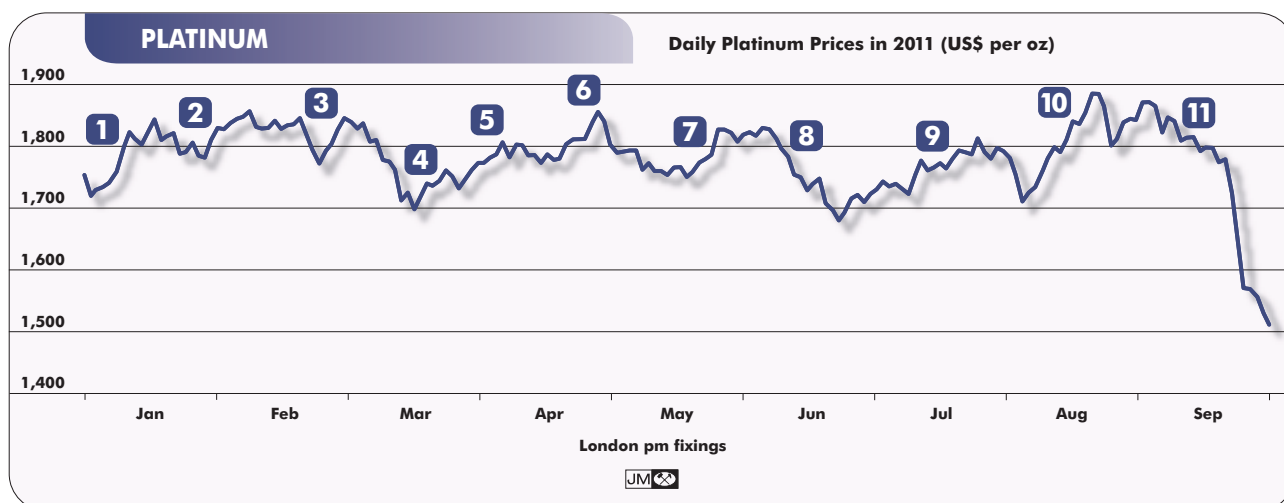


PRICES



Platinum traded on average at \$1,782 in the first nine months of 2011, some 13% above the average price in the equivalent period last year. The price fixed at a three-year high of \$1,887 in August and remained generally above \$1,700 until September, when there was a substantial sell-off. Platinum fell to a low for the year to date of \$1,511 on 30th September.

1 Platinum's opening pm fix of \$1,753 was sharply higher than it had traded for much of the previous month. The first week of 2011 saw platinum's price drop as liquidation in the gold market dragged the precious metals complex down. The fall was relatively short-lived as, by the second week of **January**, physical demand from Asia began to lift the price. A successful auction of Portuguese, Spanish and Italian debt tempered fears of eurozone debt, and also helped boost pgm prices. The price rose to over \$1,800 on the 13th, a level not seen since July 2008. Cumulative ETF fund holdings exceeded 1.3 million ounces for the first time in early January, before dropping back slightly.

2 Escalating political tensions in various Middle East and North African countries, notably Egypt and Libya, brought mixed fortunes for platinum prices in **February**. With protests in Egypt creating concern about the security of oil supplies through the Suez Canal, crude oil prices rose above \$100 for the first time since 2008, which helped to boost other industrial commodities. Driven by buying on NYMEX, total net long futures positions rose to almost 2.3 million ounces during the week commencing 8th February, a record high.

