Precious Metals Weekly

13 February 2009

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Highlights

- **Precious metals mark considerable gains -** Initially positive technical outlook attracts speculative buying. Physical demand by investors continues.
- **Gold trading not too far from the $1,000-landmark –** Oil price low, dollar strong and nobody cares. Scrap avalanche hitting Asian markets so far fails to pressure the gold price.
- **Silver following gold -** And, trading at almost $ 14 it looks not too bad. (Physical) investors still in love.
- **Platinum far above $ 1,000 –** And that despite catastrophic car sales numbers. Perhaps we are at a point, where it only can get better. And that would also explain rumours about strategic industrial buying. Anglo produced 2.4 million ounces in 2008 and wants to repeat that this year.
- **Palladium above $ 200 now -** But there's still some room left to the November-high of $ 230. Metal supported by possibility of lower sales from Russia, however current industrial demand in the doldrums.
- **Rhodium a little higher -** Ruthenium and iridium stable.

Platinum

All prices for the period from 3 February to 13 February

PT	US$/oz	€/oz	€/gram
High	*1085.00*	*845.00*	*27.17*
Low	*949.00*	*732.00*	*23.53*
Latest	*1067.00*	*828.00*	*26.62*

In the past ten days automobile sales figures for January were published for various countries. Compared to previous year these were somewhere between less-positive to catastrophic; starting with a drop of almost 8 per cent in China to a 27 per cent slump in Europe, 33 per cent off in Russia and a disastrous 37.1 per cent minus in the USA – its worse since December 1981. By the way, in that month back in 1981 an ounce of platinum had cost $ 400, palladium $ 70 and rhodium $ 390; i.e. almost 1/3rd of today's prices.

In the meantime not only have the prices changed, so has the general market environment. The cost of production at the mines is significantly higher, globally automobile sales have gone up by a large margin and emission requirements are far more stringent than ever before. On the other hand however production volume is almost double – and in case of rhodium almost four times – of what it used to be in 1981. Even then these factors do not allow one to draw any meaningful conclusions about what today's fair price of metals should be: in the last ten days for example - despite the negative figures from the automobile industry - platinum price went up significantly and at its peak reached $ 1,090 an ounce; the highest since end of September.

Market rumours said that automobile manufactures had bought up large volume of the metal. Also demand came in from the financial markets; both from the longer-term oriented investors who bought some physical metal as well as from speculators who were rather looking for a quick gain as the metal went through the important psychological and chart-point level of $ 1,000 an ounce. It now depends on whether these forces will hold onto the metal or will cash in their short-term profits. Should this latter not be the case, the white metal could add to its recent gains; in any case the upwards trend is not yet broken due to the light setback in the past 24 hours.

Additionally a lot will depend on how the automobile market fares in February and March. At least in Germany the "wrecking bonus" has got the buyers of smaller cars all scrambling to take advantage and in some other countries similar programmes could also help kick-start sales. Though small cars use much less metal than, for example, larger volume diesel engines, increased sales should somewhat help metal demand.

With this the prospects for the mining industry might start to improve. Several announcements came from this sector of the market during the course of this week: e.g. Angloplat reported a 2008 production of 2.4 million ounces platinum. In the current year they also expect production to be at similar levels, though they will most likely continue to adjust to demand as the year proceeds. In the past financial year and mainly thanks to the initial record high metal prices, Anglo booked a profit of $ 1.82 billion.

Aquarius Platinum currently finds itself negotiating the restructuring of its $ 167 million debt and will provide more details on this during the course of the next four weeks.

Palladium

PD	US$/oz	€/oz	€/gram
High	*217.00*	*170.00*	*5.47*
Low	*188.00*	*145.00*	*4.66*
Latest	*214.00*	*166.00*	*5.34*

In the past ten days palladium from its low of $ 190 added value and at stages traded up to $ 217 an ounce. It was certainly supported by speculative demand once the psychological level of $ 200 an ounce was breached upwards. The earlier mentioned peak marked the metals highest since middle November. For some time now palladium has been supported in the background by reports of falling Russian production and possible decline in sales from State stocks.

Should the metal manage to climb over the $ 220 an ounce level, chart-motivated buy-interest could push the metal up even further. The next target would then be its November high of $ 230 an ounce; should it go the other way and below $ 212, then testing $ 202 would again become a possibility.

Rhodium, Iridium, Ruthenium

The strong rise in the four major precious metals was not completely lost on rhodium in the last ten days. The metal recorded a slight gain to $ 1,050 – $ 1,200 an ounce. The demand came mainly from various sectors in Asia. We would not rule out that strategic purchases are being made in the hope that industrial production and therefore demand related to it will pick up in the foreseeable future. Also to be kept in mind is the fact the metal is presently 1/9th its value from its last years all-time high of $ 10,300 an ounce.

