

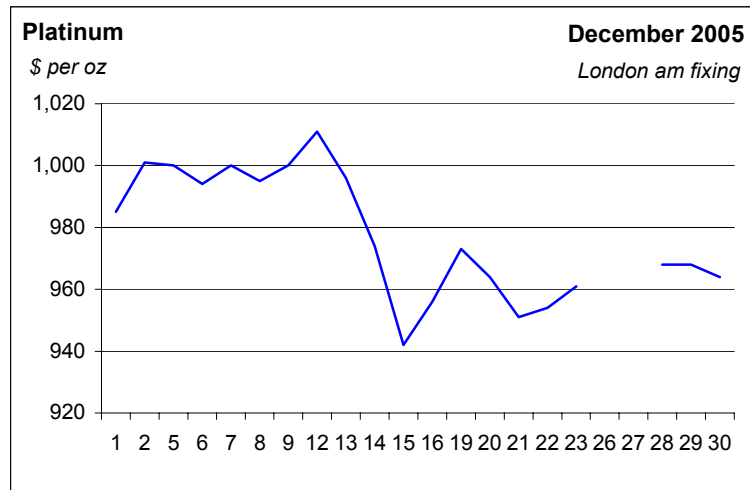
THE PLATINUM METALS REPORT

www.platinum.matthey.com

December 2005

Johnson Matthey

PLATINUM
Peak of \$1,012
followed by
slump to \$942 as
investors bail out



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The platinum market began December strongly as speculative buying in Japan continued. The price moved up to trade at or just under \$1,000 for the first few days of the month, before jumping to a peak fixing of \$1,012 on the 12th. The management of TOCOM, however, became concerned about the scale of speculative open interest in gold and platinum and announced the introduction of extraordinary margins on both contracts. This resulted in a scramble by Japanese investors to liquidate long positions. The price dropped sharply as a result, with fund selling on NYMEX contributing to the slide. Platinum lost \$70 in less than three days, slumping to \$942 on the 15th, before bouncing back to trade either side of \$960 for the remainder of the month.

The platinum price just failed to breach \$1,000 on the London fixings in November, but renewed speculative buying in early December quickly pushed the price above that key psychological mark. Much of the activity took place in Asia, with the TOCOM October 2006 contract rising steadily to ¥3,810 on the 1st then opening limit up at ¥3,900 on the 2nd. This was reflected in London, with platinum jumping to fix at \$1,001 on the morning of the 2nd, up from \$979 at the end of November and passing \$1,000 for the first time since March 1980.

The market then slipped back as profit-taking, notably by funds trading on NYMEX, outweighed further speculative buying in Asia. Platinum dipped to \$987 on the 6th, rebounded to \$1,000 the following day, then eased once again on the 8th, fixing at \$991 that afternoon.

However, with the gold price in the middle of a strong rally and investor sentiment towards most metals remaining bullish, platinum soon gained fresh upward momentum. Again Japanese buyers on TOCOM led the way: the October 2006 platinum contract jumped ¥49 to ¥3,942 at the start of trading on the 9th and total open interest ballooned to more than 161,000 contracts (equivalent to over 2.5 million oz) as yen weakness encouraged investors to switch into dollar-denominated assets. Platinum fixed at \$1,000 that morning in London, rising in tandem with gold which surged above \$520.



News that the Precious Metals Management Committee of TOCOM had discussed the elevated levels of open interest and price volatility in gold and platinum then induced a degree of nervousness amongst dealers, but this did not prevent both markets pushing higher during US trade, platinum reaching \$1,004.

On the 12th the speculative buying continued on TOCOM, driving the October 2006 platinum contract above the key ¥4,000 level to ¥4,021, up by the daily price limit. At that point the net long position held by funds and private investors on the exchange was estimated to be in the region of 850-900,000 oz. Platinum fixed at \$1,011 and \$1,012 in London, and offers of \$1,017 were reported. Again, the platinum market had followed the gold price, which jumped to touch \$540 in early European trading.

Following the close of TOCOM trading on the 12th, the Precious Metals Management Committee announced that extraordinary margins would be introduced for all new and existing positions in both gold and platinum from the 14th and 15th December respectively.

