The Platinum Metals Report
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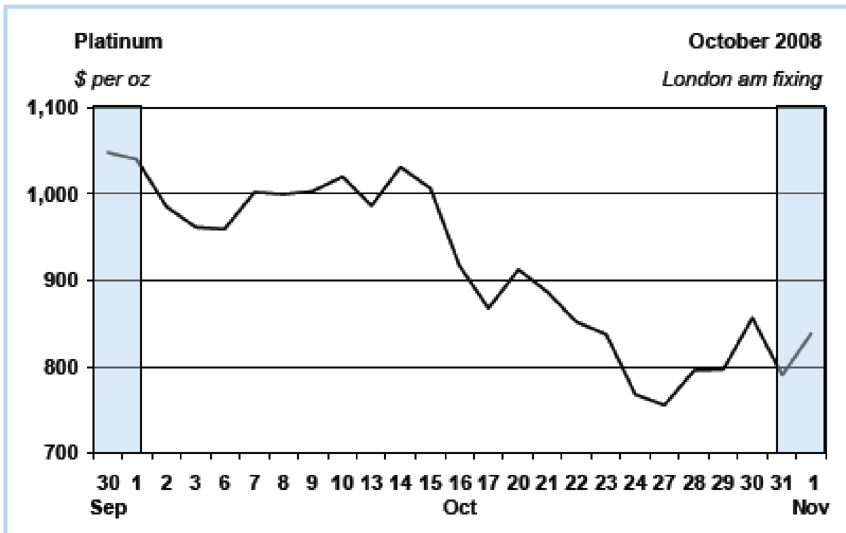
October 2008 **Johnson Matthey**

The platinum group metal prices suffered another difficult month in October with all five metals losing ground. The global financial markets were in turmoil throughout and investors looked for safe havens, selling almost all commodities and equities in favour of US Dollars. Later in the month, as government action calmed these markets, attention turned to the impact of the global slowdown on industrial production, hitting platinum group metal prices once again. To end a universally depressing month, a number of mines announced cuts in production towards the end of October but even this could provide no real support for the metal prices.

PLATINUM



Having fallen more than $400 in September, platinum fell another $200 in October. It started the month at $1,040 and, although investor liquidation slowed, this was still intense enough to keep the price moving lower to a month-end $814. A so-called flight to cash hit almost every commodity at the same time, cutting investment interest and strengthening the US Dollar. Worries over worsening automotive production in North America and elsewhere also worked to depress the price throughout the month.

Platinum's final fix of September was at $1,004 and the price immediately rallied in Asia, bouncing off the $1,000 level with physical investment providing some of this strength. Platinum climbed to a first fix in October of $1,040 but this proved to be the highest point of the whole month and it slipped to $1,010 at the second fix on the 1st. The US Senate then approved a bail-out plan for the struggling banks, injecting some brief optimism into global financial markets.

However, platinum did not benefit from this: the US Dollar strengthened in response and the General Public sold 20,000 oz of positions on TOCOM sending platinum under $1,000 for the first time since late 2005, to $985 in London on the morning of the 2nd. This encouraged stronger buying on the second fix of the day and platinum climbed back to \$995 but could not successfully challenge the \$1,000 level. Late that day, poor US automotive data depressed the price which fell to \$959 on the 3rd under the weight of investor liquidation. Platinum finally reached a low of \$940 in the spot market that day.

Chinese buyers returned on the 6th, following a week of national holidays. With 431 kg of metal changing hands that day on the Shanghai Gold Exchange (SGE), the price firmed to \$983. 281 kg were bought on the 7th on SGE and the General Public bought platinum on TOCOM, driving the price up to \$1,002. However, news of the temporary shutdown of a small number of European automotive factories in response to weak customer purchases removed any momentum from the price which stalled later that day at \$1,008.

A fall in equities in Tokyo on the 8th caused some panic in the Japanese market and platinum fell to \$999 before coordinated rate cuts by a large number of central banks restored some confidence. With global markets somewhat calmer and Chinese physical purchasing remaining strong, platinum firmed further, climbing back as high as \$1,027 on the 9th.

However, global stock markets fell sharply once more on the 10th, triggering sales of all forms of investments almost regardless of their intrinsic value, driving most commodities lower. Weak automotive data from China further sapped the strength of the platinum group metals and the price fell back to test the support at \$1,000, fixing at \$1,001 on the 10th and sinking through this level to a low of \$986 on the 13th. The following day, the Tokyo Stock Exchange reopened and leapt 14 per cent, demonstrating the quite extraordinary volatility present in all markets at that point. A calming of the market forced the dollar lower and allowed platinum to climb once again, reaching \$1,032 on the 14th before running into strong resistance close to the \$1,040 level.

