The Platinum Metals Report

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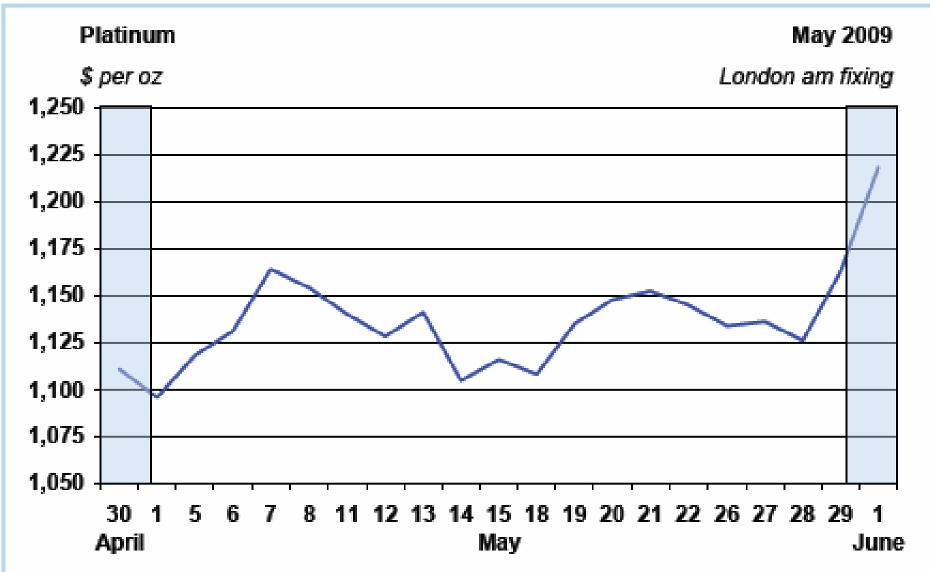
May 2009 **Johnson Matthey**

May proved to be a strongly positive month for platinum and palladium as continued optimism in the financial markets provided strong support for a wide range of commodities. Physical demand for both metals was relatively weak with the automotive market struggling and even purchases from the Chinese jewellery industry slowing. However, investor interest supported the price of both metals: while ETF purchasing was soft, net long speculative positions on the futures exchanges grew. Asian buying of rhodium helped boost the price of that metal too. Both ruthenium and iridium remained at the same price at which they had started the month.

PLATINUM



The platinum price climbed from just below $1,100 per ounce at the starter of the month to end May strongly at its monthly high of $1,175. While concerns remained over the global economy, the financial markets concentrated on any positive news and drove the prices of many commodities – including gold and oil – to six month highs. There were rumours throughout the month of possible buying of platinum by the Chinese Government in order to build state stockpiles. Although no evidence of this emerged, the rumour alone added some positive energy into the market. Physical demand, however, remained quiet and most of the momentum moving the price came from the investment community where NYMEX and TOCOM net long speculative positions grew strongly in the second half of the month.

Platinum's first fix of May was at $1,096, marginally weaker than the final fix of April amidst thin trading (with much of Europe shut for the May Day bank holiday). 256kg of platinum changed hands on the Shanghai Gold Exchange that morning. However, with the US Dollar strengthening and driving gold lower, substantial sales of platinum (apparently involuntarily and due to Chrysler's entry into Chapter 11 bankruptcy) depressed the platinum price, driving it to its monthly low of $1,076 at the second fix on the 1st.

The market remained quiet after the weekend (with the UK and Japan now shut) but a weak dollar allowed gold and the other precious metals to regain much of the ground they had lost, with platinum reaching $1,118 at the first fix on the 5th. Buying interest in Shanghai decreased (and remained at a lower level than they had been in April for most of the rest of the month) and long liquidation and short selling on NYMEX applied some downward pressure on the price. However, burgeoning optimism on the Chinese economy and a US proposal for a so-called "cash for clunkers" or car scrappage scheme boosted the platinum price, driving it to $1,135 at the afternoon fix in London.

Platinum then ran into technical resistance close to the $1,135 level before breaking through on the 7th to fix at $1,164, as it followed other commodities higher on the prospects of near-term Chinese economic growth. General Motors reported a $6 billion loss for the first quarter of the year but this was (remarkably) lower than the market had expected and had little impact on equity or any commodity prices. Nonetheless, in the absence of strong physical demand, the price slipped lower to $1,154 the following morning. In its turn, Toyota announced a $7.7 billion loss for the same period and cut its production forecast. Lonmin gave its half year results on the 11th too and its bearish comments over the short-term outlook for platinum demand helped to drive platinum down as low as $1,114 at the second fix on the 11th under heavy selling from one source.