Platinum fixing prices – December 2005			
	High	Low	Average
\$ per oz	1,012.00	942.00	978.82
£ per oz	579.10	532.20	560.02
€ per oz	857.06	788.74	804.78

This decision had a dramatic effect on the platinum market: when TOCOM opened the following morning, funds and the general public began trying to rapidly liquidate long positions. Platinum dropped by the daily price limit on TOCOM and the spot price slid to \$996 at the morning fixing in London. US-based funds then joined the selling, leading to a volatile trading session in New York – platinum dipped to \$985 at one point before ending the day around \$995.

With a considerable volume of sell orders still waiting to be satisfied, the furthest dated TOCOM contract opened sharply lower on the 14th and soon fell by the daily limit. A modest upturn in physical demand from China was overwhelmed by the effect of the speculative selling and platinum slid to \$974 then \$968 on the day's fixings.

The 15th proved to be even more costly for holders of long positions on TOCOM as the daily price limit of ¥135 again restricted liquidity. The October 2006 contract opened limit down and stayed there throughout the day, with only 9,231 lots successfully traded. The problems for Japanese investors were compounded by a substantial weakening of the dollar against the yen, which further reduced the value of their dollar-denominated assets.

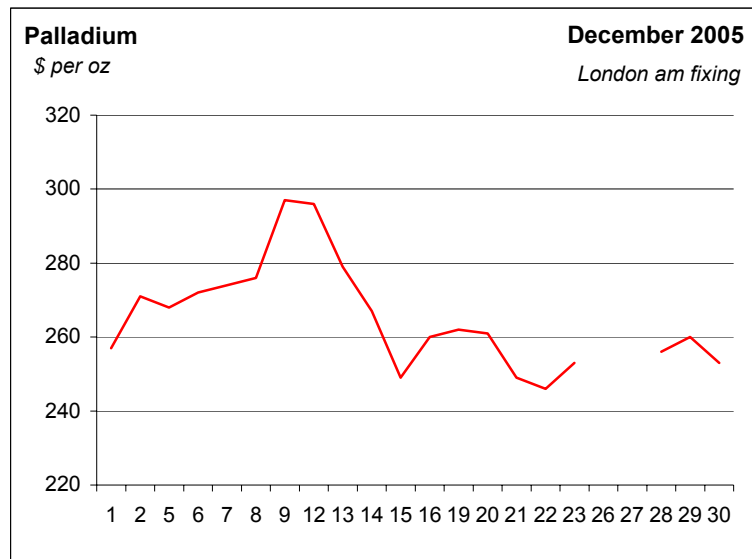
The European day began with platinum being offered at \$957 and by the conclusion of the morning fixing the metal had slumped to \$942 under the weight of speculative selling. That, however, marked the low point of the sell-off and as bids from end users picked up the price started to rebound, fixing at \$954 that afternoon.

Platinum once again opened limit down on TOCOM on the 16th under the pressure of outstanding sell orders, but after the initial wave of selling was satisfied the market moved higher on the back of renewed fund and end user buying. Platinum fixed at \$956 in the morning, \$959 in the afternoon, and was being offered at \$961 by the close in New York.

The recovery continued at the start of the following week, platinum rising to \$974 on the 19th. However, with the yen now strengthening against the dollar and the year end holiday period approaching, there was insufficient interest from Japanese investors to propel the price any higher. Fund long liquidation was also seen on NYMEX and platinum slipped back over the next two days to \$951 on the 21st. At that point the net speculative long position on NYMEX had fallen to around 360,000 oz, down from almost 520,000 oz at the end of November.

Pockets of good end user buying in generally quieter trading had pushed the price back over \$960 by the 23rd and the market then drifted between \$960 and \$970 through to the end of the year. Platinum closed 2005 with a fixing of \$964 on the 30th, a gain of \$116 or almost 14 per cent over the opening fixing of the year.

PALLADIUM
Price nears \$300
before retreating
rapidly as funds
take profits



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Influenced by rallies in gold and platinum, the price of palladium moved sharply higher during the first two weeks of December, nearing \$300 as funds added to long positions. However, the price had moved well ahead of the fundamentals, there being plenty of metal available to cover demand from end users. Consequently, when long liquidation hit the market the correction was steep, palladium sliding rapidly to \$249 on the 15th. The metal then traded more steadily through to the end of the year, moving in a \$15 range between \$246 and \$261.

December began with the palladium price continuing the strong upward trend that was established during September 2005. The price climbed from an opening fixing of \$257 on the 1st to \$276 on the 8th, following the other precious metals higher. At that point the net speculative position on NYMEX was estimated to have passed the 1 million oz mark, up from 923,000 oz at the end of November.

