

# PRICES & FUTURES MARKETS

## PLATINUM

Over the first nine months of 2006, platinum supplies increased at a similar pace to demand. Although these positive market fundamentals provided support to the price, most of the gains made were due to fund buying and movements in other commodities. Although the US dollar, gold and oil were prime factors in the price movements, the supply-demand balance helped platinum just outperform the yellow metal.

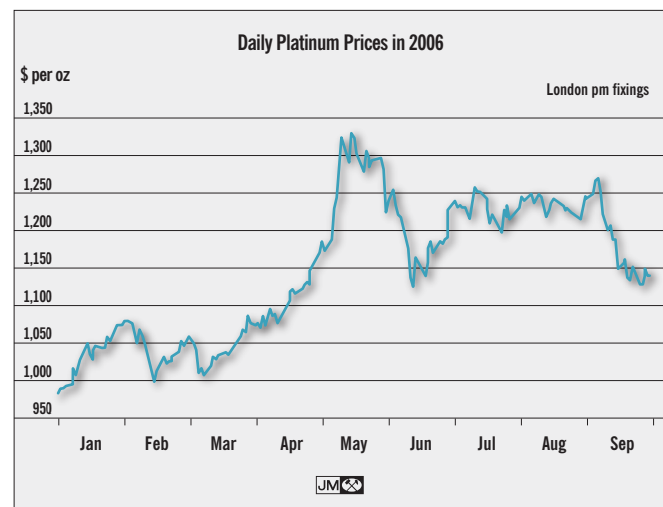
The low for the year to September was on January 3rd at \$982, and the price moved higher for the rest of the month before pausing for much of February and March. April saw the market reinvigorated and recording a succession of all-time highs to reach \$1,335 in May. A wider correction in commodities forced the price to a low of \$1,125 in mid-June before it rallied back above \$1,200. Fund sales of many commodities in September drove the price lower to end at \$1,140.

The platinum price started 2006 in positive fashion. The first London fix of the year, at \$982, was \$18 higher than the final one of 2005. Prices were driven higher by increased speculative buying on NYMEX and TOCOM during **January**. Sustained fund interest pushed platinum to \$1,049 on the 16th, above the previous all-time record of \$1,047.50 set in March 1980. Investors on TOCOM targeted the ¥4,000 per gram level, which was breached for the first time ever on January 30th - the far-dated contract closing at ¥4,059. This helped the price to end the month at a new peak of \$1,072.

In **February**, platinum tracked the gold price. In the first two weeks, funds liquidated long positions in many commodities. Platinum plunged to \$997 on the

16th before finding support from investors and purchases by the Chinese jewellery trade. Prices started rising and, with large daily gains, much of the month's loss was recouped as the price bounced back to \$1,051.

The platinum price continued to rise at the start of **March**, led by silver which topped \$10, its highest level since 1987. It then fell back, with long liquidation on the futures markets. Support



appeared around \$1,000 with physical buying in the Far East. The month's low was \$1,006 on the 10th. At this point, all the precious metal markets turned around. As gold led the way, reaching its highest level for 25 years at \$584, platinum peaked at a new record of \$1,084 on the 30th.

Movements in the US dollar and commodity prices dominated the market throughout **April**. A bout of profit-taking depressed the price over the first few days, with platinum trading in a new range of \$1,060 to \$1,080. A weak dollar, however, prompted gold to move higher on the 6th. Platinum followed suit and fixed at \$1,084 on the same day. With metal prices buoyant, platinum pressed higher as NYMEX net speculative long interest increased by 90,000 oz over the month.

