

## The Platinum Metals Report

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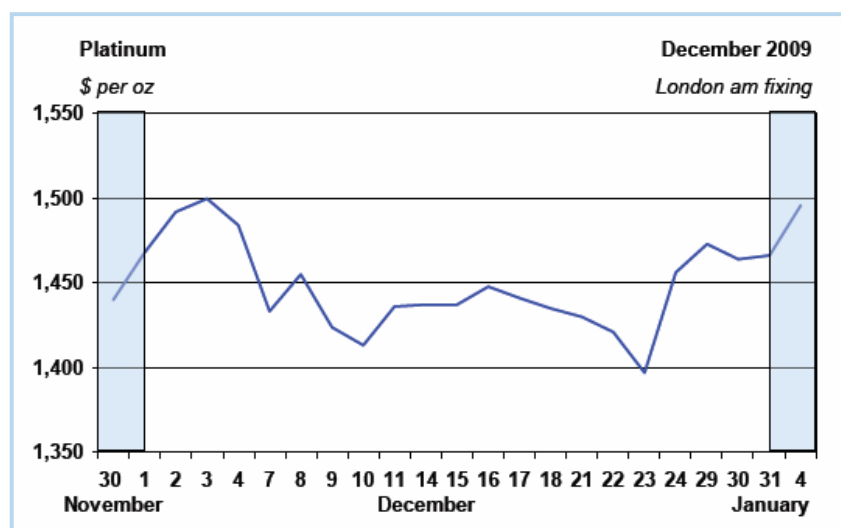
December 2009

Johnson Matthey

*December was a month of two parts for the platinum and palladium prices. While they rose at the start of the month, a softening in the gold price and some year-end liquidation of positions drove the prices lower again in the lead up to the Christmas holidays, ending three months of very strong gains. However, just before Christmas itself, the announcement that the US regulators had approved Exchange Traded Funds trading in both metals added some considerable strength, ensuing that the prices of both metals climbed overall for another month. Slow physical and investor buying hit the rhodium price which retreated, losing some of the gains made in October and November. The prices of iridium and ruthenium remained steady.*

### PLATINUM

Platinum climbed by \$19 during December amidst thin trading, moving from \$1,442 at the end of November to end the year at \$1,461, a very long way above where it had begun 2009. ETF positions grew slightly but net long speculative positions on NYMEX decreased from an



initial 1.35 million ounces to a final 1.17 million ounces as investors closed positions leading up to the year-end. A drooping gold price weighed on platinum through the middle of the month but the approval of a US-registered Exchange Traded Fund (or ETF) re-energised the price, allowing it to end the year strongly.

Platinum's first fix of December was \$1,468, a healthy \$26 above the final fix of November, assisted by gold's inexorable rise towards \$1,200 and a softening US Dollar. An announcement from the Bank of Japan that it would work to fight domestic inflation depressed the US Dollar further (although investors seemed to need little real incentive to sell that currency) and gold clambered over \$1,200 on the 2<sup>nd</sup>. Platinum benefited too and both positive European automotive sales figures for November and warnings of possible upcoming "load-shedding" from the South African electricity supplier Eskom, nudged the price higher to \$1,492 that morning. The dollar continued to weaken the following morning and investors (including ETF investors) forced platinum to a high for the month

– and for the year too – of \$1,500 at the first fix of the day. Unsurprisingly, profit-taking followed quickly, perhaps sparked by news of a two year wage agreement between Lonmin and the South African National Union of Miners on the 4<sup>th</sup>. Whatever the initial catalyst, the US Dollar returned to life (following good employment figures prompting some thoughts of eventual fiscal tightening) to apply downward pressure, sending platinum rapidly down to a low of \$1,430 on the 7<sup>th</sup>.

However, in thin trading conditions, a certain amount of volatility remained. Comments by the Chairman of the Federal Reserve warning of low growth and low inflation stopped the dollar in its tracks on the 7<sup>th</sup>, allowing platinum to rebound during Asian trading to \$1,455 the following morning. Interestingly, the 2009 US Platinum Eagle coins which had only been launched at the start of December were now revealed to already be almost sold out, demonstrating the level of interest in platinum from one part of the investment community.

However, this flicker of life in the platinum price was soon extinguished under pressure from shrinking futures positions and the sale of reasonable volumes of unwanted platinum sponge into the market. Even the Chinese jewellery industry remained relatively uninterested at these relatively elevated metal prices. Later on the 8<sup>th</sup>, the credit rating of Greece’s sovereign debt was downgraded leading to some (relatively wild) speculation over the future of the Euro. In any case, investors flinched from this new risk, depressing the Euro and boosting the Dollar, and, in the process, sending platinum down to a new low of \$1,413 on the 10<sup>th</sup>.

