Precious Metals Weekly

22 April 2009

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Highlights

- **The four major precious metals initially rise, but then can't defend gains –** Minor PGMs fare better and show massive gains.
- **Gold fluctuates wildly –** Moves depend mainly on news from the economy and/or banking side. Surprisingly big ETF sales high. Delivery times for investment bars about to disappear.
- **Silver rises to \$ 13, then falls below \$ 12 –** After nearly three months, strike in Penoles refinery comes to an end.
- **Platinum rises to highest level in seven months –** Plans to register an ETF in the US lends support. Elections in South Africa with no short-term implications, in the longer run it could look differently. Diesel market share in Germany in free fall.
- **Palladium temporarily reaches \$ 240 before coming off –** But up-trend is still intact. Before resuming it, metal may be facing a consolidation.
- **Rhodium price explodes –** Metals gains almost 40 per cent. Ruthenium rises 30 per cent and even sleepy iridium books gains.

Platinum

All prices for the period from 8 April to 22 April

PT	US$/oz	€/oz	€/gram
High	*1,245.00*	*941.00*	*30.25*
Low	*1,148.00*	*869.00*	*27.94*
Latest	*1,175.00*	*904.00*	*29.06*

This week platinum reflected a mixed picture. Despite somewhat better news from the automobile industry in some countries (see our last report), physical industrial demand has not really picked up – as shown, among others, by the still significantly high discount for platinum sponge. But at least the last two weeks saw some surprisingly good demand from the speculators as well as longer-term oriented investors. Their interest was to an extent stimulated by the announcement of plans to introduce platinum ETFs and especially one in the US market. Should this actually be approved by the SEC (the exchange supervisors, who played a role in stopping a first attempt to launch a platinum ETF in the US in 2007), then platinum demand that could be generated from this market segment should not be underestimated. To the contrary, the second plan announced this week to launch ETFs in South Africa in our opinion does not have the potential to bind worthwhile volumes.

As far as the platinum price is concerned, these mere announcements in the past two weeks were enough to keep the upward trend, which began early December intact. Intermittently the white metal traded up to $ 1,245 an ounce; it's highest since September of last year. Profit-taking in the past few days then saw the metal loosing some ground with the price now back at levels of just before Easter.

As long as platinum manages to stay above the $ 1,140 mark, the positive tendency it has been showing should not change. At least the charts are showing no real resistance till $ 1,300 an ounce. However we do not anticipate the metal will test this level in the near future, instead, given the lacking demand from the automobile industry and a somewhat reduced investor-interest, we expect it to move more or less sideward. This would not really be negative for a further price development. It would though be quite a different situation should the price fall unexpectedly below the $ 1,040 an ounce mark.

Many participants in the market have an eye on South Africa with much suspense and eagerness as the country goes to the polling booths today to elect a new parliament. Chairman of the ANC party Jacob Zuma, watched with mixed feelings by international commentators, is tipped to win the election with his party and become therefore the next president of the country. A survey showed that ANC (since the end of Apartheid 15 years ago the ruling African National Congress party) is significantly ahead. However it is in danger on not getting a 2/3rd majority which it will need to make any changes to the constitution. The threat comes mainly from the Peoples Congress party (Cope) which split from the ANC after protests to the ANC-driven move that forced long-reigning president Thabo Mbeki to resign.

The outcome of the South African elections should not have a direct influence on the price of platinum; however one will have to closely watch the political and economic course the country takes. A political direction towards more nationalisation could have major consequences, among others on investments in the mining industry. An expansion of platinum metal production would then be much more difficult; which could have a positive effect on the price in the longer-term.

There was little news from the mining as well as the automobile sector in the past few days. Interesting (and also mildly negative for platinum) is perhaps the fact that the share of diesel-engines in new automobile registrations in Germany is in a free-fall. Last month this share was down to 28 per cent; it's lowest since 2000. As recently as November 2007 the share of the diesel-engines was around 50 per cent.

Palladium

PD	US$/oz	€/oz	€/gram
High	*240.50*	*180.00*	*5.79*
Low	*223.00*	*169.00*	*5.43*
Latest	*232.00*	*177.00*	*5.69*

Palladium, which had already recorded overproportionate gains in the past weeks and months, followed platinum upwards but without any further spectacular profits. Nonetheless, at its peak, the metal touched $ 240.50 an ounce; a 7 month high. As in the case of platinum, the palladium chart is also showing an upward trend which began in December, with present support at $ 210 an ounce and $ 250 an ounce being the other end of the range. Only once the currently firming metal moves sustainable out of this range would one get a strong hint of where it is headed next.

Despite all the uncertainties surrounding the automobile market, for known reasons (among others, lower Russian stocks and falling new production; an increase in palladium loadings in diesel-automobile catalyst as well as anyhow reducing sales of such engine-types in favour of palladium-richer petrol engines; more stringent emission regulations for smaller (motorcycle) engines in Asia), we reckon that palladium could benefit above-average from a turn-around in the global economy.