Platinum fixing prices – October 2008			
	High	*Low*	*Average*
\$ per oz	1,040.00	756.00	913.40
£ per oz	601.35	488.70	608.70
€ per oz	756.40	608.70	684.75

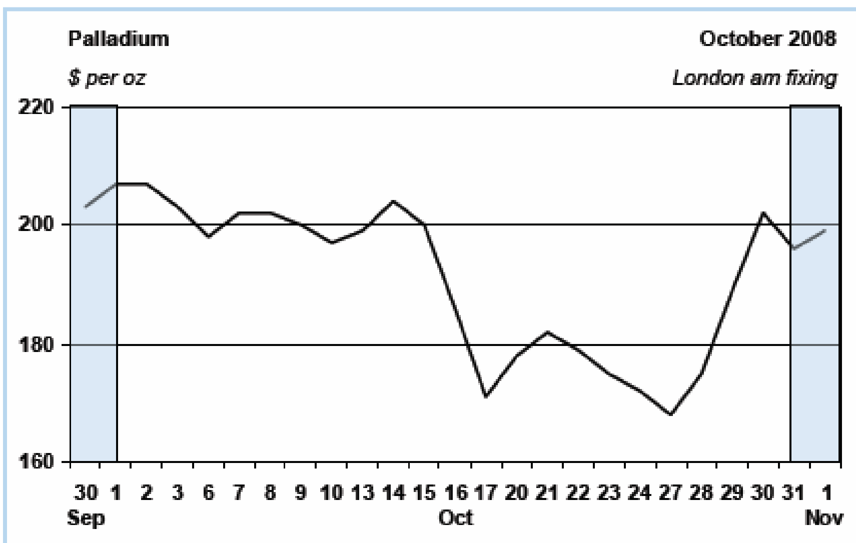
With markets now less worried about the prospects of a collapse of the global economic system, attention now focused on the effects of a US recession and a slowdown in many other major economies. European vehicle registrations in September fell eight per cent from previous year levels and platinum fell on the prospect of weaker demand, dropping below \$1,000 on the 15th. It did not climb back above this level again in October. On the same day, the first news started to emerge of mining companies cutting production of other metals in response to falling prices. The Rand also plummeted 17 per cent in one day against the US Dollar, briefly insulating the South African producers from the worst effects of the prices.

Hedge fund liquidation drove gold below \$800, and with oil falling too, platinum lurched lower, to \$917 on the 16th, despite daily sales of 480 kg on SGE and high platinum bullion purchases by individual investors in Japan. The price fell again the following day, hitting \$856 at the second fix before finding support. Platinum did recover some ground on the 20th, firming to $912 as the US Dollar weakened. However, this was purely temporary: further cuts in automotive production around the world and worries over other industrial demand continued to apply downward pressure to the price. Expectation of a rate cut by the European Central Bank strengthened the dollar. Platinum fell below $800 on the 23rd and reached a monthly low of $756 on the 27th as 45,000 oz of metal was sold from the London ETF.

On the 28th, Aquarius announced the closure of a small shaft at its Marikana mine in response to the lower prices. This signalled a change in the attitude of the market and platinum rebounded over $800 on the 28th and 29th, aided by a softening in the dollar. Net long speculative positions on NYMEX grew slightly too and platinum reached a high point of $856 on the 30th (and $880 in the spot market) before stalling again. The price dipped to $790 at the first fix on the 31st but was given some support by a number of headlines regarding the likely recurrence of load-shedding in South Africa. Platinum climbed another $24 to close the month at $814, a very long way from the peaks seen earlier in the year.

PALLADIUM

While the palladium price fell during October, it fared significantly better than the platinum price. It started the month at $207, almost a hundred dollars below where it had started September. Although it fell almost a fifth, in parallel with the fall in the platinum price, to a low of $168, it recovered to end the month strongly at $198, only $9 down overall. ETF positions slowly grew over the month, suggesting continued fund investment interest in this metal despite the recent price performance.



Palladium closed September at $199 and immediately bounced back above the psychologically-important $200 mark, fixing at a monthly high of $207 on the 1st before softening to $201 at the second fix of the day. Palladium was then largely buffeted by the same factors as platinum over the remainder of the month, tracking movements in the platinum price. Both metals suffered from weakening industrial demand and worries about the global economic system, in contrast to gold which benefited from its "safe haven" status.

Poor American automotive sales data on the 2nd had no impact on the price with palladium finding strong physical buying and technical support at the $200 level. However, speculator sales of commodities and the expectation of a rate cut by the European Central Bank (which boosted the US Dollar) kept the downward pressure on the palladium price. This slipped below $200 to $197 at the second fix on the 3rd before encouraging strong buying interest once again.