This momentum continued into **May**, as the oil price rose relentlessly, pulling other commodities in its slipstream. Fund interest continued even at these historically high prices and market players watched the \$1,200 point to see whether this would prove to be a barrier. In the event, platinum defied a softening oil price and finally fixed above this level on 9th May, at \$1,206, driven by speculative buying. With no new ceiling evident, the price shot up to \$1,259 twenty-four hours later. However, with gold rising to a remarkable \$725.75, platinum was still subject to upward pressure and continued industrial purchasing drove it to its highest level ever of \$1,335 on 12th May (above the €1,000 mark). Some profit-taking saw the price dip but stirred renewed physical interest. With growth in autocatalyst demand for platinum offsetting a weaker jewellery sector, the continuing strong fundamentals

*Platinum set a series of record prices in the first half of 2006, reaching \$1,335 in May.*

Average PGM Prices in \$ per oz (Jan-Sep)			
	2005	2006	Change
Platinum	877.12	1,146.86	31%
Palladium	189.00	319.64	69%
Rhodium	1,779.32	4,401.20	147%
Iridium	163.25	333.04	104%
Ruthenium	71.03	153.17	116%

Platinum and palladium prices are averages of London am and pm fixings. Other pgm prices are averages of Johnson Matthey European base prices

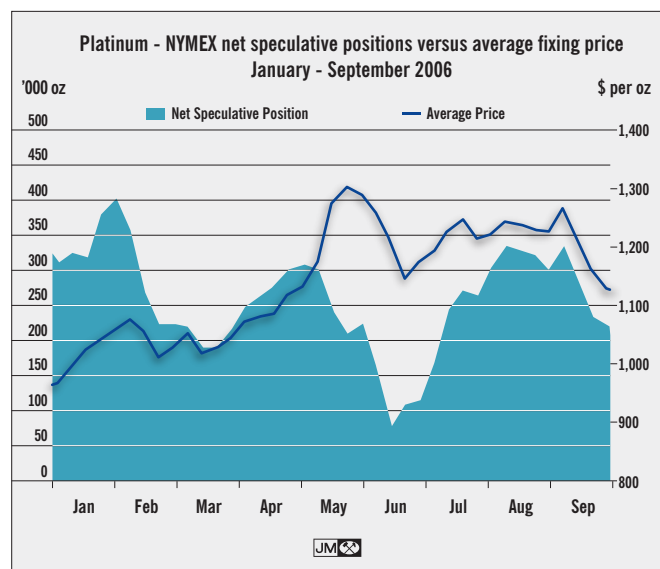
and bullish commodity market provided support to the record prices. Nonetheless, net long positions on NYMEX fell over the month, from 308,000 oz to 224,000 oz, as speculators took profits and, amid extreme daily volatility, the price softened to end at \$1,280.

This downward momentum continued through the first half of **June**. Prices fell more sharply as the value of many commodities and emerging markets tumbled, accompanied by a further large reduction in net speculative long positions on NYMEX to 80,000 oz on the 13th. Platinum hit its low for the month on the 14th, fixing at \$1,125, a loss of \$200 in only four weeks, as gold hit \$567.75. Trading volumes increased on the Shanghai Gold Exchange, as end users took advantage of lower prices to purchase metal, forcing the price up. Decreasing expectations of future US interest rate rises weakened the dollar late in the month and drove platinum up to start July at \$1,243.

After the turbulence of preceding months, **July** was much calmer and platinum settled between \$1,200 and \$1,260 with few excursions outside this range. Early in the month, the Israeli invasion of Lebanon sent oil sharply higher, dragging gold and platinum with it. On the 12th, platinum reached \$1,258 in London as net NYMEX long positions increased by 105,000 oz in just two weeks. The price then drifted before a wider commodity sell-off sent it back just below \$1,200.

Asian buying returned at this level but the previous upwards momentum had dissipated, moving the price sideways into **August** within a narrowing range. Despite very thin trading, volatility decreased. A lack of clear direction for the gold price left platinum listless and a jump of \$18 on the last day represented the entire monthly gain, leaving platinum at \$1,245.

Traders came back after the holiday season and the price ratcheted higher to \$1,268 on **September** 6th. Falling natural gas prices then forced a sell-off of other commodities at several hedge funds which had held large long energy positions. This created a seller's market, driving oil and gold lower. Platinum spiralled down to \$1,132 on the 20th before stabilising. The lower platinum price brought out more physical purchasing, again demonstrating the strong market fundamentals. OPEC supported the oil price towards the end of September by announcing likely production cuts. Commodity prices rallied a little in response and platinum closed the third quarter at a firmer \$1,140.



