

Platinum|2004

Johnson Matthey

17th May 2004

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Good morning & welcome .

Firstly, a review of the platinum market...

Platinum

- **Demand edges up to 6.52 million oz**
- **Sustained by rising auto industry purchases**
- **But purchases for jewellery in China & Japan drop**
- **Output from South Africa and Zimbabwe climbs**
- **Market deficit shrinks to 280,000 oz**
- **Funds contribute to price strength**

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Platinum demand increased marginally to 6.52 million oz in 2003.

Autocatalyst – US auto companies ran down inventories of platinum in 2002, and so returned to market for virtually all of their metal requirements in 2003. In Europe, diesel car sales climbed strongly again, fuelling further growth in platinum demand.

Retrofitting of oxidation catalysts and diesel particulate filters to heavy duty diesel trucks gave boost to Japanese demand.

BUT, demand for platinum from Chinese jewellery manufacturers dropped for the first time since the market began to develop rapidly in the mid-1990s. Profit margins throughout the industry were pressured by the rapid rise in platinum spot price. White gold also became more competitive. In Japan, greater volumes of metal were returned from inventories for recycling and the jewellery market as a whole contracted.

*(reminder – all demand figures represent purchases of metal by consuming industries **net** of scrap and recycling, with the exception of autocatalyst where we give a separate figure for pgm recovered from scrap autocatalysts)*

Platinum

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Production of platinum in South Africa grew steadily but long-term expansion projects were slowed. Zimbabwean output jumped but North American output dropped sharply (Inco strike)

Overall, the platinum market remained in deficit but the gap between supply and demand narrowed to 280,000 oz.

The platinum price rallied throughout much of 2003, with speculative buying by funds contributing significantly to price strength during second half of the year.

Demand in detail: autocatalyst:

Platinum Demand by Application

<i>'000 oz</i>	2002	2003	% change
Autocatalyst: gross	2,590	3,190	23

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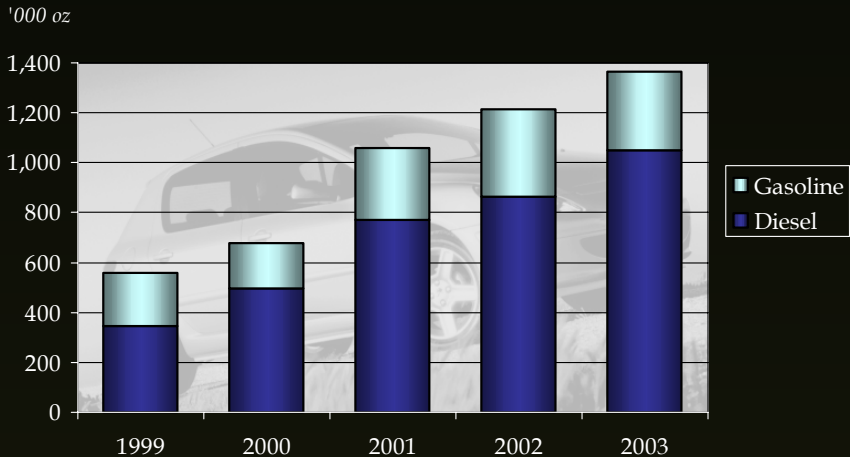

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Gross demand (purchases of metal) from auto companies jumped by 600,000 oz (23 per cent) to a record total of 3.19 million oz in 2003.

A surge in purchasing by North American car manufacturers was responsible for just over half the total increase. Some North American car companies used significant volumes of platinum from inventories in 2002 but returned to the market for the bulk of their requirements in 2003.

Rising sales of light trucks (SUVs) and the approach of the US Federal Tier 2 emissions regulations also contributed to higher platinum demand.

European Demand for Platinum in Autocatalysts 1999 - 2003



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European autocatalyst demand for platinum climbed by 11 per cent in 2003, driven by another strong rise in diesel car sales. With the market share of diesel cars exceeding 43 per cent (more than 6 million vehicles), the sector accounted for over 1 million oz of platinum demand in 2003.

Conversely, as sales of gasoline light vehicles fell, the demand for platinum in gasoline autocatalysts slipped lower.

Autocatalyst demand – Japan

Tokyo HDD retrofit
boosts Pt demand
by 18%



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In Japan, autocatalyst demand for platinum received a substantial boost from the introduction of legislation requiring the retrofitting of oxidation catalysts and diesel particulate filters to heavy duty diesel trucks and buses operating in and around the Tokyo metropolitan area.

This was primarily responsible for an 18 per cent increase in platinum demand to 510,000 oz.

(images show sticker issued to trucks that comply with the new regulation, vehicle inspectors checking compliance, and retrofitting of an oxidation catalyst)

Platinum Demand by Application

<i>'000 oz</i>	2002	2003	% change
Autocatalyst: gross	2,590	3,180	23
recovery	(565)	(645)	14
Jewellery	2,820	2,440	(13)

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Recovery of platinum from recycled autocatalysts climbed to 645,00 oz in 2003.