Platinum fixing prices – May 2009			
	High	*Low*	*Average*
$ per oz	1175.00	1,076.00	1,132.05
£ per oz	771.15	706.85	810.95
€ per oz	876.50	810.95	830.30

However, the price found support from investors and staggered higher, to $1,141 on the 13th as it derived support from Japanese governmental discussions over a car scrappage scheme in that country. However, the troubles of the automotive industry elsewhere returned: worries over the effects of a possible bankruptcy of General Motors encouraged the sale of metal in Japan and London and forced the price down to $1,121 later that day.

A fall in global stock markets drove some liquidation of commodities the following day (the 14th) and platinum fell to $1,105 where it found good physical support (from China and elsewhere). As if to demonstrate that the world's economic woes were not only affecting the car companies, Sony joined in and revealed a $1 billion annual loss. News of a one day strike at the Modikwa platinum mine in South Africa could not firm the price. Instead, the sale of some 40,000 oz of platinum from the London ETF and the impending closure of a large part of GM's and Chrysler's dealership network in North America kept the price close to this level until the weekend.

The 18th of May saw the start of London's Platinum Week (a week of events within the platinum industry) and the release of Johnson Matthey's Platinum 2009 Review. Impala also reported an increase in its last quarter's refined pgm production but with many market participants otherwise occupied, the price stayed steady. Late that day, the Obama administration announced plans to introduce tougher new vehicle mileage rules to take effect by 2012. The market interpreted this as bullish for platinum as it could lead to the introduction of greater numbers of diesel vehicles. Platinum climbed to $1,136 on the 19th as Ospraie announced that it was to launch two new commodity hedge funds. Investors started to increase their long positions on NYMEX and TOCOM and the platinum price started climbing higher.

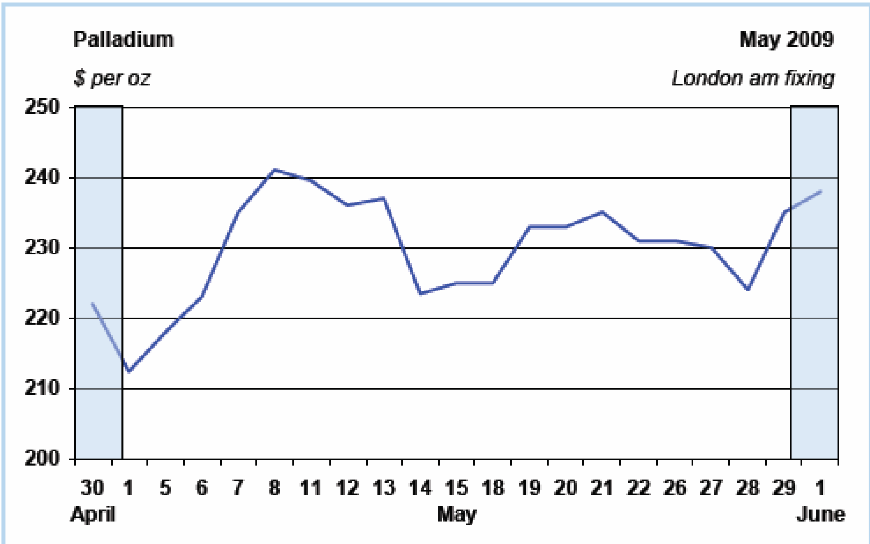
On the 20th, the dollar weakened as the US Federal Reserve cut its three year economic forecast. Most commodities benefited and platinum climbed amidst thin trading. Oil hit a six month peak and platinum climbed as high as $1,152 on the 21st before stalling. With the US and UK markets closed for bank holidays on the 25th, the market remained quiet for the next few days. Deaths were announced at two South African mines (Marula and Rustenburg) but any effect this had on the price was outweighed by GM's admission that it was now likely to enter bankruptcy proceedings. Platinum fell back to $1,128 on the 26th. The newswires were now buzzing with stories over the progress of Fiat's planned takeover of Chrysler and GM's fate but the price did not react with market participants waiting for a definite price signal.

On the 27th, North Korea announced that it no longer felt bound by its 1953 peace accord signed with South Korea. When combined with its testing of a nuclear device earlier in the week, most analysts expected gold to strengthen and drag the platinum group metals higher. Instead there was little reaction, showing the lethargy in the market.

However, lengthening NYMEX and TOCOM positions continued to apply upwards pressure to the price. More importantly, though, the US Dollar started to drop quickly late on during the 28th and throughout the 29th on worries over the nation's creditworthiness amidst the scale of bond issuing. The dollar rapidly softened. Investors piled into gold as a safe haven and the platinum price leapt higher to a final fix for the month of $1,175, a gain of $99 despite weak demand from the physical market.

