Heraeus

Precious Metals Weekly

5 September 2008

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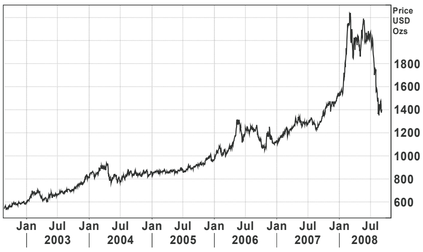
Highlights

- **Precious metals still cling to oil** – Especially gold and silver depending on the energy markets. Over all commodities loosing some luster. Fallout of closure of much renowned Ospraie commodity fund yet unclear, but in the worst case it could serve as an example to others.
- **Gold recovery short-lived** – Oi, oil, oil. And sometimes the dollar. In the end, value falls below $ 800 again. Despite low prices, physical demand in Germany and Hong Kong not too exciting. But strong buying interest reported from Turkey, Abu Dhabi and India.
- **Silver with no life of its own** - At least as far as prices are concerned. But very strong demand from both, retail investors as well as industrial end-users.
- **Platinum in reverse gear** - No support from the international car markets, which were in August down 10% in Germany and 15% in the States. Diesel cars losing out, so do big engines.
- **Palladium swinging between $ 279 and $ 305** – With car markets in distress and investors jumping ship price cannot advance. In Euro-terms now again close to 3-year low. We still recommend scale-down buying.
- **Rhodium remains a difficult case** - At first no sellers and a price jump to $ 6,300, then nobody wants it and the value collapses to $ 4,000. Currently it is already trading again in the middle of that range. Iridium and ruthenium in late-summer doldrums.

Platinum

All prices for the period from 25 August to 5 September

PT	US$/oz	€/oz	€/gram
High	*1,488.00*	*1,010.00*	*32.47*
Low	*1,317.00*	*910.00*	*29.26*
Latest	*1,421.00*	*982.87*	*31.60*



After a short-lived recovery platinum is recently under renewed pressure. The earlier gains - platinum rose from Monday to Wednesday last week from $1,410 to $1,490 an ounce - were mainly a reaction to the gains of the gold price. But there was also some support coming from news about a number of accidents in South African mines. These led to temporary closures of shafts and to limited production outages.

This week the price came under pressure from different sides: Besides the often heard referral to the "general problems of the global economy" there was very concrete negative news coming out this week for platinum (and palladium and rhodium) in the form of the latest car registration numbers in Germany and in the U.S.. GM & Co. had to experience for August a 15% drop in car sales. For the year-to-date the number is down by 11,2%. Analysts expect the full year figure now to be as low as 14 million cars and trucks, it would be the lowest number for 15 years. On top of that the market experiences a dramatic shift in the model mix. More and more of the remaining buyers in the States (and not only there) go for smaller cars with smaller engines and - as a result - a smaller PGMs-usage. In Germany, the biggest market in Europe, sales last month were 10% lower at 241,400 cars. At least for the combined first eight months the number in Germany is still slightly in the black, namely by 1,7%.

Not the least because of declining sales in the U.S., Japan's No.1, Toyota, said last week that total 2008 sales might end up at 9.7 million cars, 700,000 less than originally planned. Conservatively calculated - at four grams per car - this alone could result in a reduction of the platinum metal off-take by as much as three tonnes.

It does not help in this situation that reports hit the market according to which growth in car sales in China and India is finally slowing. It could well be that the steady increase in platinum metal demand in these countries (and in the former CIS) is now no longer sufficient to neutralise the simultaneous drop in Western countries.

The only fact platinum bulls could take some comfort from is that lower sales in the U.S. and a smaller growth in Asia might depress palladium more than platinum which is favoured in the more or less diesel engine-dominated markets in Europe.

But just because of that platinum is not out of the woods: The diesel share in Europe, as high as it still is, is certainly declining. In Germany the diesel share fell last month to only 40%, thus 20% less than 2007. About the reasons for that development we have reported here already in earlier editions of our Weekly.

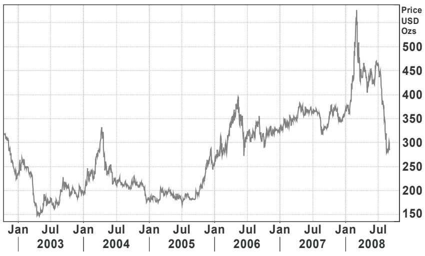
In this situation it is not helpful that more and more investors seem to turn their back on platinum group metals. And an outstanding news in that respect was the announcement of the closure of its flagship commodity hedge fund by the well-known New York-based investment firm Ospraie Management LLC. The funds' value fell 26.7 percent in August and a total of 38,6% so far this year. The fund's loss of more than 30 percent triggered a clause that would have allowed investors to withdraw money at the end of September. Ospraie now plans to return 40 percent of the fund's assets to investors by the end of September and another 40 percent by year- end. The remainder, mostly held in so-called illiquid investments, may take as long as three years to distribute.

We think that most negative developments are now factored-in in current prices and that platinum looks relatively cheap between $1,300 and $1,400 an ounce. Thus we still recommend to industrial end-users to lock in some of their future demand in that price range. That holds even more true for European end-users as prices in euros are currently close to multi-year lows and that despite the recent recovery of the dollar. We wouldn't rule out that the metal remains now in a trading range between $1,275 and $ 1,525 for the remainder of this year.

There were some news releases out this week from mines on their latest quarterly results. Generally the development in South Africa is characterised by higher profits and smaller output. More on that in the link section on page 4.

