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Lead Indicators for Silver's Coming Price Explosion?



Examining a hanging wall sampler from a Yukon Territory PGM property.

BY DAVID H. SMITH

The premise of the following article is that over the next 12 – 18 months, an evolving supply-demand imbalance in two precious metals will likely evolve into a price explosion. In terms of the scale and violence at that time, this may appear to be a secular price blow off. But more likely, they will have merely established a penultimate or secondary top, with their own final all-time highs registered later, around the time that gold, and especially silver, reach the public mania stage.

Because they are likely to precede the final convulsive rise of gold – and especially silver by some time – perhaps as long as 2-3 years, their price behavior may offer an important “preview of coming attractions” for the astute investor. Actions on the charts may tip us off in advance – presenting a mirror image of how silver’s final price surge is likely to look. Those two metals, members of the Platinum Group Metals family (PGMs), are platinum and palladium.

Platinum and Palladium's Supply/Demand Matrix

Currently, the vast majority of platinum supply comes from South Africa and Russia, which between the two of them account for almost 90% of the total. Of the remainder, North America and Zimbabwe, account for around 4% each, with “Others” making up the final 2%.

About 30% of platinum demand goes into the auto sector (primarily catalytic converters) and 28% into jewelry. The larger component, electronics, is about 35%, with investment making up around 8%.

Palladium, often found as a byproduct of platinum, sees almost 70% of its annual supply going to the automotive industry for use in catalytic converters. 4% finds its way into jewelry, 8% for dental, 14% for electrical and 8% to “Other” (to which we will return in a minute). Much palladium supply comes from Russia (Norilsk), though several North American mines produce it as well. Platinum and palladium are so critical

in many other industrial uses that Japan has even designated PGMs as one of the most important metal categories in its national resource acquisition policy.

Watch out for the “Other”

An Exchange Traded Fund (ETF) is a security that tracks an index, commodity or basket of assets. Several ETFs have been set up to purchase and hold platinum and palladium. More and more PGM supply will be taken off the market and held in these funds. In addition to being an investment vehicle, ETFs enable a company to accumulate physical supplies of a commodity for eventual use within its own country. What we have seen happen with silver and gold (and soon copper) is now beginning to take place with platinum and palladium. Expect the above ground stock to shrink inexorably as these ETFs take a bigger bite out of supply.

Trying to get a reliable handle on the intermediate-term Platinum/Palladium

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supply/demand equation involves quite a bit of “guesstimation”. How much of a long-term drag will labor and safety dispute issues have on South African platinum production? Will its operations - increasingly at depth - suffer the same fall-off in supply which has plagued SA gold production over the past decade?

How much if anything remains of Russia’s historic palladium stockpile? How will changes in global auto production in the coming years, principally in Asia, impact platinum/palladium supplies? Will new industrial/medical uses for PGMs have a bigger impact on the demand curve? Teasing out these questions will continue to give the market a headache, lift prices, and increase volatility.

The “Other” factor in both metals is what holds the key to the timing and extent of platinum and palladium’s eventual term ‘moon shot’. For an idea of how this might look, go back to a chart showing palladium’s vertical rise in 2000 – 01 and again in 2008 – 11.

David Morgan’s Take on the Subject

Interestingly, in his closing comments for the January, 2013 Issue, Editor David Morgan made the following remarks:

“Keep an eye on the Platinum Group Metals, as these very small markets can be good leading indicators. We know of no one outside of The Morgan Report (TMR) who even mentions this, but Platinum and Palladium - very thin markets - are under less “control” due to the fact that so few people look at them... and because PGM’s are not thought of as money.

“The conditions in South Africa are set for Platinum production to be spotty next year because most mines are not profitable (at current prices), so look for the Gold/Platinum ratio to narrow... meaning that Platinum will move faster than gold and eventually sell at a premium to gold once again. This will be a subtle clue that not only does the secular bull market in precious metals remain intact, but that

PA - Palladium - Weekly Continuation OHLC Chart



5 Years of Weekly Palladium: \$600 - \$180 - \$570 - \$400 - \$850 - \$540 - \$750...?

silver is getting ready to advance as well.”

Catch “Little Silver” before it grows up

In Spanish, platinum means “little silver.” The early Conquistadors thought it was “immature gold” and tossed it back to “grow up”. Now of course we know better. Platinum (and its cousin Palladium) have become essential industrial – and increasingly – investment metals in their own right. As the gold and silver precious metals bull market rolls on, keep in mind that the price of platinum and palladium are likely to rise right along with them. Study their past price movements and keep an eye out for what they do in the future.

Be aware of their tendency to be “first movers” in relation to gold and silver. When/if they do so again, their trajectory may present you with a road map showing the path that gold and silver could soon thereafter follow. Don’t make the same mistake the early Spaniards did by “tossing them back” and thereby overlook their powerful potential as predictors of upcoming intermediate to long term moves in Silver.

Disclaimer: David H. Smith owns shares of a number of silver mining and PGM companies in B.C. and Yukon, including Alexco Resource Corp., Dolly Varden Silver and Prophecy Platinum. He is Senior Analyst for The Morgan Report: Money, Metals and Mining from David Morgan. David Morgan, “The Silver Guru” and Editor of TMR presents annually at conferences in North America, Europe and Asia. You can learn more about his services at silver-investor.com and follow his perspective and teachings at youtube.com/user/silverguru.