

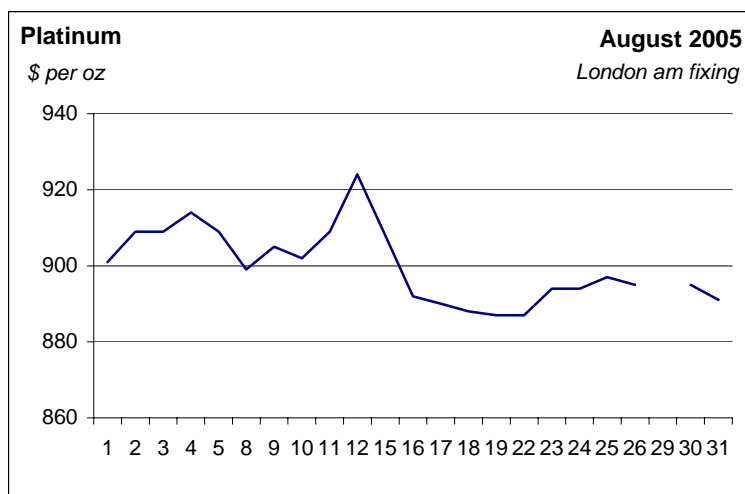
THE PLATINUM METALS REPORT

www.platinum.matthey.com

August 2005

Johnson Matthey

**PLATINUM
Price carried
through \$900
barrier by strong
speculative
buying**



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In early August the platinum price made a decisive break above \$900 for the first time since April 2004. Speculative money continued to drive the price, with investors influenced both by foreign exchange rates and the direction of other commodity markets but also encouraged by the good underlying physical demand for the metal.

The strong rally in the platinum price that began in late July, following the Chinese revaluation of the renminbi, continued into August. As the US dollar lost further ground against major currencies (including the yen, euro and rand), funds increased their exposure to platinum, gold and a number of other commodities. The month opened with fund buying of platinum and short-covering by individual investors on TOCOM, which pushed the June 2006 contract up by more than ¥40 per gram over the course of the day to ¥3,187. The spot price reacted accordingly, the morning fixing in London being agreed at \$901, up from \$897 at the end of July. Good volumes of fund buying were also seen during NYMEX trading, helping to lift the price to \$904.50 at the afternoon fixing.

The rally continued over the next three days: further short-covering and opening of new long positions on TOCOM, combined with the yen strengthening against the dollar, pushed the furthest dated contract to over ¥3,250 on the 3rd, its highest level since the mid-1980s. The momentum drew in more fund buying on NYMEX, the net speculative position exceeding 400,000 oz (up by more than 100,000 oz from a week earlier). As a result, the platinum price climbed to \$912 at the afternoon fixing in London.

Bids for platinum reached \$917 during early Asian trading on the 4th but activity on TOCOM then became more subdued, with much of the short-covering apparently having been completed. The morning fixing was settled at \$914 before fund profit-taking on NYMEX caused the price to fall back to \$903 by the close of US trading.



After steadying the following day, fixing at \$909 and \$908, platinum dropped back to \$899 on the 8th as a recovery in the dollar versus the yen triggered fund selling on TOCOM. The market then became quieter again over the next two days, with less activity on the futures markets and very low volumes of physical trade in London. The price moved up to \$905 on the 9th but then gave up \$3 the following day.

The lull was broken on the 11th and 12th, when investors returned in earnest to several commodity markets. Crude oil led the way, with refinery outages in the USA spurring fund buying that pushed the spot price of Brent crude up from under \$64 per barrel at the close of trading on the 10th to more than \$67 on the 12th. The precious metals markets followed suit as the dollar lost ground once more against major currencies, platinum surging from \$902 to \$924, gold jumping from \$436.50 to \$447.25, and silver climbing from around \$7.07 to over \$7.17 over the same period.

Fund-driven buying then lending of metal resulted in platinum lease rates softening as the price spiked, with short-term rates offered in the region of 3 to 3.5 per cent. Physical demand from end users, however, largely evaporated; virtually no platinum was traded across the Shanghai Gold Exchange (SGE) on the 12th and very few bids from industrial users were seen in Europe and North America. At the same time, increased offers of metal emerged and reports of forward selling by producers circulated in the market.

As a result, by the afternoon of the 12th the platinum price had begun to subside and funds started booking profits on long positions. The afternoon fixing was settled at \$915 and when TOCOM opened the following Monday morning Japanese based investors joined the selling. With the dollar reversing direction yet again, strengthening against the euro and yen, speculative long liquidation in the oil, platinum, gold and silver markets gathered momentum; by the end of trading in New York platinum had dropped to \$901 offered.

The sell-off continued on the 16th with TOCOM platinum contracts spending much of the day limit down. The June 2006 contract closed at ¥3,092, down by the maximum permitted daily move of ¥80 per gram. Platinum fixed at \$892 in the morning and eased further to \$887 in the afternoon. Not surprisingly, however, the sharp fall in the price stimulated a marked upturn in purchases of metal by Chinese jewellery manufacturers, with more than 200 kg being traded across the SGE.