Palladium

PD	US$/oz	€/oz	€/gram
High	*305.00*	*208.00*	*6,69*
Low	*275.00*	*188.00*	*6,04*
Latest	*294.00*	*204.04*	*6.56*



In the last few days the white metal did not offer a lot of joy for producers for or the investors still engaged. On the other hand industrial end-users certainly weren't too unhappy that the palladium price fell back below $280, after rising earlier only briefly to just above $300 an ounce.

The prospect of more sales from the investor camp; the horrifying sales numbers from some of the important car markets and the possibility that there are still official holdings waiting to be sold at some stage lead to an environment, in which the palladium bugs might have to wait for the next massive rally a little bit longer.

Nonetheless, with the price now - at least in Euro-terms - being close to a 3-year low we continue to recommend to industrial end-users to buy metal on a scale-down buying order basis.

Rhodium, Ruthenium, Iridium

Rhodium initially continued its rocket-like performance and began to stall only as high as $6.300 an ounce. With no sellers on the way up and no buyers near the top, the market saw a brutal turn-around, which caused the price to fall to $4.100 again, all within just two days.

Whether that latest decline was caused or at least influenced by the news regarding the Ospraie pull-out remains unclear and might never be disclosed. In any case the metal didn't stay that low and within hours it recovered to $4.900 again. Just on a side-note: Not too long ago $2.000 was the actual price of rhodium and not it's weekly trading range…

Trading in iridium and ruthenium was clearly boring in the last 10 days. As a result of the recent small rise of the iridium price buying interest dried up and we do not foresee any more change here in the future. Ruthenium trades unchanged at $260 - $300 an ounce.

Gold

AU	US$/oz	€/oz	€/gram
High	*844.00*	*571.00*	*18.35*
Low	*789.00*	*545.00*	*17.52*
Latest	*810.70*	*560.49*	*18.02*

Yet another time the gold price was largely influenced by oil. As a result it moved first from $822 to $845. The following collapse of the oil value, which drove the "black gold" down to $105 a barrel led to a gold price of "only" $789 an ounce, the lowest in two weeks.

The dependence on the oil price is most likely not going to disappear in the next couple of days. At the same time the downside seems at least somewhat limited by the booming physical demand in Western Asia and by the fact that investors in ETFs for the time being stick to their favourite metal. On the other side it looks like much more than $850, the 1980 landmark price tag, is not achievable either, thus the metal might stay in a relatively narrow trading range.

While, as mentioned above, the physical demand in some regions has recovered nicely, the same cannot be said about the German and Western European off-take. And this also holds true for Hong Kong. However inventories there are still small and thus the former crown colony continues to import metal from the West.

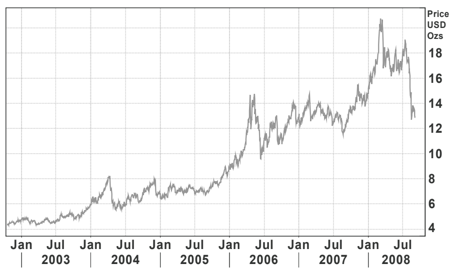
As far as gold imports are concerned, India is currently staging an impressive comeback. As a result of the price drop from more than $ 1,000 to less than $ 800 not only the Swiss bank UBS reports a notable increase in gold deliveries. For the whole Indian market the Bombay Bullion Association forecasted for August an off-take of 100 tonnes, 31 more than in the same month last year.

Other reports about a booming gold demand reached the market from Abu Dhabi, here jewellery sales are said to have increased by 300% and from Turkey, where the imports rose in August by 70% to 47.2 tonnes.

As far as the production side was concerned, news has been less positive. New accidents, followed by a temporary closure of some shafts, ensure that the output in South Africa is far from gaining speed. Reports about a production decline also came from Australia. Here higher production costs and the outage of an essential natural gas pipeline to the gold fields following an explosion led to a 13%-decline of the gold production in the second quarter. The total output in that period was only 55 tonnes, the half year result the lowest in 19 years.

As rising production is reported on the other hand from China and Russia. The Russian Gold Producers' Union said that the country raised it's total year-to-date gold output by 9.5% to 84 tonnes. About 73 tonnes is newly produced, the remainder comes from secondary material.

Despite that growth, global output for 2008 is most likely to shrink again compared to the previous year. The same holds true also for central bank sales. In the current year, sales by those addresses could hit the lowest figure since 1999, the year, when the first Central Bank Gold Agreement was signed. This week, the Swedish Riksbank said that it would remain nonetheless a seller in 2008/2009, 15 more tonnes are supposed to be sold.



Silver

AG	US$/oz	€/oz	€/kilo
High	*14.02*	*9.49*	*305.11*
Low	*12.47*	*8.60*	*276.50*
Latest	*13.05*	*9.04*	*290.50*

As far as prices were concerned silver proved once again to be not more than an appendix to its yellow sister metal.

But in contrast to the gold, the physical demand here in Europe is very strong, from the industrial sector, but also from retail investors and an international market price below $13 is certainly helping here. For a short period of time the silver value fell this week as far as $12,48 and thus almost reached the multi-months low again seen three weeks ago.

In the near future we expect, as in the case of the other metals, the price to trade sideways in a relatively broad band between $12.40 and $14 an ounce.

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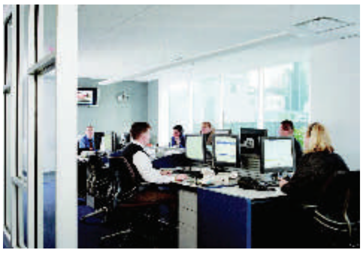

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