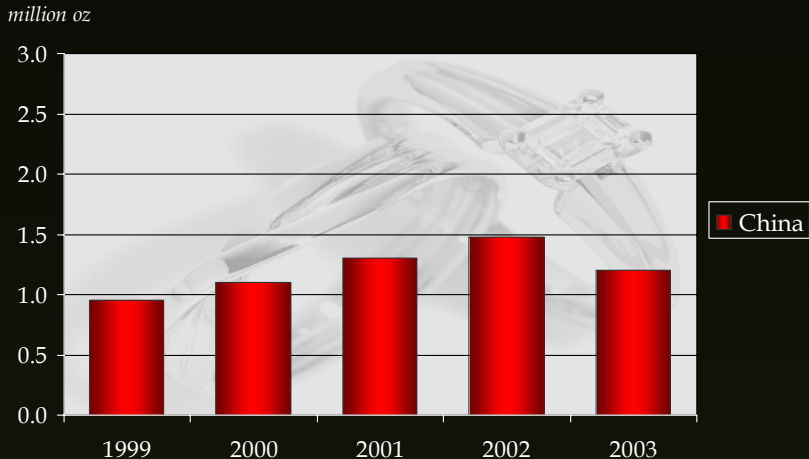
The greatest increase in the volume of platinum recycled was seen in the USA, reflecting higher catalyst recovery rates (stimulated in part by the high platinum price) and a change in the average ratio of pgm contained in scrapped catalysts.

The rate of catalyst recycling grew most rapidly in Europe, where the proportion of cars being scrapped that have catalytic converters continues to rise. A greater emphasis has also been placed on vehicle recycling in the region due to new legislation covering the disposal of scrapped vehicles that will take effect in 2005.

The second major category of demand – jewellery:

Demand for platinum from the jewellery industry dropped by 13 per cent last year to 2.44 million oz, as both Chinese and Japanese manufacturers purchased less metal.

Demand for Platinum in Jewellery 1999 - 2003



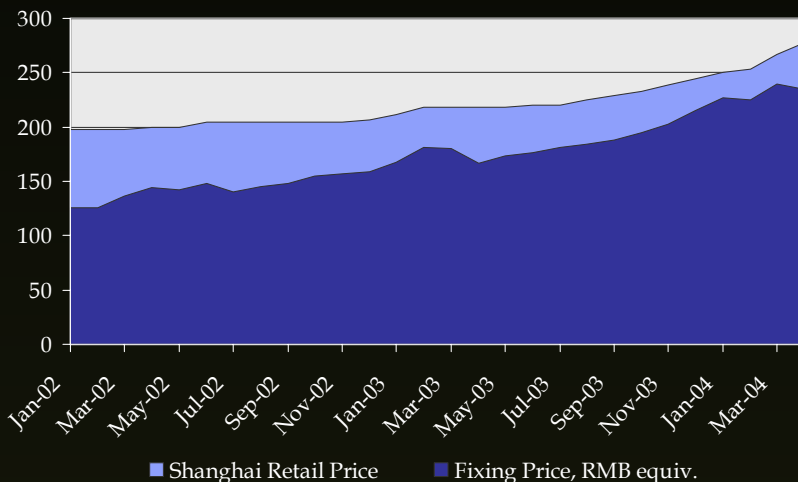
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Chinese demand for platinum used in jewellery dropped for the first time since the market began to develop rapidly in the mid 1990s, falling by 19 per cent to 1.2 million oz.

Whilst SARS temporarily affected retail sales of jewellery in April and May, the key to the slide in platinum demand was the rapidly rising spot price:

Retail price of platinum jewellery in Shanghai vs equivalent fixing price



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The chart shows development of retail price of platinum jewellery in Shanghai since January 2002 versus the average platinum fixing price, converted into RMB.

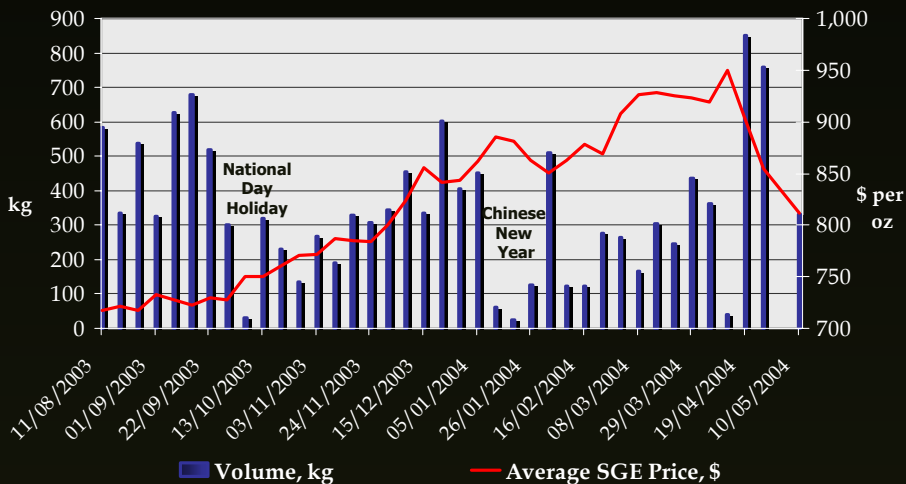
It illustrates how margins narrowed sharply in January and February 2003, the pressure eased in March and April when the spot price fell, but then became increasingly squeezed through the rest of the year.

Although retail prices were raised more frequently during 2003, they did not keep pace with rising metal costs. This being largely a function of the intensely competitive nature of the platinum jewellery retail trade.

Note that margins began to widen in April 2004 once the platinum spot price fell sharply from its peak fixing of just under \$940 per oz.