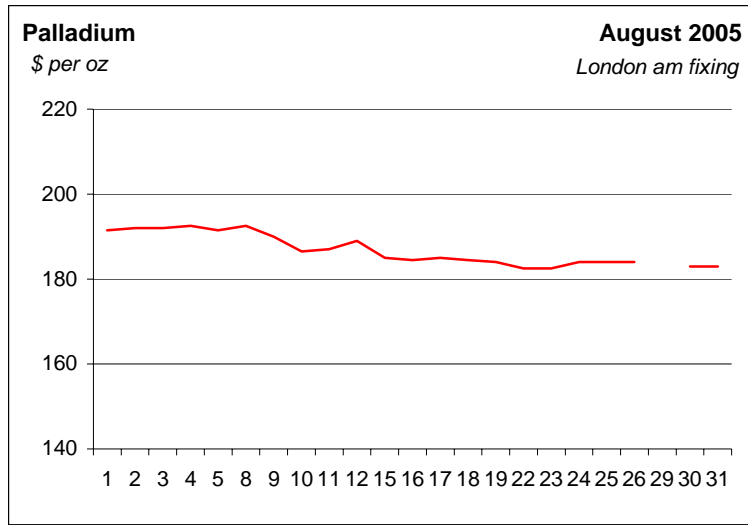
The improvement in physical demand prevented the platinum price weakening any further over the next few days, despite some additional fund selling. The fact that the price held above \$885 meant that by the 22nd sentiment in the platinum market had again become

bullish, platinum moving back above \$890. As the week progressed, the platinum and gold markets again appeared to gain some strength from a second rally in the oil price, as lower than expected stock figures were released in the USA and hurricane Katrina headed towards the Mississippi coastline.

By the 25th platinum had moved up to \$897 but this time the momentum was insufficient to push the price above the \$900 mark. Platinum (and gold) subsequently drifted down towards the end of the month, platinum ending August with a fixing of \$888.

Platinum fixing prices – August 2005			
	<i>High</i>	<i>Low</i>	<i>Average</i>
\$ per oz	924.00	887.00	889.30
£ per oz	515.10	490.85	501.53
€ per oz	747.93	717.32	731.66

PALLADIUM
Price drifts down
towards \$180 as
more funds go
short



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The palladium price was supported above \$190 for the first few days of August by a fresh round of fund investment in the metal. However, as the month progressed a significant volume of new short futures positions were opened on NYMEX, which weighed on the price. By the 22nd palladium had drifted down to \$182 and remained close to that level for the remainder of the month. The spot market was quiet for the most part, with several days of very thin trade on the London fixings.

The late July/early August fund buying of platinum was matched by a similar run of speculative investment in palladium. The net speculative position on NYMEX jumped from around 637,000 oz on the 26th July to just over 682,000 oz on the 2nd of August as hedge funds and commodity trade advisors opened new long positions. However, rather than spurring a rally in the price, the fund investment was sufficient only to prevent it sliding in the face of lacklustre physical demand.

Palladium fixing prices – August 2005			
	High	Low	Average
\$ per oz	193.00	182.00	186.70
£ per oz	108.75	100.90	104.13
€ per oz	158.79	148.65	151.90

Palladium held at or very close to \$192 through to the end of trading on the 8th.

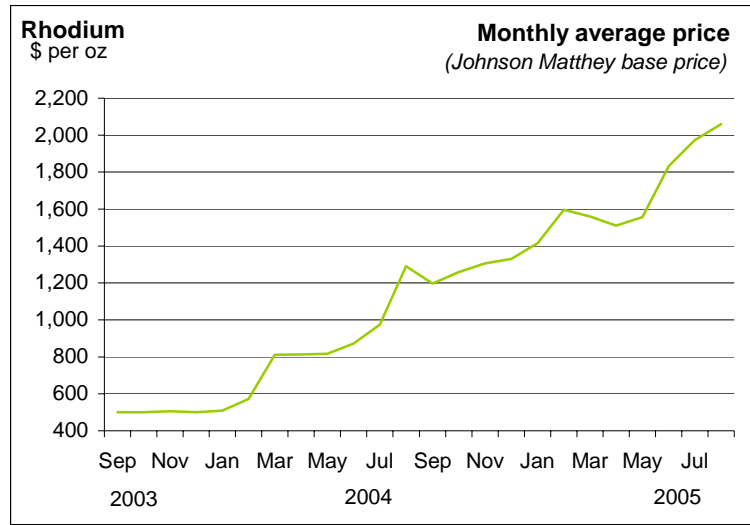
Although good buying interest emerged at that morning's fixing in London, there was no shortage of metal to match the bids and the price was largely unmoved.

The following day the palladium price entered a gentle decline as a growing number of new speculative short positions were initiated on NYMEX. For almost the next two weeks the price drifted slowly downwards under the pressure of the fund selling, the spike in the platinum, gold and oil markets having no discernable impact, and palladium settled at \$182 on the 22nd.

From then on the palladium price really entered the summer doldrums, floating in a narrow range between \$182 and \$184 through to the end of the month. By that time the net speculative position on NYMEX had slumped to around 410,000 oz. Although this was partly accounted for by a modest amount of long liquidation throughout August, a substantial rise in the number of short contracts held by funds had a greater impact on the total speculative position.



OTHER PGM
Rhodium price
continues to
climb as offers
diminish



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There was no relief for buyers of rhodium during August as dealer offers of metal became even more thin on the ground than in July, particularly during the second half of the month. In contrast, purchasing interest from industrial users increased. With speculators also still very much interested in the metal there was an inevitable effect on the price. The Johnson Matthey rhodium base price opened August at \$2,000 and moved quickly up to \$2,050 during the first four days of trading. After two weeks of stability the market then accelerated upwards from the 18th onwards as offers became more limited, rhodium passing \$2,100 on the 30th and ending the month at \$2,130. In contrast, the ruthenium and iridium markets were quiet; the price of the former remaining unchanged at \$85, the latter holding steady at \$175.

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