

Gold, Platinum And Algebra

If I may channel my inner Andy Rooney, have you ever wondered why you never encountered a real-life situation wherein you had to figure out how far down the tracks the train leaving Boston at 70 mph would overtake the train leaving Pittsburgh at 50 mph?

The learning-challenged in my classes never mastered this and are now running for President.

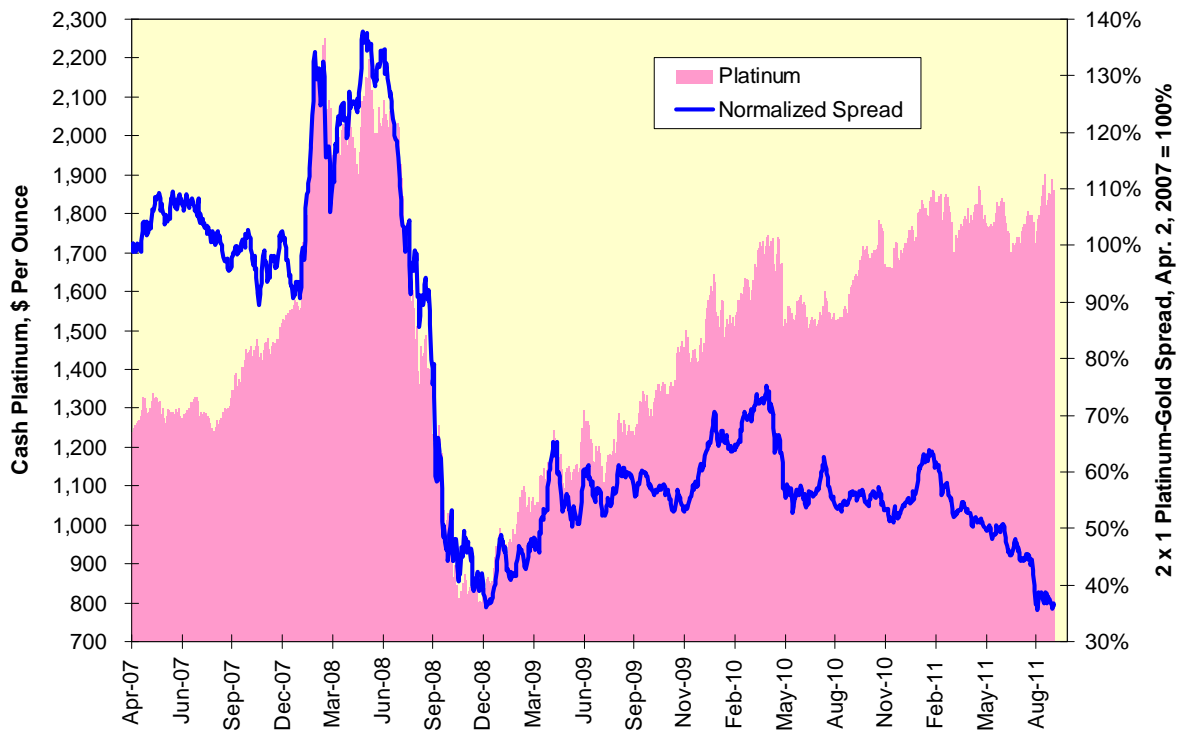
Fear not, thanks to the rally in gold, we now have a real-life example of what happens when gold prices move over platinum: Some of us get questions asking what it all means. The short answer, presented before the analysis, is it means nothing. Platinum prices are still in an uptrend with their constant-dollar prices higher than they have ever been save for a few overheated months in 2008. This is unsurprising given how global use in automobile manufacturing is rising. In addition, hoarding demand from ETFs such as the ETFS Platinum Trust is up 65% over year-ago levels.

Moreover, platinum and gold are not substitutes for one another save for the aforementioned hoarding demand and a little here and there in the jewelry market and they are not joint products. The accelerated move in gold thus will not face any sort of demand competition from platinum as the white metal turns cheaper than the yellow metal in terms of green paper; red ink need not apply.

