

The Platinum Metals Report

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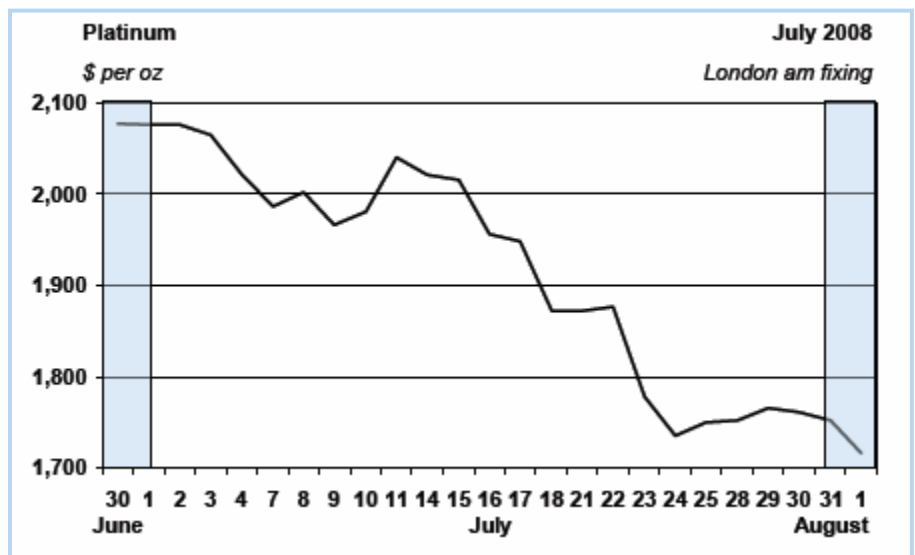
July 2008

Johnson Matthey

Platinum, palladium and rhodium all fell heavily in July. Thin physical buying from the major car manufacturers was expected but poor production figures in North America depressed the prices of all three metals on market expectations of lower demand. Fund liquidation in platinum and palladium on NYMEX weighed heavily on these metals and was instrumental in driving their prices lower, as net long positions held by speculators dropped by roughly half throughout the month. Physical purchasing of platinum, however, was reinvigorated as the price fell, with volumes on the Shanghai Gold Exchange recovering strongly.

PLATINUM

Following six months of strength, the platinum price suddenly reversed direction and lost 15.3 per cent of its value in July. It started at \$2,075 - its high point - and closed the month at \$1,758. The main driving forces for this move were worries over the health of the North American automotive market and extensive sales of fund long positions on NYMEX and in the ETFs.



Platinum started July range-bound and remained at \$2,075 for the first three fixes of the month. The oil price started to move higher and news emerged of Lonmin's temporary smelter closure. However, this bullish news was balanced by poorer-than-expected automotive sales data in the USA and the price did not move. This price, \$2,075, proved to be the high point of the month for platinum.

On the 2nd, the South African unions set August 6th as the date for a nationwide one-day strike. However, in thin trading conditions (as usual during the Northern hemisphere summer months), platinum fell from its range to \$2,064 at the first fix on the 3rd. The oil price reached a new record of \$146 per barrel and intensified fears of an economic slowdown and lower future demand for industrial metals such as platinum. The US Dollar rallied as the markets assumed that the recent rate rise from the European Central

Bank was a one-off. Platinum was affected by both of these developments: it fell on the 3rd and the 4th and slipped to \$1,986 on the first fix on the 7th where it found technical support.

Buying intensified on the Shanghai Gold Exchange as 205kg of platinum were purchased (and buying remained strong for the rest of the month). Lonmin revealed that although its No.1 smelter had restarted operations, its shut-down would see sales of 5,000-10,000 oz of platinum deferred into its next financial year. Platinum strengthened somewhat in response and bounced to \$2,002 a day later.

Platinum found little support at this level and declined to \$1,945-\$1,950 in late trading in New York, with NYMEX net speculative long positions falling. It fixed at \$1,966 in London on the morning of the 9th and started to firm once more as SGE purchasing remained healthy. Iran test-fired a missile, supporting the gold price and lending some strength to platinum. The price reached a temporary high of \$2,040 on the 11th as credit concerns over Fannie Mae and Freddie Mac, the enormous US mortgage funds, drove the dollar lower. Sales (or redemptions) of 25,000 oz of platinum held in the London ETF on the 11th reversed the tide and platinum started to drift lower.

On the 15th, the General Public sold off some of their long positions on TOCOM and the price dropped to \$2,015 on the morning fix. Later in the day, General Motors revealed that it was to accelerate its cuts in truck and SUV production volumes, forcing the price sharply lower, to \$1,956 the following morning, despite strong TOCOM purchasing. The platinum price did not rise back above \$2,000 for the remainder of the month.

