



## Precious Metals Weekly

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### Highlights

- **Precious Metals in the Financial-Market Crisis Vortex** – Extremely volatile prices reflect nervousness of international investors. Gold and Silver cut a better picture than platinum metals.
- **Gold temporarily under 1980's high** – Speculators jump ship beginning of period, followed by boost in physical demand and longer-term-oriented investor interest change trend. Despite this, \$ 900 an ounce mark proving difficult to breach. This years most important dealers conference starts in Kyoto coming weekend.
- **Silver hangs on to Gold** – First falls, then recovers with gold. German private investors again in market as buyers; 5 kilo bars preferred.
- **Platinum falls to \$ 1,040** – Since high of early year, halved in value. Investors getting out. In view of economic and financial crisis, demand scepticism creeping in.
- **Palladium barely escapes Big-Figure Change to 1** – Price at times down to \$ 212 ; a three year low. GFMS outlook positive.
- **Minors calm at marginally lower Levels** – Focus currently on the major precious metals. Rhodium books mild losses before trading in tight range between \$ 4,200 - \$ 4,500. For the moment industry showing little interest in ruthenium or iridium.

All prices for the period from 5 Sept. to 23 September

PT	US\$/oz	€/oz	€/gram
High	1,388.00	966.00	31.06
Low	1,040.00	733.00	23.57
Latest	1,220.00	816.00	26.23

In their first supplement to their annual study GFMS, London does not draw a very positive picture for platinum. Despite the fall in new platinum production in the first half of this year, the analysts from GFMS are expecting an over-supply in 2008; to the extent of up to 120,000 ounces. For 2007 they had estimated a deficit of 210,000 ounces. Their reason for expecting a surplus this year is based on increased supplies from recycling, substitution of platinum by palladium in the automobile industry and the much lower jewellery demand seen in the first eight months of 2008 due to the high prices. For 2009 GFMS's prognosis is for an even larger excess.

## Platinum

The platinum price has been exposed to oscillating emotions in the past two and a half weeks. From \$ 1,400 an ounce at the time of our previous report the metal continually lost ground till \$ 1,127 an ounce. Here is recorded a short-lived recovery before the massive slide down to \$ 1,040 an ounce. It touched this level for the second time last Friday before significantly recovering to \$ 1,255 an ounce. Responsible for the recent gains, at least in part, seems to be the much criticised rescue package of the US government which is hoping to pull the local finance industry out of the dumps. Possibly, the speculators are hoping for a quick sorting out of the problems followed by a hastened recovery of the US economy.

We are less optimistic about this and as such do not think yesterday's platinum rally can sustain itself. For the coming days we expect the metal to trade in the range between \$ 1,150 and \$ 1,250 an ounce. On the longer term we do not rule out lower prices, though we do not expect the previous fortnights low

of \$ 1,040 an ounce (reached twice) to be breached in the foreseeable future. The speculative platinum positions on the Future exchanges have significantly dropped in September. Compared to the highs of July, these have almost halved to a mere 15 tonnes. The larger part of the investor sell-off was recorded on the Tokyo exchange TOCOM. In contrast, volume of metal tied in the form of ETFs has hardly changed in the past few weeks – still at around nine tonnes. However the ETF volume had already lost ground significantly in August.

In the next two weeks traders will be anxiously looking at the automobile sales figures in the USA and Europe. It is perhaps not only investment bankers on Wall Street, who, thanks to the turbulences in the financial markets have been holding back on fresh purchases. We do not foresee any major support coming from the automobile industry that will significantly help the platinum price in the near future, despite the presently relatively low price as compared to the highs of earlier this year.

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## Palladium

The most common platinum group metal did not really seem to have a life of its own in the past few days. Driven by initial losses in platinum, palladium came very close to sliding through the \$ 200 an ounce mark. The fall was however stopped at \$ 212 an ounce, among others, by industrial demand picking up.

This was, despite the industrial support, the lowest level seen in three years and a dent in many market-participants pockets who for quite some time have considered the metal to be backed by good and continually improving fundamentals. It now seems that the interim rally, that at one stage in the first quarter had pushed the metal up to \$ 580 an ounce, was on shakier territory than initially thought and was driven more by speculative interests than previously assumed.

PD	US\$/oz	€/oz	€/gram
High	279.00	188.00	6.04
Low	212.00	152.00	4.89
Latest	245.00	168.00	5.40

## Rhodium, Ruthenium, Iridium

In the past fortnight precious metals traders worldwide had their hands full with the major metals. The "minors" were to a great extent ignored and behaved calmly accordingly. Rhodium initially booked some losses and has since then been trading between \$ 4,200 - \$ 4,400 an ounce. There is some buying interest at the lower end of this range, but this vanishes as soon as the price starts to

move upwards. Despite the grave losses in the past few months, we do not believe that the metal, which has recovered back to \$ 240 an ounce in the last three days, will be testing levels around or below the \$ 200 an ounce mark in the near future. The probability of increased industrial user demand is far too high for this, though given the current global financial market problems, it may take a while for this to be properly reflected in the price. We continue to recommend to industrial users to place staggered purchase orders to hedge their future price risk.

GFMS, in their most recent gold study supplement, have briefly also mentioned palladium. The analysts are more positive for palladium, relative to platinum. GFMS does not rule out that the palladium market, due to increasingly depleting stocks, could in the

move upwards.

At the moment industrial users are showing little interest in ruthenium and iridium. This has seen both metals shedding value marginally. Iridium is currently trading at \$ 420 - \$ 450 an ounce and ruthenium at \$ 240 - \$ 290 an ounce.

