

PLATINUM COMMENTARY AND TECHNICAL VIEW

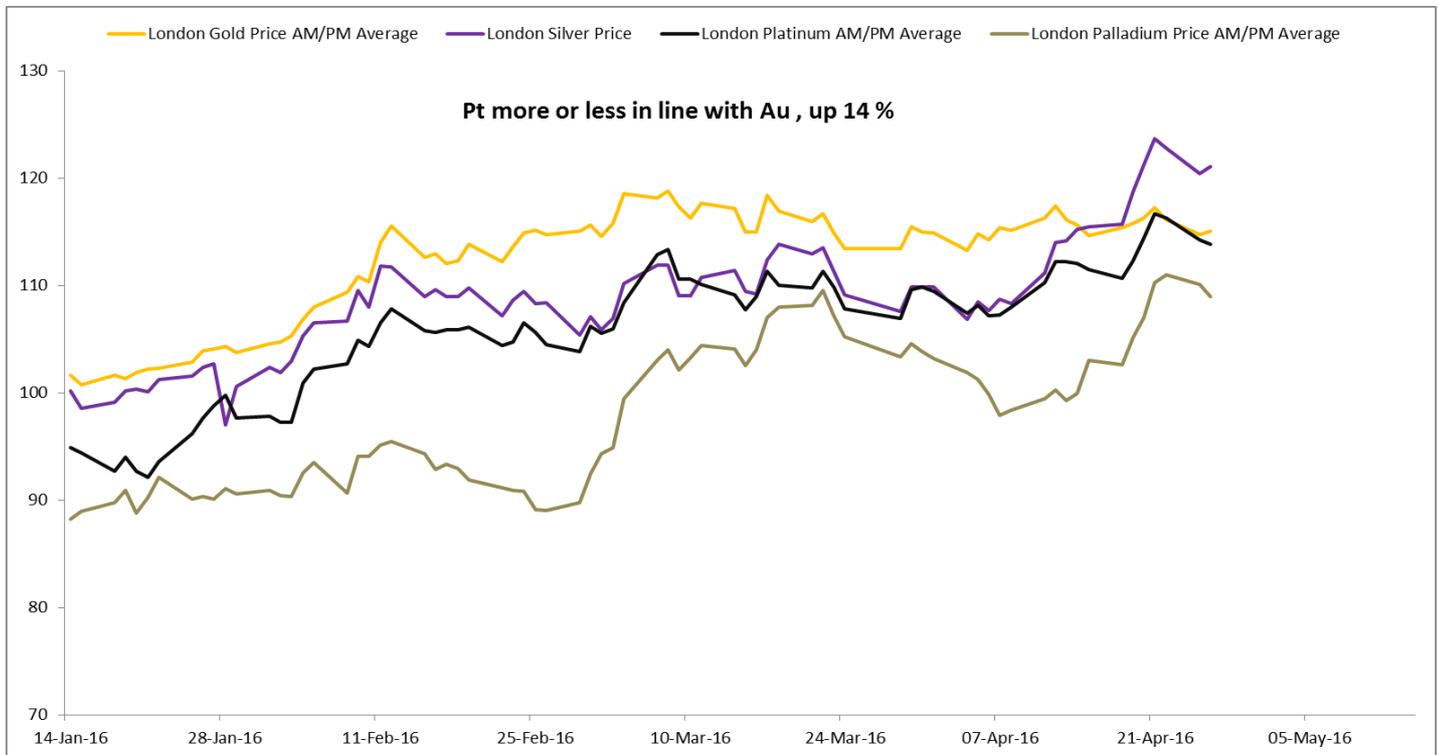
Date 27 April 2016

Platinum commentary and technical view

Platinum has had a strong start to 2016, with the market rallying from US\$889.50 to a high of US\$1,008.50 in early March, a 13.30 % increase, before easing back slightly. The price has pretty much as good a run as gold and silver, and has outshone its sister metal, palladium.

In short Platinum's recent rally suggests that apart from an improvement in sentiment towards the precious complex in general, platinum has strong long-term fundamentals that should lead to higher prices. This report will look at some of the technical picture and of course the changes in positioning that have taken place, plus some idea of price movements relative to gold and silver. Additionally, the report will look at some of the longer-term influences on platinum.