The Normalized Spread

The common platinum-gold spread is traded in a two-by-one ratio. If we map this ratio normalized to the gold price itself, we see it was a close function of platinum's price until QE1 started to kick in and gold, already in a bull market, moved into its present hoarding phase. Even though platinum has continued higher, as noted above, it simply has been overtaken by gold. The train leaving Boston won; congratulations are in order.

Platinum-Gold Spread Moving In Gold's Favor

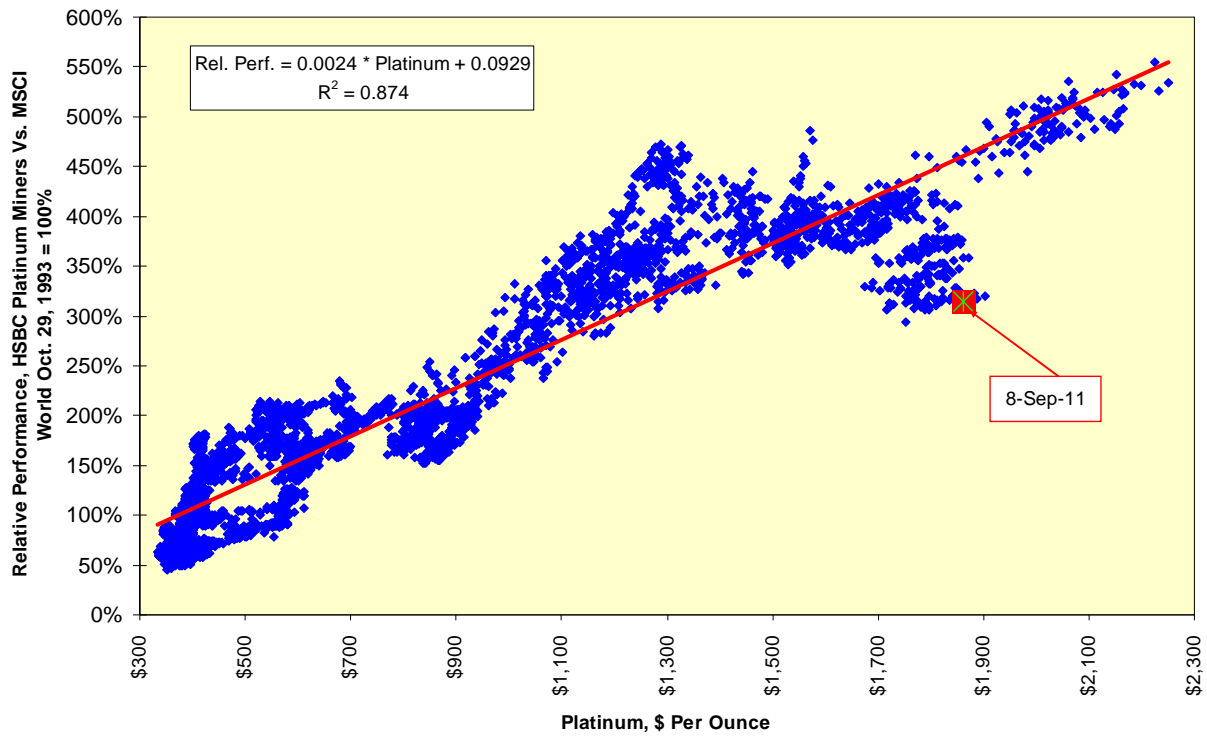


Not Finer To Be A Miner

If we revisit an analysis from April 2010 on the relative performance of the HSBC Global Platinum Mining index vis-à-vis the MSCI-Barra World index as a function of platinum prices, we find the miners have done a poor job of capturing the increase in platinum prices. This is common for all resource-production stocks in a mature bull

market; their costs tend to rise quickly and investors start to anticipate the eventual end of the bull market in the underlying commodity.

Platinum Miners Well Below Trend Performance



To return to the original question, is the move of gold over platinum significant? No, it is simply a curiosity, nothing more.