Platinum's parabolic spike in 2008 was destined to unwind because it was based on unfounded South African supply disruption concerns. Indeed, 2009 global platinum supply exceeded demand. After reaching close to \$2,000/oz again in 2011, platinum stands at just over \$925/oz today. This descent has been rooted in

Chart 1. Gold-Platinum Ratio (April 9th 1998 to April 9th 2018)



Gold-Platinum Ratio Set to Decline

fundamentals. Over this period, total platinum demand has fallen from 8.1 Moz to 7.8 Moz, driven primarily by weak jewelry demand. Platinum ended in surplus for 2017 as demand fell 4.5% from 2016. Investment demand has fallen over concerns about future autocatalyst demand after the European diesel emissions scandal and the rise of hybrid and electric cars. Meanwhile, over the same period, gold, buffeted by central bank buying and steady jewelry demand, has meandered around \$1,300/oz.

We see the gold-platinum ratio retreating from current levels. 2018 will likely see another year of platinum surplus. However, through 2020, demand and supply will likely be more balanced. Now trading at less than the global all-in sustaining cost of \$950-\$1,000/oz, and well below the marginal cost of production, supply growth will be muted. Anglo American Platinum, the world's largest platinum producer with a \$955/oz all-in sustaining cost, recently commented that future production growth will be limited. Historically, commodities have typically traded at a minimum of 40% above their all-in costs.

On the demand side, continued global growth will drive industrial platinum demand (industrial demand has been growing at 2.8% over the last five years). Stricter automotive emissions standards, especially from China, should bolster automotive demand. If fuel cell investments continue on their current pace, any decline in diesel demand due to the European

emissions scandal will be offset. Fuel cells require approximately 1 oz of platinum to strip hydrogen of its electrons compared to less than 4 grams required per gasoline or diesel vehicle. Japan and China are making significant fuel cell investments for both transportation and power applications. Even after factoring in stagnant diesel demand, Anglo American Platinum expects annualized automotive sector demand growth of 2% through 2024.

Weak jewelry demand and subdued investor interest could keep platinum below its all-in sustaining cost over the short term. Historically, numerous commodities have experienced periods of time below all-in sustaining costs or marginal costs. Interest rates, inflation expectations, and other macro variables outside of supply/demand dynamics can also play a big role. However, we expect platinum to ascend from these depressed prices over the next few years just as oil rebounded from uneconomic levels over the last two years.

Gold-Platinum Ratio Set to Decline

DISCLAIMER

The Generation Global Private Trust is generally available to investors who can meet certain eligibility requirements under exemptions from the prospectus requirement in order to invest. Information pertaining to the Global Generation Value Private Trust is not to be construed as a public offering of securities in any jurisdiction of Canada. The offering of units in the fund is made pursuant to its offering memorandum only to those investors in certain jurisdictions of Canada who meet certain eligibility requirements.

Please read the offering memorandum carefully before investing. Investors should contact their investment dealer or Financial Advisor for more information regarding these exemptions and their requirements. The information contained herein is for informational and reference purposes only and shall not be construed to constitute any form of investment advice. Nothing contained herein shall constitute an offer, solicitation, recommendation or endorsement to buy or sell any security or other financial instrument. Investment accounts and funds managed by Trapeze Asset Management Inc. may or may not continue to hold any of the securities mentioned. Trapeze Asset Management Inc., its affiliates and/or their respective officers, directors, employees or shareholders may from time to time acquire, hold or sell securities mentioned. The information contained herein may change at any time and we have no obligation to update the information contained herein and may make investment decisions that are inconsistent with the views expressed in this presentation. It should not be assumed that any of the securities transactions or holdings mentioned were or will prove to be profitable, or that the investment decisions we make in the future will be profitable or will equal the investment performance of the securities mentioned. Past performance is no guarantee of future results and future returns are not guaranteed.

The information contained herein does not take into consideration the investment objectives, financial situation or specific needs of any particular person. Trapeze Asset Management Inc. has not taken any steps to ensure that any securities or investment strategies mentioned are suitable for any particular investor. The information contained herein must not be used, or relied upon, for the purposes of any investment decisions, in substitution for the exercise of independent judgment.

The information contained herein has been drawn from sources which we believe to be reliable; however, its accuracy or completeness is not guaranteed. We make no representation or warranties as to the accuracy, completeness or timeliness of the information, text, graphics or other items contained herein. We expressly disclaim all liability for errors or omissions in, or the misuse or misinterpretation of, any information contained herein.

All products and services provided by Trapeze Asset Management Inc. are subject to the respective agreements and applicable terms governing their use. The investment products and services referred to herein are only available to investors in certain jurisdictions where they may be legally offered and to certain investors who are qualified according to the laws of the applicable jurisdiction. Nothing herein shall constitute an offer or solicitation to anyone in any jurisdiction where such an offer or solicitation is not authorized or to any person to whom it is unlawful to make such a solicitation.