An indexed chart of all four precious metals with 07 January 2016 = 100



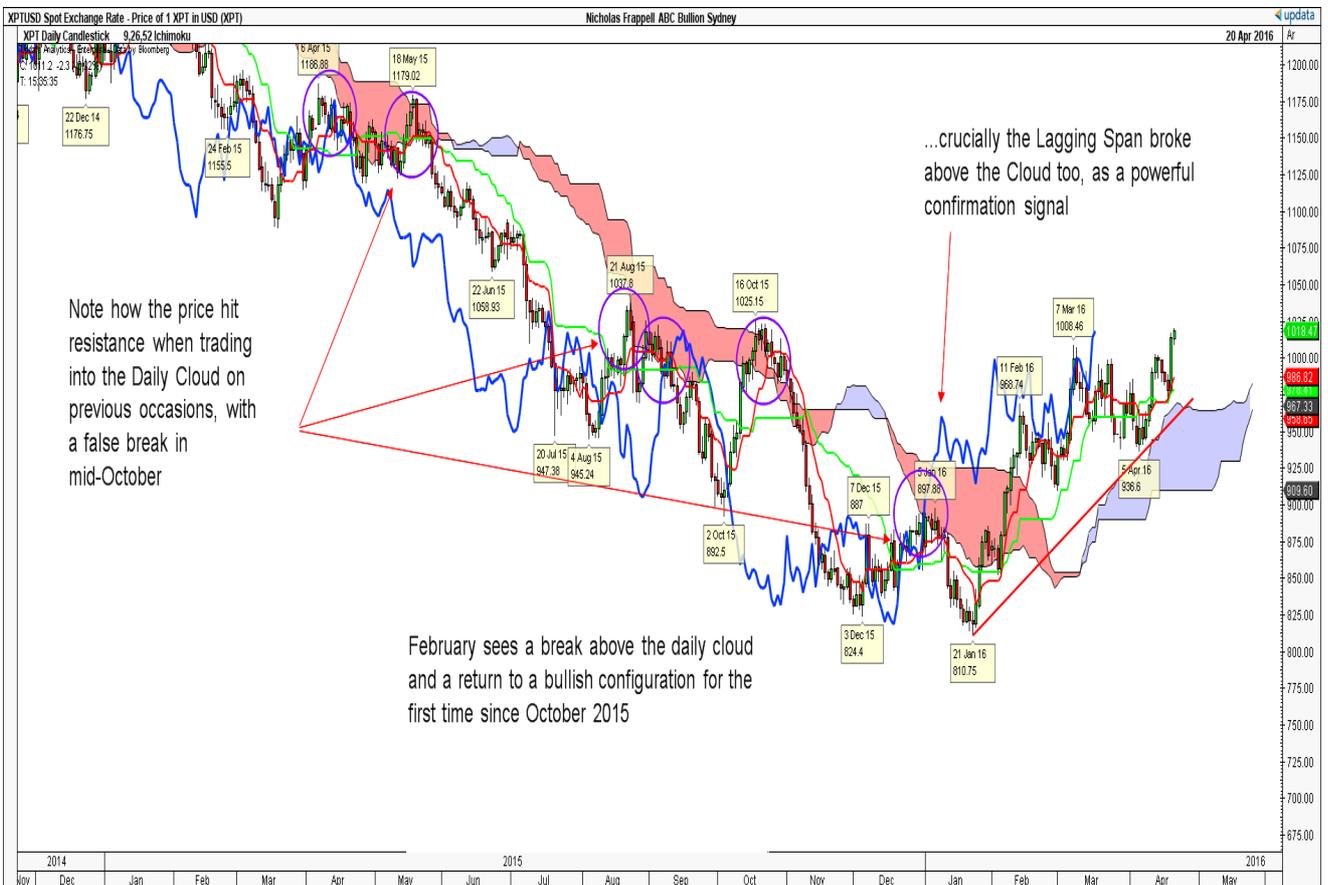
Charts Weekly Ichimoku Clouds

The price has been bearish for some time, but is now attempting to break up into the Weekly Cloud, a big band of resistance when attacked from below. Long-term, platinum has work to do to demonstrate that the 2014-2015 decline has been reversed.



The Daily Cloud

Platinum made a decisive break out above the Daily Ichimoku cloud in early February, and price has found support since then at both the trend line support and the Daily Cloud support. With the price and three other Ichimoku related indicators all-trading above the cloud, the configuration is bullish in the medium-term. In fact, platinum has not seen this kind of arrangement on the daily cloud chart since the second quarter of 2014.



