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## PLATINUM: a bullish reappraisal

March 13, 1972

The price debacle that hit the free platinum market in the last few years has, in all likelihood come to an end.

From a high of \$300/oz, reached in mid - 1968, platinum prices fell recently to \$96/oz. Causing this slide was the great expansion of South African production, heavy Russian sales, spreading recession in the U.S., Western Europe and Japan, and, finally technological changes which economized usage. Most of these bearish factors are no longer with us; whatever negatives still exist are offset, in our view, by potential new usages and the effects of the internal and external depreciation of the U.S. dollar.

We conclude that deferred platinum futures offer an unusually attractive vehicle for capital appreciation with minimum downside risk. In fact, we believe that prudent investors should hedge at least one third of their net worth with a precious metal; from a relative point of view, platinum offers the highest value.

### SOUTH AFRICAN PRODUCTION

Rustenburg Mines, the world's leading producer of platinum, had boosted rated annual capacity from 750,000 oz/year at the beginning of 1969 to 1.3 million oz/year by 1970. The softness of the platinum market, however, forced the company to stockpile increasing amounts of its output and finally, in two successive steps, cut back its production to 50% of rated capacity during the latter part of 1971.

Mining sources now project 1972 Rustenburg production at 450,000 ounces, a level which should keep the company from further stockpiling even under the worst conditions, at best, the stockpile may disappear in one year. The latter is estimated to stand at roughly 300,000 ounces.

Impala's Union Corporation mine with a rated capacity of over 250,000 ounces is projected to produce 150,000 ounces while 40,000 ounces may come out of Western Platinum.

Finally, Brakesprint which had planned to increase its 1972 production from 180,000 to 300,000 ounces is holding discussions with Rustenburg (which will give the latter control of 90% of S.A. platinum fields) and is expected to revise downwards this figure to a level more compatible with market conditions.

In all, a concerted effort on the part of the world's leading producers of platinum to restore an element of stability to the market. Needless to say, an improvement in world demand will have a sharp effect on free market prices, as it is only a very marginal sector in the global consumption picture.

### RUSSIAN SALES

According to Sir Albert Robinson, Chairman of Rustenburg Mines U.S.S. R. platinum sale have moderated since the turn of the year after reaching a peak of 550,000 oz in 1971, up from 250,000 ounces in 1970.

Recent indications of Russian sales of gold support the contention that Russian planners are more willing to dispose of the latter, especially at the present \$43 plus level, in order to obtain necessary foreign exchange than part with the gray metal in a sagging market. In the barter mentality of the Kremlin, platinum is 'cheap' at just 2 times the price of gold.

### CONSUMPTION

The quickening tempo of U.S. economic activity and the prospects for Western European and Japanese recovery, augur well for increased platinum usage. Basic demand is expected to grow at about 4% per annum; on a very tentative basis (global statistics are extremely poor) we project consumption at 1,650,000 oz for 1972 and almost 1,750,000 ounces for 1973. Present rates of production should fall short of expected consumption for the first time in 3 years.

Major uses are: Electrical 41 percent, chemical 31 percent, petroleum 5 percent, dental and medical 6 percent, jewelry and decorative 5 percent, and glass 6 percent.

### NEW MARKETS

Much has been said about platinum's potential in the anti-pollution area. The two major growth areas have been petroleum reforming and as an oxidation catalyst in various anti-pollution applications, especially with regard to auto emission.

The rather limited scope of this study does not allow us sufficient room

to develop in detail the pro's and con's of this technical subject. Suffice it to say that adverse news (news affecting the potential development of these new markets) have appeared frequently in the past 3 months without drastically affecting the behaviour of future prices.

In our view, present prices discount totally the nonusage of platinum in the anti-pollution field. From a speculative point of view, any new developments can only be favorable; one could conceivably still see what staggering demand may be created if each automobile sold in the U.S. by 1975 used a platinum-based catalytic converter. At .06 to .10 ounces of platinum per converter, 15 million cars represent 1.00 to 1.5 MM ounces, or nearly triple last year's consumption.

### THE PLATINUM CONTRACT

Platinum trades on the New York Mercantile Exchange from 9:45 AM to 1:30 PM.

The contract calls for 50 ounces (troy) of pure platinum, sheet or bar, with a weight tolerance of 2% either higher or lower. Minimum specifications 99.8 % pure platinum and platinum metals with a minimum of 99.5% pure platinum.

Trading is confined to contracts primarily for delivery in the months of January, April, July and October. At the present time, the nearest contract traded is April 1972 which closed at 100.50 on March 10th, 1972; the farthest contract traded is July 1973 and it closed at 103.80 on the same date.

As one can very well see, the premium for a contract 15 months in the future is quoted at a mere 2.6% annual rate.

This small premium provides the investor with an added attraction as the 'financing' required for carrying platinum future 15 months is far smaller than the one an investor would have to pay for carrying physical platinum or gold (bank charges plus storage may run as high as 9% per annum).

Initial margin (deposit guaranteeing the fulfillment of one's contract) required is \$800 per contract, approximately 15% of the value of the contract.

### OTHER TRADING INFORMATION

Price quoted in U.S. \$ per oz.

Minimum fluctuation is 10¢ per oz. or \$5 per contract

Daily trading limit: \$10 per oz. above or below the previous day's close.

Commission (Round turn): \$45 (plus \$2 exchange fee)

Quoted daily: Globe & Mail, Wall Street Journal, N. Y. Times.

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All statements made herein, while not guaranteed, are based on information considered reliable and are believed by us to be accurate.

### SPECULATIVE OUTLOOK

The flight from the U.S. dollar has provided speculative stimulus to the precious metals complex. Thus, both gold and silver have had sharp price advances since the end of 1971 as investors have increasingly sought to protect their current holdings with hard and noble metals. In this revival of interest in the metals and particularly the precious metals, platinum has lagged far behind. This private bear market has had its own reasons, most important of all, overproduction. In our view this situation no longer persists.

It should be noted further, that speculative liquidation was extremely heavy all throughout the bear market and its scars acted as a dampener to fresh speculative interest. In our view, liquidation has also come to an end.

The rotational characteristic of all speculative booms should get to the next most undervalued precious metal. Circumstances are propitious for a brightening of the dull and gray metal.

### RECOMMENDATION:

Purchase deferred contracts, preferably January, April and July 1973 at present levels. First upside target is estimated at \$160/oz.

