


Platinum – Swamped in the Backwash of Volkswagen’s Woes

Maybe I haven’t been looking too closely but it seems to  have been more in the context of Australian gold miners that managements tout the fact that gold is trading above \$1,500 in the local currency. Canadians don’t seem to have been so solicitous in touting the similar statistic as it pertains to Canadian gold production. Maybe they are afraid that it would only prompt the question “where are the profits then?”. Well may we ask!

Thoughts turned to the subject of the value of precious metals in commodity currencies when looking at platinum. Of course the two main producers are South Africa and Russia, with a bunch of wannabe producers in Canada having appeared over recent years. All three currencies have been plunging against the US dollar in recent years. Despite this, considerable gloom has besieged this sub-space of the mining sphere, particularly as regards to South African production.

With the currencies of producer countries hitting new lows, they have been followed down by the metal itself with platinum hitting 6 ^{1/2} year lows this week.

The latest leg down has been prompted by fears of a move away from diesel engines, particularly with the kerfuffle over Volkswagen’s misdemeanours. But for those who constantly bemoan the gold price’s sluggishness, the yellow looks like a great outperformer compared to platinum. Here our chart compares the Physical Gold ETF (GLD) to the Physical Platinum ETF (PPLT).



To Diesel or Not To Diesel

The latest bout of price weakness has been attributed to the various ructions relating to diesel engines in automobiles and more particularly to Volkswagen's travails. The latter are frankly neither here nor there to the price of the metal. The real question relates to the use of diesel automobiles. Governments have a rather schizophrenic attitude to this issue. While they love the fuel efficiency which makes better use of a scarce resource which in many cases (in Europe) needs to be imported and thus damages the balance of payments, they remain wary of environmental costs.

Commentators have noted that upcoming European legislation on CO₂ emissions will make it harder for the authorities to back a shift away from diesel. The measures dictate that from 2020, the fleet average CO₂ emissions to be achieved by all new cars should be just 95 grams per kilometre.

The European Union has a target to cut its greenhouse gas emissions by 20% on 1990 levels by 2020. While diesel cars have been criticised for producing more harmful particulate and higher nitrogen oxides air pollution, their CO₂ emissions are lower than those of petrol-fuelled cars.

Europe is by far the biggest diesel market, with diesel cars accounting for 53% of all new registrations in 2014, according to the ACEA, compared to around 33% in 2000.

Reuters reported that automotive analysts say a fall in market share by diesel cars is a real risk in the wake of the VW scandal. However increased scrutiny of car emissions could actually benefit the metals used in autocatalysts. Ultimately this is better for platinum demand though you would not guess it from the recent panic-selling.

Major Dynamics

When it comes down to it the whole diesel thing may prove to be a storm in a teacup. The real issues are far bigger than

that. These can best be summarized as:

- Falling global mine supply for past nine years since peak in 2006
- The World Platinum Investment Council projects supply deficit to grow to 445,000 ozs in 2015
- South Africa, which accounts for around 70% of global platinum mine production, faces ongoing labour unrest and increasing costs
- Infrastructure issues, most notably power & water, further threaten the South African platinum industry
- Platinum available for recycling has been declining since 2010 due to thrifting & palladium substitution in autocatalysts

South Africa

Most countries, with the tailwind of a brutal devaluation (as the chart below shows) would be able to regain competitiveness but that alas is not happening for the South African mining sector. This is due to labour problems, energy problems and the age (and depth) of mines combining to make a perfect storm that has worked against capitalizing upon the lower currency.



Chief amongst the problems is the labour issue. This has gotten so bad that veteran companies in the sector are selling off once enormously profitable platinum mines to make space between themselves and the issue. The shootings at the Marikana mine last year, between rival unions, that left 34 dead just heightened the “event-risk” that internationally exposed miners can do without.

The South African labor unions consist of the dominant National Union of Mineworkers (NUM) and the upstart Association of Mineworkers and Construction Union (AMCU). The latter group have not been prepared to indulge in the *faux*-struggles of years gone by with management and have used long

and violent strikes as their chief bargaining technique.