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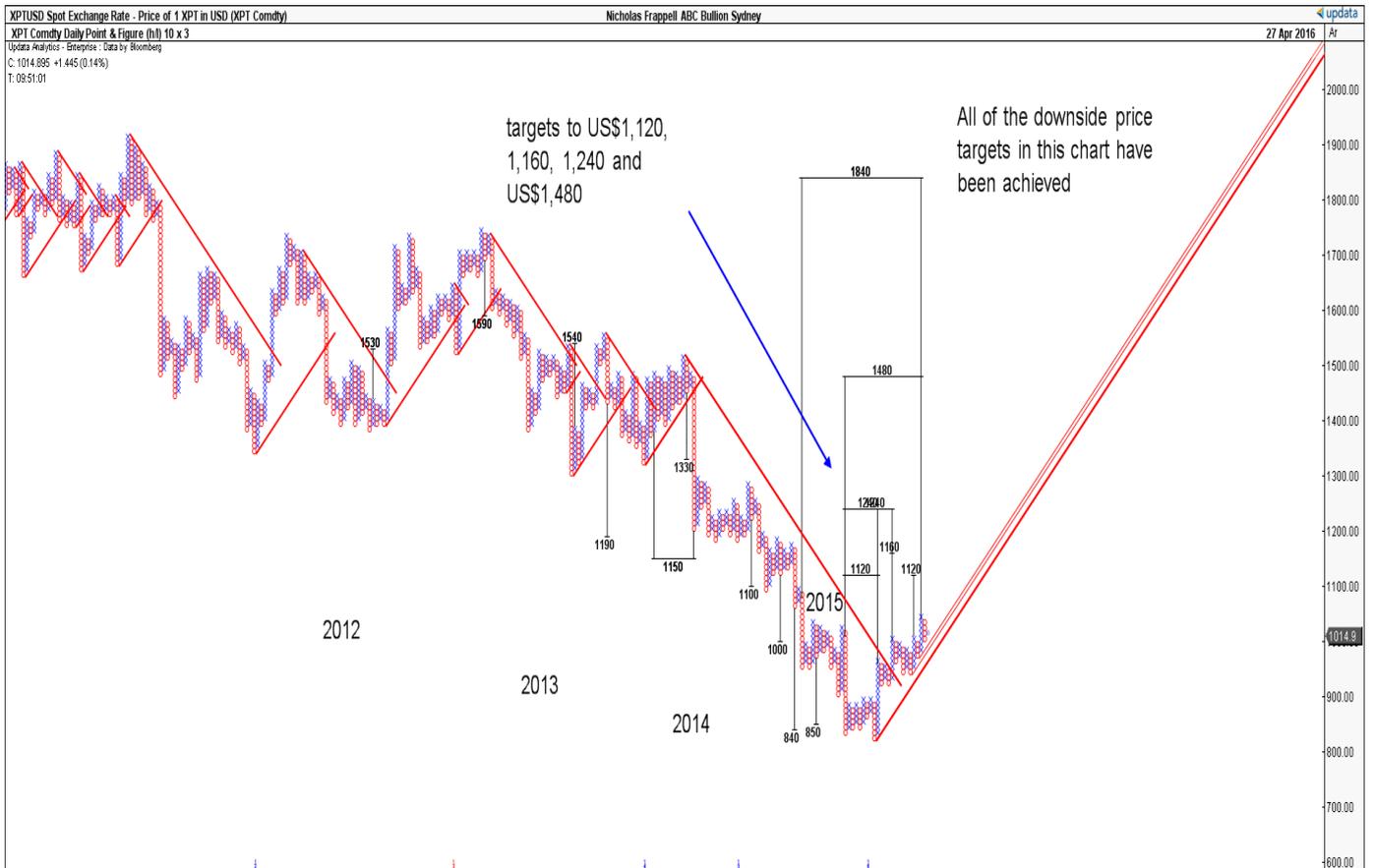


Price targets for platinum

Turning to point-and-figure, (again...)

The huge daily point and figure chart (US\$10 3-box reversal, high-low) below shows a bullish trend and targets back to the 2015 highs, with targets clustering around US\$1,120 and US\$1,240 There is a substantial target to US\$1,480, back to well within the 2014 range.