Palladium flirted with the $200 mark for the following few days, with fund sales and good levels of industrial purchasing almost balancing one another. The first major move of the month came on the 10th: a collapse in confidence across a number of stock exchanges drove equity prices quickly lower. This triggered sales of all kinds of investments. Gold fell $100 in a day and palladium dropped quickly too, to only $190.

However, support came from buying in the European market on the 13th and palladium firmed to $200 that day. It found support again at this level and remained close to this mark until the 15th. With central bank and government action having provided some stability - by injecting liquidity into the financial system and by the nationalisation of a number of European banks - the slowdown in the global economy now started to become the focus. Palladium suffered badly from its heavy dependence on the automotive market: the release of poor European September vehicle registration data drove the price down to $180 the following day and $171 on the 17th.

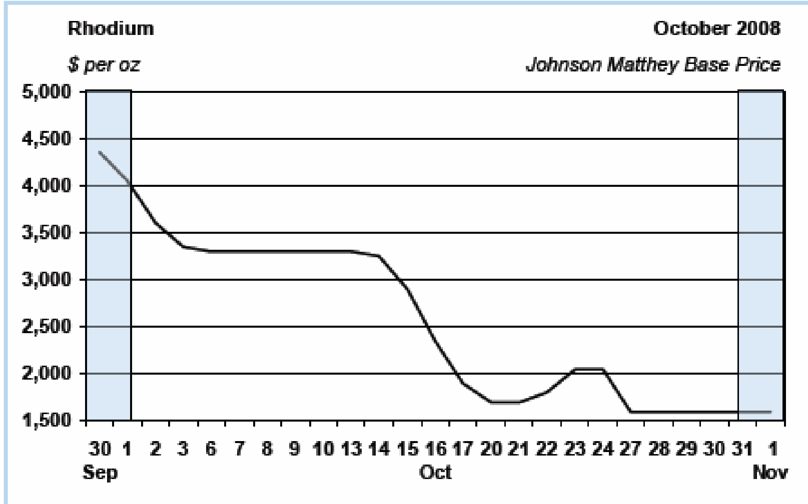
Palladium fixing prices – October 2008			
	High	*Low*	*Average*
$ per oz	207.00	168.00	190.85
£ per oz	125.00	98.75	112.85
€ per oz	158.25	127.10	143.30

Reasonable buying interest then provided some strength to the price which bounced back to $182 on the 21st. Later that day, North American Palladium responded to the recent fall in the palladium price and announced the closure of its Lac des Iles mine in Canada. Although this was expected to lead to a cut of roughly 200,000 oz of palladium from annual global supplies, the price did not respond at all. In fact, the next movement was downward instead as a strengthening dollar drove palladium lower. It hit a monthly low of $168 on the 26th and again on the 27th as platinum reached its monthly low.

Now, though, the dollar softened and palladium bounced back with good buying interest on the fixes. It shot back through the $200 mark on the 29th and peaked at $205 on the 30th before running out of steam. A rally in the US Dollar softened the palladium price slightly and this slipped back to end the month comparatively strongly at $198, only $9 lower than where it had started the month despite very challenging market conditions.

OTHER PLATINUM GROUP METALS

All of the minor platinum group metals lost ground in October as industrial and automotive purchasing diminished. Rhodium plunged from $4,050 to only $1,600, its lowest for a number of years. Ruthenium lurched from $290 to $230 while iridium took a gentle $10 step lower from $455 to end October at $445.



The rhodium price ended September at $4,350 after a succession of weak months. With the automotive sector, which accounts for the majority of rhodium demand, struggling with weakening demand, sentiment in this market was almost universally negative. Very little buying interest persisted and rhodium immediately stepped $300 down to a Johnson Matthey base price of $4,050 on the 1st. The price kept falling over the following days before finding support from some industrial purchasing at $3,300 on the 6th. It remained at this level for a week before restarting its downward move on the 14th.

The price fell below $3,000 on the 15th and below $2,000 on the 17th, reaching a plateau at $1,700 on the 20th. This encouraged some nervous purchasers to re-enter the market and rhodium briefly flickered back into life, rising to $2,050 on the 23rd and 24th. However, purchasing remained weak and the rhodium price could not be sustained at this level. It dropped lower once more, to $1,600, on the 27th, where it remained for the rest of October.

The story was similar for ruthenium. Buying interest, which had been weak for much of the year, remained anaemic. Slowing sales of computers meant that demand for ruthenium from hard disk manufacturers was soft and the price fell accordingly. It started the month at a Johnson Matthey base price of $290 and took regular steps lower, moving to $285 on the 6th, $275 on the 9th, $265 on the 14th, $250 on the 20th and then $240 on the 24th before finally ending the month at $230. Iridium purchasing was slow too. It opened October at $455 and fell to $445 on the 24th, ending the month at this level.

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