The AMCU claimed that the NUM had become too cozy with the government and with mining companies. This smaller union is saying that the average mineworker in South Africa has seen no significant improvement to his lot in life since the end of apartheid.

In 2014 the conflict between AMCU and NUM come to a head in the platinum sector with the Rustenburg platinum mines suffered a 5-month strike over wages.

Anglo American Platinum, which owned the mines, reported that it had lost a third of annual production because of the strike. It then announced that it intended to sell the mines after the strike ended, and several weeks ago it sold several South African mines to Sibanye Gold for \$330 million in cash and stock.

The South African government is clearly conflicted as the mines produce revenue but the votes come from labor. Observers see it as a four-way struggle between the mining companies, NUM, AMCU and the South African government.

The main problem is the age and depth of the mines combined with an intransigent workforce unyielding to more modern methods. Work conditions are increasingly harsh as the mines become deeper and hotter, but they are too unprofitable to pay workers high salaries.

South Africa is not a total write-off though with new mines appearing in the platinum space but these are being developed using mechanization, employing a low number of skilled and highly-paid workers from the outset to avoid the turmoil that affecting older platinum mines in the country. New mechanized platinum mines, which employ fewer people and offer better pay and superior working conditions, might stand to benefit. An example accessible to Canadian is Platinum Group Metals, a company that we have known for a long while now that is

developing the Western Bushveld Joint Venture (WBJV) in league with a Black Enterprise Empowerment group, Wesizwe. Also investable is Eastern Platinum (TSX & AIM: ELR; JSE: EPS) which has three properties, two of which are currently producing.

Then there is the well-known name, Ivanhoe Mines, which is planning a multi-phased mine development on its 64%-owned Platreef discovery of platinum, palladium, nickel, copper, gold and rhodium in South Africa's Bushveld Complex. A pre-feasibility study released in January 2015 estimated a first phase of development mining four million tonnes per year could produce 433,000 ounces of platinum, palladium, rhodium (and gold) annually.

The lesson here is that the fantastic prospectivity in South Africa for PGEs is not going away. It's just that it needs to be exploited in an economic fashion.



The Players in Canada

Names to conjure with here which we may expand upon further in the future include Wellgreen Platinum which we also knew in its former guise as Prophecy Platinum. This holds the eponymous Wellgreen PGM-Ni-Cu project, located in the Yukon. Then there is St-Georges Platinum and Base Metals (CSE: SX and FSE: 85G1) is a sometime Platinum-Palladium & Nickel explorer with projects in the Province of Quebec, Canada. Its flagship project is the Julie property on Quebec's North Shore near the deep-seaport town of Baie-Comeau.

Then there is Pacific North West Capital (TSX.V: PFN, FSE: P7J). Its River Valley PGM project is located in the Dana and Pardo townships of Northern Ontario, approximately 60km east of Sudbury. On a PdEq basis, the Measured + Indicated resources contain 3,944,000 ounces PdEq and the Inferred resources contain 1,201,000 ounces PdEq.

Conclusion

The old adage is that "what goes up must come down" while we would hope that in the case of platinum "what comes down, must go up". As discussed a number of factors mitigate against platinum staying in the dumps long-term. The market at the moment has the look of shorters having had their way with it. Frankly the Volkswagen angle is overwrought and overdone. In a few weeks it will be forgotten as a negative stimuli for the price of this metal. Such has been the fall in recent weeks that there is the possibility of a sharp uptickng correction.

As we have seen there is a secular downturn working against most of the traditional South African producers, which implies a secular upturn for the producers outside that country, particularly Canada, as they move in to take up the slack in supply over the next decade. With Russia largely "beyond the pale" and Zimbabwe still a "no man's land" the focus will increasingly turn to up and coming Canadian platinum miners as the main source of future production. Much will depend upon the Canadian dollar remaining at an advantageous position *vis-a-vis* the US dollar in which platinum is denominated and, of course, the resolution of the ever-present problem of financing.