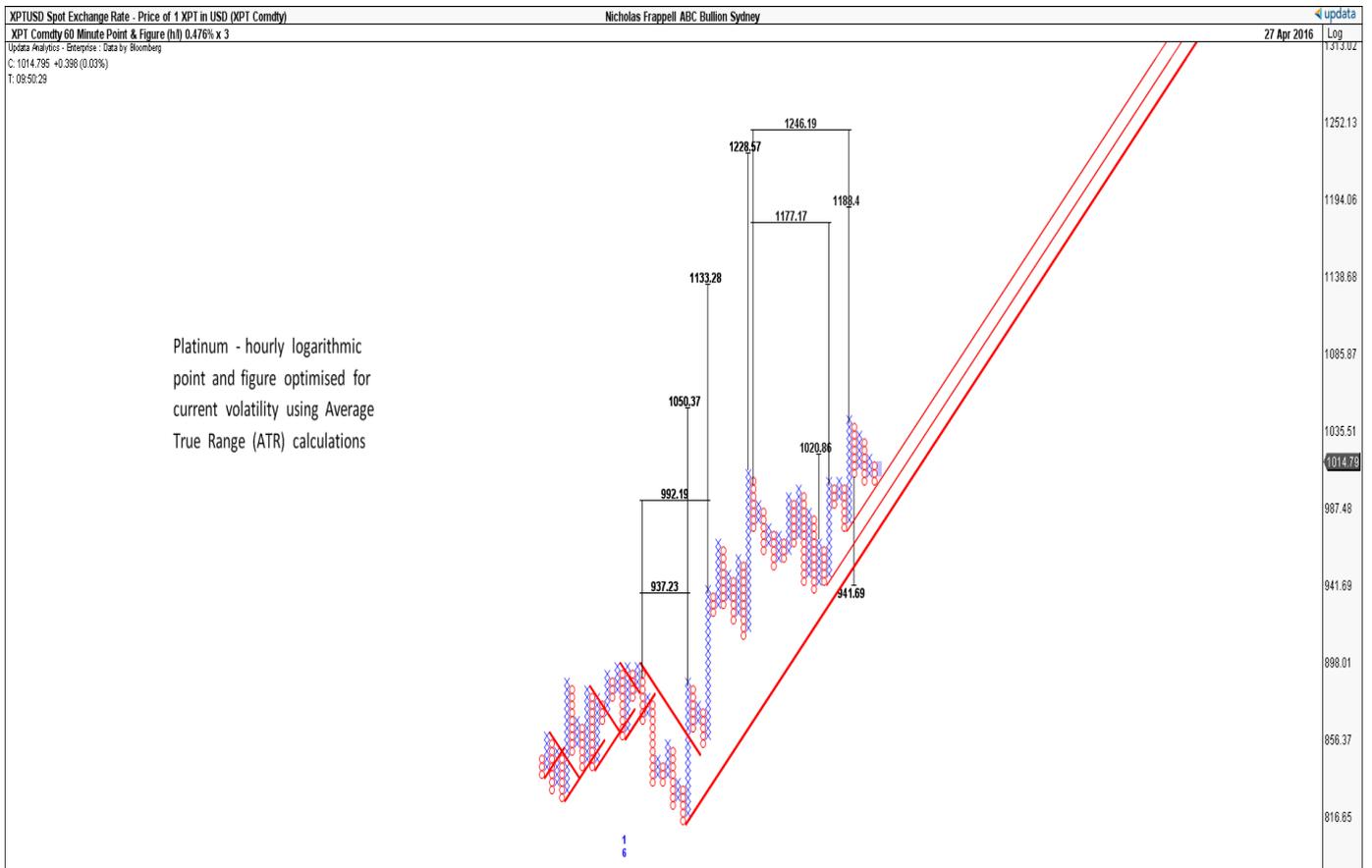
The downside targets to US\$840 created in May and August 2015 have all been achieved, with platinum going on to make a low of US\$811 on January the 21st this year.



Pt Hourly Point-and-figure

Using an hourly chart optimised for current volatility, the picture shows that there are multiple upside price targets, with US\$1,050 and US\$1,133 in sight.

Support comes in at US\$970 and US\$970 levels. Late March and through to April began to display bearish-looking price action which was reversed decisively after the 19th of April.



Platinum Supply and Demand '000 Troy Ounces

| '000 oz | 2012 | 2013 | 2014 | 2015 | 2016e |
|------------------------------|--------------|--------------|--------------|--------------|--------------|
| Supply | | | | | |
| South Africa | 4090 | 4120 | 3115 | 4390 | 4310 |
| Russia | 800 | 780 | 740 | 715 | 675 |
| North America | 310 | 315 | 400 | 395 | 390 |
| Zimbabwe | 340 | 400 | 405 | 385 | 430 |
| Others | 110 | 125 | 350 | 155 | 165 |
| Total Supply | 5650 | 5740 | 5010 | 6040 | 5970 |
| Demand by Application | | | | | |
| Autocatalyst | 3190 | 3125 | 3295 | 3455 | 3545 |
| Chemical | 450 | 540 | 575 | 585 | 585 |
| Electrical | 165 | 205 | 190 | 150 | 150 |
| Glass | 160 | 235 | 180 | 155 | 110 |
| Investment | 455 | 765 | 150 | 260 | 130 |
| Jewellery | 2780 | 2740 | 3000 | 2880 | 2920 |
| Medical & Biomedical | 235 | 235 | 240 | 250 | 255 |
| Petroleum | 205 | 155 | 65 | 160 | 125 |
| Other | 390 | 420 | 305 | 310 | 345 |
| Total Gross Demand | 8030 | 8420 | 8000 | 8205 | 8165 |
| Recycling | | | | | |
| Autocatalyst | -1130 | -1275 | -1255 | -1190 | -1360 |
| Electrical | -20 | -25 | -10 | -10 | -5 |
| Jewellery | -890 | -775 | -775 | -530 | -595 |
| Total Recycling | -2040 | -2075 | -2040 | -1730 | -1960 |
| Total Net Demand | 5990 | 6345 | 5960 | 6475 | 6205 |
| Movements in Stocks | -340 | -605 | -950 | -435 | -235 |

(Data courtesy of Johnson Matthey & WPIC for 2016 estimates)

The macro picture with mine supply and vehicle demand

Platinum has recovered from a very pronounced decline in prices during 2015 which continued into January of this year, reaching a nadir of US\$810 on the 21st of January, price levels which had not been seen since December 2008, at the height of post-Lehman turmoil. After the 2014 strikes, there was an increase in about 24 % of mine supply reaching the market in 2015, and not surprisingly about 40 % of that came from a resumption of normality in South Africa, and this may have