3 With increasing unrest in the Middle East and North Africa, crude oil continued to track higher in the second half of

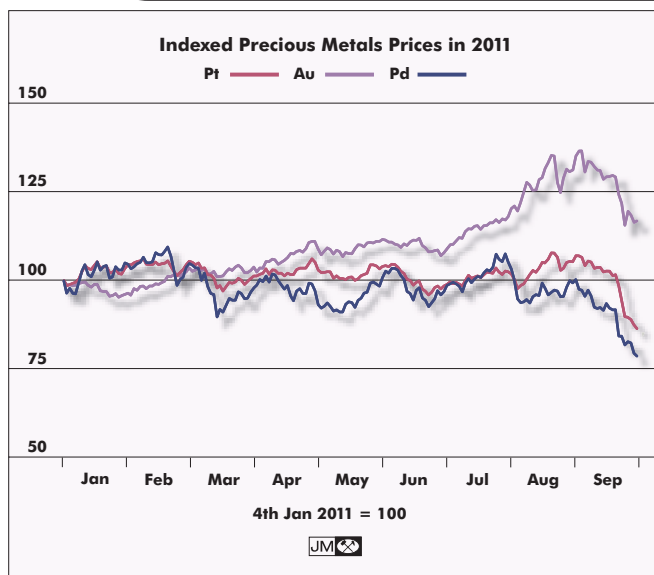
February, bringing fears of a slowdown to the world economy caused by rising prices. This helped weaken confidence in industrial commodities. Platinum began to appear overbought in late February and corrected sharply downwards to \$1,772 on the 24th, giving up most of its gains for the year.

4 Platinum's price was already falling in the week of 7th **March** when a severe earthquake followed by a tsunami hit eastern Japan on the 11th. These twin disasters, plus a resulting meltdown at the Fukushima Daiichi Nuclear Power Plant, caused the closure of much of Japan's industrial capacity for several days. Fears of severely reduced demand from Japan dragged the platinum price down – between the 7th March, just before the disaster, and the 17th March, platinum lost \$141, or 7.7%. The steepest falls occurred in the two trading days immediately following the earthquake. There was a major sell-off in equities and commodities alike as investors sought to cover their losses. Platinum positions on TOCOM declined by 374,000 oz between 8th and 29th March, while on NYMEX 479,000 oz of platinum were liquidated; unsurprisingly the relative decline was greater on the Japanese exchange.

Average PGM Prices in \$ per oz (Jan-Sep)			
	2010	2011	Change
Platinum	1,581	1,782	13%
Palladium	477	768	61%
Rhodium	2,494	2,163	(13%)
Ruthenium	204	178	(13%)
Iridium	606	1,020	68%

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

The gold price achieved parity with platinum in August and traded at a premium to platinum during September.



5 After fixing at a three-month low of \$1,697 on the 17th March, physical demand in Asia predictably increased, with the Shanghai Gold Exchange registering a sharp upswing in purchases of platinum. This helped to move the price upwards, and platinum regained the \$1,800 level on the 6th **April**. News of the implementation of a mining indigenisation law in Zimbabwe in late March also helped give platinum some upwards momentum from the supply side.

6 In late April and early **May**, platinum made further gains as the dollar slid on the back of news that the US Federal Reserve would continue its loose monetary policy. Anglo American Platinum announced a 5% year-on-year fall in production in the first quarter, adding to upside pressure on the platinum price. With thin trading around various public holidays, platinum fixed at \$1,858 on the 3rd May – its highest level since February. Later that week, platinum's price fell in a wider liquidation.

7 News of slower growth in China, and that Japan's economy had moved into recession in the first quarter, led platinum's price to dip. However, in late May, concerns over South African supplies gave some momentum to the platinum price: Lonmin announced the dismissal of 9,000 mineworkers after an unofficial strike at its Karee mine, while Impala Platinum announced it would miss its 2011 output target.

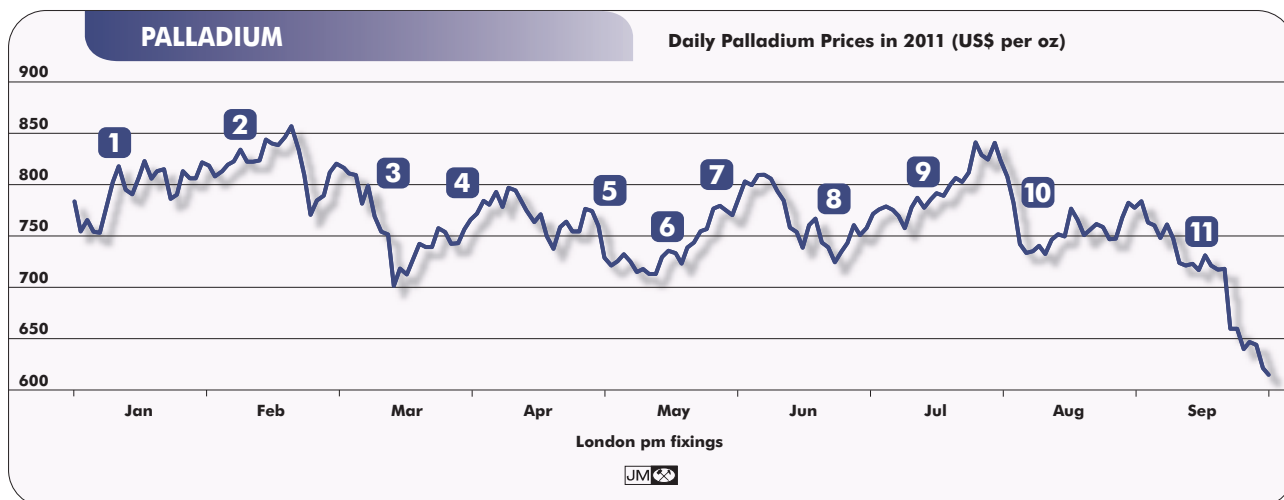
8 When it was announced that the US government would not be engaging in a third round of quantitative easing, the dollar staged a brief rally, which put some pressure on commodities. The platinum price also came under pressure as Greece's

