

The Platinum Metals Report

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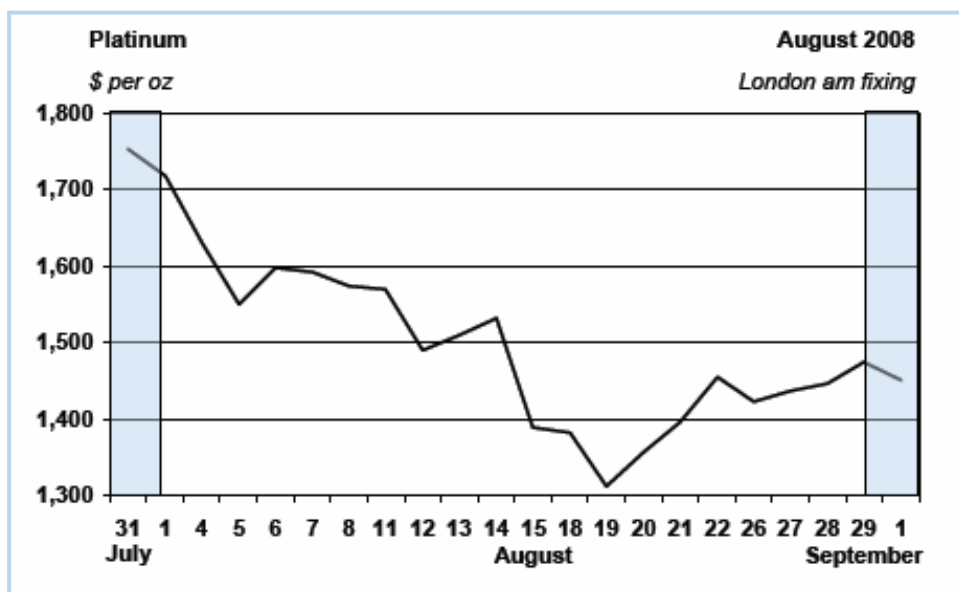
August 2008

Johnson Matthey

Platinum, palladium and rhodium all fell once more in August as the wave of investor selling of commodities (including precious metals) almost entirely outweighed the importance of fundamentals in any of these markets. Investors sold off long positions in physical metal, in exchange traded funds and on the futures exchanges and the three major metals plummeted for the first half of the month. The selling slowed in the second half of August and all these three metals were able to regain some of their losses despite the fragile confidence evident in the market. Ruthenium and iridium were largely ignored by the market over the same period.

PLATINUM

Platinum lost another 14 per cent of its value in August, having fallen 15 per cent during July. It started the month at \$1,717, already more than \$500 below its 2008 high but dropped quickly to a low of \$1,313, driven by fund sales of metal and of long futures positions. The markets finally stabilised and platinum followed gold higher, to



end the month at a comparatively healthy \$1,479. NYMEX, TOCOM and ETF positions diminished throughout the month but physical demand did emerge at the new lower prices. Comparatively little short selling was seen, with most of the price movement driven simply by reductions in long positions.

Having fallen heavily in late July, platinum started August under selling pressure with a first fix of \$1,717, a fall of \$41 from the final fix of July. Despite this weakness, this proved to be the high point for the platinum price for August. Fund sales of long positions on the futures exchanges – both NYMEX and TOCOM – increased in intensity. Falls in the platinum price in late trading in New York ensured that TOCOM opened limit down for a number of days and investors there were unable to prevent the price falling lower. Platinum crashed through \$1,600 on the 4th as the General Public sold a large number of contracts on TOCOM. 179kg of platinum were bought on the Shanghai

Gold Exchange (SGE) but this had little impact in arresting the slide. A note from Credit Suisse forecasting a platinum surplus from 2010 to 2014 may have played a part as platinum collapsed in New York under pressure from short-selling and long liquidation.

