Heraeus

Precious Metals Weekly

23 February 2009

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Highlights

- **Precious metals rise further -** Initially positive technical outlook attracts speculative buying. Physical demand by investors continues.
- **Gold reaches the $1,000-landmark again –** 30 dollars to go to the all-time high. Most popular ETF now contains around 1,030 tons of gold. But there is still a lot of scrap coming in and demand for investment bars show first signs of fatigue. In euro (and other currencies) one new record after the other.
- **Silver is following gold -** Which is nothing new. The No. 1 ETF now holds nearly 7,900 tons, 1,000 more than at the beginning of the year. But industrial demand still lagging. Mexico's biggest (silver-)refinery still on strike.
- **Platinum keeps gold at bay –** Metal moves close to $ 1,100 und trades now 50% above the October low. Impala and Anglo looking at reducing production.
- **Palladium fails to break above $ 220 -** Not enough fire power left after big gains in the past weeks. Not to be forgotten: less platinum output means less palladium as well
- **Little PGMs face a little more demand -** But not enough to move prices.

Platinum

All prices for the period from 13 February to 23 February

PT	US$/oz	€/oz	€/gram
High	1109.00	883.00	28.39
Low	1047.00	812.00	26.11
Latest	1080.00	832.00	26.75

Platinum behaved inconsistently in the past eight days. Initially it gained ground, certainly helped by the positive move by gold, and reached its highest level since September of nearly $ 1,110 an ounce. On Thursday and early Friday , while gold continued to add value, the white metal suffered, as at times it lost up to almost $ 40 an ounce. Presently it is trading slightly higher again but the danger of further losses seems to be increasing.

The speculative longs on the New York Futures Exchange (NYMEX) have meanwhile again come closer to the high levels of last year. Should these speculators opt to take profits and if by then the demand from the automobile industry has not been rekindled, the second most expensive precious metal after rhodium could be subjected to a significant setback.

The extent of the present low industrial demand is reflected to some extent in the discount of almost $ 5 an ounce that sellers have to accept for platinum sponge. In the past weeks this situation has already seen sponge being converted to good-delivery bars; usually not an option as the costs related to such conversion is prohibitive.

Investor demand for platinum metals is by nature much less than for gold and silver. However in the last weeks such demand, in ETFs as well as various physical bar forms that have been available has been robust and together with falling production and , related to the big drop of the price in the 4th quarter, reduced scrap-metal supply should have helped to support the price. As a result the white metal has since its cyclical low of $ 30 an ounce in October gained exactly 50 per cent in value to date.

Impala Platinum, the first mine to have openly announced production cuts last year after the dramatic fall in prices presented last week its most recent figures. According to these the worlds second largest platinum producers in its first six months of the current financial year (which started 1st July) has increased its pre-tax profits by 12 per cent to Rand 8.2 billion, and that with unchanged sales. Implats said platinum production this year is expected to be cut by about 200,000 ounces.

Adjusting earlier announcements, Anglo American, the parent company of the worlds largest platinum producer Anglo Platinum, said on Friday that it now too plans to produce less platinum – by about 300.000 ounces.

Both quantities together mean a significant reduction in supply and could in the longer term limit the lower end of the price range to between $ 800 and $ 900 an ounce.

Palladium

PD	US$/oz	€/oz	€/gram
High	219.00	174.00	5.59
Low	209.00	162.00	5.21
Latest	215.00	164.00	5.27

After the comparatively strong gains in the last weeks palladium could not add further value in the past few days. The metal remained in a tight range between $ 210 and $ 219 an ounce.

A possible reason for palladiums missing push could be that the metal at its recent highs has come across strong technical resistance and has so far not been able to breach this. One or the other speculative oriented address has probably been turned off by such behaviour.

Additionally very low industrial demand has not helped either. Like platinum, this thin demand is to some extent reflected in the discount of up to $ 3 an ounce for sponge.

Rhodium, Iridium, Ruthenium

The three “minor” platinum metals did not show any significant price movements in the last eight days. However all three recorded increased two-way business.

Asian demand for rhodium was present last week too but as this is still being met by existing selling-interest, the price has remained unchanged at $ 1,050 - $ 1,200 an ounce.

Ruthenium also saw increased volumes but here also the price has not yet reacted to this and the metal continues to trade between $ 50 – $ 80 an ounce.

Iridium showed a slight upward move trading at $ 365 - $ 415 an ounce; however this is not backed by any extraordinary demand.

Gold

AU	US$/oz	€/oz	€/gram
High	*1005.00*	*793.00*	*25.50*
Low	*931.00*	*722.00*	*23.21*
Latest	*990.00*	*761.00*	*24.47*

The yellow metal was completely unimpressed by the slump in usually important Indian and other countries jewellery demand as well as by dramatically increased quantities of scrap metal finding its way to the market. Supported not just by speculative buying, but also by fresh physical purchases by long-term oriented investors gold rallied from $ 940 an ounce last Friday to just over $ 1,000 an ounce on Friday; thus above its high from middle July 2008. At that time the metal traded for a short time around $ 990, having earlier that year – in March – recorded an all-time high of $ 1,030 an ounce.