As such large dips, e.g. testing of the chart support points mentioned above, should still be used by industrial end-users to cover some of their future demand.

Rhodium, Iridium, Ruthenium

Rhodium recorded massive gains in the last two weeks. Starting at $ 1,100 - $ 1,200 an ounce it surged nearly 40 per cent to almost $ 1,700 an ounce during this period. These gains were mainly a result of good demand from Asia, and there especially from China. Our colleagues in Hong Kong are presuming that only part of the metal bought has gone directly to the industry; a significant volume seems to have found its way also to investors. In addition to this demand from Asia, some metal has also been acquired by the industry in Europe, however this latter alone would not have been sufficient to move the price so strongly.

A further reason for the surge, typical for the illiquid rhodium market, was vanishing supply. As soon as increased buying-interest was seen in the market and the price started to rise upwards, dealers started to hold back with their usual offers.

Fundamentally seen, with the automobile industry still in the doldrums, the recent surge does not appear to have been justified and for this reason we do not expect the metal to march now to the $ 2,000 an ounce mark in the near future. On the other hand, industrial users should continue to take advantage of any large dips and buy up future demand. This should prevent the metal from falling too significantly as well. One should keep in mind that the jump in the last two weeks has clearly shown how quickly the metal can move. And longer-term it appears that the risk of higher prices is significantly greater than the chances of sustained low levels.

Increased demand (albeit primarily speculative) for both the other "minor" platinum group metals was seen in the last two weeks as well. Ruthenium especially saw good buying from Asia and the price moved up 30 per cent to $ 80 - $ 110 an ounce. Iridium also recorded slight gains, now quoted at $ 400 - $ 430 an ounce.

Gold

AU	US$/oz	€/oz	€/gram
High	*899,00*	*693.00*	*22.28*
Low	*865.00*	*660.00*	*21.22*
Latest	*887.00*	*681.00*	*21.89*

After severe losses in the previous reporting period, gold initially managed to recover some ground. It was however only a moderate continuation of the recent comeback for the yellow metal as it moved up from $ 888 to $ 899 an ounce. With the stock markets recovering last week, the metal again lost value and fell again down to the lows seen earlier this month. Only once reports of further troubles at the US banks came out late in the week did gold get back to where it had started from nearly two weeks ago.

What happens next is going to be full of suspense. A lot will depend on whether the next days and weeks will bring with them good or bad news about the global economy and the financial markets. This will directly have more of an influence on the price of gold than any short-term changes in the €/$ exchange rate or in the price of oil; both these were in the recent past the more significant factors.

Foremost such news will have an effect also n the open positions in the ETF's. In the past few days massive liquidations into the falling market were seen. As it now appears it is not only the longer-term and price-independent investors owning ETF long-positions. There seem to be also quite some price sensitive investors active in this field, who cannot tolerate large downward price moves as one saw in the recent "panic" sales.

There were varying reports with regard to the interest in physical gold. While demand in India (due to the holiday season) picked up again, our colleagues in Hong Kong noted that buying interest there, despite the latest price fall, is slow. Also here in Germany the situation has eased a bit as well as far as investment bars are concerned. An increasing confidence, at least temporarily, in future economic growth (as shown among others by the jump in the April ZEW-Index) lead to demand for gold bars easing out. Next week onwards all the larger bars (1 ounce upwards), and a little later even the smaller, minted ones should be available again for prompt delivery.

Silver

AG	US$/oz	€/oz	€/kilo
High	*12.95*	*9.81*	*315.40*
Low	*11.80*	*9.05*	*291.00*
Latest	*12.28*	*9.40*	*302.20*

Silver at first moved up with the other precious metals to almost $ 13 an ounce before it significantly dropped to $ 11.80 an ounce; a fresh three month low. Currently it is trading at just over $ 12 an ounce. As far as the short-term outlook is concerned, the metal will continue to get its short-term direction from gold.

After almost three months of strike the 300 workers at the Met-Mex refinery of Mexican mining giant Penoles were back at work last week. Their walkout, which began on 8th February, lead to Penoles declaring "Force Majeure" in March for deliveries from this refinery. In the end the employees eked out a 6 per cent salary raise. In a normal year Met-Mex produces 580 tonnes of silver and over 50 tonnes of gold; representing about 90 per cent of the Mexican production of each of the metals.

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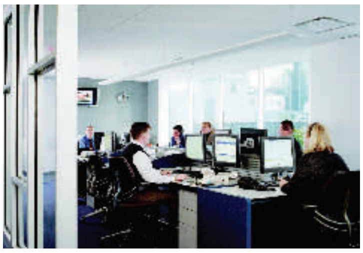

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