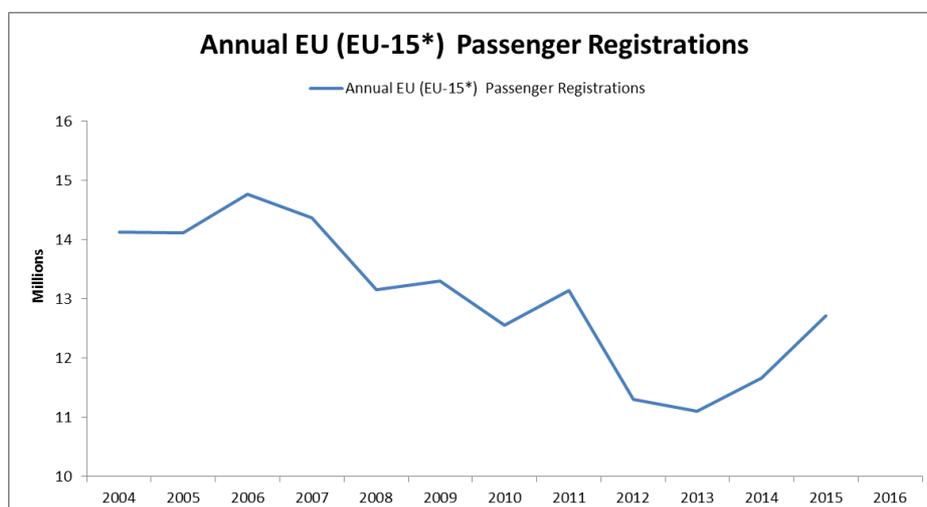
South Africa is the world's largest producer and given that mine cash costs were estimated as c. US\$1,200 in 2014, and that spot prices in 2015 averaged US\$1,055, basis the LBMA Pt Price, it is no surprise that over half of South Africa's mines were estimated to be cash flow negative. Even factoring in the rally this quarter, the platinum price is still not high enough to incentivise the increased expenditure necessary for greater production, let alone a decent yield from ongoing operations. There are signs of some lower-cost producers emerging on the Western Bushfeld, however the overall message is that the cost and difficulty of extracting platinum in SA remains very high, with a militant labour force, a government that is not particularly friendly to the industry, and power supply constraints that combine to make life difficult for the major producers now and in the future.

There are expectations that secondary supply which was held back when prices were low in 2015 may reach the market as prices rise, although total supply 'should not grow more than 1.00-1.50 pct annually'. (D. Jollie, Glaux Metals, January 2016) Recycling was estimated at about 165,000 Tozs lower in 2015 compared with 2014.

On the demand side, demand from the auto sector, where platinum is key for the production of Diesel engine cars and trucks has been positive, with European car registrations in April showing that the EU passenger car market had the 31st consecutive month of growth. The EU figures are important because of the high proportion of Diesel-engined cars sold relative to other markets.

The recent recovery of car sales in the EU (and the US) has been so strong that future expectations of car sales ought to be lower, but saying that, EU total car registrations are still over 2 million units lower in 2015 than the 2006 peak.

Demand from auto makers and truck manufacturers for catalyst treatment of exhausts is expected to rise overall in response to stiffer environmental measures leading to more emissions after treatment fitted to vehicles.



Efforts to ‘thrift’ metal loadings will continue, and an expected decline in engine sizes across all markets in the medium term would normally be expected to reduce metal demand. However research by Johnson Matthey (JM. 2009, ‘Platinum Review’) suggests that new gasoline engine burn technology will tend to require heavier metal loadings compared with existing technology, and total loadings may remain at current levels for a given engine size. Gasoline Direct Injection (GDI) engines will require after treatment devices to reduce NOx emissions, just like Diesels, and this will boost demand.