The most dramatic move in the price, however, occurred during Asian trading on the 9th, with palladium jumping by more than \$20 and fixing in London at \$297. Although clearly related to speculative buying rather than physical demand, the exact reasons for the sudden surge in price were not clear. Some dealers suggested it was linked to the discount between platinum and palladium; however, although this was high at \$715 (basis the previous afternoon's fix), the difference had been greater over the preceding few days. On a ratio rather than dollar basis there was even less rationale for the move, platinum trading at around 3.6 times the palladium price the previous afternoon, considerably below the recent peak of over 5 times seen back in July.

Other reports cited the possible influence of option-related hedging but whatever the true cause of the spike it was not sustainable. Palladium softened slightly to \$295 at the afternoon fix, then slid below \$290 during later US trading as profit taking came to the fore on NYMEX.

The start of the following week saw the palladium price regain ground, again on the back of strong buying during Asian trading. However, after fixing at \$296 and \$293 on the 12th, long liquidation in the gold and platinum markets on the

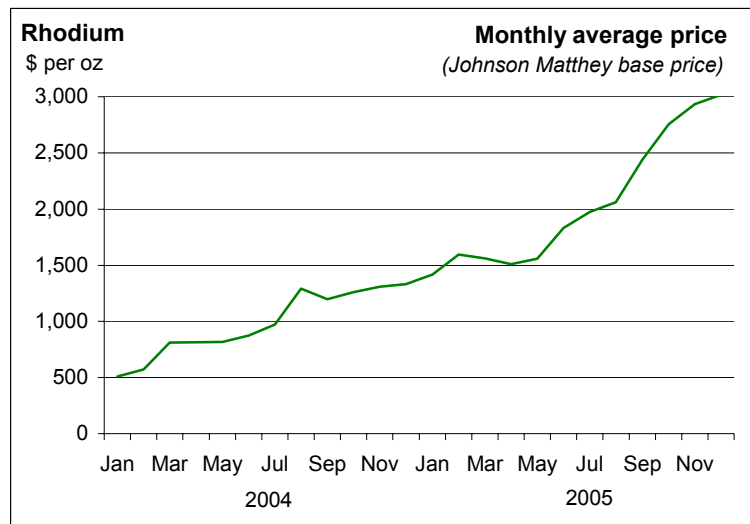
Palladium fixing prices – December 2005			
	<i>High</i>	<i>Low</i>	<i>Average</i>
\$ per oz	297.00	246.00	265.72
£ per oz	169.90	140.70	152.02
€ per oz	252.03	204.82	218.65

13th also triggered a wave of selling in palladium. The price slumped to \$279 at the morning fixing and had given up another \$7 by the end of the day, by which time the net long position on NYMEX had been cut to 820,000 oz. The speculative selling continued over the next two days and with few bids from end users to offer support the price dropped rapidly, coming to rest at \$249 on the morning of the 15th.

Trading on TOCOM remained small in comparison to platinum, daily volumes in the most active contract typically in the range of 50-100,000 oz. However, those investors that had taken long positions found their efforts to liquidate hampered by the daily price limit of ¥80. The October 2006 contract consequently spent most of the 13th to the 16th trading limit down as a backlog of sell orders was worked off.

The fall in the spot price of palladium below \$250 sparked an upturn in bids for physical metal, which resulted in the price recovering to \$261 on the 16th. Palladium held close to that level for the next two days before weakening to \$246 on the 22nd. The price rebounded again on the 28th, reaching \$264 in thin trade, but then softened to end 2005 at \$253. Nevertheless, this was still 41 per cent or \$73 higher than the opening fixing of the year of \$180.

OTHER PGM
Rhodium stays
firm around
\$3,000 as offers
of metal remain
thin



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The rhodium market remained firm in December, the Johnson Matthey base price moving back above \$3,000 during the first few days of the month to hit \$3,030 on the 5th. However, as buying interest from end users diminished towards the year end the price gradually retreated, closing 2005 at \$3,000. This represented a gain of 225 per cent (\$1,670) in 12 months.

Ruthenium and iridium prices both strengthened a little during December as a result of firm industrial demand. The JM base price for ruthenium was raised \$2 to \$87, having been stable at \$85 since late July, whilst iridium pushed up \$5 to \$195, continuing the steady upward progress from the year's low of \$145 in April.