Shanghai Gold Exchange: Weekly platinum trading activity

August 2003 - April 2004



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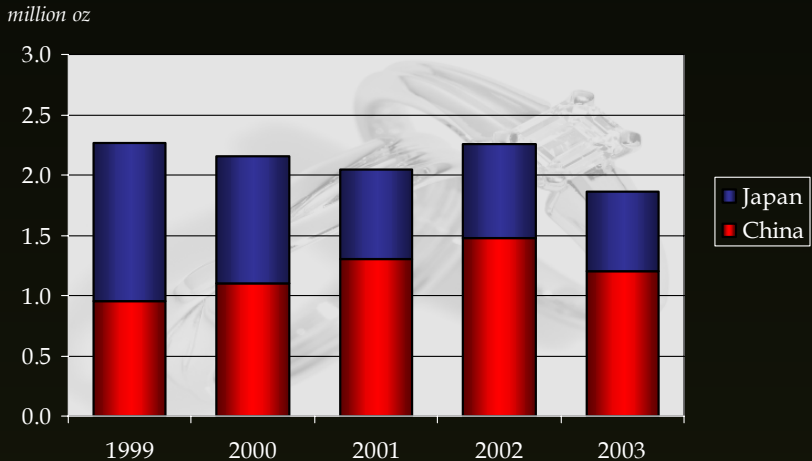

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A positive development for the platinum jewellery trade in China in 2003 was the start of platinum trading on the Shanghai Gold Exchange. This has made sourcing platinum much more straightforward. At the same time, the taxation of platinum was brought closer into line with that of gold, and platinum traded through the SGE is effectively free of VAT.

The graph shows the weekly volume of platinum traded on the Exchange since August 2003. Total SGE platinum sales from inception of trading to end April 2004 totalled 417,600 oz.

Note the buying on the price dip in late December 2003 ahead of the Chinese New Year, but most particularly the slump in trade in mid-April 2004 when the price on the SGE surged to around \$950 per oz and the subsequent jump in purchasing the following two weeks when the price plunged.

Demand for Platinum in Jewellery 1999 - 2003



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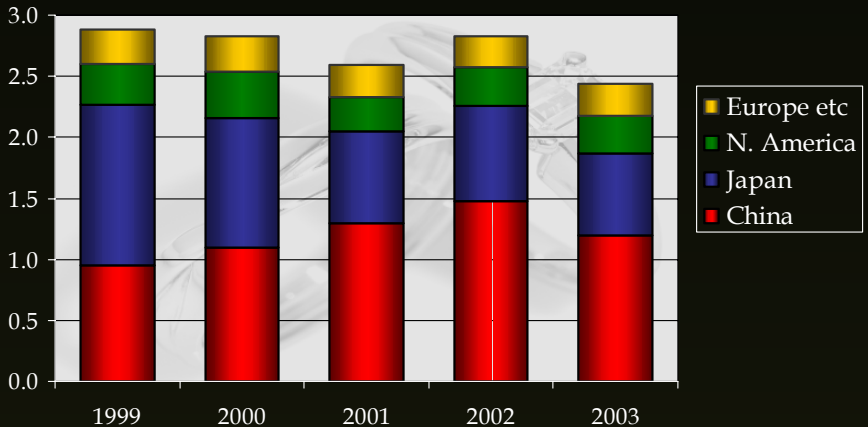
Japanese demand for platinum in jewellery also dropped in 2003, falling by 15 per cent to 665,000 oz, approximately half the level of demand four years ago.

Purchases of platinum by Japanese jewellery manufacturers were reduced by a high level of inventory recycling, with the liquidation of stock from businesses that were declared bankrupt contributing significant vols.

In addition retail sales of precious metal jewellery as a whole fell in Japan in 2003, although platinum maintained its share of the smaller market, with white gold primarily cannibalising yellow gold sales.

Demand for Platinum in Jewellery 1998 - 2002

million oz



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There was little overall change overall in the European and North American platinum jewellery markets in 2003.

North American demand was stable – increased penetration of white gold at the lower end of the fashion market being offset by better sales in upper price brackets and the bridal sector.

In Europe, sales of platinum jewellery in UK continued to grow (primarily bridal) but other markets remained subdued.

Platinum Demand by Application

<i>'000 oz</i>	2002	2003	% change
Autocatalyst: gross	2,590	3,180	23
recovery	(565)	(645)	14
Jewellery	2,820	2,440	(13)
Industrial	1,545	1,520	(2)
Investment	80	15	(81)
TOTAL DEMAND	6,470	6,520	1

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Industrial demand for platinum slipped by just less than 2 per cent in 2003. Demand for platinum-clad equipment from the glass industry dropped, despite manufacturing capacity continuing to expand in Asia, as glass producers minimised new equipment orders as the platinum price climbed. There were also substantial sales of metal back to the market from some glass manufacturers as they reduced metal inventories.

Orders for platinum-based catalysts from the bulk chemicals industry also slipped lower in 2003.

Demand from the electrical sector, however, increased as shipments of hard disks rebounded on the back of renewed growth in sales of computers and other electronic goods; also good growth in sales of platinum-based medical equipment.

Net demand for platinum bars and coins from investors slumped to just 15,000 oz. Higher platinum prices stimulated an increased rate of sales back to the market in Japan, and depressed purchases of platinum bullion coins in the USA.

In total, demand for platinum in 2003 edged up by 50,000 oz to 6.52 million oz – the slowest growth in the market for more than a decade.