## PALLADIUM

**The palladium price was buffeted by the same drivers as platinum for the first nine months of 2006.**

**Key factors were the strength of the US dollar and the behaviour of gold and platinum. Considerable fund interest, as shown in very large long positions on NYMEX, put upward pressure on the price. Despite weak market fundamentals, palladium was boosted by these external forces and climbed 21 per cent from \$261 at the start of the year to \$315 at the end of September.**

The price of palladium was relatively stable during **January**, compared with platinum which reached a new all-time peak. The metal traded largely between \$260 and \$280, with modest changes in fund positions. However, on the last day of the month, speculative buying in platinum spilled over into palladium and forced the price up to \$290. At the start of **February**, with heavy trading on the fix, prices moved towards \$300. The continued belief by many hedge funds that palladium was undervalued compared to other precious metals had encouraged a rise in long positions on NYMEX to over 1 million ounces (much greater than in platinum) before they decreased and drove the price back from a peak of \$315 on the 3rd.

The price weakened through early February, to \$273, due to a sell-off in gold and heavy selling of Russian metal. The \$300 level proved to be a barrier for the following weeks. Although platinum recovered some

*Speculative positions in platinum on NYMEX led short term price movements but showed no definite trend in the first nine months of 2006.*

of its loss, palladium traded the month out in a range of \$280 - \$290, waiting for the next stimulus.

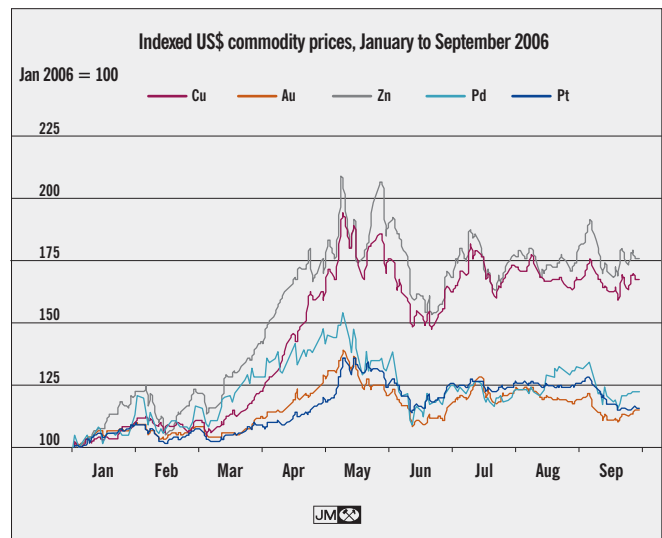
This came at the start of **March**. With gold and silver prices buoyant, palladium moved above \$300. It fixed at \$305 on the 3rd before slipping back as fund liquidation drove gold down. The link with other commodity prices drove a recovery from a low of \$283 on the 9th, palladium following gold and silver higher. With healthy buying on the fix, palladium rose through \$300 and the price ended the quarter at a strong \$332.

Rising gold and platinum prices led palladium gently higher in **April**, into a range of \$350 - \$370 as net long speculative positions on NYMEX hit 1.1 million ounces. Very high volatility and fund interest continued to drive the price up. In early **May**, palladium rose \$16 to \$378 under pressure from continuing physical demand.

Speculative buying took platinum through \$1,200 and helped palladium to a four-year high of \$404 on the 12th. The ebullience that had spilled over into palladium from the platinum market then dried up, with profit-taking being seen, and the price retreated to end May lower overall at \$355.

This slide continued through the first half of **June**. As platinum dropped, caught up in a commodity sell-off, palladium was knocked out of its pattern, plummeting to \$282 on the 13th, a 30 per cent decrease in little over a month. The price then rebounded, supported by US economic data, despite a relative scarcity of physical bids. With other commodity prices advancing, palladium recovered to \$312 by the end of the month.

