

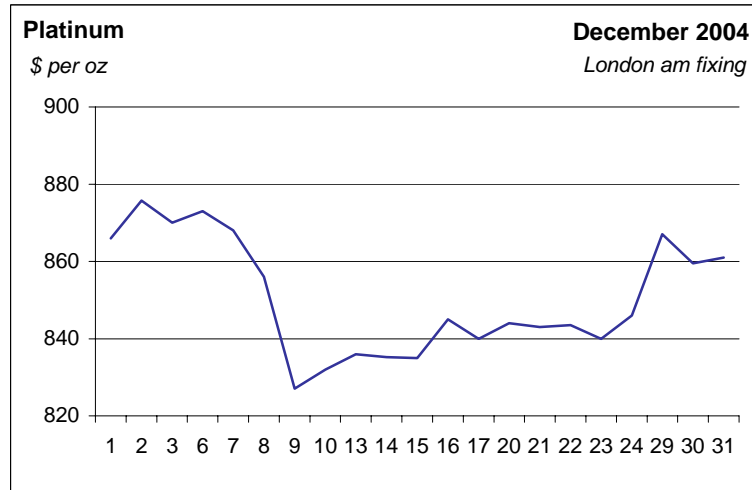
# THE PLATINUM METALS REPORT

www.platinum.matthey.com

December 2004

Johnson Matthey

**PLATINUM**  
**Dollar rebound**  
**triggers fund**  
**profit-taking,**  
**platinum slides**  
**to \$822**



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**P**latinum began December as it had ended November, firmly supported above \$860 by speculative buying on the back of ongoing US dollar weakness. However, when the dollar staged a sudden recovery on the 8th, funds began rapidly liquidating long positions across the metals markets. As a result the platinum price slumped, fixing at \$822 that afternoon, a drop of \$50 from the previous day's close in New York. The sell-off was short-lived, however, and increased demand from end users and renewed fund buying helped platinum to recover to over \$860 by the end of the year.

The platinum price gained strength from ongoing fund buying during the first two days of December, rising from \$866 at the morning fixing on the 1st to \$884 on the afternoon of the 2nd. Although investor profit-taking during Asian trading the following day saw the price slip back to \$870, the tone of the platinum market (and most other metals markets) remained bullish into the following week. With the US dollar weakening to a record low against the euro (\$1 = €0.7424) and sliding below ¥103, investors continued to buy commodities as a hedge against dollar depreciation. The strength of the South African rand, which reached a 6-year high of R5.65 versus the dollar, also helped to keep sentiment in the platinum market positive.

On the 8th of December, however, the metals markets were hit by a sudden bout of fund long liquidation, which had a pronounced impact on the platinum price. The trigger for the commodities sell-off appeared to be the release of weaker than expected third quarter GDP figures in Japan, which saw the yen sold heavily. This had a knock-on effect in other foreign exchange markets, with funds holding short dollar positions happy to lock in profits ahead of the year end.

The resulting rebound in the value of the dollar against most major currencies led to a wave of selling across the base and precious metals markets. Gold, silver and copper all opened sharply lower in Europe and were soon followed by platinum, which fixed at \$856 in the morning. The downward pressure on the price gathered pace as stop-loss sell orders were



triggered, platinum fixing at \$822 in the afternoon (a drop of \$50 from the previous afternoon) then hitting \$818 in later US trading in response to hectic selling on NYMEX. The net speculative long position there crashed from 310,000 oz on the 7th to less than 100,000 oz by the close of trading on the 8th. However, the slump in the price led to an upturn in enquiries for metal from end users, which stemmed the fall, and platinum recovered somewhat to end the day at \$831 bid in New York.

Not surprisingly, there was an upturn in enquiries for metal from end users in Asia on the morning of the 9th, which was reflected in the highest daily volume of metal traded on the Shanghai Gold Exchange since October (193 kg). Although further speculative selling was noted throughout the day, the improved demand for physical platinum provided some support, platinum fixing at \$827 and \$824.

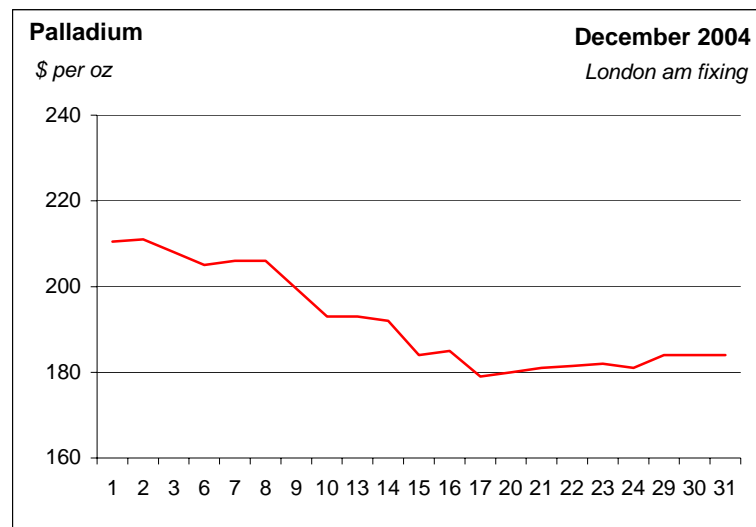
Platinum fixing prices – December 2004			
	High	Low	Average
\$ per oz	884.00	824.00	849.34
£ per oz	456.85	429.15	440.28
€ per oz	663.62	612.14	634.98

From the 10th onwards the fund long liquidation abated and the platinum price began a slow recovery – in line gold and base metal markets – as the dollar once more began losing ground against major currencies. By the afternoon of the 15th platinum had regained \$840 and traded steadily close to this level through to the 23rd.