credit rating was downgraded by Standard and Poor's. With a stronger dollar and weaker euro, commodity prices plunged. Net long positions fell by 11% in the week commencing 28th **June** to their lowest level since April.

9 Sovereign debt was again a watchword in **July** as policymakers in the USA wrangled over a proposed raising of the national debt ceiling amidst concerns that the country might default on its debt. As the deadline for a decision approached, the dollar was on a downward trend and gold, so often a safe haven in times of crisis, rose to historic highs. Platinum followed gold upwards for much of the month, aided by the uncertainty around tense labour negotiations in South Africa. Late in July, ETF investment holdings climbed to a new record high of almost 1.55 million ounces.

10 Following a last-minute agreement on the debt ceiling, in an unsurprising move, rating agencies downgraded the USA's credit rating. Platinum slumped as investors sought to reduce their losses and as the prospects for lower industrial demand were digested. With high levels of uncertainty in the markets, gold traded briefly at a premium to platinum for the first time since December 2008 and remained at near-parity for much of the month. With platinum consequently representing a good buying opportunity, physical demand re-emerged in Asia and was supported by some fund buying which lifted the price to a high for the year of \$1,887 in the pm fix of the 22nd **August**.

11 Platinum came off its recent highs in early **September**, while continuing to trade at near-parity with gold. Dropping through the \$1,800 level on the 15th, the price continued downwards. The fall slowed somewhat with good physical demand from Europe and Asia at the sub-\$1,800 level. Following the Fed's announcement of Operation Twist, a plan to increase bank lending, the dollar strengthened considerably and investors fled from any assets considered risky, including pgm. Platinum was helpless in the ensuing flight from risk, plunging through \$1,600 on the 26th with spot platinum trading below \$1,500, although there was a modest recovery as European leaders appeared confident in finding a solution to the eurozone debt crisis. The price fell further with a generally negative economic outlook and lost all its gains in the year to date, fixing at \$1,511 on the 30th. By the end of the nine-month period, net long positioning was overall 247,000 oz lower than it had been at the start of the year, with the largest redemptions on TOCOM. In contrast, ETF holdings showed net investment of almost 300,000 oz in the same period.



While palladium's performance was subdued compared with 2010, the price nonetheless traded on average 61% higher, at \$768, in the first nine months of 2011 compared with the same period in 2010. Palladium's price was arguably more strongly affected by fluctuations in market sentiment regarding industrial demand than platinum, and the price did not experience the same level of support from ETF buying as in 2010. Nonetheless, it was underpinned by positive supply-demand fundamentals throughout.

1 Palladium began **January** at \$784, marginally higher than its level at the end of 2010, and quickly followed the platinum price downwards. As the dollar weakened, palladium's price surged to over \$800, a level last seen in early 2001. Aggregate ETF volumes also increased to a new record high of 2.4 million ounces. Palladium net longs dropped to just under 1.7 million ounces, in contrast to platinum net longs, which grew.

2 Buoyed by strong US auto figures released in **February**, which revealed that sales had increased by 17% the previous month, palladium continued to trade at ten-year highs of above \$800, reaching a peak for the year of \$858 on the 21st February. Thereafter, the support from steadily increasing industrial commodity prices fell away as oil tracked rapidly downwards in the wake of investor fears surrounding the ongoing political turmoil in Egypt.