Once it crossed the $ 960 an ounce mark, gold, which is in any case in a technical upward trend, accelerated even further. Despite the high price level and the fact that massive quantities of scrap gold in Asia are coming back to the market, (we alone are moving there a four digit number of kilos through our refinery on a daily basis) the situation must have been looking attractive enough for one or the other trader to add gold to their inventory.

The private investors here in Germany did not even need any external push such as a favourable technical outlook. At least till Wednesday they continued to buy the metal on a large scale as a safe-haven for at least parts of their assets, again preferring the physical form in bars.

Only once gold was over $ 980 an ounce (on Thursday) demand did slow down here in Germany and this trend continued into Friday. Additionally, precious metals dealers here are reporting also increasing sales from apparently "older" investments; an indication for that given by the fact that mainly the once so popular Krugerrand coins came back. Presumably a large number of these coins have been in the hands of the current sellers since the 1980's, when prices had gone up to $ 850 an ounce, and only now, at the current price levels, a profitable liquidation is possible.

As far as the future of the gold price is concerned one must certainly keep in mind the possibility that the recent buy-interest could build in to a bubble with an increasing potential for a setback. The continuing and undeterred ETF demand (which last week again reached fresh records) is some evidence pointing towards this possibility. It would be healthier for the market if now some consolidation would take place rather than have the metal charging unchecked through the $ 1,000 an ounce level. This latter however cannot be ruled out under the presently heated situation, even though recent developments point towards an overdone and exaggerated rally.

Should therefore gold actually manage to establish itself in the four digits, then a test of its all-time high can no longer be ruled out. Longer-term we cannot rule out the yellow metal climbing up to $ 1,100 an ounce anyway.

Only very few reports came from the mining sector last week; for details please see links on page 4. Additionally the World Gold Council published a very readable market summary for 2008 – here also the details can be seen via the link on page 4.

Silver

AG	US$/oz	€/oz	€/kilo
High	*14.59*	*11.55*	*371.30*
Low	*13.15*	*10.19*	*327.60*
Latest	*14.35*	*11.06*	*355.60*

Silver was again basking in gold's glow, shadowing the yellow metals gains by significant profits of its own. The buyers did not let themselves get distracted by the fact that relative to gold, silver is far more an industrial metal and demand from this sector is currently suffering. Instead they are primarily seeing the metal (contrary to gold) still very far from its last years high of $ 21.20 an ounce and even light-years away from its all-time high of $ 50, which it recorded as a consequence of the Hunt brothers attempt to corner the silver market in the late 1970s up to January 1980.

Back again in the recent past not only the speculators but also – at least in the initial phase – longer-term oriented investors buying ETFs and investment bars have been active. That also includes private investors for example in Germany who have not been deterred by the fact that silver bars (as against gold bars) attract a 19 per cent VAT.

As far as ETFs are concerned, on days up to 50 tonnes of silver have been bought. The largest ETF – iShares Silver Trust – has in the meantime accumulated a record 7,900 tonnes of the white metal. Since the beginning of this year the ETF's stocks have added almost 1,000 tonnes. This ETF demand, among others, has been responsible for moving silver from previous Friday's $ 13.44 to $ 14.40 an ounce by noon last Thursday. At this level profit-taking was seen and this pushed the metal down to $ 14.10 an ounce. Later though it gained about 2 per cent again. Despite the small reversal the metal is still in an upward trend on the charts which will end only once the metal drops to below $ 13.70 an ounce. In such a case the next support would then be at $ 13 an ounce. On the other side there is currently no strong resistance till $ 16; should gold in the short-term add considerably to its gains, silver could once again go along with it to book further profits.

The strike which began on 8th February at the world's largest silver refinery, owned by Mexican mining giant Penoles, still continues. The plant refines around 90 per cent of all the gold and silver produced by Mexico and with over

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3,000 tonnes silver per annum Mexico is the 2nd largest silver producer in the world. In case things get worse at the refinery, Penoles – or rather its precious metals subsidiary Fresnillo – plans to ship material outside Mexico for further processing. At the moment they are however hoping that the Mexican government will declare the strike illegal and the 900 workers will be back at work soon.

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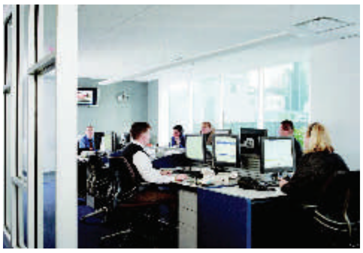

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