Heraeus

Precious Metals Weekly

21 September 2009

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Highlights

- **Precious metals show somewhat positive performance –** For a time significant price gains in the shadow of US$ weakness.
- **Gold almost reaches new all-time highs –** despite IMF selling plan.
- **Silver trades temporarily at 13 months high–** but far away from the 2008 peak. Technical support holds at $ 16.
- **Platinum clearly above $ 1300 –** Car show IAA confuses. By far no chance to replace combustion engines soon (still a need for platinum in catalysts).
- **Palladium finally above $ 300 –** It was about time.
- **Rhodium cant really hold gains –** Traders still with selling Interest. Ruthenium and Iridium stable.

Next report will most likely be published Oct 1st. 2009

All prices for the period from 10 Sept. to 21 Sept. 2009

PT	US$/oz	€/oz	€/gram
High	1,350.0	919.90	29.58
Low	1,269.0	865.50	27.83
Latest	1,320.0	894.50	28.76

Platinum

In the past ten days platinum has continually climbed before peaking out at $ 1,350 an ounce. It subsequently lost some ground, however without any fundamental reasons, and it dropped down to $ 1,320 an ounce.

Frankfurt is currently hosting the International Automobile Fair (IAA). Even if a few Japanese have stayed away, manufacturers from the rest of the world have brought some extraordinary wares to display. And it is not only new models; these will find their way to the showrooms soon anyway: it appears that all manufacturers are finding it a must to present various concepts that take into account alternate energy as the driving force; however most will still require many years of further development before such automobiles start coming off the assembly-lines.

Generally a trend is noticeable: to begin with, one notices that automobile cylinder -volumes will shrink in the coming years. This holds not only for the classical engine types but also for the hybrids; this latter will the combustion-engine more and more to generate electricity for the main electricity-driven motor. In future, this area will tendencially require less platinum metals.

On the other hand fuel cells, which have been in and out of the limelight during the past 20 years, despite all the prophecies of doom are not out of the race. For example, to support this technology, in Germany a network of Hydrogen-stations is planned in the foreseeable future. Such news is music to the platinum metals producers, for a vehicle driven by fuel-cells needs a much higher platinum loading than conventional auto-catalysts.

Some interesting points were noted during the course of a series of presentations at the IAA by CSM Worldwide on the development of the automobile markets in the coming years. One such presentation discussed, among others, the enormous “mobility” demand of the people in developing nations like China, India and Brazil. Here the demand effect of “large numbers” was pointed out and the massive potential even if such demand increased by a few percent. Limited to next year, CSM’s prognosis was however mixed. In Germany the missing “wreckage premium” is expected to cause 2010 new registrations to fall significantly. Globally CSM expect a recovery in sales already by next year, though it will take till 2013 before the market can reach the record levels of 2007 (65 millions vehicles). By 2015 annual sales could then go up to 75.3 million automobiles.

CSM is sceptical as far as the earlier mentioned rush for “alternate” energy engines is concerned, especially electric motors. Given the long development cycles in the automobile sector, the high subventions needed and the so far not answered question of availability of appropriate and adequate “filling stations”, CSM does not see the classical combustion engine being replaced for a long time to come. Only by 2020 could purely electric-motor driven vehicles get a larger share of the market and a serious threat to them from fuel-cell technology is not to be expected before 2030.

In view of the plausible prognosis given by CSM it does not look like platinum metals demand from the automobile sector in the foreseeable future is going to retract in any significant manner. This should support the price of the white metals, in the medium as well as longer term.

Should the price of platinum and rhodium at any stage fall to three digits, for example due to speculators getting out, or palladium test the $ 200 an ounce mark, industrial end-users would be provided a good opportunity to cover some of their future demand.

If you are interested in the CSM presentations, we could arrange to establish contact with the institute.

PD	US$/oz	€/oz	€/gram
High	304.00	207.00	6.66
Low	286.00	196.00	6.30
Latest	294.50	201.00	6.46

Palladium

After a long sideward period around the $ 290 an ounce mark, palladium finally managed to cross the $ 300 an ounce level, though only for a short period. The price is currently back below this psychologically important mark.

Rhodium, Iridium, Ruthenium

Rhodium profited only for a very short period from the rally in other precious metals and added just about $ 25 an ounce to trade up to $ 1,675 an ounce. However even this small rise did not last for long as the unchanged continual industrial demand from Asia was fully met by the dealers selling-interest and the price quickly dropped back to previous weeks level of $ 1,650 an ounce. No change in either of the other two “minor” metals. Iridium continues to trade at $ 390 – $ 440 an ounce and ruthenium at $ 70 – $ 100 an ounce.

Gold

AU	US$/oz	€/oz	€/gram
High	1024.00	698.00	22.44
Low	982.80	669.50	21.52
Latest	1002.00	683.00	21.96

At the time of our previous report, as mentioned, gold had not managed to establish itself above the $ 1,000 an ounce mark; instead it had fallen below this psychologically important level. This setback however did not last for long: driven by a rising oil price (recently up to $ 73 a barrel) and a strengthening Euro (to above 1.4750) against the USD gold traded up to $ 1,024 an ounce; it's highest in 18 months and only $ 6 away from the all-time high of March last year. With further buying slowing down at these levels and the currencies markets calming down, the yellow metal could not hold onto all it's gains and around last weekend retracted below the four-digit mark and at one stage, in Asia, was again worth a "mere" $ 995 an ounce.

