

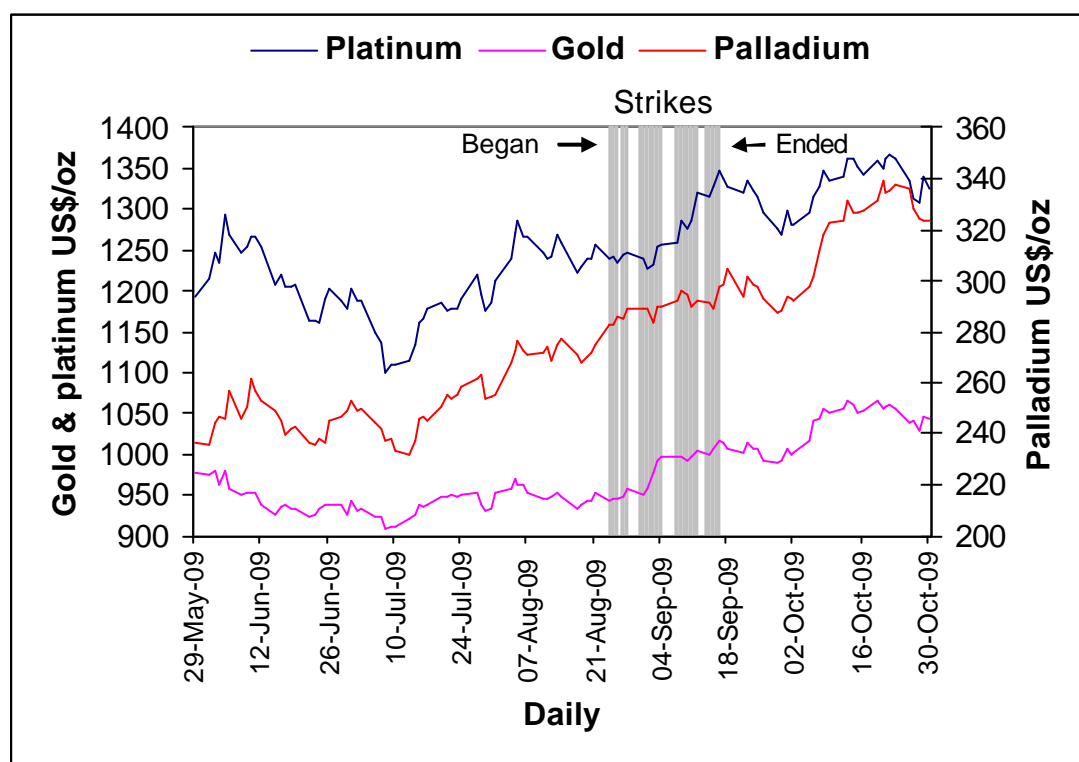
Platinum price to benefit from strike action in South Africa?

As wage talks between South African mines and labour have become deadlocked, the mood among mine workers and labour in general is for strikes and I doubt it will be averted.

Last year's settlements were generally below 10% but expectations are much higher this time around. I think we are probably in for a minimum of two to three weeks – similar to what happened in 2009. The major two-week strike in 2009 from 24 August to 8 September saw Implats lose 50 000 oz of production and Aquarius about 17 000 oz.

With South Africa's production approximately 88 000 oz per week, it means best 88 000 oz may be lost if all the mines close for one week. If the strike lasts three weeks, a total of 264 000 oz or the equivalent of 40% of last year's total investment demand will be lost. There was very little industrial action in 2010 – in the spirit of the FIFA World Cup.

But let us have a look at what happened to the platinum price and the prices of other precious metals in 2009 from the time the strike started at Impala Platinum to when it ended.



Source: Plexus Asset Management (based on data from I-Net Bridge).

The platinum price did not react initially as it was felt the company had sufficient inventory to fulfil its obligations to its customers. The price surged after it became clear that the strike would last longer and intensified. On the day the strike started the platinum price closed at \$1 239 per ounce. On the day the strike ended the price closed at \$1 347 – a surge of \$108 per ounce

or 8.7%! The positive momentum also benefitted gold, which rose by \$75 from \$943 to \$1 018 per ounce or 8% over the same period. Palladium, the other major platinum group metal, lagged, though, as the price rose by \$16 from \$282 to \$298 per ounce or 5.7%.

I am of the opinion that this time around the impact of a strike could be much greater than in 2009. Platinum demand was then still subdued in the aftermath of the 2008/2009 global liquidity crisis and producers such as Anglo American Platinum were still slashing production to adjust to lower demand. Although global economic growth has slowed down mainly as a result of supply-line shortages due to Japan's terrible twin disasters, supply and demand are relatively evenly matched. With the wheels of industry turning again and consumer confidence improving, Japan's economy is heading for better times and that should rub-off on the rest of the globe.

A three-week strike resulting in a loss of 264 000 ounces of platinum is certainly going to lead to a blow-off in the platinum price. Yes, you can bet your bottom dollar the producers have probably used the recent weakness in the price to buy in the expected production shortfalls resulting from the strikes by purchasing futures and call options.

My message to the platinum bears: let the seller beware!