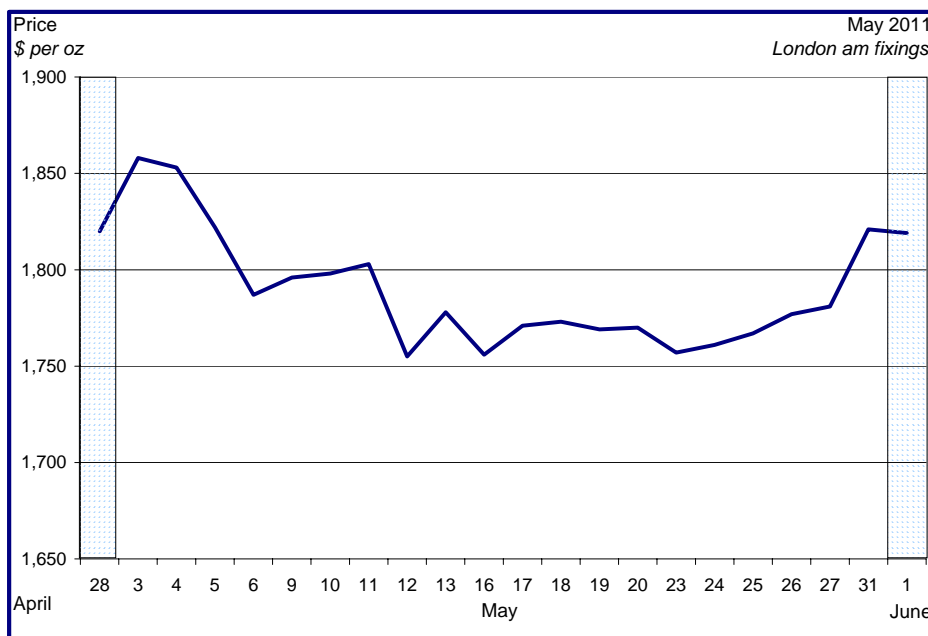


## The Platinum Metals Report – May 2011

May was a mixed month for the pgm complex, with platinum and palladium ending May almost where they had started it. Rhodium lost ground for most of the month, only to pick up in a rally at the end, with buying interest following the launch of a physical rhodium investment product. A collapse in the price of silver in early May dragged down platinum and palladium. This was compounded by weak industrial data from Europe and another rise in Chinese bank reserve requirements, which caused commodity prices to fall further. With many players in the platinum and palladium markets away from their desks during London Platinum Week, prices stabilised mid-month. Johnson Matthey's review of the pgm markets, released on 16<sup>th</sup> May, revealed a platinum market close to balance and a palladium market in large deficit in 2010, with a similar situation forecast for 2011. At the end of the month, news that Toyota expects its domestic production to return to 90% of pre-earthquake levels by as early as June helped bolster both metals, although weak US manufacturing output data were a reminder of the headwinds that still prevail for the world economy.

### PLATINUM

Platinum opened May at \$1,858, a level which turned out to be the high point for the month as the price softened in response to liquidation across the commodities sector. This was triggered by a collapse in the price of silver, which lost 20% of its value in the first week of May. Silver's collapse was widely attributed to an increase in margin payments for future contracts in silver on Comex, the fifth such rise within two weeks. As investors struggled to cover the increase in margins, there was a sell-off in precious metals and associated liquidation in the US Exchange Traded Fund. Good physical demand for platinum in Asia and South African supply-side concerns stopped the price from falling too far, and there was a modest recovery in the price after the 6<sup>th</sup>.



With the announcement of another rise in bank reserve requirements in China and weak industrial production data reported in Europe, fears of faltering economic growth once again emerged. Commodities slumped on the 12<sup>th</sup>, with technical selling driving platinum down to a low for the month of \$1,755. "Platinum 2011", our review of the pgm markets, released on 16<sup>th</sup> May, revealed that the platinum market was in balance in 2010 and is expected to remain so in 2011. With many key players from the global

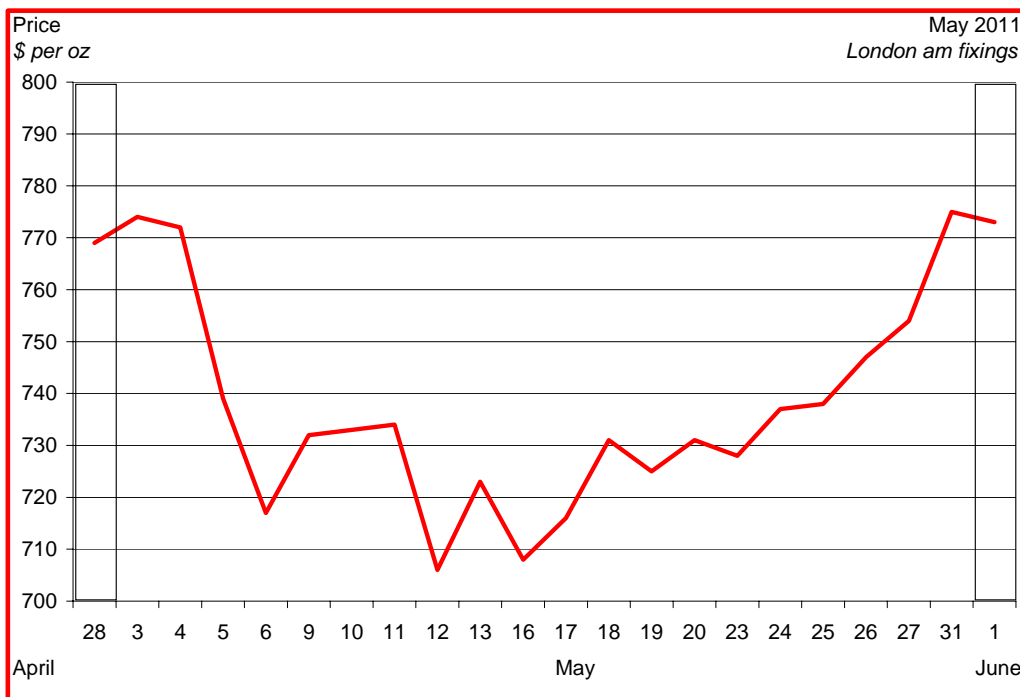
platinum industry in London for Platinum Week, activity in the pgm markets was fairly light, and prices were more stable than in recent weeks.