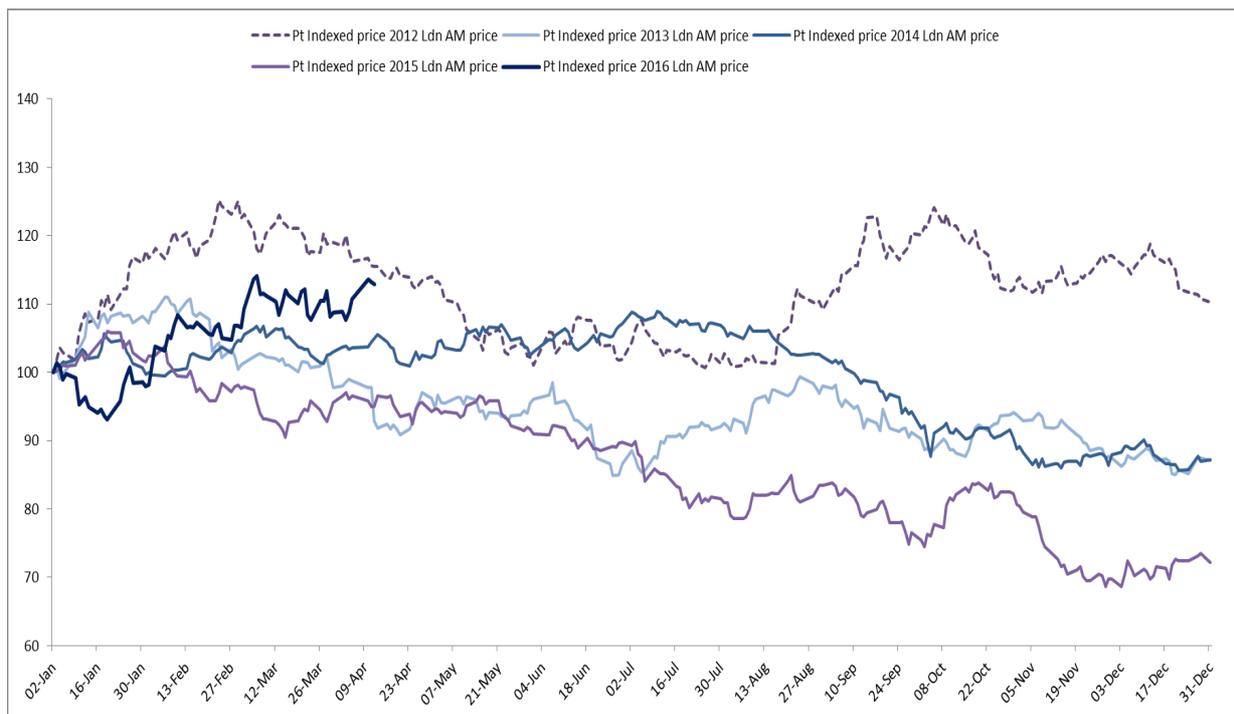
The impact of LNG powered trucks on overall demand for Diesel engine demand has been fairly muted – the capital costs are higher and the pay-back time on the extra investment too long for most operators – although for a while this form of fuel seemed like a promising alternative.

VW’s highly-publicised problem last year is expected to reduce Diesel demand in the US as certain models are withdrawn from sale, at least temporarily, however it is worth noting that in the US market, light-duty Diesels (cars) tend to rely more heavily on a catalytic technology known as SCR, which does not rely on platinum, and the ratio of SCR-type catalyst and platinum-using LNT (‘Lean NOx Traps’) is estimated at about 80/20.

On balance, demand from the auto and truck/heavy duty Diesel sector is likely to remain steady, whilst supply remains constrained due to tough conditions in the mining sector. The effect in total is to leave the market in deficit, estimated by my former colleague Dr. David Jollie as running at approximately 250,000 Troy Ounces a year over the coming half decade, which ought to be met by an increase in prices to attract fresh stocks to breach the gap.

Given stable to positive demand expectations, a market in deficit and projected to remain so, and considerable headwinds on the supply side, platinum.

Relative price performance compared with previous years – seasonality.



The first quarter of 2015 is the best performing start to the year since 2012. After a weak start, platinum has out-performed – will 2016 see the reversal of the last few years of weakness? The price has exceeded 2014 performance on a relative basis, when South African miners were affected by severe industrial action.

Positioning on Futures exchanges – CME Managed Money sector.

CME (NYMEX) platinum positions have grown by around 300,000 Tozs since the beginning of the year to date; however this disguises peak growth in net positioning that hit almost 991,000 Tozs on the 1st of March, representing almost 471,000 Tozs of net buying. What is notable is how much of this buying was driven by short-covering from Managed Money shorts who made a powerful push to cover back their positions.

Managed Money shorts bought 700,000 Tozs of platinum between the middle of March and the middle of April – almost 10 % of total world annual demand from all sources. The takeaway is that the recent run up in prices has been driven by specific factors that might not form part of a sustainable trend, and that consolidation may take place within a bullish picture.