3 In early **March**, palladium regained the \$800 level with some buying interest only to drop back again with investor nervousness over unrest in the Middle East. Like platinum, palladium's downward price trend was exacerbated by news of the Japanese disaster, with palladium arguably more affected than its sister

metal due to its widespread use in gasoline autocatalysts in Japan and in electronic components. Palladium's price lost 12.1% in the period 7th to 17th March, compared with platinum's 7.7% fall. As the price fell during this period, there was a good deal of liquidation in ETFs, led by the London and US funds. There was also an unwinding of net speculative positions in palladium, with the relative decline greatest on TOCOM.

4 Palladium's price recovered well into mid-**April**, although disruption to vehicle production emanating from the Japanese earthquake appeared to dampen investor confidence in palladium's short-term prospects. In addition, Chinese vehicle sales figures for March came in below many analysts' expectations. Although car sales grew overall, the slowdown in the rate of growth was attributed to the end of government subsidies and to higher oil prices. All of this added to the negative sentiment around palladium and the price softened in mid-April. Two new physically-backed palladium ETFs were launched, by iShares and Source, at the same time as two platinum ETFs in April. Initial interest in these products was strong; over 50,000 oz of palladium were purchased in the first few weeks, with the vast majority in the Source vehicle.

5 Palladium was relatively subdued in early **May**, reflecting the mood of investors. With a general sell-off in commodities caused by fears of economic slowdown in Europe, palladium tumbled. As the price fell, there was also a large sell-off in the palladium futures market, with net long positions declining by nearly a third between the weeks commencing 3rd and 17th May. This sell-off was deeper than that experienced by the platinum futures market. Combined palladium net longs fell to below a million ounces for the first time in two years.

6 Palladium regained some lost ground in the second half of May as the earlier selling began to appear overdone. Through the remainder of the month, palladium's price movement outperformed that of platinum in relative terms. ETF holdings remained fairly steady for the whole of May as new investment in the Source ETF was largely offset by liquidation in the US and Swiss funds. Like platinum, palladium's price was supported somewhat by concerns over industrial action in South Africa.

7 The price continued to track upwards into early June, exceeding the \$800 level for the first time in three months on the 7th. Although the Chinese auto industry reported a drop in sales for May 2011, the first such drop in over two years, the subsequent announcement of a recycling incentive plan was generally supportive of the palladium price. Accompanying the rising price, net long positions increased to over 1.5 million ounces by mid-June.

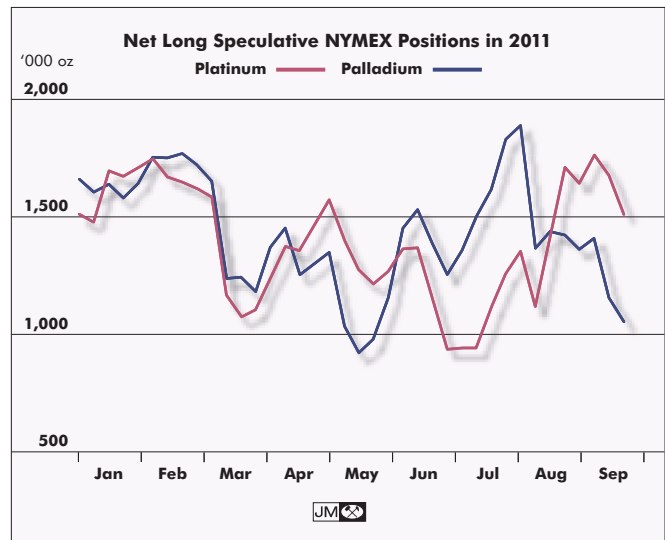
8 The high price ultimately triggered some profit-taking in ETFs and the futures market alike. As with platinum futures, the second half of June saw liquidation in palladium net long positions. Speculative positions declined by 9% in each of the weeks commencing 21st and 28th June, while the palladium price fell beneath \$750 for the first time since late May.

9 In July, there was mixed news from the global auto industry: disappointing European car sales but healthy growth in export markets, and higher output from a recovering Japanese automotive industry. However, market sentiment was generally bullish for palladium and the price tracked upwards. As the wrangle over the US debt ceiling continued, palladium also benefited from a weakening dollar.