Platinum am Fixing Prices – May 2011			
	High	Low	Average
\$ per oz	1,858.00	1,755.00	1,787.65
£ per oz	1,126.40	1,078.00	1,095.44
€ per oz	1,263.70	1,223.75	1,246.46

Platinum’s price dipped again on the 23<sup>rd</sup> as data revealed slower growth in China and that Japan’s economy moved into recession in Quarter 1 of 2011. Further disappointing news for the weaker Eurozone countries came as Moody’s credit rating agency warned that restructuring of Greece’s debt would be seen as a default. Supported by expectations of higher oil prices by the end of 2011, forecast by Goldman Sachs and Morgan Stanley, platinum began to edge higher alongside other industrial commodities. Supply concerns in South Africa also helped support platinum; following the dismissal of 9,000 mineworkers by Lonmin after an unofficial strike at its Karee mine interrupted production, Impala Platinum announced a reduction of the 2013 output target at its Marula mine from 95,000 ounces to 70,000 ounces. In the closing days of May, platinum strengthened further on the back of a weaker dollar and geopolitical concerns emanating from the Middle East. Platinum ended May just \$1 higher than the end of April. With the falling price, total ETF holdings fell by 2.8% (-40,000 oz), bringing investment in the year to date down to 159,500 oz and cumulative holdings to 1.4 million oz by 26<sup>th</sup> May.

## PALLADIUM

As the price of silver tumbled, triggering a widespread commodity sell-off in the first week of May, palladium’s price was more severely affected than platinum. Palladium lost 7% of its value between the 3<sup>rd</sup> and 6<sup>th</sup> May, compared with 4% for platinum. This reflected the ‘investor fatigue’ that appears to be affecting the palladium market at present. The price recovered well the following week as it followed gold’s upward momentum but once again fell victim to a general commodity sell-off, dropping to a month low of \$706 on the 12<sup>th</sup>.



In "Platinum 2011", we reported that the palladium market was in a substantial deficit in 2010, and is expected to remain so in 2011. Discussions during London Platinum Week focused on Russian state stocks. We anticipate some sales of Russian state stocks this year, although at a considerably lower level than in each of the last three years. Palladium's price was generally on an upward trend for most of the week, regaining some of the ground lost in the previous week's correction. With the earlier sell-off now appearing over-done, palladium's price strengthened throughout much of the remainder of the month, outperforming platinum in absolute and percentage terms. Palladium reached a month high of \$775 on the last day of May. Similar to platinum, palladium was up by \$1 compared with the start of the month. Overall, fund volumes declined by 3.6% (-82,400 oz) to drag YTD net investment into negative territory (-8,400 oz for the year) and cumulative holdings down to 2.21 million oz.

<b>Palladium am Fixing Prices - May 2011</b>			
	<i>High</i>	<i>Low</i>	<i>Average</i>
<i>\$ per oz</i>	775.00	706.00	736.00
<i>£ per oz</i>	469.70	433.65	451.00
<i>€ per oz</i>	537.80	493.45	513.19

Overall palladium ETF holdings fell once again in May, with a net fall of 51,000 oz between the 1<sup>st</sup> and 26<sup>th</sup> May. Liquidation in ETF Securities' US fund around the middle of the month was mainly responsible, but there was also some liquidation in Switzerland's ZKB fund. Although the launch of the new Source palladium ETF (which was accompanied by the launch of a platinum ETF) in early May saw high initial buying interest, there was a slow down in purchases as May wore on – with around 50,000 oz of cumulative demand in the Source product by month-end.

## **OTHER PLATINUM GROUP METALS**

Rhodium drifted lower in the early part of the month as Asian buyers remained reluctant to enter the market. With persistent selling pressure in Europe being met by little or no buying interest, the rhodium price softened by \$325 between 3<sup>rd</sup> and 23<sup>rd</sup> May, eventually fixing at its month low of \$1,950 – its lowest level since November 2009. Thereafter, rhodium was on a steady upwards trend for the remainder of the month, regaining much of the lost ground and fixing at \$2,250 on 31<sup>st</sup> May. The announcement of a new rhodium investment product in the form of a physical exchange traded commodity helped explain the renewed buying interest. Similar to an ETF, it tracks the price of rhodium and is backed by physically allocated rhodium sponge. Iridium and ruthenium were unchanged at \$1,050oz and \$180oz respectively.

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