The US Dollar also played a part in this downward move as it rose to a seven week high against the Euro on the 5th. Oil, gold and other commodities fell in price. Once again, good SGE volumes were outweighed by selling on TOCOM as platinum dipped to \$1,550 at the first fix that day. It started to climb higher later that day and good volumes changed hands at the second fix of the day. The platinum price gained more momentum the following day, climbing back to \$1,612 as a one day strike affected much of the South African mining sector.

On the 7th, Aquarius announced a slight fall in its full year platinum production and Lonmin cut its 2008 production guidance by 50,000 oz, providing just enough support to keep platinum close to the \$1,600 level. However, on the 8th, the dollar rose on worries about European economic growth and platinum started to fall, with ETF sales and OTC deals driving the price down to fix at \$1,490 and \$1,494 on the 12th. There was a brief flicker of buying interest on TOCOM but little real appetite for this metal and platinum could only climb back to \$1,512 at the London a.m. fix on the 14th.

Around this point, many market commentators started to release comments suggesting that platinum had been oversold and that the price might bounce higher. This was roundly ignored by investors the following day: the dollar strengthened due to domestic inflation concerns and all the precious metals underwent extremely heavy liquidation. This was exacerbated by stop-loss selling in Europe and platinum slumped to \$1,390 at the first fix of the day. Finally, General Public buying on TOCOM started to re-emerge on the 18th as investors saw some value in platinum. However, this was initially outweighed by investment bank sales and platinum gave up any gains.

Platinum fell to a monthly low of \$1,313 on the 19th under the weight of more TOCOM selling (120,000 oz). This was its lowest point for nearly a year. The change in investor sentiment from earlier in the year could hardly be more marked as two deaths at Anglo Platinum were announced and the price failed to respond.

Platinum fixing prices – August 2008			
	<i>High</i>	<i>Low</i>	<i>Average</i>
\$ per oz	1,717.00	1,313.00	1,490.20
£ per oz	868.25	706.65	787.30
€per oz	1,103.10	895.35	993.55

However, this did mark the lowest point of the month as the futures positions stopped decreasing in size and stabilised instead. The oil price stopped falling on the 20th and provided some support to gold. Poor US economic data hit the dollar and

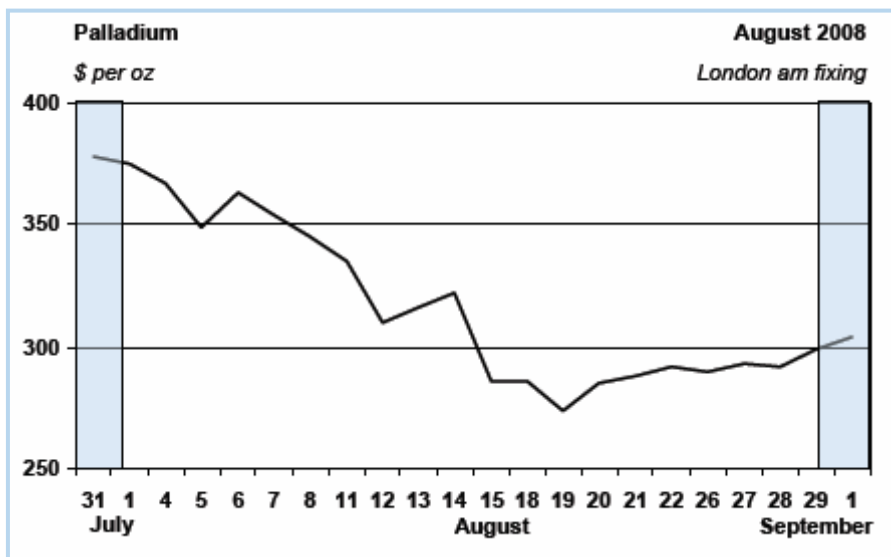
also supported precious metal prices, with platinum following gold higher. Short covering in oil on the 21st helped many commodities higher and platinum moved back through \$1,400, recording \$1,412 at the second fix of that day.

