Precious Metals Weekly

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Highlights

- **Industrial metals under pressure -** Fear of recession on account of the financial and property market crisis puts consumption and prices under pressure.
- **Gold to some extent manages to hold on -** The rich and not so rich; investors in crisis go for bars and ETFs. Speculators on the other hand need cash and (must) sell.
- **Silver again drops 2 dollars -** However holding well above its lows of September. The metal in future will also not perform as well as gold.
- **Platinum after two-and-a-half years back in three digits -** Disasterous international automobiles sales figures and instutional investor pull-out brings metal to its knees. Presentations during the Kyoto precious metals conference reiterate problems on the production side and point towards higher future auto-industry demand on account of more stringent emission regulations.
- **Palladium falls to below $ 200 an ounce -** Lowest level since October 2005. Metal has lost 65 per cent since its February high. Despite all negative news from the automobile market, now undervalued. Once the next upward economic cycle kicks off, the trend will in all probability turn around.
- **Rhodium also books losses -** Sales on one side and simultaneously eroding demand in practically all automobile markets put pressure on metal from all sides. Further declines cannot be ruled out. Ruthenium mildly lower, Iridium stable.

Our next Precious Metals Weekly will be published 23rd October 2008.

Platinum

All prices for the period from 23 September to 3 October

PT	US$/oz	€/oz	€/gram
High	*1,256.00*	*848.00*	*27,26*
Low	*947.00*	*680.00*	*21,86*
Latest	*955.00*	*689.00*	*22,15*

Bad news for the platinum bulls. Growing concerns on a slowing global economy saw the metal lose more percent points than some of the political parties in Southern Germany.

For the first time since March 2006, the white metal was below the $ 1,000 an ounce mark on Thursday and market observers pointing to a recessionary global economy expect the worst is not yet over, at least in the short-term. Technical charts, under-laden with recent very highly volatile, do not offer much help ; the metal rebounded strongly at $ 950 an ounce in 2004 but in 2006 it went the other way.

Platinum traders across the world are nervously awaiting the automobile sales figures due from various markets in the coming days. The USA made a start last evening as the latest automobile producers' sales figures for September were published. Ford booked a drop of 34 per cent, Chrysler 33 per cent and Toyota 32 per cent. Amongst the important manufacturers only Honda and General Motors, down 24 per cent and 16 per cent respectively, were the only two who were above the 26 per cent industry average.

In view of the continuing financial and housing market crisis one can hardly expect good news from across the Atlantic in the coming months, however the latest lightly positive consumer-confidence figures in USA did come as a surprise.

News from Germany and other European countries should be similarly negative; surprisingly even China has recently reported a slowdown. Figures from all these regions will become available during the course of the next two weeks. While one cannot put much hope on good automobile sales figures from Europe, the recent development in China has been cause for some concern. For August the Chinese surprised the market by reporting a drop in car sales of 6.2 per cent; a first in the last two years in a market that had shown very quick and robust growth. Toyota, the worlds second largest automobile manufacturer said this week that they would be curtailing production in China to adjust to this recent change. Local market participants point to high petrol prices and falling stock markets as being responsible for the negative developments in the Chinese market.

The Chairman of the Japanese Automobile Manufacturers Association additionally pointed out that the Indian automobile market has also gone into a downward spiral since July and further developments in this market have to be closely watched. Honda, in perfect context to this, announced last Friday that plans for opening their second plant in India would have to be deferred by at least a year. Reason for declining auto-sales in the Sub-continent is said to be substantially increased interest-rates on car-loans; this coincides well with the highest inflation rates seen in the last 16 years.

While the short and medium term factors influencing physical platinum demand can be only interpreted as negative, the majority of the professional participants at the Kyoto conference were anything but negative in the longer-term. Accordingly their one year prognosis came out low. The recent conference in Kyoto was the first conference hosted jointly by the London Bullion Market Association (which represents the gold and silver market participants) and the LPPM (London Platinum and Palladium Market; an association of the worlds platinum-metal producers and dealers). Asked what their projection was for the platinum price for November 2009 – the date of the next conference to be held in Lima – the over 400 representatives of banks, trading-houses, refiners and mining companies forecast an average price of USD 1,488.20 an ounce.

The participant's optimism was furthered primarily by two talks during the course of the Kyoto conference. The first by Neil Collins, technician at the British auto-catalyst producer Johnson Matthey, who indicated that in the foreseeable future, worldwide, more stringent emissions requirements are going to be in place. Each of the eight possible scenarios presented by him for the future developments in motor-engine technology, despite various thrifting efforts on part of the manufacturers, in the end would need more platinum-metal loadings.

The second talk that was positive for higher platinum prices addressed the supply side of the equation. Prof. Anton Eberhard of the Cape Town University and a leading expert on the power and energy market in South Africa, could not give any comforting news to the participants as far as supply of power was concerned. According to him the capacity reserves will remain very tight, at least till 2012 or even 2013, and as such be very vulnerable to catastrophic shortages. He said that the mild winter this year prevented further problems; free production-peak in 2007 was already down to 6 per cent of total capacity, whereas it should have been around 25 per cent (in 1994 it was at 31 per cent). He also pointed out that the private investor interest in building more plants and capacity had fallen substantially below the governments expectations. For the state to finance the ambitious programme of expanding capacity of the government-owned Eskom they would need to double the price of the up-to-

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now very cheap electricity. And here the circles closes with platinum producers who are already facing higher production costs and more expensive power would only make this worse. New projects would become even more difficult to get off the ground, with expected new supply getting more and more squeezed from these quarters. And even if some of the projects come to life, they will more than likely just about manage to replace the dying supply from older, traditional mines, who are slowly coming to the end of their lives.