Turning now to platinum supply:

Platinum Supply by Region

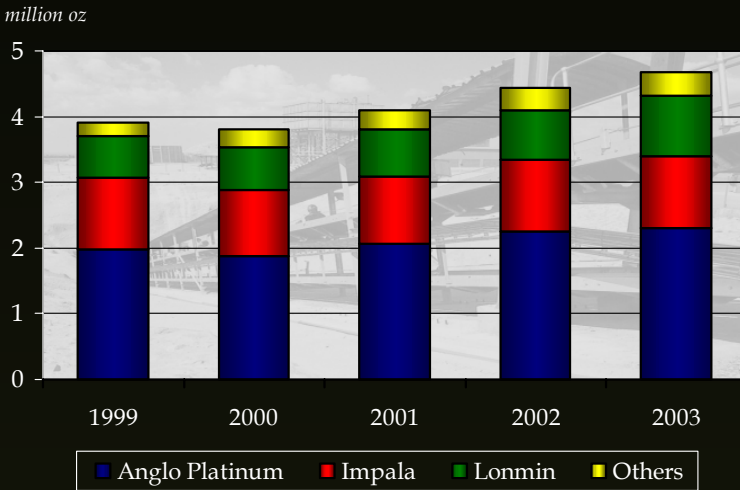
<i>'000 oz</i>	2002	2003	% change
South Africa	4,450	4,670	5

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South African output again led growth in the supply of platinum in 2003, rising by 5 per cent to 4.67 million oz.

Expanding South African Supply



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Breaking South African production down in more detail:

Anglo Platinum produced 2.3 million oz of refined platinum, a 2 per cent increase on the year before but less than the 2.4 million oz the company had intended to produce. The simultaneous commissioning of a new smelter, slag cleaning furnace and converting process resulted in a higher than expected temporary build up of platinum in the processing pipeline. The company announced a major revision to its long term expansion programme in November, reducing the target production for 2006 from 3.4 million oz to 2.9 million oz by slowing the development of several new projects.

Platinum output from Impala's core lease area was broadly in line with the year before at a little over 1 million oz. Operations at the Crocodile River mine, however (in which Impala holds an 83% interest), were suspended in November due to severe geological problems: completion of the sale of the operation to the Salene Platinum Consortium is expected shortly.

Lonmin had a strong year of production from its expanding mines on the western limb of the Bushveld, despite the disruption caused by the explosion at its new smelter at the end of 2002.

Production from Northam also improved year-on-year, and output continued to build from Aquarius's developing Marikana mine and Southern Era's Messina mine.

Platinum Supply by Region

<i>'000 oz</i>	2002	2003	% change
South Africa	4,450	4,670	5
Russia	980	1,050	7
Others	540	520	(4)
TOTAL SUPPLY	5,970	6,240	4.5

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Russian shipments of platinum rose by 7 per cent in 2003 to 1.05 million oz. Mine production was estimated to have totalled 880,000 oz, with the remainder coming from sales from government stocks.

Elsewhere, rising production in Zimbabwe was more than offset by a sharp fall in North American output as a result of Inco having exhausted a pgm-rich ore-body in 2002 and having suffered a three month strike during the summer of 2003.

Total platinum supplies, therefore, increased by 4.5 per cent to 6.24 million oz.

Platinum Supply and Demand

<i>'000 oz</i>	2002	2003	% change
Demand	6,470	6,520	0.8
Supply	5,970	6,240	4.5
Movements in Stocks	(500)	(280)	

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With supplies increasing at a faster rate than demand last year, the market deficit narrowed to 280,000 oz.

Platinum Price

January – December 2003



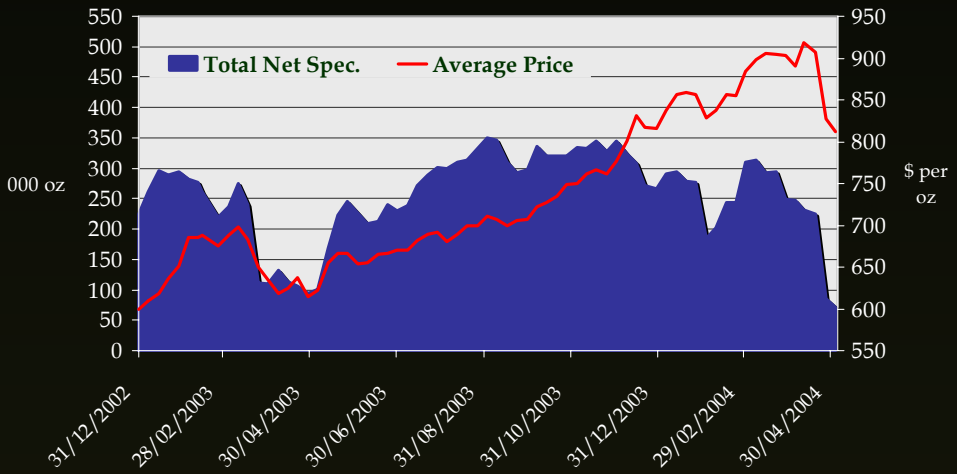
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The continuing tightness in the physical market underpinned the platinum price during 2003, but speculative money had a greater effect on the metal's price, particularly during the second half of the year:

Platinum – NYMEX speculative position versus price

Jan 2003 - April 2004



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This chart shows the development of the net speculative long position in platinum futures on NYMEX from the end of 2002 through to the end of April 2004.

Hedge and other investment funds were much more active in platinum, in common with most other dollar-denominated commodities, than they had been in 2002. This, a reaction to the weakness of the US currency and a desire to diversify portfolios from equities and fixed income assets.

