

NEW YORK MERCANTILE EXCHANGE, INC.
ANALYSIS OF DELIVERABLE SUPPLY
PLATINUM FUTURES

August 2018

In estimating deliverable supply for Platinum Futures, the New York Mercantile Exchange, Inc. (“NYMEX” or “Exchange”) relied on long-standing precedent, which provides that the key component in estimating deliverable supply is the portion of typical depository stocks that could reasonably be considered to be readily available for delivery. In its guidance on estimating deliverable supply, the Commodity Futures Trading Commission (“CFTC” or “Commission”) states:

In general, the term “deliverable supply” means the quantity of the commodity meeting a derivative contract’s delivery specifications that can reasonably be expected to be readily available to short traders and saleable by long traders at its market value in normal cash marketing channels at the derivative contract’s delivery points during the specified delivery period, barring abnormal movement in interstate commerce. Typically, deliverable supply reflects the quantity of the commodity that potentially could be made available for sale on a spot basis at current prices at the contract’s delivery points. For a non-financial physical-delivery commodity contract, this estimate might represent product which is in storage at the delivery point(s) specified in the futures contract or can be moved economically into or through such points consistent with the delivery procedures set forth in the contract and which is available for sale on a spot basis within the marketing channels that normally are tributary to the delivery point(s)¹

Approved Depositories and Stock Reporting Requirements

To date, Exchange approved platinum depositories are Brinks, Inc., CNT Depository, Inc., Delaware Depository Service Company, HSBC Bank, USA, International Depository Services of Delaware, JP Morgan Chase Bank NA, Malca-Amit USA, LLC, Manfra, Tordella & Brookes, Inc., Loomis, International and Scotia Mocatta.

Pursuant to the rules of the Exchange, each depository is required to report to the Exchange the level of Exchange grade inventory on a daily basis. The inventory shall include eligible and registered platinum. Eligible platinum shall mean all such platinum that is acceptable for delivery against the Platinum Futures contract (i.e., which meets the specifications and approved brands of the Platinum Futures contract) for which a warrant has not been issued. Registered platinum shall mean eligible platinum for which a warrant has been issued. Specifically, on a daily basis, each depository is required to provide the Exchange (1) the total quantity of registered platinum stored at the depository, (2) the total quantity of eligible platinum stored at the depository, and (3) the quantity of eligible platinum and registered platinum received and shipped from the depository.

The platinum inventory levels at all Exchange-approved depositories are made publicly available daily on the Exchange website². Further, the rules of the Exchange require an independent inventory audit to be performed annually to provide a comprehensive reconciliation of stocks stored at depositories with records maintained by both the Exchange and the depository³.

¹ http://www.ecfr.gov/cgi-bin/text-idx?SID=74959c3dbae469e2efe0a42b45b8dfae&mc=true&node=ap17.1.38_11201.c&rgn=div9

² <http://www.cmegroup.com/market-data/reports/registrar-reports.html>

³ <http://www.cmegroup.com/rulebook/NYMEX/1/7.pdf>

Deliverable Supply Analysis

The Exchange determined at this time to base its estimates of deliverable supply of platinum on registered stock as well as such platinum stock meeting all specifications of the Platinum Futures contract stored at Exchange approved depositories. The Exchange recognizes that platinum may at times be used as an investment vehicle and as such some platinum stock may be held as a long-term investment. While surveys conducted indicated no clear consensus on how much platinum was dedicated to long term investments, there was consensus that investment demand for platinum typically accounts for a much smaller portion of total physical supply compared to gold and silver.

Data from GFMS, a metals research consultancy, notes that retail investment, which it classifies as the sale of coins and bullion to small-scale, less sophisticated investors, in platinum and palladium was roughly 3.9% and 0.5% of total physical demand in 2017, respectively. This compares to 25.8% for gold and 14.8% for silver.⁴

