

Palladium Shortage Looms on Low Sales

By [The Moscow Times](#)

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Russia, the world's largest palladium producer, may sell the smallest amount of the metal from state stockpiles in at least eight years, creating shortages at a time of record demand from carmakers.

An 80 percent plunge in Russian inventory sales to 150,000 ounces will mean a deficit of 275,000 ounces in 2012, Barclays Capital estimates. Demand will exceed supply until at least 2015, Credit Suisse Group predicts. The price of palladium, used in autocatalysts, may climb as much as 27 percent to \$882.50 an ounce this year, the highest since February 2001, according to the median of 28 analyst estimates.

The metal already rallied 29 percent from a one-year low in October on signs that economies may skirt recession. Autocatalysts are fitted to 95 percent of new cars and PricewaterhouseCoopers estimates that global light-vehicle production will reach a record for a third consecutive year. Carmakers will use 6.22 million ounces in 2012, twice the amount a decade ago, as supply drops for the first time since 2009, Barclays estimates.

Buying Spree

"The supply-demand fundamentals are quite strong and that's very much driven by autocatalysts," said Bart Melek, the head of commodity strategy at TD Securities in Toronto and the most accurate price forecaster tracked by Bloomberg Rankings in the past eight quarters. "When we look at the Russian official stockpiles, they're depleting. Higher prices beget more investment interest and that takes supply off the line."

Investors now own 52.8876 tons, equal to about seven months of Russian mine production and valued at about \$1.2 billion at today's price of \$692.75 an ounce. Holdings fell for eight consecutive months through December.

Palladium extended its rebound this year, advancing 5.8 percent, compared with a 2.6 percent gain in the Standard & Poor's GSCI gauge of 24 commodities. Shares of Norilsk Nickel, the world's biggest palladium producer, rose 15 percent in Moscow trading this year.

Russian inventories, whose size is a state secret, were created during a glut in the 1970s and 1980s, according to the United Nations Conference on Trade and Development. Stockpile sales that averaged about 1 million ounces a year over the past decade will probably drop to 150,000 ounces this year and the next and then stop, Royal Bank of Scotland Group estimates.

Sales won't exceed 4.5 tons (144,680 ounces) this year or next and may end in 2014, Interfax reported in October, citing an unidentified Finance Ministry official linked to Gokhran, which manages the reserves. Stockpiles may be "virtually exhausted" already, Commerzbank said in a Jan. 16 report.

Supply from mines and Russian stockpiles will drop 7.9 percent to 6.83 million ounces this year, the steepest decline since 2008, Barclays estimates. Shortages would be even larger without a 10 percent gain in scrap metal, mostly from recycled autocatalysts, to 2.42 million ounces. Demand will rise 11 percent to 9.53 million ounces, the bank predicts.

Market Uncertainty

Consumption may not strengthen as much as anticipated should economies continue to slow. A widening debt crisis in the 17-nation euro region will mean a 0.4 percent contraction there this year, from a 1.5 percent expansion in 2011, according to the median of 29 economist estimates.

China, the world's biggest car market, reported fourth-quarter growth of 8.9 percent on Jan. 17, the slowest pace in 10 quarters. The nation's auto sales rose 2.5 percent last year and will probably gain 8 percent this year, compared with 32 percent in 2010, the Beijing-based China Association of Automobile Manufacturers said Jan. 12.

Rising prices may also curb consumer demand for jewelry, with manufacturers likely to use 475,000 ounces this year, a 13 percent drop from 2011, Barclays predicts. Higher costs should also encourage more recycling, with Morgan Stanley predicting 1.69 million ounces coming from old autocatalysts, a 12 percent increase on last year.

Hedge funds and other money managers are already becoming more bullish, raising their net-long position, or bets on rising U.S. futures prices, by 6.9 percent in the week, which ended Jan. 17, Commodity Futures Trading Commission data show. They now hold 3,651 contracts, still below the peak of 14,983 reached in July.

The revival in investors' appetite for the metal seen in ETPs in the past week should continue, Morgan Stanley estimates. Investment will expand by 160,000 ounces this year and 248,000 ounces in 2013, the bank said in a Jan. 17 report. That compares with a 215,000-ounce contraction last year as prices fell 18 percent, the most in three years.

Demand for autocatalysts should also strengthen as countries tighten laws on emissions. The canisters, which have honeycomb-like surfaces that convert emissions into less harmful substances, contain about 0.13 ounces of palladium, platinum or rhodium, according to London-based Johnson Matthey, which has made about one in three of them. They accounted for about 67 percent of palladium use in 2011.

Struggle to Keep Up

Mining companies are now struggling to expand output fast enough to compensate for the decline in sales from Russian reserves. They are digging deeper and finding ores containing less metal, contributing to an estimated 30 percent gain in South African mining costs in 2010 and 13 percent in Russia, UBS estimates. South African production will decline for a second consecutive year as Russian output remains little changed from where it was four years ago, Barclays estimates.

Norilsk Nickel will report a 3.4 percent drop in net income to \$4.61 billion this year, according to the mean of 10 analyst estimates compiled by Bloomberg. Norilsk shares may advance 11 percent to 6,312.65 rubles in 12 months, according to the average of 12 estimates.

Anglo American Platinum, the world's second-largest supplier, rose 2.1 percent to 543.05 rand (\$69.72) in Johannesburg trading this year and will reach 596.7 rand in 12 months, the average of 10 estimates shows.

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