The fund activity (on TOCOM and via over-the-counter deals, as well as on NYMEX) has had a strong influence on the price – a sharp bout of long liquidation in mid to late March 2003 took the price down from over \$700 towards \$600; this was followed by a steady rebuilding of long exposure by funds from May onwards, helping to drive the price above \$900; the speculative influence culminated in a second and very rapid spate of long liquidation in late April 2004 that saw the price fall back under \$800.

Moving on now to look at palladium:

Palladium

- **Demand improves to 5.26 million oz**
- **Far less use of inventories by auto companies**
- **Stocks no longer affect purchases for electronics**
- **Dental alloy demand falls further**
- **Russian sales rebound to 2.95 million oz**
- **Market surplus widens substantially**

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Palladium demand improved by 9 per cent to 5.26 million oz in 2003 but this was still the third lowest total in a decade.

There was much less use of palladium stocks by the auto industry, leading to a revival in purchases of metal.

Similarly, in the electronics industry, significant palladium and component inventories were worked off during 2002 and so purchases of metal climbed higher in 2003.

Dental alloy demand for palladium, however, dropped further.

On the supply side, Russian sales of palladium rebounded to 2.95 million oz, more closely reflecting the level of mine production.

In total, supplies increased more rapidly than recovering demand and the market surplus widened substantially.

Palladium Demand by Application

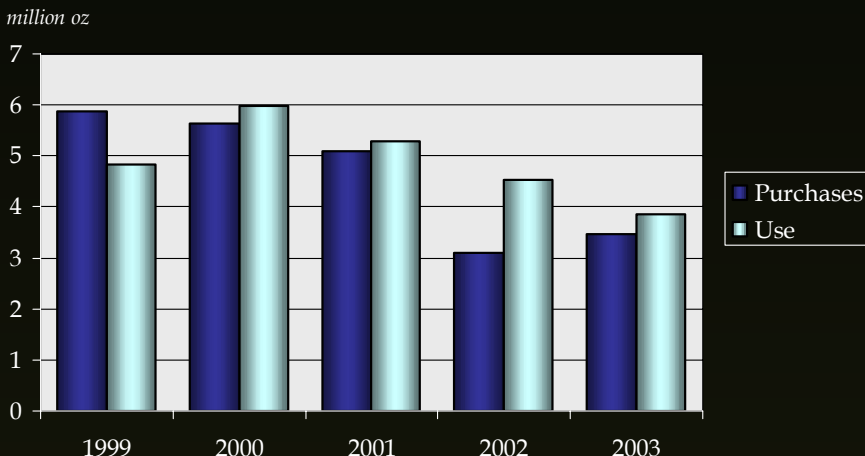
<i>'000 oz</i>	2002	2003	% change
Autocatalyst: gross	3,050	3,460	13

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Looking first at the autocatalyst market in more detail, demand recovered by 13 per cent to 3.46 million oz as US automakers used much less metal from inventories than they had done in 2002.

Palladium Autocatalyst Demand 1999 - 2003



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The dark blue bars show purchases of palladium metal by the auto industry over the last five years and reflect the effects of stock building by auto companies in the late 1990s, followed by substantial inventory used in subsequent years, most notably in 2002.

The scale of the stock accumulation and then depletion is apparent when we compare demand for palladium with its actual use in autocatalysts (shown in light blue). 1999 was the last year of a significant period of stock building, and was followed by four years of inventory depletion.

What is also very clear is that thriftiness of palladium, primarily by US auto companies, is continuing to have a very substantial impact on use of the metal. Use of palladium in autocatalysts has fallen by more than 2 million oz since 2000. In addition, the loss of market share by gasoline cars in Europe, the majority of which use palladium-based catalysts, to diesel cars which use platinum-based catalysts has contributed to the reduction in the use of palladium.

Palladium Demand by Application

<i>'000 oz</i>	2002	2003	% change
Autocatalyst: gross	3,050	3,460	13
recovery	(370)	(410)	11
Electronics	760	895	18

The volume of palladium recovered from recycled autocatalysts increased by 11 per cent to 410,000 oz in 2003, driven by rising recycling rates in Europe.

Demand for palladium in the electronics industry rebounded by 18 per cent to 895,000 oz – primarily a consequence of the fact that manufacturers worked off substantial inventories during 2002. Purchases of metal in 2003 more closely reflected component orders, which grew rapidly following two years of depressed sales. As in the auto industry, however, the underlying use of the metal continued to weaken. This was primarily a result of continued thriftiness of palladium in conductive pastes, as well as the on-going miniaturisation of components such as multi-layer ceramic capacitors.

Palladium Demand by Application

<i>'000 oz</i>	2002	2003	% change
Autocatalyst: gross	3,050	3,460	13
recovery	(370)	(410)	11
Electronics	760	895	18
Dental and Other	1,390	1,315	(5)
TOTAL DEMAND	4,830	5,260	9

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The fall in the price of palladium, coupled with the rise in the price of gold, enabled palladium-based dental alloys to regain some market share in North America and Europe in 2003. However, this modest growth was outweighed by a 20 per cent slump in demand in the largest market, Japan. A change to the government-backed health subsidy scheme increased the cost of dental treatment for patients and resulted in a sharp decline in the number of treatments performed.

In total, demand for palladium rose by 9 per cent to 5.26 million oz.