## Gold

In the last fifteen days gold was very erratic and all over the place – quite like the other financial markets. At the beginning of this reporting period, with the background of falling oil prices and a firming US-dollar, the negative trend in gold continued and by the end of the previous week the metal recorded its most recent low of \$ 737 an ounce.

Around this level massive investment demand and heavy buying from the jewellery sector lead to some stabilisation and the metal picked up to \$ 800 an ounce. Here it moved sideways for a while before making an extraordinary upward move of \$ 120 an ounce last Thursday and Friday.

We do not believe that this move was driven only by investors searching for a haven in view of the financial disasters at US Investment Bank Lehman Brothers and insurer AIG. Though in the past few days there was good demand for ETFs (up to fresh records), there appears to be more behind the yellow metals most recent rally. Possibly it could have been the speculative shorts who decided to cover themselves on account of the recent discussions that the financial markets needed more stringent regulations than currently in place. Similar large moves were seen in other markets, e.g. oil or VW's stock.

An indication that there may not have been sustained buying interest is reflected in the price, after making its highs last week, quickly falling back down to \$ 825 an ounce. However, in the past 24 hours the metal again surged upwards from this level to over \$ 909 an ounce and is currently trading \$ 20 an ounce below this mark.

The nervousness of many market participants is very evident, reflected not only in the extremely high volatility but also in gold interest rates moving upwards, these latter though not as extreme as we are used to in the platinum metal markets. At one stage short-date gold interest rates were over 5 per cent p.a.; however, this situation calmed down relatively quickly.

We again have negative news from the production side. The South African Statistics Office reported July production fell by 16.4 per cent compared to similar period previous

year. This minus reflects the continuity of lower production which was 57 tonnes in the second quarter of 2008 – down 9 per cent as compared to the similar period of the previous year. Analysts consider not only continual power problems as a cause for production falls, but also temporary mine closures due to accidents and strikes. In view of the declining production South Africa for the moment does not have any chance of recovering its status of the world's largest gold producer. This, after almost 90 years, was lost to China in 2007.

In neighbouring Zimbabwe gold production in the past few months, at least in percent-terms, fell even more than that in South Africa. The official production in the first seven months this year was down by 44 per cent – to a mere 2.6 tonnes. Here also power shortages seem to be the main culprit though market watchers do point to the desolate economic and financial conditions existing in the country. Mines in Zimbabwe are required to sell their complete production to the central bank and get only 40 per cent of the counter value in an international currency and the rest in local currency.

On the other hand Ghana, the second largest African producer, reported a plus. The first half year production was up by about 3 per cent to 40 tonnes. The actual value the produced gold in fact brought in was 40 per cent more. However, the costs of production here have also gone up and are presently calculated to be just under \$ 600 an ounce; ca. \$ 110 an ounce more than the average of 2007.

Barrick Gold, the worlds largest gold producer, has also reported increasing production costs. It now costs the Canadian company around \$ 445 to produce 1 ounce of gold.

One should not see the exponentially increasing production costs seen in the last few years too pessimistically as far as the longer term perspectives for gold are concerned. Already at price levels between \$ 600 - \$ 700 an ounce, many of mines will find it difficult to continue production and cover their costs. To begin with this should put a check on fresh supply. At lower prices feasibility of processing "scrap gold" will also be severely tested

AU	US\$/oz	€/oz	€/gram
High	909.00	627.00	20.16
Low	735.00	526.00	16.91
Latest	890.00	605.00	19.45

and at the same time should significantly encourage jewellery demand.

As such in the next 15 months we do not see the gold price falling for any extended period of time below the aforementioned levels.

On the other side we have seen that prices over the \$ 1,000 an ounce mark have been difficult to sustain. Should the US-dollar not melt down completely and the oil price not go to fresh historic highs – both in view of the present global recessionary danger seemingly unlikely – it would be difficult to imagine a sustained gold price of over \$ 1,000 an ounce in the coming quarters.

The British analysts GFMS last week published their first supplement to their much read annual study "Gold 2008". They report a significant reduction in gold production in the first half of this year, not only due to the above mentioned problems in southern Africa, but also in Indonesia and Australia. All in all about 50 tonnes less of gold appear to have been produced. Simultaneously production costs worldwide are said to have gone up by about 20 per cent.

As far as open forwards and futures go, GFMS is expecting a significant reduction in the mines buying back hedges in the last quarter of this year.

According to GFMS, gold sales from central banks in the first half-year were 167 tonnes – a drop of 26 per cent. Also jewellery demand fell in this period compared to the similar period in previous year – without considering "scrap gold" – by 36 per cent to 350 tonnes; a 20 year low. This fact should have prevented the price from going up further as the jewellery sector, despite prophecies of doom, remains by far the most important market for gold.

AG	US\$/oz	€/oz	€/kilo
High	13.50	9.22	296.43
Low	10.25	7.35	236.31
Latest	13.15	8.95	287.75

## Silver

The price moves in gold and silver in the last two weeks ran parallel to a large extend. The initial loss down to \$ 10.23 an ounce was followed by a mildly upward-tending sideward move before silver surged along with gold, albeit with a slight delay, to peak at \$ 13.40 an ounce. The US-dollars recovery and the quick losses in oil the following morning caught many silver bulls with long faces: the price today afternoon was down

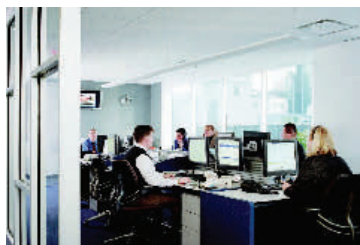
again close to the \$ 13 an ounce mark.

For further moves, silver will continue to depend on Gold. Given its dual character of being an industrial and investment metal, silver could find itself under more pressure than the yellow metal when confronted with negative news from the economy.

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