10 The fall in price, which came in early August, was more precipitous for palladium than for platinum as palladium lost \$107 between the 1st and the 9th August. Palladium was dragged down by the general dive in industrial commodity prices that followed the US credit rating downgrade, as well as continued concerns over the prospects for economic recovery in the eurozone. During this period, the palladium ETF market suffered major liquidation, bringing total holdings down to the lowest level for eight months.

11 Palladium began September buoyed by news of higher year-on-year vehicle production in Europe and the USA and news that in Japan vehicle production was returning to normal levels more quickly than anticipated. Despite this initial

Net long speculative positions underwent major liquidation in September as part of a general commodity sell-off.



positive news, palladium soon fell victim to the chaos in the commodities markets, although it gained some benefit from being less closely linked with the gold price than platinum. Palladium came under heavy selling pressure from investors as the economic outlook became ever gloomier, although there was some industrial buying in Europe and Asia. Palladium dropped through the \$700 level on the 22nd, for the first time since March. Further selling pressure pushed the price down further to a low for 2011 of \$614 on 30th September. By this date all the gains of 2011 had been erased. As with platinum, net long positioning for the year to date was negative and, unlike platinum, ETF holdings showed around 260,000 oz of net disinvestment for the year.

OTHER PGM

Rhodium prices continued to soften in the first nine months of 2011, following a trend seen in 2010. The average price for January to September was \$2,163, 13% lower than the same period in 2010.

Rhodium's price firmed slightly in January, gaining \$75 to reach its high for the year of \$2,500 by the end of January, where it remained until mid-February as Chinese buying was balanced by selling elsewhere. With uncertainty in the market surrounding turmoil in the Middle East, sustained European selling pushed the market steadily lower through the remainder of February. In early March, fresh buying demand in Asia helped support the price at \$2,425. The Japanese disaster saw an easing of buying interest later on in March, and the price softened to \$2,375. Rhodium, despite being an industrial metal, did not see the same fall in price in the aftermath of the

disaster as platinum and palladium did.

Further selling pressure saw the price fall to \$2,350 in mid-**April**. New buying emerged and the price held at this level until the 19th, when speculative selling saw it drift downwards into **May**. In late May, Deutsche Bank launched a physically-backed rhodium exchange traded fund. This, the first such rhodium ETF, tracks the price of rhodium and is backed by physically allocated rhodium sponge. News of the new investment vehicle led to a price spike as investors and industrial consumers alike moved to cover their needs – the price increased by 20%, or \$400, between 25th May and 1st **June**. As normality returned to the typically thinly-traded rhodium market, the price shed all of its recent gains to fall to \$1,950 again by mid-June. By late June after just over a month of operation, total rhodium ETF holdings stood at the relatively modest level of around 8,000 oz.

With the downward price movement being seen as a buying opportunity for some industrial users, the price moved up again before easing and flatlining at \$2,000 into mid-**July** as selling was met by a steady stream of buyers. Rhodium lost \$150 in the first half of **August** as buying interest was outweighed by offers in the market. The price held firm at \$1,825 before gaining in the second half of the month with steady demand from buyers taking advantage of the lowest prices since late 2009. Rhodium was not immune to the turmoil in the market in **September**; under selling pressure the price plunged ever lower, reaching \$1,675 on the last day of the nine-month period, like platinum and palladium wiping out the gains for the year to date.

Ruthenium remained at the Johnson Matthey base price of \$180 for the first seven months of 2011, having been becalmed at that price since December 2010. Light selling pressure moved the price downwards by \$5 in **August** to \$175, before the price softened by a further \$15 in **September** to \$160 with light industrial demand.

Iridium's price performed remarkably in the first two months of 2011 and reached record highs. From an opening Johnson Matthey base price in **January** of \$780, the price moved steadily upwards with strong demand from the electrical and electrochemical sectors. Iridium broke through the \$1,000 level on 17th **February** as heavy buying in a small, illiquid market moved the price steeply higher, although the market remained adequately supplied. The price eventually peaked at \$1,075 in late February and into early **March**. With little sustained buying demand for iridium at this level, the price eased by \$25 to \$1,050. It remained at \$1,050 until late **August**, when renewed buying interest caused the price to increase to \$1,085 by the end of **September**.