Palladium Supply by Region

<i>'000 oz</i>	2002	2003	% change
Russia	1,930	2,950	53

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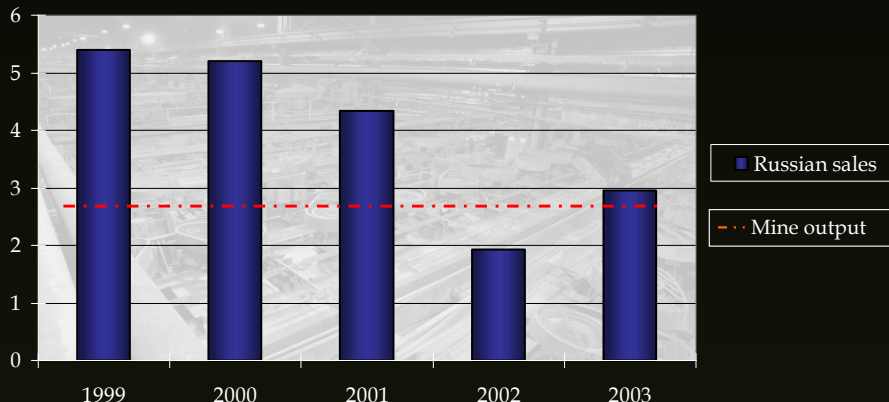

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Palladium supply:

Russian sales of palladium jumped by 53 per cent to 2.95 million oz in 2003. Norilsk Nickel held back from the spot market in 2002 in an effort to support the palladium price (assisted by the state treasury, Gokhran). In 2003, however, Norilsk sold its full production, estimated at 2.7 million oz. Sales of palladium were also made from central stocks.

Russian Palladium Sales 1999 - 2003

million oz



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This graph shows the pattern of Russian palladium sales over the last five years: substantial sales from central government stocks between 1999 and 2001, the suspension of spot sales by Norilsk in 2002, and shipments recovering to more closely reflect mine production in 2003.

Note that the 877,000 oz of palladium transferred to Stillwater Mining in 2003, as part payment for Norilsk's majority shareholding in the company, are not included in our supply figures for that year as the metal had not been sold.

Palladium Supply by Region

'000 oz	2002	2003	% change
Russia	1,930	2,950	53
South Africa	2,160	2,310	7
North America	990	940	(5)
Others	170	250	47
TOTAL SUPPLY	5,250	6,450	23

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In South Africa, palladium output increased in line with rising platinum production in 2003. In North America, however, Stillwater Mining Co reduced production at its Stillwater Mine as part of its restructuring efforts and output at Inco dropped alongside the fall in platinum production. The effects of these decreases were mitigated somewhat by increased production from North American Palladium.

Production in Zimbabwe also climbed as the platinum mines at Ngezi and Mimosa expanded.

In total, palladium supplies grew by 23 per cent to 6.45 million oz.

Palladium Supply and Demand

<i>'000 oz</i>	2002	2003	% change
Demand	4,830	5,260	9
Supply	5,250	6,450	23
Movements in Stocks	420	1,190	

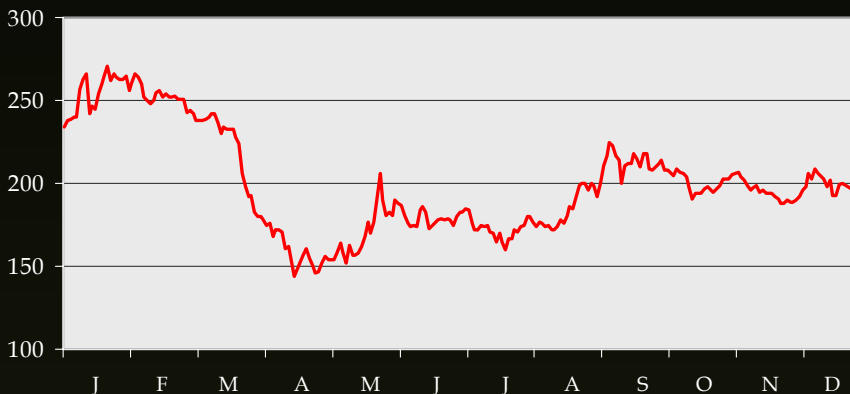
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So with demand recovering but supply growing even more rapidly, the surplus widened to a massive 1.19 million oz.

Palladium Price January – December 2003

\$ per oz



— Palladium: London am fix

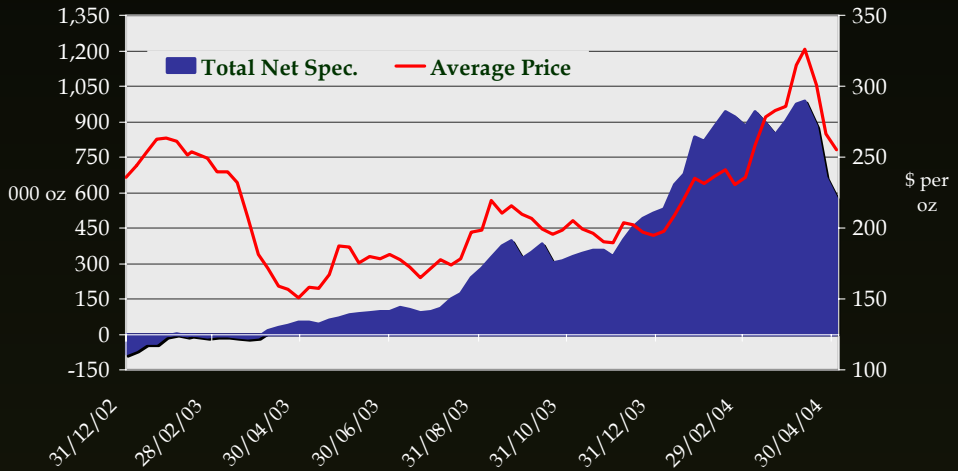
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With the market fundamentals weak, the palladium price dropped from around \$250 in January 2003 to a low of \$144 in April. As with platinum, however, fund activity then began to have a significant impact on the palladium price.

