

Rhodium Glut Diminishing on Record Global Car Sales

By Nicholas Larkin
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Rhodium, the past year's worst-performing metal, is poised to rebound as record car sales curb a supply glut at a time when producers are idling unprofitable mines and postponing spending on new projects.

The surplus will decline 62 percent to 52,900 ounces this year, the least since 2008, as production contracts, Morgan Stanley estimates. The car industry, which uses rhodium-coated catalytic converters, will consume the most in five years. Prices that slumped 38 percent in the past 12 months will rally 62 percent to \$2,000 an ounce by the end of 2013, the median of eight analyst estimates compiled by Bloomberg shows.

The metal, usually found alongside platinum and palladium, fell 88 percent since reaching a record \$10,100 in 2008 as carmakers cut the amount used in each autocatalyst and increased recycling to reduce costs. The slump is curbing revenue for mining companies from Johannesburg-based [Anglo American Platinum Ltd. \(AMS\)](#) to [Impala Platinum \(IMP\)](#) Holdings Ltd. and [Aquarius Platinum Ltd. \(AQP\)](#) said June 21 it was suspending the Everest mine in [South Africa](#) because it is no longer profitable.

“One of the key reasons why the industry at the moment is not making money is because the rhodium price isn't supporting producers like it used to,” said Justin Froneman, an analyst at SBG Securities (Pty) Ltd. in Johannesburg. “A lot of confidence has been lost just because of how volatile it has been. The price is going to have to tick higher.”

Exchange Traded

Rhodium dropped 12 percent this year to \$1,235, the lowest since April 2009, according to London-based Johnson Matthey Plc, the maker of one in three autocatalysts. Platinum advanced 1.5 percent to \$1,421.50 an ounce and palladium declined 12 percent to \$577.92 an ounce. The Standard & Poor's GSCI gauge of 24 commodities retreated 5.2 percent and the MSCI All-Country World

[Index \(MXWD\)](#) of equities added 2.9 percent. Treasuries returned 2.5 percent, a Bank of America Corp. index shows.

Deutsche Bank AG introduced exchange-traded products backed by rhodium in May 2011 and they now hold 36,900 ounces valued at about \$45.6 million, according to data from the Frankfurt-based bank. That compares with the 1.34 million ounces of platinum and 1.94 million ounces of palladium held in ETPs, data compiled by Bloomberg show.

The metal is used with platinum and palladium in canisters with honeycomb-like surfaces that transform emissions. Rhodium converts nitrogen oxides, blamed for acid rain, into nitrogen and oxygen. Global sales of cars and light commercial vehicles will reach a record 79.9 million units this year and 85.3 million in 2013, according to LMC Automotive Ltd., a research company in Oxford, [England](#). Carmakers will use 837,000 ounces of rhodium in 2013, the most since 2007, Morgan Stanley estimates.

Platinum Price

The predicted rebound in prices may spur carmakers to once more reduce the amount used in each catalytic converter. Rhodium averaged more than four times platinum's price in 2008 and was more than 18 times palladium's price. It's now trading at a discount to platinum and is about double the cost of palladium.

An autocatalyst for a light-duty vehicle in [Europe](#) uses about 2 to 15 grams of platinum-group metals, according to Johnson Matthey. A catalytic converter for a gasoline-powered car will use about 10 times more palladium than rhodium.

While Deutsche Bank expects shortages to emerge as early as 2014, Morgan Stanley is forecasting surpluses through at least 2017. Both expect the supply of metal from recycling spent autocatalysts to keep climbing after reaching a record 280,000 ounces last year. That will advance to 307,000 ounces next year, equal to more than five months of South African mine output, Morgan Stanley estimates.

Factory Output

Vehicle purchases may fall short of forecasts as Europe's debt crisis spreads. European car sales fell for an eighth consecutive month in May, the European Automobile Manufacturers' Association said June 15. Services and manufacturing output contracted in June for a fifth month in the 17-nation euro area, London-based Markit Economics reported July 4.

China said July 5 it will cut benchmark [interest rates](#) for the second time in a month and the [European Central Bank](#) cut rates to a record-low 0.75 percent from 1 percent the same day to shore up growth. Federal Reserve policy makers are scheduled to announce a rate decision Aug. 1. Manufacturing in the U.S. shrank in June for the first time since July 2009, The [Institute for Supply Management](#) reported July 2.

Slower growth in demand from carmakers may be partly offset by expanding purchases by other consumers. While demand from automakers last year was 20 percent less than in 2007, sales to the [chemical industry](#) increased 14 percent and those to glassmakers jumped 32 percent, Johnson Matthey data show.

Two Centuries

Just 22.4 metric tons of rhodium will be mined this year, compared with 2,959 tons of gold and 16.35 million tons of copper, according to Morgan Stanley.

No more than 550 tons of rhodium have ever been mined since it was discovered two centuries ago, according to Wolfgang Wrzesniok-Rossbach, the chief executive officer of Degussa Goldhandel GmbH, a precious metal trading and investment company in [Frankfurt](#). All gold ever mined totals about 171,000 tons, fitting inside a cube about 20.7 meters (68 feet) long, according to the World Gold Council in London.

The drop in rhodium prices is adding pressure to producers already contending with strikes, surging energy costs and safety stoppages. Aquarius Platinum, based in Perth, [Australia](#), idled its Everest and Blue Ridge mines in South Africa and its Marikana venture with Anglo American Platinum. [Royal Bafokeng Platinum Ltd. \(RBP\)](#), based in Johannesburg, said June 21 it would defer about 482.9 million rand (\$59 million) of [capital spending](#) because of "prevailing market conditions."

Analyst Estimates

Rhodium accounted for 11 percent of Impala Platinum's revenue last year, compared with 27 percent in 2008, data compiled by Bloomberg show. The Johannesburg-based company will report a 33 percent drop in net income to 4.43 billion rand for its fiscal year that ended last month, according to the mean of eight analyst estimates compiled by Bloomberg show. Its shares declined 24 percent this year.

"Cutbacks will be positive for rhodium," said Grant Sporre, an analyst at Deutsche Bank in London. "The demand trend is positive for rhodium in terms of vehicle sales. It's not as expensive to use anymore, so I think there will be much more use of rhodium."

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