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# Platinum and palladium may offer route to sidestep inflation

Industrial, commercial uses add glitter to precious metals, but supply chain jams could affect outlook

2 Nov 2021 | **Tom King**

Supply chain failings, coupled with a surge in energy costs, have raised concerns that price increases, instead of being transient, are likely to extend into 2022, analysts say. As global economies rush to reopen, the twin factors are also fuelling fears that central banks could start lifting interest rates.

Mansoor Mohi-uddin, chief economist at Bank of Singapore, says: “I don’t think there is any question now that consumer price inflation in many advanced economies is going to be more persistent than most expected.”

Mohi-uddin also believes the Bank of England could begin to rate hikes this month, but he feels the other major central banks still see inflation as a temporary phenomenon.

For many investors, physical gold within a portfolio offers a safe haven, “a defensive hedge” to protect their wealth against inflation, as well as geopolitical shocks or event risk.

Other precious metals such as platinum and palladium, assets that outperformed the market in previous inflationary environments, could do so again.

## In demand

Platinum and palladium have the additional benefit of being extensively used commercially and industrially.

While platinum is commonly found in jewellery, it is also used in jet engine parts, electronics and for various uses in the healthcare industry, including in anti-cancer drugs.



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Platinum's catalytic properties also make it an important element in fighting air pollution, with most of the world's platinum going into manufacturing catalytic converters for internal combustion vehicles. It is also used in the production of renewable hydrogen power in hydrogen fuel cells.

As with platinum, palladium is also used in the auto industry in the manufacture of catalytic converters, where it helps convert as much as 90% of toxic vehicle emissions into less damaging carbon dioxide, nitrogen and water vapour.

Palladium is also used in making consumer electronics such as mobile phones, computers and flat-screen TVs as well as in the medical and dental fields.

### Environmental link

Joshua Rotbart, founder and managing partner of precious metals dealer J. Rotbart & Co., points out that the price of palladium has been appreciating dramatically in the last few years – 176% in the last five years, to be precise – due to the increased demand for the metal for the production of environmentally compatible products.

“The increase in demand was met with shortage of supply, especially due to adverse weather conditions and disruptions caused by the Covid-19 pandemic,” Rotbart says.

For the purpose of investing, palladium can be procured as bars and coins in a relatively easy way. But amid tight supply and rising demand, the premiums on these products are high, relative to gold and platinum. In addition, investors should be aware of the low liquidity of physical palladium products, especially in Asia.

“Our advice would be to buy physical bars or coins for long-term investment only, but otherwise to invest via financial products. When it comes to even more exotic metals such as cobalt and others, we definitely would not deal with the physical products and invest via ETFs and similar avenues,” Rotbart adds.

Noli de Pala, chief investment officer at Singapore-headquartered independent wealth management firm TriLake Partners, says it's not always easy for investors to monetize their views on these commodities.

“There are futures contracts for the metals themselves, and there are companies that mine, stream, refine or manufacture these materials,” says de Pala.

“There are no stocks that are ‘pure plays’. Investors often invest in miners that produce rare earths in the course of their larger copper or nickel mining or companies that process these ores or companies that manufacture the batteries.”





Bottlenecks

“Equity investments have the additional business risks on top of the commodity price risk. And, of course, there are funds and ETFs that invest in these stocks that are exposed to this supply chain,” de Pala notes.

However, supply chain jams are now hurting production capabilities across a number of sectors, including the auto and electronics industries, which are closely linked to platinum and palladium.

As a result of a global chip shortage, a number of major auto makers have cut or suspended production, prompting analysts to lower their price forecasts for the two metals. Demand should recover as the chip shortage eases, possibly lifting prices again.

But with electric vehicle adoption growing quickly, the need for catalytic convertors could be superseded, making the outlook for palladium challenging.

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