Little new was mentioned in the various presentations by the representatives of the South African mines. The established mines were represented by Trevor Raymond of Anglo Platinum. He first spoke of the known problems that the active producers are already facing, namely the quality of the workers available, accident and safety issues and ever-increasing technical difficulties on account of the changing geology that one now needs to mine.

Terence Wilkinson from junior miner Ridge Mining pointed out to the especially tough conditions the new and small producer were facing in South Africa. Despite this, Wilkinson estimates that by 2014 up to 16 new mines could go into production. Really possible appears the estimate that this could increase production from this source from the present 500,000 ounces to about one million ounces. However, seen in the overall platinum-mining picture of South Africa where current annual production is at around seven million ounces, this is not worth more than a foot-note; more so when keeps in mind the reduced expected productions at the established mines (as mentioned above).

Palladium

PD	US$/oz	€/oz	€/gram
High	*256.00*	*171.00*	*5.50*
Low	*190.00*	*136.00*	*4.37*
Latest	*194.00*	*140.00*	*4.50*

Last week palladium fell on the bad news from the automobile markets and at one stage was trading below $ 200 an ounce; its lowest since October 2005. The slide stopped exactly on the chart-point support line that had built up since April 2003. Possibly this will hold, but again this cannot be taken for granted given the actual problems in the financial markets and long positions of investors and speculators.

The Russian speeches in Kyoto on platinum-metals were less enlightening. Alexander Vassiliev was expected to give an overview on the official Russian palladium reserves. However given their high state-secret nature, he could not and did not provide the delegates any detailed figures. He merely confirmed what was already known from other sources that Russian state sales for next five years would not be an issue any more.

Rhodium, Ruthenium, Iridium

In view of the heavy losses in international automobile markets rhodium could not keep from being dragged down. In the last few days it has fallen to $ 3,100 - $ 3,400 an ounce and was below its level of four weeks ago; this latter itself was a 2½ year low.

Furthermore it cannot be ruled out that Hedge-Funds and perhaps even automobile manufacturers are reducing their positions and further adding to the downward pressure. The constant, and recently increased, demand from Asia has so far not been enough to stop the slide.

Short-term, further losses cannot be ruled out, especially if the dismal picture in the automobile industry does not improve. Longer-term, as in the case of platinum and palladium, sharper emission requirements in combination with problems from the supply side should see prices stabilising. How far the metal will fall before this happens is presently very difficult to forecast.

Ruthenium was mildly lower trading at $ 230 – $ 280 an ounce and iridium was unchanged at $ 420 - $ 450 an ounce.

Gold

AU	US$/oz	€/oz	€/gram
High	*920.00*	*637.00*	*20.48*
Low	*819.00*	*589.00*	*18.94*
Latest	*830.00*	*605.00*	*19.45*

The gold price, which during the course of the week and after the collapse of the US governments efforts to bail-out the financial markets had at times traded up to $ 920 an ounce, has since then been headed southwards and reached $ 819 an ounce which is the 14 day low.

Investor demand for gold bars continued strongly, however the delivery-time situation eased off significantly. The majority of the bars now, again, have a waiting period of about a week, exceptions being the 250g and 500g bars where delivery could take longer.

For the next two weeks it is very difficult to forecast where the metal is headed. On one side demand for bars is expected to remain robust whereas on the other side jewellery demand should suffer in view of the global recessionary fears. Speculators as well as the longer-term oriented investors, given the need for cash, will most likely continue to sell the metal. In this scenario gold will find it tough to break through the resistance of $ 915 an ounce. Prices near the September low of $ 740 an ounce would clearly again be good purchase levels for industrial end-users.

Silver

AG	US$/oz	€/oz	€/kilo
High	*13.70*	*9.35*	*300.60*
Low	*10.75*	*7.79*	*250.45*
Latest	*11.10*	*8.10*	*260.40*

The most recent recovery after the dramatic losses in August and the first half of September did not last long. From the interim high of $ 13.70 an ounce the metal dropped massively in the last few days. On Thursday the white metal was temporarily trading $ 2 an ounce below the aforementioned level.

Demand for investment bars during this report period remained constant and at the moment there are severe delays in the physical delivery of bars.

After falling below $ 11.60 an ounce, silver could test the September low of $ 10.25 an ounce. On the other side there is strong resistance at $ 13 an ounce and then again at the high of late last week.

We remain generally sceptical about silver – its double-role of being an investment and industrial metal will probably lead it to perform relatively poorly as compared to its yellow sister metal.

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- Pt - Platinum stocks still suffering from demand worries
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- PGMs - Impala Platinum to buy Northam for $2.47bn
- PGMs - Ridge Mining remains on track to start PGM production this year
- PGMs - Lonmin 'confident' of long-term fundamentals for PGMs
- Au - Germany's Bundesbank to keep its gold reserves
- Au - Philex takes over Anglo stake for $55m
- Au - AngloGold sees bright outlook for gold amid gloom
- Au - AngloGold Revises Down 1st Half Net Loss To ZAR3.99 Billion
- Mining - BHP's Rio bid may need 'modest' asset sales, ING says
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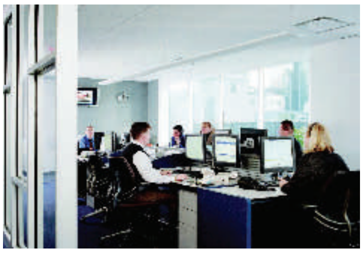

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