In view of the high prices the longer-term oriented investors remained on the sidelines. Though we still continued to see good demand for our gold bars, this however slowed down significantly once gold, for a second time within a week, moved above the $ 1,000 an ounce mark. A similar tendency was noted with the ETFs: demand was still there but much lower; for example, the most popular ETF from SPDR Gold Trust added only 6 tonnes in the last few days. Their stocks, now 1,086 tonnes, are miles away from the highs reached on 1st June earlier this year.

Apparently there is still a degree of scepticism amongst some of the longer-term oriented investors as far as the sustainability of gold's high price is concerned. In this environment recent reports about the catastrophic situation of jewellery demand in Italy do not help much. A representative of jewellery wholesalers said demand from Europe's largest jewellery market this year will be off by about 25 – 30 per cent compared to 2008.

And there was another report that might well have dampened the appetite of investors for the yellow metal on a short-term basis: The International Monetary Fund's executive board has approved the sale of gold, worth an estimated 13 billion dollars, from its reserves to boost lending to poor countries. The IMF said in a statement the sales would be "in a volume strictly limited to 403.3 metric tonnes, with these sales to be conducted under modalities that safeguard against disruption of the gold market." The sale amounts to one-eighth of the current holdings – 3,200 tonnes – of the IMF, which is the third-largest holder of gold after the United States and Germany. It was in 1999 and 2000 when the IMF last sold gold to fund some of its financing projects.

The Washington-based institution said the decision was a core element of a new income model to make it less dependent on its lending revenue. To accomplish the task, the IMF announced last year it was going to diversify its income by selling part of its gold reserves to create an endowment. At their April 2009 summit in London the G20 countries then agreed to the gold sales.

"I am delighted that the executive board has given its overwhelming backing to a strictly limited sale of fund gold to put the financing of the IMF on a sound long-term footing, and enable us to step up much-needed concessional lending to the poorest countries," Managing Director Dominique Strauss-Kahn said in a statement.

He added that the sales will be conducted in such a way that does not disrupt the sale of the precious metal in commodity markets. The sales will be made directly to central banks or sold on the markets over a longer period of time, the IMF said. An unconfirmed report said that China is considering buying gold being offered by the IMF.

A striking, partially political, remark was made this week by Nedbank. South Africa's No. 4 bank said on Tuesday it may not finance big carbon emitting companies like miners and electricity producers in future, unless they try to reduce their carbon footprints.

We have to wait and see if Nedbank, which promotes itself as a "green bank", will find a following in South Africa. If it does, then the mining industry will have an added challenge, the solution to which will probably be anything but cheap.

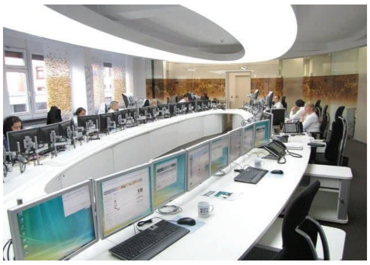
This should eventually raise cost of production at the mining companies and push the price spiral further upwards. Market analysts GFMS in their most recent gold market study (Gold Survey 2009 – Update 1) have calculated that the average cost of producing 1 ounce of gold in the 2nd Quarter was $ 608; the second highest ever in the history of gold production. A higher cost was recorded only once before – in the 3rd Quarter of 2008 – a quarter that was significantly effected by high energy costs and temporarily stronger local currencies of producer nations.

On the whole GFMS is generally positive for gold: investor demand is expected to by-and-large balance out the missing jewellery demand and the slightly higher supplies from new production as well as the constantly reducing de-hedging by mines and the increased supply of scrap gold. The second positive factor is that central banks will be selling less gold and/or may even become net buyers.

Silver

AG	US$/oz	€/oz	€/kilo
High	17.63	12.02	386.45
Low	16.02	10.92	351.08
Latest	16.92	11.53	370.70

Similar to gold, after a short breather before last weekend silver also recorded significant gains. It traded up to $ 17.63 an ounce; a 13 month high. But unlike gold, the white metal was still a way off its last years high of $ 21.20 an ounce. In the past 48 hours the metal has – in percentage terms – lost more ground than gold. Last night it had dropped down to $ 16.50 an ounce, and though it has recovered marginally in the past few hours, the downside risk that it could test the next closest chart support – presently around $ 16 an ounce – still remains.



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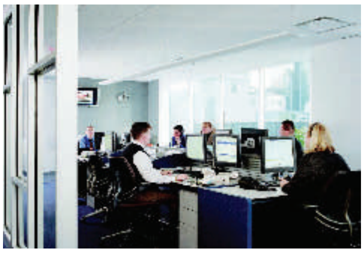

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