PALLADIUM

Palladium gained over $10 per cent during May as investors ignored the evident weakness in the automotive sector and continued to increase their positions in this metal. ETF positions grew steadily thoughout the month, from an initial 833,000 oz to 850,000 oz and net long speculative positions on NYMEX rose by almost 300,000 oz. With the US Dollar weakening too, palladium benefited, climbing from $212.50 at the start of May to end the month at $236.



Quiet trading conditions on the 1st of May, a bout of dollar strength and bad news from the North American automotive sector (lower sales at Toyota and poor sales of sports utility vehicles at Ford) hit palladium and drove it from a final April fix of $218 to a first May fix of $212.50 and on to its monthly low of $212 later that day.

With the London and Japanese markets closed for holidays on the 4th there was no fix that day. Instead palladium climbed in the spot market as the dollar weakened, reaching $218 on the morning of the 5th. Investors renewed their interest in palladium and rising NYMEX positions sparked off a further increase in the price (net long speculative positions on NMEX grew from 708,000 oz on the 5th to over 850,000 oz on the 12th before stalling). Signs of recovering commodity demand in China and a very few other locations injected some optimism into the markets and palladium climbed to $223 at the second fix of the day before running into resistance.

The price clawed its way over the $225 mark on the afternoon of the 6th as gold derived support from worries over the outcome of the US Federal Reserve's stress tests on some of tha largest US financial institutions. Stillwater announced that its first quarter palladium production had fallen by 3.3 per cent, adding further firmness to the market. With this resistance broken, palladium leapt higher: stock prices rose and the dollar weakened and strong Asian physical purchasing of palladium on the 8th outweighed the constant negative stream of poor automotive data, forcing palladium to a monthly high of $242 at the second fix of the day.

The price stalled at this level and then began to retreat despite continued investor interest, falling to $235 on the 11th. The announcement of large losses at Nissan and Toyota combined with worries over the fate of General Motors to drive selling of the platinum group metals on the 13th. Investor interest on the futures exchanges also waned and palladium dropped to $230.50 that day despite a weak dollar. A stock market fall on the 14th drove some commodity liquidation, hitting palladium again and driving it down to $223.50 on the 14th where it found physical support. It remained close to this level for the following days.

Palladium fixing prices – May 2009			
	High	*Low*	*Average*
$ per oz	242.00	212.00	229.85
£ per oz	160.30	140.60	149.25
€ per oz	179.60	160.00	168.55

The price started to move again after the second fix on the 18th when the US Government announced its plans to tighten domestic vehicular carbon dioxide emissions rules. Although this might be expected to have little impact on palladium demand, a number of market participants connected this to the use of autocatalysts and viewed the development as bullish for palladium. In any case, the palladium price rose to fix at $233 on the morning of the 19th. Ospraie's announcement that it was to launch two new commodity funds in the USA provided some further support for the price. A spell of dollar weakness the following day (due to a steady flow of money back into commodities and other investments from the safe haven dollar) nudged palladium higher to $234 on the 20th before it ran into resistance and selling.

The price stayed close to this level for the following few days until, on the 26th, Norilsk Nickel raised its 2009 forecast for palladium production by 75,000 oz, sending the price back below $230, to a second fix of $229 that day. For reference, North American Palladium stated that it would require a palladium price in excess of $300 to consider reopening its Lac Des Iles mine in Canada. The price dipped further on the 27th and 28th, demsontrating the weak underlying physical demand from the car industry and palladium softened to $224 on the 28th. However, later that day, investors started to move rapidly out of the US Dollar, boosting a range of commodity prices. Oil prices climbed rapidly and the palladium price bounced off firm resistance at $220. Very strong Japanese purchasing the following morning kept applying pressure and the price climbed to end the month at a final fix of $236, a rise of $23.50 from the start of the month.

OTHER PLATINUM GROUP METALS

Alternating spells of excess offers and bids drove movements in the rhodium price during May with the price moving between $1,325 and $1,525. Ruthenium traded at $90 and iridium remained at $425 throughout the whole of May.

Rhodium started the month at a Johnson Matthey Base Price of $1,325 and steady levels of bids helped the price to climb to $1,350 on the 6th before good buying from Asia drove the price to $1,500 on the 8th. Residual buying interest took it to a monthly peak of $1,525 on the 11th before more offers surfaced, driving the price back down to $1,375 on the 14th. At this level, offers dwindled and bids increased in number and the price rose once more, peaking at $1,500 on the 21st before falling back to end the month at $1,425, some $100 above where it had started. In physical terms, there was little excitement with poor automotive data released throughout the month being counterbalanced by strong Asian purchasing.