

Citi Says Palladium in Total Disconnect, Jump In After Slump (3)
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(Bloomberg) -- Palladium's rally has been so intense that there's a now a complete disconnect between the marginal cost of mining the precious metal and its price, according to Citigroup Inc., which said any substantive pullback from current levels would represent a buying opportunity.

"Our baseline is that 2020 will be a year of very strong palladium pricing, especially" the first half, the bank said in a report, noting that its earlier target for a surge to \$2,500 an ounce has already been surpassed. For 2021, "high prices will start to solve high prices," with substitution, rising scrap-recovery rates, demand destruction and sales from Russian stockpiles, it said.

The raw material used in autocatalysts has soared in the opening weeks of 2020 amid a sustained global deficit, with the extraordinary rally seeing prices hit records day after day before a pullback on Tuesday. Over the past 15 years, mine supply of palladium has shrunk by 1 million ounces, or 12%, while demand has risen 4 million ounces, or 57%, according to estimates from UBS Group AG. Palladium's sister metal, rhodium, has jumped too.

"Commodity prices can completely disconnect from their marginal cost of production when inventories run down to critical levels, and this is precisely what is occurring in palladium and rhodium at present," Citi said. "Palladium has for some time now presented the hallmarks of a genuinely tight market, including an extreme backwardation."

Why Palladium Is Suddenly a More Precious Metal: QuickTake
Spot palladium reached a fresh record on Monday, before slipping 5.6% the following day. Prices are still up 81% over the past year at \$2,438.55 an ounce. Goldman Sachs Group Inc. has said there's scope for a jump to \$3,000, although that would be followed by a slump.

The rally in platinum-group metals prices may have cost the auto industry, the biggest user, about \$18 billion in the past year, Citi said. Still, there's no real sign yet that carmakers, who boosted palladium usage in recent years amid stricter emissions rules, have started to substitute in cheaper platinum. Demand for palladium is expected to expand "solidly" this half, Citi said, citing the roll-out of tighter emissions

standards in India, China and Europe, as well as its expectation for a modest pick-up in global automotive sales.

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