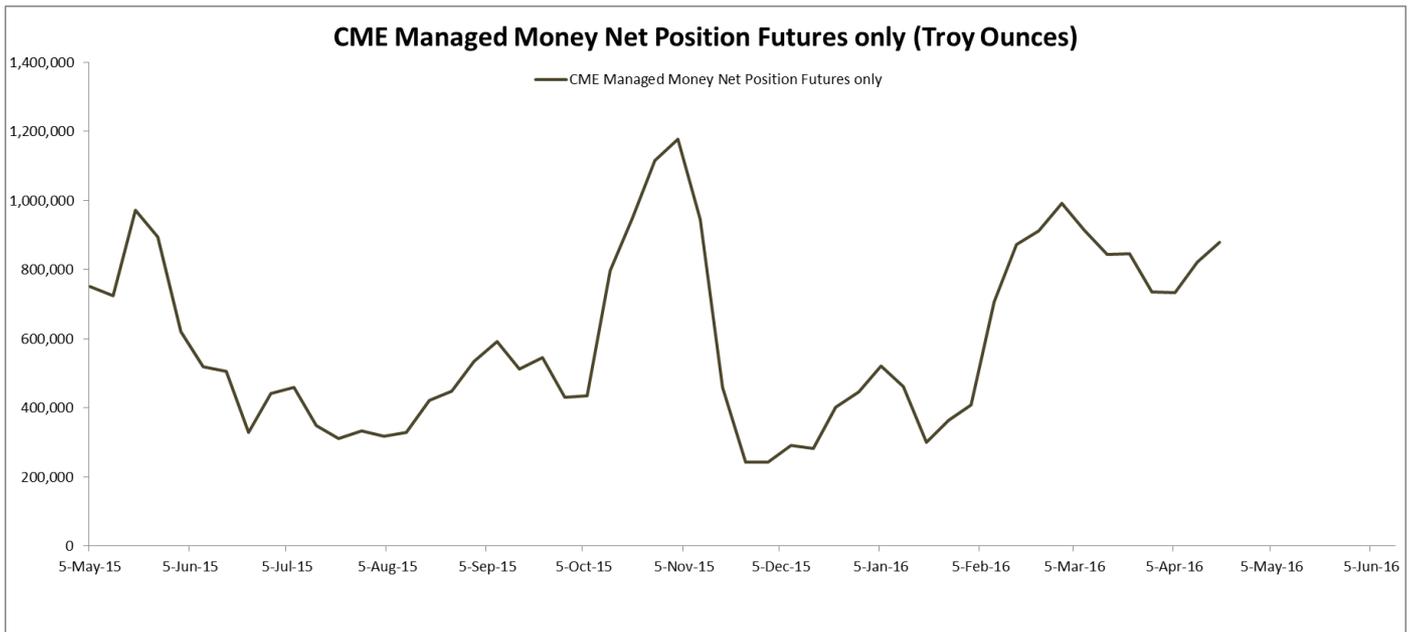
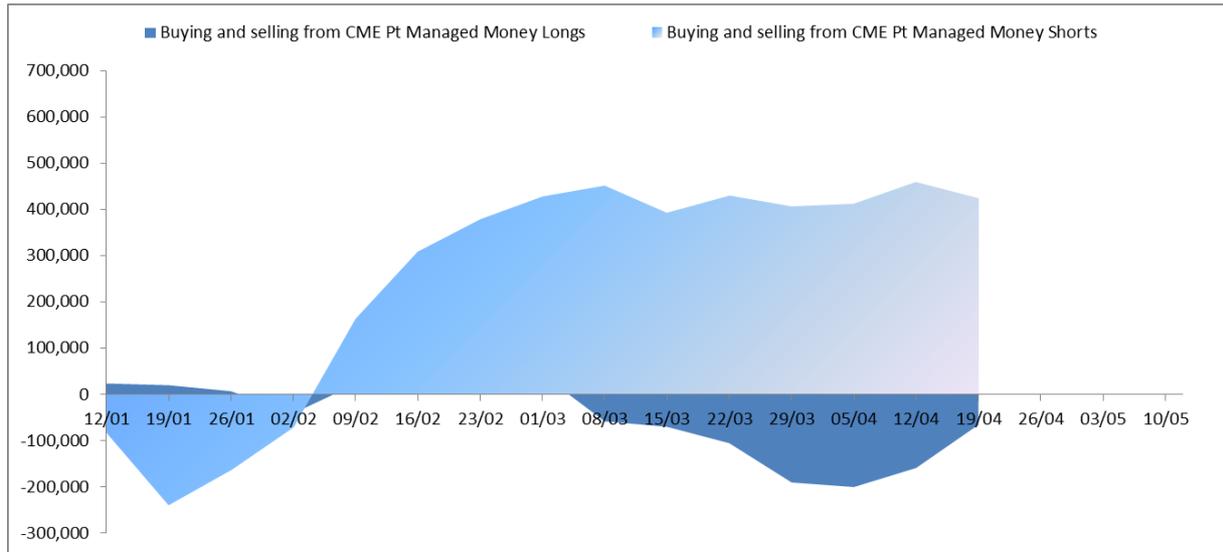
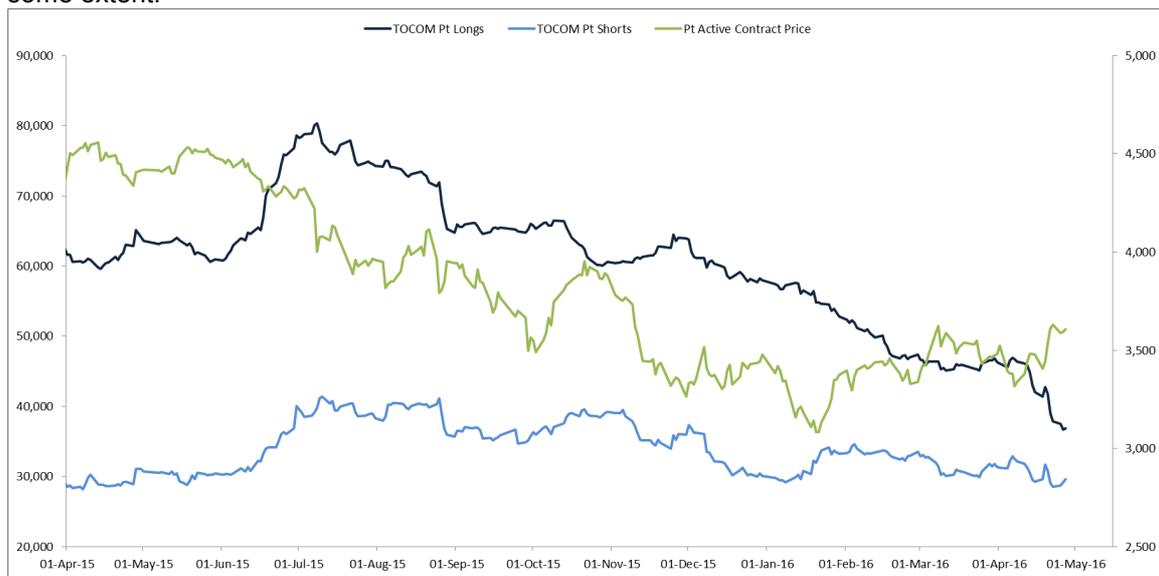