The remainder of August was – thankfully – less exciting. Some buying interest returned to the market with small volumes taken up in the ETFs and on the futures exchanges. The price was also supported by financial results from many of the South African miners which showed annualised falls in pgm output and by the short-term closure of a shaft at Amandelbult following a death there.

More importantly, though, the oil price received some support from the likelihood of disruption to oil production in the Gulf of Mexico during the upcoming hurricane season. Gold benefited from Russia's controversial decision to recognise the breakaway Georgian regions of South Ossetia and Abkhazia too. Both of these factors helped the platinum price to firm and it moved steadily higher, passing \$1,450 on the 28th and reaching \$1,494 later that day.

However, Toyota then revealed a cut in its 2009 sales forecasts, reminding many investors of the fragility of some parts of the global economy. This removed all of the momentum from the platinum price which subsided gently to end August at \$1,479, a long, long way below where it started the month.

PALLADIUM



Palladium fell by almost \$100 during July and lost another \$70 in August. It started the month at \$375 per ounce and heavy investor selling of commodities combined with weak seasonal demand to drive the price down to a monthly low of \$274. Although it did recover some of its losses, it still ended the month at \$302, a loss of \$73 or nearly 20 per cent, with the appetite of many investors having been exhausted by this move. Palladium suffered many of

the same problems that platinum did as the dollar strengthened and funds sold futures positions. However, ETF investment did remain comparatively strong.

Palladium started the month at \$375, a drop of \$7 from the final fix of July (which was itself some way below the price at the start of that month). This was the high point for August. However, the selling pressure on palladium was immediate and net long speculative positions on NYMEX fell from 535,000 oz at the end of July to 470,000 oz on the 5th of August. TOCOM long positions fell too – an unusual occurrence – and

helped drive the price down little by little to \$349 on the 5th amidst the normal seasonal weakness of demand in the Northern hemisphere summer.

The palladium price bounced back over \$350 immediately and followed platinum higher the following day as the latter metal benefited from a one-day strike in South Africa. The price firmed to \$363 and \$364 on the 6th before softening as the US Dollar showed some strength. Short positions on the futures exchanges started to grow too, at the same time as long positions were reduced, placing further downward pressure on the palladium price.

With constant selling in the market, palladium started to soften, moving down to \$354 on the 7th, \$345 on the 8th and \$335 on the 11th. Gold hit an eight month low on the following day as the commodity sector underwent a widespread sell-off. Palladium dropped too, finding support only at \$310 on the 12th and again on the 13th. The release of data showing lower oil inventories than had been expected injected some strength into the oil price and briefly pushed palladium as high as \$322 on the 14th before it slipped back to \$315 at the second fix of the day.

All of the precious metals were heavily sold in Asia on the 15th and their prices all lurched lower. Sales on TOCOM were followed by stop-loss selling in Europe. A spell of US Dollar strength added the final touch. Platinum fell by more than eight per cent and palladium dropped by over nine per cent between fixes. Palladium rested briefly at \$286 at the first fix of the day before bouncing higher. However, it failed to reach the \$300 level and fell back once more as investment banks reduced their exposure to this metal on the 18th. This drove the price to a monthly low of \$274 on the 19th.