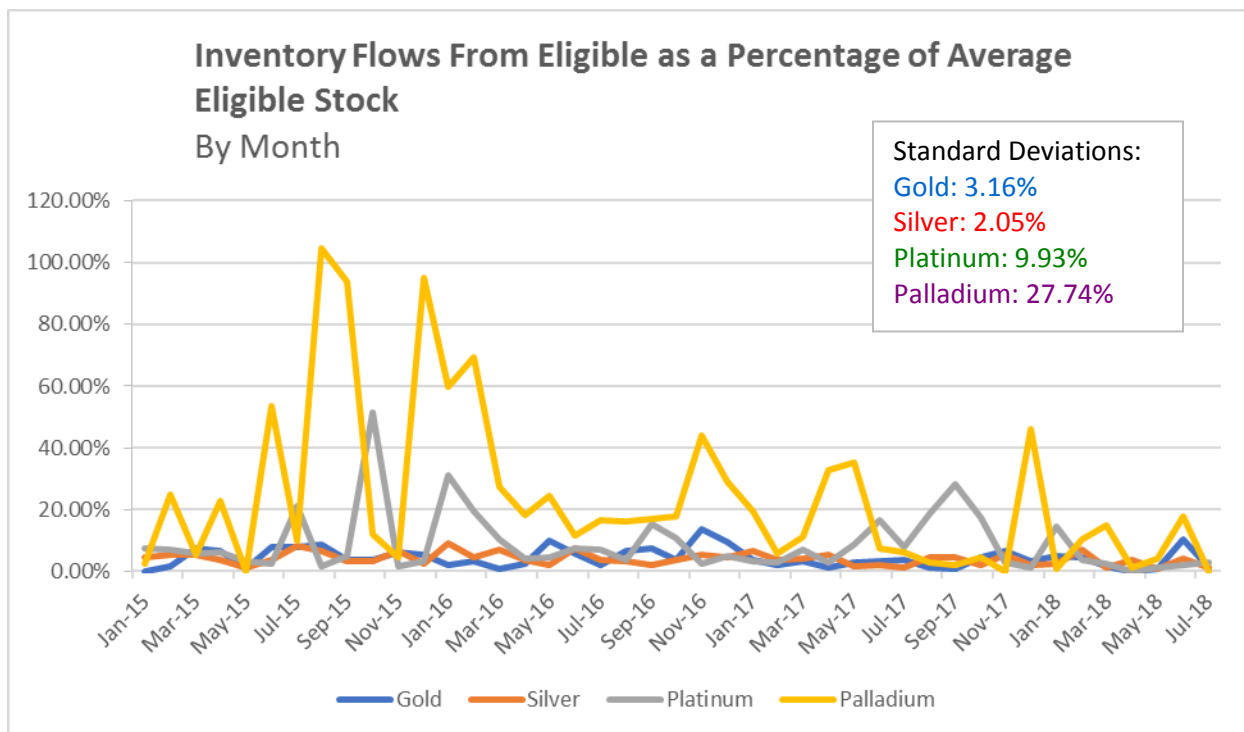
Withdrawals of eligible platinum and palladium from NYMEX depositories and adjustments of that eligible metal to warranted status are typically larger, in terms of percentage of eligible stock, than similar withdrawals and adjustments in the COMEX gold and silver markets. Furthermore, the standard deviation of these statistics is larger for platinum and palladium, suggesting that withdrawals and adjustments from eligible to warranted are proportionally larger than those of gold and silver. These two factors suggest that a greater portion of the eligible platinum and palladium stock is readily available to the marketplace.

Chart 1 below illustrates withdrawals from eligible stock and adjustments from eligible to registered stock as a percentage of monthly average eligible stock and the standard deviations of that data. These withdrawals and adjustments are taken as a percentage of average eligible stock of that metal during that month to adjust for the inventory size. Generally, the chart below shows that as a percentage of average eligible stock, flows of metal are relatively larger in the Platinum Group Metals (PGMs) than in gold and silver. By taking the monthly total withdrawals and adjustments as a percentage of average eligible stock, a turnover ratio is created which illustrates the magnitude of stock movements out of eligible inventory over each month. By taking the standard deviation of these monthly statistics, it is evident that changes in in platinum and palladium eligible stocks as measured by standard deviation, at 9.93% and 27.74%, respectively, have more dispersion around the mean than those of gold and silver, 3.16% and 2.05%, respectively. The mean withdrawal for both platinum and palladium are already greater, as a percentage of eligible stock, than for gold and silver. The larger dispersions, however, further show that greater proportions of platinum and palladium are withdrawn from eligible or adjusted to warranted stock.

