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Palladium Rebounds as BMW Means Catalyst for Bigger Shortage (1)
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(Updates palladium price in sixth paragraph.)

By Nicholas Larkin and Maria Kolesnikova

May 31 (Bloomberg) -- Palladium's biggest shortage in three decades means this year's worst-performing precious metal may rebound as growth spurs record car sales and prompts Goldman Sachs Group Inc. to say the commodities bull market is intact.

The 1.6 million-ounce deficit seen by Standard Bank Plc explains why prices for the metal used in catalytic converters will rise 24 percent by Dec. 31, based on the median estimate in a Bloomberg survey of 24 analysts and traders. Autocatalysts are fitted to 95 percent of new cars and global sales will rise 5.1 percent to 76 million this year, according to Oxford, England-based J.D. Power Automotive Forecasting.

While commodities plunged the most since 2008 in the first week of May, prices are rebounding, with demand for cars signaling that the global economy is still expanding. The supply crunch in palladium is mirrored in copper, corn and crude oil, prompting Goldman Sachs to predict a 20 percent return from commodities in 12 months and Morgan Stanley to forecast the highest-ever oil prices.

"The long-term story is excellent," said Robin Bhar, a London-based analyst at Credit Agricole SA and the most accurate of 20 palladium forecasters surveyed by the London Bullion Market Association in 2009. "With any commodity that gets a very restricted supply base, you're always going to get worries. We will see stronger growth."

OAO GMK Norilsk Nickel, the biggest palladium producer, will report its highest profit this year, according to analysts estimates compiled by Bloomberg. Bayerische Motoren Werke AG sold a record number of cars in the first quarter while Nissan Motor Co. Chief Executive Officer Carlos Ghosn said May 12 he expects to sell the most vehicles ever in 2011.

Gold and Silver

After rising more than fourfold from 2005 through the end of last year, palladium fell 3.6 percent to \$772.75 an ounce this year by 11:24 a.m. in London today, lagging behind gold, silver and platinum. It is also underperforming the 12 percent advance in the Standard & Poor's GSCI Index of 24 commodities, the 4.8 percent gain in the MSCI All-Country World Index of equities and the 2.5 percent return on Treasuries shown by a Bank of America Merrill Lynch index.

The decline accelerated in March after a magnitude-9 earthquake and 23-foot tsunami hit Japan, forcing automakers led by Toyota Motor Corp. to shut plants, deferring demand for about 90,000 ounces of platinum-group metals, Barclays Capital says. Some losses will be recouped in the second half, said Anne-Laure Tremblay, a London-based analyst at BNP Paribas SA.

Mine Supply

Supply from mines and stockpiles will fall 5.7 percent to 6.78 million ounces in 2011, the fourth drop in six years, according to Barclays. Autocatalyst demand will expand 6.2 percent to 5.47 million ounces, the most in 11 years, Barclays says. Each catalytic converter contains about 4 grams (0.13 troy ounce) of precious metals.

Palladium is mined mostly in Russia and South Africa and found with other platinum-group metals. Companies are digging ever-deeper to find ores containing decreasing amounts of metal, with mining costs rising 30 percent in South Africa and 13 percent in Russia last year, according to UBS AG.

The anticipated commodities rally may be curbed if growth falters. Europe is contending with a sovereign-debt crisis as Greece seeks to persuade investors it can avert a default.

While Federal Reserve Chairman Ben S. Bernanke signaled April 27 the central bank will keep record monetary stimulus when its \$600 billion bond purchase program ends in June, he didn't pledge a third round of so-called quantitative easing.

U.S. Growth

The U.S. economy grew at a 1.8 percent annual rate in the first quarter, less than forecast, Commerce Department figures on May 26 showed. The Organization for Economic Cooperation and Development on May 25 said it expects the global economy to expand 4.2 percent this year and 4.6 percent in 2012.

Commodity prices doubled since the start of 2009, driving inflation higher and spurring at least two dozen nations and the European Central Bank to raise rates this year, potentially damping growth and demand for raw materials.

"We've probably seen highs in most metals," said David Wilson, an analyst at Societe Generale SA in London. "There is a big macro concern weighing on the industrial metals. You will see investors more nervous about holding onto positions in the second half of the year."

Speculators cut their net-long positions, or bets on higher prices, across 18 commodity futures by about 25 percent since October, U.S. Commodity Futures Trading Commission data show.

Jewelry Sales

Slower economic growth and higher prices may also curb sales of jewelry made with palladium. Demand fell 45 percent to 630,000 ounces since 2006 and may drop another 7.9 percent this year, Barclays estimates.

A surge in interest from investors may compensate for that. Purchases of coins and bars and exchange-traded products backed by the metal jumped 74 percent to a record 1.09 million ounces last year, according to London-based Johnson Matthey Plc.

Production may also be less than forecast. Eskom Holdings Ltd., which supplies 95 percent of electricity in South Africa, said in April it doesn't have the capacity to adequately maintain its plants. Power cuts in January 2008 closed mines and smelters for five days.

The last time palladium traded at the \$955 predicted in the Bloomberg survey was about a month after it reached a record

\$1,125 in January 2001, following disruptions to Russian shipments. Sales from Russian government stockpiles, the fourth- largest source of supply last year, may now be running down.

Russian Shipments

Russian shipments to Switzerland, one of Europe's two main hubs for storing and trading precious metals, fell 12 percent to about 500,000 ounces last year, the least in 15 years, Swiss customs data show. Cargoes totaled 25,817 ounces in the first four months, the data show. The stockpiles are a state secret.

The deficit forecast by Standard Bank would be the biggest since at least 1979, according to data from Johnson Matthey, which makes about a third of all autocatalysts. The canisters have honeycomb-like surfaces that convert emissions into carbon dioxide, water and nitrogen.

BMW, based in Munich, told investors May 4 that it sold more than 382,000 cars in the first quarter, a record for the period. Stuttgart-based Daimler AG said April 13 that it expects to move 1.3 million Mercedes-Benz and Smart cars this year, the most ever. Nissan, based in Yokohama, Japan, will exceed the record it set last year in 2011, Ghosn told investors on a conference call this month.

Car Sales

More car sales mean more profit for Moscow-based Norilsk, which mines about 43 percent of the world's palladium. The company will report net income of \$6.12 billion this year, compared with \$5.13 billion a year earlier, the mean of eight estimates shows. Seventeen of the 18 analysts covering the shares and tracked by Bloomberg rate them a "buy" or "hold."

The boom is being replicated across the mining industry as commodity prices surge, with everyone from Melbourne-based BHP Billiton Ltd. to London-based Rio Tinto Group to Zug, Switzerland-based Xstrata Plc forecast to make the most money ever this year, analysts' estimates compiled by Bloomberg show.

"The economy around the world is doing OK and natural resources are in short supply," said Francis McAllister, chief executive officer of Billings, Montana-based Stillwater Mining Co., the U.S.'s only palladium mining company. "It doesn't matter if you are talking about copper, iron ore, or platinum and palladium."

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