With trading volumes and physical demand lower,

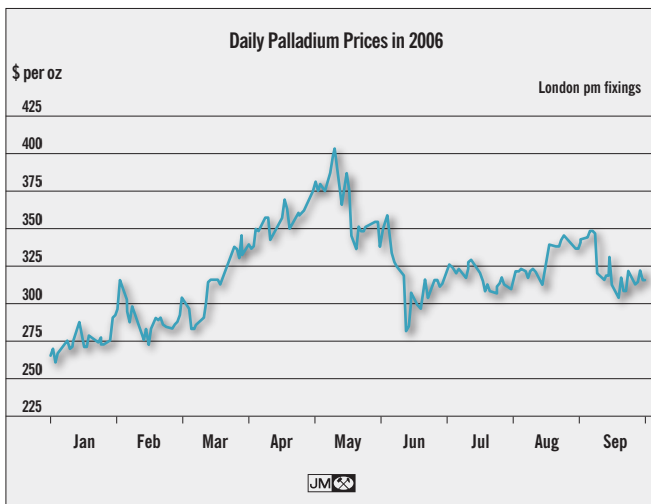


*Although precious metal prices rose in the first half of 2006, they did not keep pace with many other commodities.*

geopolitical events provided some support in **July**. However, palladium softened and it fell out of its range of \$320 - \$330 on the 18th. For the rest of the month, it traded between \$300 - \$320, without testing the \$300 level for support. At the start of **August**, a weak dollar caused a jump to \$323 from which palladium drifted. In the middle of the month, fund interest decoupled the palladium price from platinum's, moving it to \$339 on the 17th.

**September** saw a more active market, with the price crawling higher to \$351 on the 7th. As energy prices then fell, commodities followed and palladium slid to fix at \$303 on the 20th. The spot market dipped below \$300 but physical buying reinvigorated the price, leaving it at \$315 at the end of the quarter.

*Palladium outperformed platinum from January to September 2006, rising 21 per cent despite falling back from a peak of \$404 in May.*



### OTHER PGM

The rhodium price continued its three-year climb. The Johnson Matthey base price started the year at \$3,000, just below its fourteen-year peak established in November 2005. Volatility and price movements were significant throughout much of the first nine months of 2006, with the price reaching \$6,275 in mid-May, driven by strong fundamentals and thin trading. The price then lost a third of its value to a low of \$4,175 by the middle of June. After this activity, market conditions became quieter and rhodium ended September at \$4,800.

Physical demand and some speculative interest also drove ruthenium and iridium prices higher.

**Ruthenium rose from \$87 to \$185 while iridium more than doubled, from an initial \$195 to \$400.**

Rhodium demand was strong throughout **January** and limited offers on the open market led the price up to \$3,500 early in **February**. It then traded in a fairly narrow range around this point before striking upwards again at the start of **March**. Spot demand remained firm and tight supply onto the markets sent the price spiralling to \$4,350 on the 27th.

At the start of **April**, offers appeared on the scene and bids disappeared. The price moved into reverse as quickly as it had climbed, falling to \$4,000. With physical buying by the glass and automotive sectors returning, the price shot up again (on 22nd **May**) to \$6,275, its highest point since 1990. Leading up to this, the metal had risen by a hefty \$900 in one week.

At this level, no purchasers could be found and the price reversed in extremely thin trading conditions, with wide dealer spreads and exceptional volatility. The Comdaq fix on the 9th of **June** exemplified this as the price dropped by \$800 with a few small offers attracting no bids whatsoever. Rhodium ploughed on to hit a low of \$4,175 on the 15th before recovering as the market shifted again. With buying reappearing, the price overshot the \$5,000 level before dropping to around \$4,500 in mid-**July**. The price was static in **August**, at \$4,650, with thin volumes of two-way trading. At the start of **September**, some activity came back into the market, the price firmed and started to climb slowly higher, peaking on the 15th at \$4,940. A drop in the other platinum group metals slowed and then reversed this move and the rhodium price softened, ending at \$4,800.

Some of this excitement carried over to ruthenium and iridium. Ruthenium climbed from a **January** starting point of \$87 to a four-year peak of \$105 in **February**, driven by strong fundamentals. Continuing physical demand was most evident in **March** as the price rose by \$60 to \$165, further boosted by speculative interest. It reached a new record of \$180 on the 12th of **May** before softening to \$170 in mid-**July**. With physical purchasing continuing, ruthenium inched higher to \$185 by the end of **September**.

The iridium price was supported by steady industrial purchasing, more than doubling in the first nine months of 2006, from an initial \$195 to a Johnson Matthey base price of \$400, its highest since the end of 2001.