The Christmas holiday period then saw a sharp run up in the price in very thin trade, driven by renewed interest in the metal from US-based funds. After fixing at \$846 on the 24th, the price jumped to open at \$862 bid in New York on the 28th (Japanese and European markets being shut) and reached \$868 by the close as the dollar weakened sharply. Platinum traded close to this level throughout the following day before a degree of profit-taking on the 30th took the price back to \$859. Platinum ended 2004 firmly, fixing in London at \$861.

In dollar terms, therefore, platinum finished the year 5.6 percent higher than where it had started (\$861 versus \$815). However, much of the dollar price strength of platinum was due the depreciation of the US currency. In yen terms the price of platinum ended the year little changed, in euros platinum fell by almost 3 per cent. The impact of exchange rate movements was more pronounced for South African pgm producers: the price of platinum in rand dropped by almost 10 per cent over the course of the year from around R5,400 per oz at the start of January to R4,880 at the end of December.

**PALLADIUM**  
**Support gives**  
**way as funds**  
**liquidate longs,**  
**slide halts**  
**around \$180**



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**The speculative support that had kept the price of palladium above \$200 throughout the year finally gave way in early December as the market underwent a round of speculative long liquidation, in common with platinum, gold and base metals. The palladium price consequently dropped from around \$210 at the start of the month to under \$180 by the 16th. In contrast to platinum, however, the weak fundamentals for palladium meant that the price failed to recover significantly and the metal ended the year at \$184.**

Palladium began December trading steadily around \$210, little changed from the end of November. From the 3rd onwards, however, sentiment amongst investors turned more bearish: long liquidation was evident on NYMEX and an increasing volume of new speculative short positions were opened. The price slipped to \$205 on the 6th, then to \$202 by close of trade in New York on the 8th, initially holding up well compared to the sharp price falls seen across other metal markets.

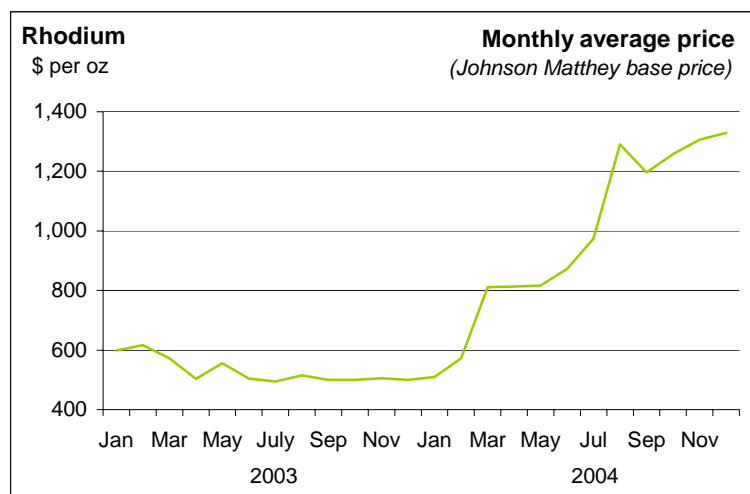
The following day, however, the palladium price dropped below a key technical point of support at \$201, then fell below the \$200 mark. As a result a surge of selling was seen from managed futures funds trading on technical or quantitative pricing models. With a concurrent increase in the volume of metal offered across the fix, and few bids from industrial end users, palladium slumped to \$190.

The palladium price stabilised just above \$190 until the 14th, when selling on both NYMEX and across the fix picked up again. By the afternoon of the 16th palladium had slid below \$180, fixing at \$179.50. The closing of long positions (mainly by commodity trade advisors / managed futures funds) and the opening of new short positions (by both CTAs and hedge funds) cut the net speculative position on NYMEX from 775,000 oz at the end of November to less than 650,000 oz by the middle of December.

Palladium fixing prices – December 2004			
	High	Low	Average
\$ per oz	211.00	178.00	191.95
£ per oz	109.75	92.00	99.50
€ per oz	158.71	133.77	143.53

The volume of palladium futures and spot trade then fell away and the price settled into a narrow band, trading just above \$180 from the 20th through to the end of the month. Palladium finished 2005 with a fixing of \$184, a fall of 5.2 per cent from the opening fixing of the year of \$194.

**OTHER PGM**  
**Rhodium price**  
**remains firm**  
**above \$1,300 but**  
**minor metals**  
**weaken**



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***The Johnson Matthey rhodium base price held firm above \$1,300 throughout December – the market staying finely balanced. The ruthenium and iridium markets, however, softened as interest from buyers dwindled towards year end.***

Any end users of rhodium hoping for a flurry of offers of metal in December, as has happened on occasion in recent years, would have been disappointed. In the absence of any greater than normal offers of Russian metal, and with most other supplies of rhodium already committed, availability remained tight. Consequently, the Johnson Matthey base price moved up from \$1,330 to \$1,345 at the start of December, drifted down to \$1,310 in mid-month, then moved back to \$1,330 where it finished the year. Rhodium, therefore, was the best performing of the precious metals in terms of price appreciation by a considerable margin in 2004, having begun the year at just \$500.

The prices of both ruthenium and iridium continued to weaken during December, bids for metal becoming thin on the ground and no problems with availability for either metal. The JM base price for ruthenium slipped from \$78 to \$68, while iridium dropped from \$190 to \$170.

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