Over 100kg of platinum purchasing emerged on the Shanghai Gold Exchange on the 11<sup>th</sup> in response to the price fall and platinum slowly started to firm, returning to \$1436 at the

Platinum fixing prices – December 2009			
	<i>High</i>	<i>Low</i>	<i>Average</i>
\$ per oz	1,500.00	1,397.00	1,445.35
£ per oz	921.35	868.20	889.10
€per oz	1,020.80	959.65	987.95

first fix of the day. Although it had little impact on the price, the same day, Anglo Platinum and the Bafokeng nation agreed a deal to give the latter majority control of their BRPM joint venture platinum mine in South Africa.

The price remained close to the \$1,430 level until higher than expected US inflation figures (in the form of the producer price index) hit the dollar late on the 15<sup>th</sup>, sending platinum more than ten dollars higher to \$1,448 on the morning of the 16<sup>th</sup>. Asian selling emerged but was countered by comments from the African National Congress’s Youth League proposing nationalisation of the South African mining industry with platinum climbing further, to \$1,457 that afternoon.

Trading now was slow, though, as investors closed positions ahead of the year-end. Continued concerns over the credit issues being suffered by Greece and now Spain too strengthened the dollar. With many investors short of the dollar, short-covering added

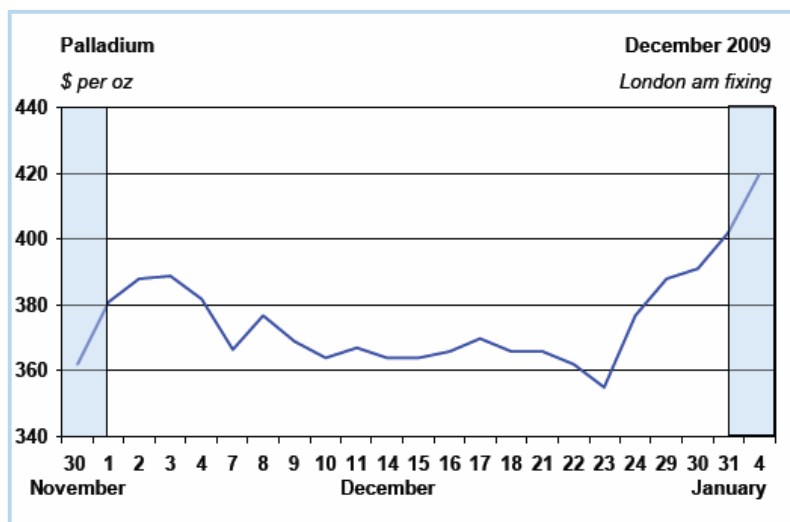
more firmness to this currency, sending it higher and platinum and the rest of the precious metal complex spiraling lower, through resistance at \$1,420 on the 18<sup>th</sup> and through further resistance at \$1,400 on the 22<sup>nd</sup> to a monthly low of \$1,397 at the first fix on the 23<sup>rd</sup>.

Late on the 23<sup>rd</sup>, though, the US Securities Exchange Commission announced that it had given approval to the launch of a US-registered physically-backed platinum Exchange Traded Fund (ETF). Although this permission had been expected at some point by most market watchers, its release in the listless pre-Christmas market proved explosive with platinum rallying to \$1,456 on the 24<sup>th</sup>. The whole complexion of the market now changed from mildly bearish to bullish for the price. Reasonable volumes of buying were seen in Shanghai despite the high platinum price as platinum was bought on every dip in its price. The US Dollar obligingly softened a touch to add its support and platinum leapt to \$1,473 on the 29<sup>th</sup> before quietly settling lower to end the month at \$1,466, 57 per cent above where it had started the year.

## PALLADIUM

**Palladium proved more resilient than platinum during December, gaining another 10 per cent in value following several similar recent monthly rises. The dollar played its part in buffeting the palladium price but investors seemed to remain convinced of its longer term potential, even**

**building net long speculative positions and driving ETF holdings higher. In response, palladium rose to a new high for the year of \$402, a dizzying 117 per cent above where it had started 2009.**



The palladium price entered December in energetic fashion. The final fix of November was \$360.50 and the receding panic over a possible bond default by Dubai World saw investors abandoning the US Dollar once again. With gold seemingly headed towards the \$1,200 level and platinum aiming at \$1,500, palladium investors increasingly saw the \$400 mark as a realistic target and drove palladium to a first December fix of \$381. When gold crested the \$1,200 mark the following day, palladium benefited further, forcing its way up to \$388 at the first fix of the day.