Platinum fixing prices – July 2008

	<i>High</i>	<i>Low</i>	<i>Average</i>
\$ per oz	2,075.00	1,726.00	1,910.20
£ per oz	1,044.30	866.25	960.80
€per oz	1,317.45	1,099.35	1,211.05

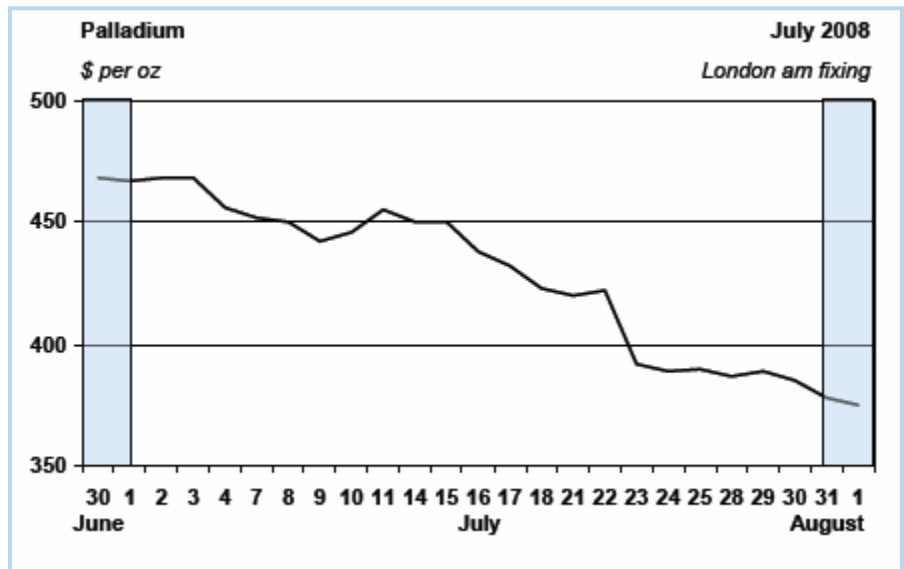
The price dropped again on the 17th as ESKOM commented that it did not foresee any further power cuts in the South African winter. The price responded by lurching to \$1,893 at the second fix of the day.

The platinum price stayed close to this level for the next few days, supported by buying in Asia. News that might have previously been viewed as bullish - ESKOM's closure of part of one of its nuclear electricity plants - was ignored by the market. A falling oil price pulled gold lower and platinum followed, dropping to \$1,778 on the morning of the 23rd. Ford revealed a quarterly loss of \$8.7 billion and a plan to focus its production more closely on smaller vehicles, suggesting some further long-term weakness in pgm demand. Platinum reached its monthly low of \$1,726 at the second fix on the 25th. NYMEX net long speculative positions continued to decrease - they fell from an initial 510,000 oz to only 241,000 oz by the month's end.

The selling did slow, however, and platinum established itself in a new, wide range of \$1,700 - \$1,800. Intraday volatility remained very high but there was little momentum remaining and platinum ended the month comparatively quietly at \$1,758.

PALLADIUM

Palladium lost all of the ground in July which it had gained in the previous month. Slowing automotive production in North America was the main catalyst but was accompanied by a fall of almost half in the size of net long futures positions on NYMEX (from 1.01 million ounces to 535,000 oz at the end of the month). Interestingly, the European ETF positions continued to



grow. Palladium started the month at \$467 and ended at \$382, some 18.2 per cent lower, showing the importance of sentiment in determining the price of this metal.

The first fix of the month for palladium was \$467 and it remained firmly range-bound for the first few days, hitting its monthly high of \$468 on the 2nd but moving no more than \$5 in either direction, with technical resistance and support both close to this level. Palladium did slip to \$456 on the 4th in thin trading, with the New York markets closed for Independence Day.

News of poor North American automotive sales in June then cut support from the platinum price. With the dollar strengthening, the platinum price fell through the \$2,000 mark and palladium moved lower in sympathy, testing the support at \$450 and moving through this level to \$448 at the second fix on the 7th. Palladium bounced marginally on the following day despite some investor liquidation of long positions. However, the lack of interest was shown by no metal changing hands on either fix on the 8th. Palladium simply followed platinum over the following week and returned to \$450 by the 15th.

