

# PGM investment to grow on US ETFs, auto recovery

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- \* Auto recovery, US ETFs driving PGM investment demand
- \* ETF Securities' two US funds' assets near \$1 billion
- \* Room for investment demand to rise further-GFMS

By Frank Tang

NEW YORK, April 22 (Reuters) - Investor demand for platinum group metals (PGMs) is expected to increase further in 2010, driven by strong inflows into U.S. platinum and palladium exchange traded funds amid a rosy outlook for the auto sector.

Chinese car sales have been strong so far this year, growing by almost two-thirds last month as buoyant consumer sentiment lifted spending [ID:nEAP001318]. The leading U.S. market is also showing signs of recovering from last year's slump.

Respected metals consultant GFMS Ltd said on Thursday in its Platinum & Palladium Survey 2010 that investor sentiment toward PGMs has risen substantially due to better prospects for autocatalyst demand and a decline last year in mining output.

Nearly 1 million ounces of platinum and palladium combined have been drawn into ETF Securities Ltd's U.S. Physical Platinum <PPLT> and Physical Palladium shares <PALL> ETFs since the funds' inception in January, the company's data showed. [link.reuters.com/xyr78j](http://www.reuters.com/xyr78j) Graphic on palladium price performance vs platinum and gold:

"Not surprisingly, such an impressive inflow of investor funds into platinum and palladium has brought about a radical and potentially long-term change to both metals' price environment," the GFMS report said.

Palladium and platinum have risen by about 39 and 18 percent respectively so far this year, compared with gold's 4.5 percent rise.

"Inflows into newly created ETFs have been central to the price rally in 2010 to date," the report said.

Fred Jheon, managing director of ETF Securities' U.S. unit, cited positive auto sales figures and news that General Motors Co [GM.UL] had completed repaying U.S. and Canadian government loans. [ID:nN21188307]

"We are seeing a pronounced increase in the activity of both funds in terms of trading volume and asset gathering."

Jheon said that asset under management for both PPLT and PALL on a combined basis have risen to \$945 million.

ETF Securities, which also runs U.S. gold and silver ETFs, has filed with U.S. regulators to launch a fifth combined precious metals fund.

Thomas Winmill, portfolio manager of Midas Fund <MIDSX.O>, said that the metals absorbed into the ETFs represent a "significant margin" in moving metal prices.

PGMs are used by the auto industry in catalytic converters to clean tailpipe emissions. While palladium is widely employed in gasoline vehicles, most diesel engines such as trucks require platinum-based autocatalysts.

Peter Ryan, senior consultant at GFMS, said that one would hesitate to bet against the ETFs' positive trend given the considerable growth in fund interest. "There is definitely scope for them to do more," he added.

A physical squeeze, however, is unlikely as relatively flat PGM lease rates, or the interest rate charged for borrowing the metals, suggested there is room for investors to absorb the surplus created by the worst economic crisis since the Great Depression, Ryan said. Story on gold/platinum ratios: [ID:nLDE63J1D3] (Additional reporting by Jan Harvey in London; editing by Jim Marshall)