On the 3<sup>rd</sup>, an interesting story emerged from China that the Shanghai Gold Exchange was to launch palladium trading. Although no details were released, this seemingly bullish story for palladium was roundly ignored by the markets, with palladium climbing only as far as a morning fix of \$389. Instead, unexpectedly good US employment data prompted some market speculation that US interest rates might eventually rise, firming the dollar. As expected, palladium responded in simple fashion with the price slipping back to \$366.50 on the 7<sup>th</sup>, where it found strong support.

Comments from the US Federal Reserve Chairman late on the 7<sup>th</sup> provided some respite from a strengthening dollar, allowing palladium to bounce back as high as \$377 the following morning. Demonstrating the new wave of optimism for the palladium price, North American Palladium announced that it was to restart its Lac des Iles mine in Ontario in response to the high prevailing metal prices, leading to additional supply of some 140,000 oz of palladium per year. Pressure from constant gold selling exerted itself over the palladium price, though, driving it back lower to \$364 on the 10<sup>th</sup>. The confused nature of the global economic situation was demonstrated that day with contrasting data showing a recovery in Mexican automotive production in November and a remarkably weak performance in the Russian automotive industry for the same period.

Palladium fixing prices – December 2009			
	<i>High</i>	<i>Low</i>	<i>Average</i>
\$ per oz	402.00	355.00	373.15
£ per oz	249.30	222.55	229.55
€per oz	278.80	247.35	255.05

Palladium remained trapped in a range from \$360 to \$370 until the 16<sup>th</sup> when it finally overcame resistance at the top of the range to inch its way to \$373. However, worries

over the downgrading of the credit ratings of both Greece and Spain led to a withdrawal of investor funds from the Euro into the safer haven of the dollar. With many speculative investors holding short positions against the dollar, this drove substantial short covering in the dollar, reinforcing its momentum in the currency markets. Although net long speculative positions in palladium increased and ETF holdings grew, this could do little to stop the price declining steadily to reach a monthly low of \$355 on the 23<sup>rd</sup>.

Later that day, the approval of a US-registered physically-backed palladium Exchange Traded Fund surprised the market. With trading volumes low in the lead-up to Christmas, the substantial amount of nervous buying seen drove the palladium price immediately back up to \$377 on the 24<sup>th</sup>. On the 26<sup>th</sup>, with most markets closed, Norilsk Nickel revealed that it expected to increase its palladium output by 4-5 per cent in 2010 compared to 2009 levels. This did nothing to dissuade investors of the long term case to be made for palladium and it climbed further to \$388 at the next fix on the 29<sup>th</sup>. Although the US Dollar showed a touch of strength, investors now generated significant buying momentum, driving palladium to a new high of \$393 on the 30<sup>th</sup> and to a peak of \$396 in the spot market that day. With the \$400 level, so close, however, it was inevitable that buying would continue and palladium finally exceeded that mark when it reached \$402, its highest point for 2009, at the final fix of the year.

## OTHER PLATINUM GROUP METALS

**After two months of increases, the rhodium price instead fell during December. It dropped from an initial Johnson Matthey Base Price of \$2,800 to a mid-month low of \$2,175 before recovering to end the year at \$2,500. The prices of both iridium and ruthenium remained motionless throughout the month at \$425 and \$160 respectively.**

Rhodium began December at a Johnson Matthey Base Price of \$2,800, its highest point for more than twelve months following steady speculative and returning physical buying. However, with trading volumes thin, offers outweighed bids and the price started to sag at the start of December, moving \$75 lower on the 2<sup>nd</sup> and rapidly spiraling down to \$2,175 by the middle of the month. However, as always, the rhodium market demonstrated its thin nature. Buying interest slowly returned and with two-way trading taking increasing in intensity, rhodium stabilised and eventually moved \$50 higher on the 16<sup>th</sup>. With the momentum reversed, rhodium climbed steadily back where it had come from. It reached \$2,475 before Christmas and eventually moved up to \$2,500 on the 31<sup>st</sup> amidst thin trading conditions.

After firming during November, the ruthenium price had a less eventful month in December. Some physical buying was seen by the electronics industry and speculative interest continued at a steady level but the price remained static at \$160 per ounce. Iridium completed an eleventh successive month of trading at a Johnson Matthey Base Price of \$425.

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