⁴ Thomson Reuters GFMS Annual Surveys 2018 – Gold, Silver, Platinum & Palladium

http://images.financial-risk-solutions.thomsonreuters.info/Web/ThomsonReutersFinancialRisk/%7B87eb3342-8e48-44af-937e-7ad3264c2199%7D_Gold_Survey_2018_Final_Version_-_GS18_-_Compressed-min.pdf
http://images.financial-risk-solutions.thomsonreuters.info/Web/ThomsonReutersFinancialRisk/%7B8f5b2e6f-3c85-4630-aaa6-622569f34af6%7D_Updated_WSS_2018_compressed.pdf?utm_source=Eloqua&utm_medium=email&utm_campaign=&utm_content=&ga=2.152130553.1935136870.1532520821-132593290.1532520821
http://images.financial-risk-solutions.thomsonreuters.info/Web/ThomsonReutersFinancialRisk/%7Bd68cfa9a-27a9-4f1e-9b00-07b85152ab37%7D_PPS_2018_Final_Report-compressed.pdf

Chart 1:



Source: CME Group

Based on the foregoing, and in order to represent a conservative deliverable supply that is readily available for delivery, the Exchange made a determination to discount from its estimate of deliverable supply 10% of its reported eligible platinum as opposed to the higher discount levied in the gold and silver deliverable supply analyses. The Exchange may, at a later date, decide to estimate those stocks and include them in future deliverable supply estimates.

Table 1 below provides the monthly inventory average of each of registered and eligible platinum stored at Exchange-approved depositories for the period beginning August 2015 through July 2018.

Over the period beginning August 2015 through July 2018, the monthly average registered platinum was 1,570 futures equivalent contracts. The monthly average eligible platinum was 2,106 futures equivalent contracts accounting for a 10% discount. Based on the foregoing, the Exchange estimates monthly deliverable supply at approximately 3,676 futures equivalent contracts. The current spot month position limit of 500 contracts represents 13.60% of the estimated monthly deliverable supply.

At this time, the Exchange does not account for platinum stock meeting all specifications of the Platinum Futures contract that is stored at depositories other than those approved by the Exchange and which can be moved economically into such Exchange approved depositories consistent with Appendix C of Part 38. The Exchange may, at a later date, decide to estimate those stocks and include them in future deliverable supply estimates.

Table 1: Monthly Average Stock Levels at Exchange Depositories

(in Platinum Futures equivalent contracts)

Month	Average Eligible Inventory (with 10% haircut)	Average Registered Inventory	Average Total Inventory
Aug-15	1,375	991	2,365
Sep-15	1,720	574	2,294
Oct-15	1,663	845	2,508
Nov-15	2,122	773	2,895
Dec-15	2,143	719	2,863
Jan-16	2,296	1,059	3,354
Feb-16	2,294	1,249	3,543
Mar-16	2,250	1,349	3,599
Apr-16	2,150	1,434	3,584
May-16	2,328	1,210	3,538
Jun-16	2,386	1,118	3,504
Jul-16	2,171	1,296	3,467
Aug-16	2,107	1,302	3,409
Sep-16	2,306	1,924	4,230
Oct-16	1,968	2,634	4,602
Nov-16	2,011	2,540	4,551
Dec-16	2,504	1,981	4,484
Jan-17	2,377	2,002	4,379
Feb-17	2,408	1,918	4,326
Mar-17	2,323	1,954	4,278
Apr-17	2,278	1,983	4,262
May-17	2,343	1,870	4,212
Jun-17	2,334	1,915	4,249
Jul-17	1,960	2,228	4,189
Aug-17	2,019	2,004	4,023
Sep-17	2,139	1,872	4,011
Oct-17	1,934	1,897	3,830
Nov-17	1,898	1,794	3,692
Dec-17	1,954	1,726	3,680
Jan-18	1,974	1,538	3,512
Feb-18	2,048	1,453	3,501
Mar-18	2,023	1,467	3,490
Apr-18	2,012	1,474	3,486
May-18	2,023	1,456	3,479
Jun-18	2,039	1,435	3,474
Jul-18	1,969	1,503	3,472
3 Year Average	2,107	1,569	3,676

Source: CME Group