Chart showing just how much of the buying came from short covering since the end of January – speculative longs actually turned net sellers.



Positioning on Futures exchanges - TOCOM

TOCOM has seen a steady unwind of long positions as the Yen price softened last year, with investors willing to sell into recent strength. Likewise shorts have reduced their commitments to some extent.



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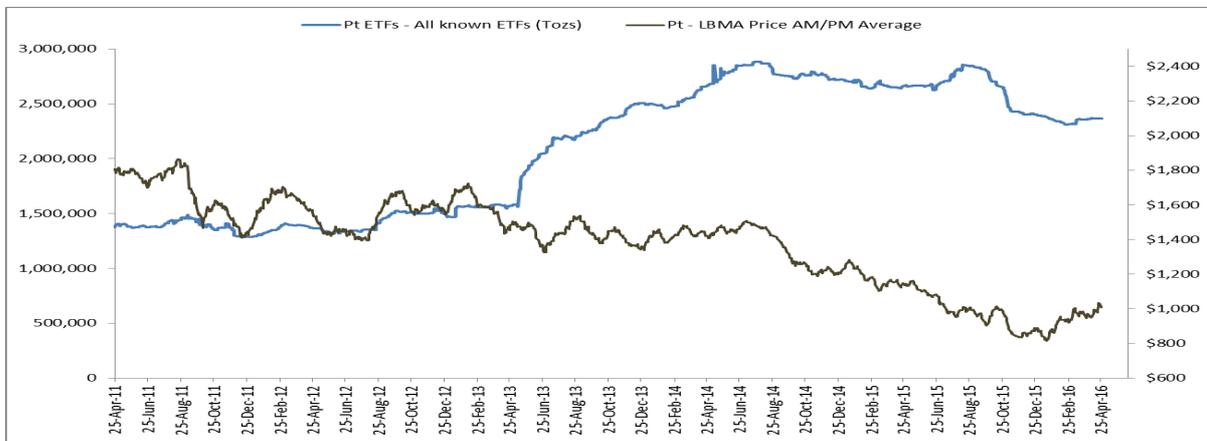
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ETF Positioning

ETF investors added heavily from mid-2013 onwards, almost doubling their length in the process, before beginning to withdraw in two phases, from July 2014 to March 2015, and then very heavily from August of last year onwards until the end of February 2016, leading to about 530,000 Troy Ounces of ETF selling in that second phases. There were plenty of 'stranded' longs who still have legacy positions above the market, as they piled in during a period when the price traded between US\$1,340 and US\$1,520.

As with the scrap recycling sector which tried to restrict sales last year, price rises in platinum may encourage ETF longs to liquidate, so this is a less encouraging aspect to the supply-demand picture.



Jewellery and bar demand

Jewellery demand declined in China last year, partly as China experienced weaker growth and a substantial wealth impact from the huge drop in equities, and also as the physical players instinctively avoided buying aggressively into weakness, preferring instead to follow a market that trends upward.

Summary

Platinum has endured very low prices in recent history despite fairly healthy demand and some body blows to mine supply. The price continues to trade below mining cash costs for major producers, and suffers from an adverse political and social environment in South Africa, the largest producing country. In terms of the longer-term price history, the recent recovery in prices is encouraging, but still fairly low-key. The technical picture supports higher price with the caveat that recent buying has been dominated by retreating shorts. Nonetheless, that in itself signals a change in sentiment by investors with an active view on the price.

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