There was hardly any change in ruthenium, trading at $ 30 - $ 80 an ounce with demand still absent. Iridium also little changed with thin volume changing hands, trading at $ 360 – $ 410 an ounce.

Gold

Gold decoupled more than usual in the last few days from its two main price drivers namely the euro/US-dollar-rate and oil and contrary to these moved significantly upwards. While oil dropped from above $ 40 to under $ 35 a barrel and the US-dollar traded side-wards against the Euro in a range between 1.28 and 1.3080, gold soared from $ 903 Thursday a week ago to peak at $ 953 an ounce. This price, recorded on Wednesday, was the highest in almost seven months. Not only non-physical buying by dealers and funds was responsible for this move in gold, but also the continual interest from the longer-term oriented investors who pushed ETF demand (physically backed) to fresh records. Alone yesterday the most popular ETF (SPDR Gold Trust) bought up 35.5 tonnes; in seven days the volume went up by 103 tonnes to presently 970 tonnes.

Demand for gold bars in Europe has remained robustly unchanged and at least as far as our activities in this sector are concerned reached a new yearly high yesterday. Due to this production of bars is running at full steam, however given the strong demand (varyingly) long delivery periods for different types of bars cannot be ruled out.

Our colleagues in Hong Kong report an exceptionally high reflux of scrap gold, which hiddenly might balance out volume-wise the heavy investment demand coming from the West. Interestingly, in contrast to Europe and America the gold-bars market in Asia at the moment is in a sorry state.

In line with this was a report this morning from India stating that due to the high price demand for gold this month will be markedly low. A representative of the Bombay Bullion Association said that as a result of this development no imports have been made by India since the beginning of February. According to the BBA representative the existing demand (this month so far only 200 – 300 kg) can be fully met by returning old gold.

As far as future prospects go, the gold price could only then suffer a real trend-change if and when the massive interest in investment bars and ETFs fades. At the moment, and here one needs to re-stress “at the moment”, there are no signs of this happening.

Purely looking at the chart, after the positive developments in the past few days, the metal however appears to be over-bought and breaking through the $ 935 an ounce level could see some speculators taking profits. This could theoretically push the price down quickly to below $ 900 an ounce, but at the moment such a scenario looks quite unlikely.

The world’s most important precious metals conference seems to have become one of the casualties of the economic crisis: the London Bullion Market Association (LBMA) announced this week that this years conference that was planned to be held in Lima, Peru (a first for South America) coming November has been moved closer to the “home” for many of the participants, namely to Edinburgh, Scotland.

AU	US$/oz	€/oz	€/gram
High	*953.00*	*744.00*	*23.92*
Low	*880.00*	*674.00*	*21.67*
Latest	*942.00*	*730.00*	*23.47*

Silver

Purely from the chart technical point of view it was already apparent at the time of our previous report that silver with its positive signals could pull in speculators and investors and thereby continue with its bullish run that started middle January. This is also what eventually happened: psychologically supported by a considerably increased gold price and from a factual and still formidable physical investment demand the white metal recorded gains from $ 12.35 to $ 13.75 an ounce in the last ten days; this latter level was reached this week on Wednesday. The support was not limited to non-physical investments, but also came in the form of purchase of bars and ETFs.

On the other side industrial demand has hardly showed any signs of improving in the last few days. In view of the global economic situation demand from this sector has hit rock bottom.

As long as gold continues to move upwards and investment demand for silver holds, the white metal should not turn around. However one should keep an eye on the actual chart-support point of $ 13.25 an ounce; should this be breached downwards, it could mean the end of the current upwards-trend for the moment and silver could then possibly test the next support level of $ 12.65 an ounce.

At the moment we would therefore not advise industrial end-users to secure prices for their future demand. For this, one should rather wait for dips down to between $ 10 and $ 11 an ounce.

The reported strike at the world’s largest silver refiner Penoles, Mexico should have had only a secondary role to play in the recent price developments; so far it was not even clear how the production would be effected by this strike. Penoles (rather its subsidiary Fresnillo) is planning to move some of its silver refining, if need be, to outside Mexico.

AG	US$/oz	€/oz	€/kilo
High	*13.75*	*10.70*	*344.00*
Low	*12.12*	*9.34*	*300.30*
Latest	*13.44*	*10.43*	*335.30*

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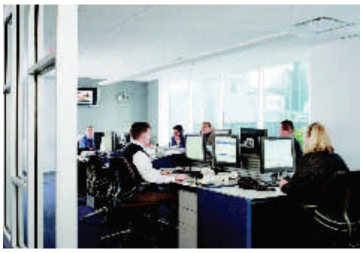

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