

Platinum ETFs See Cash Surge as South Africa Bets on Rebound

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At a time when investors are bailing on most commodities, money is steadily flowing to platinum funds.

Exchange-traded products tracking the metal have seen assets rise to 88.6 metric tons, near a one-year high and about 1 percent from a record, data compiled by Bloomberg show. Funds in South Africa, where most of the world's platinum is mined, saw the biggest increase in assets.

That's a bullish sign to analysts such as David Jollie, head of research at Mitsui & Co. Precious Metals Inc. With platinum prices near a six-year low, producers will have to cut production, according to Deutsche Bank AG's Grant Sporre. He said prices will rally about 20 percent to \$1,198 an ounce by the end of 2016.

"There's a lot of knowledge in South Africa about the mining sector and a lot of interest in platinum. They know the supply side," Jollie said by phone from London on Monday. "These inflows suggest that they see value at prices approaching \$1,000 an ounce."

Platinum has been in a bear market for two years, and South African producers are losing money on as much as 40 percent of output, according to Rene Hochreiter, an analyst at Noah Capital Markets (Pty) Ltd. The metal fell 8.3 percent since the end of June, according to Bloomberg generic pricing. It traded at \$989.40 an ounce on Tuesday.

Lonmin Plc, the world's third-biggest platinum producer, said in July that it will close shafts and cut as many as 6,000 jobs to reduce costs. Annual output will fall by 100,000 ounces, the Johannesburg-based company said.

Less Metal

"At these prices, the mines can't open new ore faces," Deutsche Bank's Sporre said on Monday. "In 12 to 18 months, we're going to see the mines pumping out less metal."

The two South African funds -- AfricaPlatinum ETF, run by Standard Bank, and Absa Bank Ltd's NewPlat ETF -- have combined assets of 18.3 billion rand (\$1.4 billion). By comparison, the SPDR Gold Shares holds \$24.2 billion.

Both funds, which are denominated in rand, have fallen about 2.5 percent since the end of June. Combined assets increased by 5.5 tons.

While the value of platinum denominated in rand has increased in August, it's not the main driver for investment, according to Hochreiter of Noah Capital Markets. South African investors looking for a hedge to the weakening rand are more likely to pick up shares of stable companies with overseas operations, he said.

"They're buying into positive market fundamentals, not just the outlook for the rand," Hochreiter said by phone from Johannesburg on Monday.

Mine Output

Platinum producers are putting less money into developing mines, which may cause output to drop 16 percent in 2016 to 3.4 million ounces, the World Platinum Investment Council said in a report on Aug. 12. Capital expenditure in rand terms fell the previous two years, it said.

Labor disruptions may also limit production. Employees led by the Association of Mineworkers and Construction Union went on a five-month strike last year before reaching an agreement with producers. The deal runs out in late 2016, meaning further negotiations could ensue, according to Nikos Kavalis, an analyst at London-based research firm Metals Focus Ltd.

"We could have a spike in prices should we hear some supply issues in South Africa," Tom Winmill, who helps manage about \$210 million for Midas Funds in Walpole, New Hampshire, said by phone. "It really does not take much to have supply issues."