Palladium – NYMEX speculative position versus price

Jan 2003 - April 2004



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Funds began accumulating a significant net long position in palladium from mid-August 2003 onwards, helping the price to recover to around \$200 at that time. The fund buying of palladium accelerated in the first quarter of 2004, the net long position on NYMEX surging to over 900,000 oz. In addition the futures volumes traded via TOCOM showed a sharp upturn, and very heavy speculative buying of palladium derivatives was also noted through over-the-counter deals.

This rapid fund buying succeeded in driving the price up to a peak fixing of just over \$330 in April 2004, before palladium was also hit by the commodity-wide long liquidation towards the end of April. With the net speculative long position on NYMEX reduced by almost half over the course of a week, the price slumped to under \$230.

(note – the price plotted in the graph is a 5-day moving average of the London fixing price)

Looking Ahead

- **Auto industry**
 - **diesel car sales**

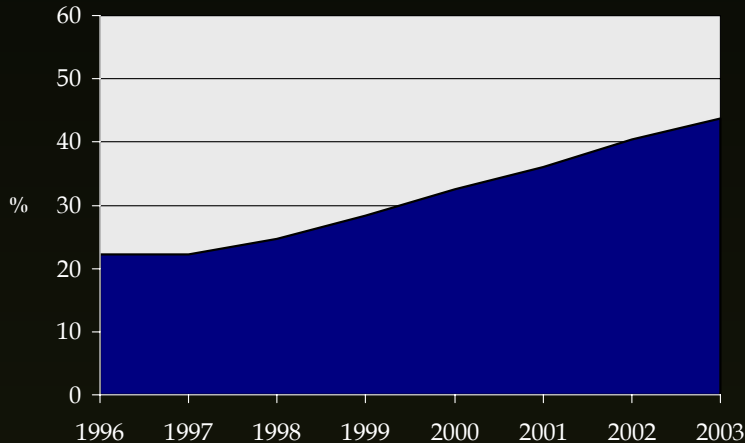
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Looking ahead, what are some of the key factors that will influence pgm supply and demand over the next six to twelve months?

Firstly, in the auto industry, diesel car sales are set to continue to grow rapidly and will take further market share from gasoline vehicles in Europe:

Growth of diesel car penetration in Europe, 1996 - 2003



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This chart shows the rise in diesel car market share in Europe since 1996 – climbing from just over 22 per cent that year to well over 43 per cent in 2003. During the first quarter of 2004 the figure exceeded 46 per cent.

Looking Ahead

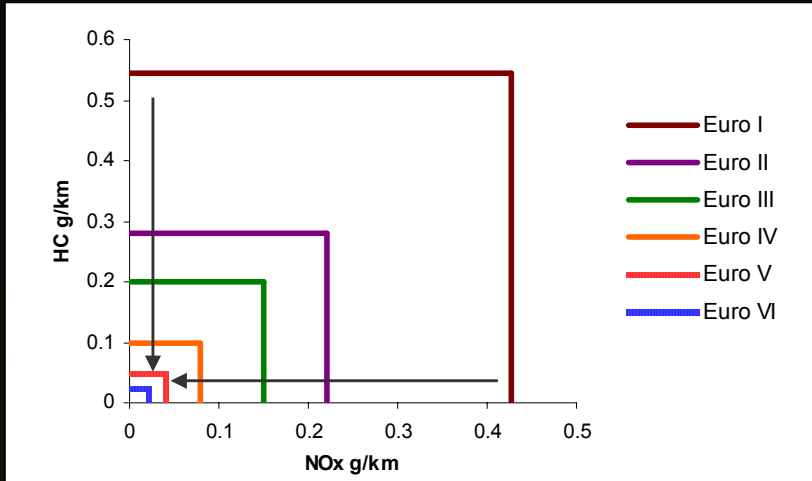
- **Auto industry**
 - diesel car sales
 - **emissions legislation**

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Emissions legislation continues to tighten, both in the mature car markets of Europe, North America and Japan, as well as in rapidly developing markets such as China and India. This will continue to have a broadly positive impact on pgm use.

Evolution of European Vehicle Emissions Legislation



This slide illustrates just how much vehicle emissions standards have tightened for nitrous oxides and hydrocarbons in western Europe, starting with the Euro I legislation in 1996. The Euro IV regulations will apply from 2005 onwards and subsequent Euro V and Euro VI standards are under discussion.

A plot of carbon monoxide emissions standards, or particulate matter limits for light duty diesels would show a similar pattern.

Looking Ahead

- **Auto industry**
 - diesel car sales
 - emissions legislation
 - **changing pgm ratios & thrifting**

Thirdly, given the price differential that now exists between platinum and palladium, there will be a degree of switching in favour of the latter on gasoline vehicle autocatalysts by some manufacturers. This, however, will take place incrementally as new vehicle models are introduced. In addition, the effect on palladium demand will not be as great as some might expect due to the intensive thrifting of the metal that has occurred over the last two to three years and which is continuing.