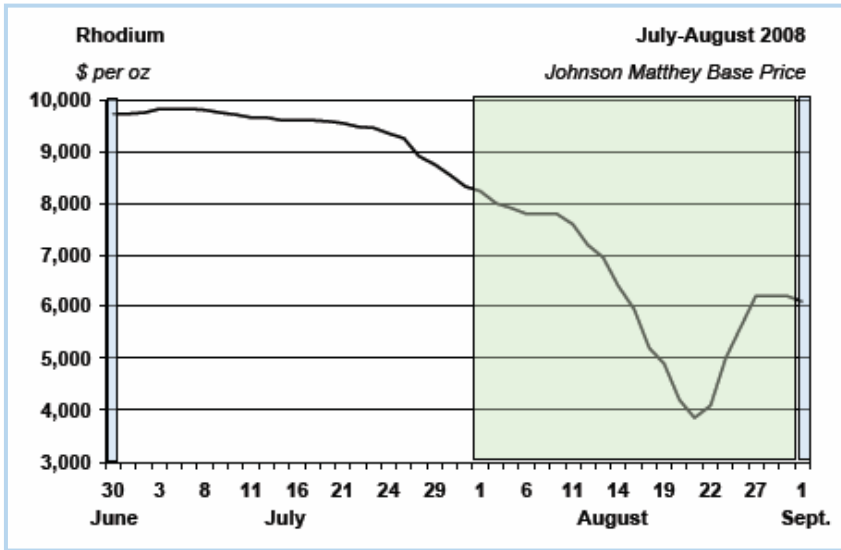
Palladium fixing prices – August 2008			
	<i>High</i>	<i>Low</i>	<i>Average</i>
\$ per oz	375.00	274.00	316.00
£ per oz	189.65	147.45	166.80
€per oz	240.95	186.85	210.50

(Surprisingly, although NYMEX and TOCOM long positions had fallen substantially over the month to this point (and to only half of their mid-July level), ETF investors had largely been unmoved, suggesting that at least some of these investors have a longer term interest in this metal's potential.)

Palladium finally found support at this level and climbed back to \$285 on the 20th as weak US economic data depressed the dollar. With trading levels low and many of the so-called “weak longs” having left the market, steady physical buying was sufficient to place a floor under the price which moved into a range of \$280-\$300.

As the days passed, technical traders and the braver investors started eating away at the resistance, steadily pushing the price higher. Palladium rose to \$299 at the first fix on the 29th and finally staggered over the psychologically-important \$300 level to \$302 at the final fix of the month. This was \$73 below where it had started the month but an impressive recovery of 10.2 per cent from its mid-month low.

OTHER PLATINUM GROUP METALS



August was a spectacular month for rhodium, even by its own high standards. It started the month at a Johnson Matthey base price of \$8,225 and lost more than half of its value within three weeks, plummeting to a low of \$3,850 an ounce. Although it bounced back over the \$6,000 level in the following days, it still ended the month over \$2,000 below its starting point at \$6,200.

Having been as high as \$9,825 in July, rhodium started August with very substantial downward momentum at \$8,225. The selling pressure which had existed at the end of the previous month continued and rhodium fell back to \$8,000 by the 4th. With the automotive industry in its seasonal slow period, there was little buying interest and steady offers of metal kept moving the price lower to \$7,800 on the 6th. It paused here briefly but soon started slipping lower again: it fell below \$7,000 on the 13th.

With no signs of support obvious for rhodium, dealers showed little desire to hold long positions in the metal and buying interest from that source dried up. Rhodium tumbled several hundred dollars on each of the next four trading days, hitting \$4,200 on the 20th before any sign of a slowdown could be seen. The fall did not stop immediately though and rhodium hit a monthly low of \$3,850 – an incredible 53 per cent below its first August price - on the 21st before bouncing.

Some end user purchasing stemmed the tide and, in this extremely thin market, the price rebounded very quickly. Where rhodium had previously seen only offers with sellers desperate to dispose of metal, bids now returned to the market in volume. Rhodium climbed to \$4,100 on the 22nd and rocketed to \$6,200 on the 27th before some stability returned to the market. It closed the month at this level, almost 25 per cent below its starting point.

Ruthenium and iridium were both unaffected by the moves in the prices of the other platinum group metals. Ruthenium purchasing remained steady although the price stepped down from \$305 per ounce to \$300 in the middle of August. Iridium was the only precious metal to move higher as it gained \$10 on its move from an opening Johnson Matthey base price of \$450 to a closing price for the month of \$460.

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