Late that day, a wide range of commodities dropped suddenly. Oil fell, with fund liquidation of long positions (to cover margin calls) thought to be responsible. A US Federal Reserve comment that the slowing US economy should weaken many commodity prices may also have contributed to this decline. Palladium fell from its range and fixed at \$438 twice on the 17th.

Palladium was now looking for a new support level and small amounts of investor selling caused the price to soften slowly to \$417 on the 22nd. Interestingly, Swiss import statistics showed greatly decreased flows of palladium from Russia over the first half of the year,

suggesting lower shipments and sales of Russian state stock. Nonetheless, the price remained entirely unmoved.

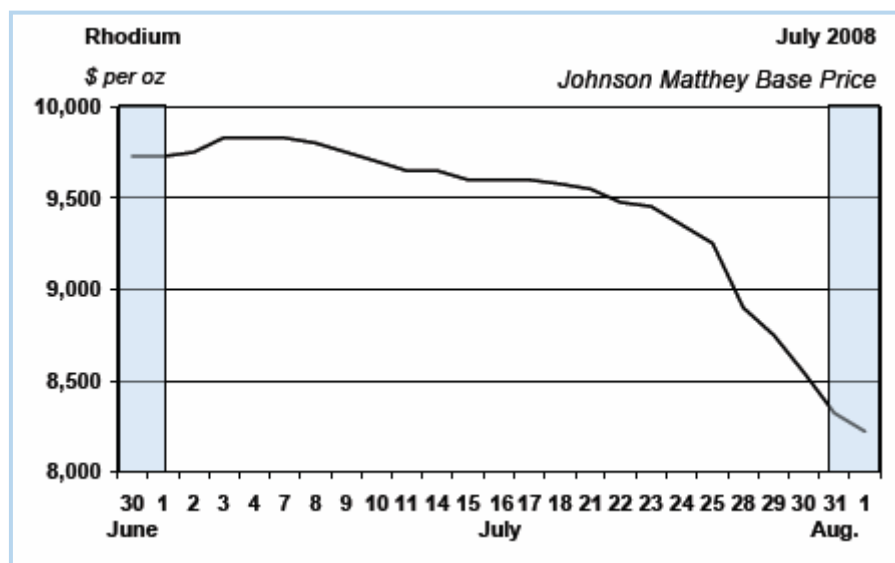
Late that day, the platinum group metals fell heavily in New York trading as oil dropped back. This was accompanied by very substantial long liquidation by funds on the 23rd and 24th which outweighed healthy physical demand. Palladium dropped to fix at \$392 and \$387 on the 23rd. Palladium long positions on NYMEX continued to fall throughout the month. However, with these now much smaller than before, the opportunity for fund

sales was greatly reduced. Perhaps surprisingly, further negative comments from the North American automotive manufacturers, such as GM's plans to cut its production of sports utility vehicles and trucks had no impact on the palladium price.

Palladium fixing prices – July 2008			
	High	Low	Average
\$ per oz	468.00	376.00	427.25
£ per oz	235.60	190.30	214.90
€ per oz	296.50	241.95	270.85

In fact, palladium showed some strength with technical buyers attempting to force the price back over \$390. When this failed to overcome the resistance, palladium fell back to its monthly low of \$376 at the London p.m. fix on the 30th. However, with platinum becalmed, palladium showed no real further direction. It did recover a few dollars and ended the month quietly at \$382.

OTHER PLATINUM GROUP METALS



Rhodium followed platinum and palladium lower in July, driven by weak North American automotive production and the slow physical demand that is often seen in the Northern hemisphere summer. It started the month at \$9,725 and fell to a month-end \$8,325. By contrast, there was little change in the ruthenium or iridium markets.

Rhodium started July just below its all-time peak at a Johnson Matthey base price of \$9,725. The first few days of July followed the pattern of previous months with persistent buying interest driving the price higher, to a peak of \$9,825 on the 3rd before the momentum dissipated.

Offers returned to the market and the price softened to \$9,600 by the middle of the month amidst the usual thin trading conditions seen in July and August. The price stepped lower on the 18th, following platinum and palladium, on a stream of negative news about the North American automotive market.

The market offers then increased to a level which could not be matched by the relatively thin buying interest, amidst rumours of speculator sales of metal. Rhodium fell \$100 on the 24th and 25th before plummeting from \$9,250 to \$8,900 on the 28th. The fall continued for the rest of the month and rhodium finally closed July at \$8,325 after this steep monthly decline of \$1,400.

The ruthenium price finally found support from some physical buying at \$300 in early July and steady purchasing pushed it \$5 higher to \$305 on the 8th, where it stayed for the remainder of the month. The iridium price remained unchanged throughout at \$450 for the whole of July.

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