Looking Ahead

- **Auto industry**
- **Chinese jewellery demand**
- **South African mine expansions**
 - Profitability

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Chinese jewellery demand for platinum may fall for the second year in succession in 2004, but much depends on how jewellery manufacturers and retailers respond to movements in the price of the metal over the course of the year, and whether they can earn attractive profit margins.

When the price of platinum surged to over \$900 during the first four months of 2004, purchases of metal by the Chinese jewellery trade weakened noticeably, but then rebounded when the price slumped in late April.

A substantial volume of palladium (in excess of 250,000 oz) was purchased by Chinese jewellery fabricators in the first quarter of 2004 as a number were attracted by the potentially greater profit margins to be gained on palladium jewellery. However, retailers were subsequently reported to be disappointed with the level of sales of palladium jewellery, suggesting that it has not been well received by the public.

Production of pgm in South Africa is expected to grow solidly again in 2004 but the longer term outlook remains subject to some uncertainty. Key for the profitability of South African producers is the rand : dollar exchange rate, the basket price achieved for platinum, palladium and rhodium, and the rate at which local costs increase.

Looking Ahead

- **Auto industry**
- **Chinese jewellery demand**
- **South African mine expansions**
 - Profitability
 - Legislative programme

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In addition, the outlook in South Africa is further complicated by the ongoing legislative programme, with the proposed royalty bill (4 per cent of revenues for platinum) scheduled to be introduced this year, and a Beneficiation Bill under discussion for 2005.

Looking Ahead

- Auto industry
- Chinese jewellery demand
- South African mine expansions
- **Palladium stocks**
- **Fund activity**

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Although purchases of palladium from the auto industry are forecast to improve further in 2004, at the same time approximately 400,000 oz of palladium will be supplied to the market from the stocks gained by Stillwater mining under the Norilsk deal, with the balance of the 877,000 oz of metal expected to be sold over the course of 2005.

In addition, substantial volumes of palladium are still held in inventory by the Russian government. Although the level of current mine production in Russia may become public knowledge later in 2004, the exact level of government stocks will remain confidential.

Finally, fund activity continues to have the potential to strongly influence the price of both platinum and palladium in the short term, whether through rebuilding of long positions or further liquidation of those already held.

Forecast Platinum Price For The Next 6 Months



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Our forecast of the trading range for platinum for the next six months was set in the second half of April 2004, just as the price was reaching its peak. At that time, we felt that the price was unsustainably high, supported primarily by fund buying, and this was reflected in our forecast range of \$780 to \$920.

Forecast Platinum Price For The Next 6 Months

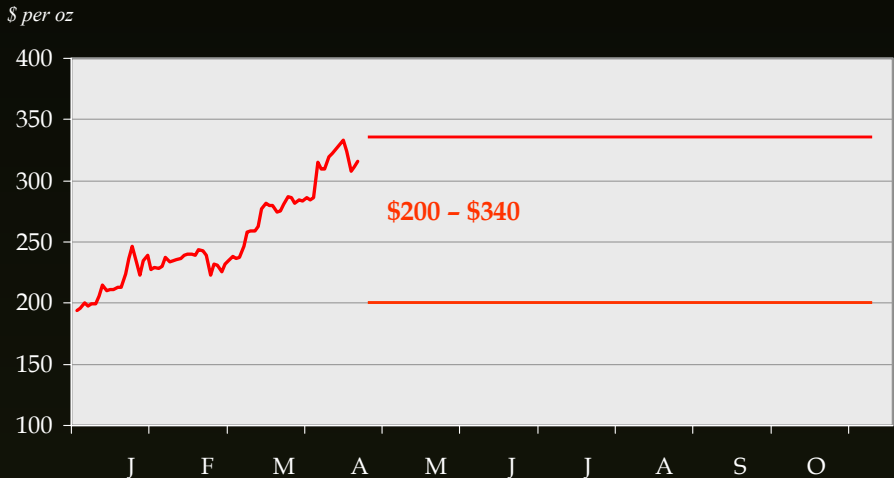


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This assessment subsequently proved correct – the speculative long liquidation of futures positions during the fourth week of April caused a sharp correction downwards to the bottom of our trading range. This should not be taken as an indication that we are now overly bullish on the platinum price – a substantial rebuilding of fund long positions would be required for the platinum price to regain the upper end of our forecast range.

Forecast Palladium Price For The Next 6 Months



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Similarly for palladium, when our forecast was set, the price was near its recent peak of \$333, supported by fund buying of palladium derivatives...

Forecast Palladium Price For The Next 6 Months



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The late April fund long liquidation resulted in a correction below \$250 but a substantial long speculative position in the metal remains. In light of this, and given that the fundamentals for palladium remain relatively weak, we believe that the price still has some downside risk.

Conclusion - Platinum

- **Market to move closer to balance in 2004**
- **Fundamentals remain strong**

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In conclusion, the platinum market is expected to move close to balance in 2004, but the demand fundamentals remain good.

Conclusion - Palladium

- **Auto industry purchases to improve but thrifting continues**
- **Supplies to rise significantly; market to remain in substantial surplus**

In the palladium market, auto industry purchases are forecast to improve for the second year running in 2004 but much of this will be satisfied by the release of stocks from Stillwater Mining. In addition, thrifting of palladium loading levels continues.

At the same time, supplies from both primary sources (mainly South Africa) and from autocatalyst recovery are projected to rise significantly, and so the market will remain in substantial surplus.