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Precious Metals Weekly

8 May 2009

Wolfgang Wrzesniok-Rossbach - +49 (0) 61 81 35 50 01

Highlights

- **Precious metals on the winning side –** Massive price gains after Gold & Co break important resistance levels on the charts.
- **Gold rises temporarily to $ 925 –** Metal profits from stress-test uncertainty in the US. ETFs see outflows and shrinking demand for gold investment bars, there no more delivery times.
- **Silver makes up for recent losses –** Break of important chart point helps. Price rises to over $ 14 and thus to a 2½-months high. Production in Mexico collapses in February due to (in the meantime abandoned) strike. Peruvian output on the rise.
- **Platinum gains more than $ 100 –** Charts helping here as well. Speculative addresses are active, but there is also increased activity from China. Anglo produces a little less.
- **Palladium sees strong gains as well –** Looking good on the charts; Norilsk sees decline in output.
- **Rhodium falls first, than stages a comeback –** Again demand from Japan. No changes for ruthenium and iridium.

Platinum

All prices for the period from 30 April to 8 May

PT	US$/oz	€/oz	€/gram
High	*1,168.00*	*880.00*	*28.29*
Low	*1,071.00*	*807.00*	*25.95*
Latest	*1,155.00*	*860.65*	*27.67*

Platinum again managed to record good gains in the past few days. After an early setback on 1st May when it had dropped down to $ 1,070 an ounce, the metal continually climbed to trade at $ 1,171 an ounce by midday yesterday; its highest level in two weeks. In addition to more fundamentally backed purchases discussed below, platinum was also driven up by speculative-buying once the important chart-point of $ 1,125 was broken. With this recent rally the metal has also come out of its downward trend it has been in since early April.

Speculative demand alone however cannot explain the surge (accompanied by high intra-day volatility) of $ 100 in the past few days and almost of $ 300 since January. It would appear that there is more happening on the fundamental side that is been supporting the metal, though so far market observers (including us) have not been able to pin-point what this exactly could be.

Save Germany and China, the state of the global automobile industry is miserable and German and Chinese demand alone would not suffice to justify the higher platinum price. Also the single-digit percentage drop in mine-production (so far) this year – as compared to similar period of 2008 – is also not adequate to provide a justifiable explanation.

So why has the price gone up? Some money has of course been diverted to precious metals as long-term investors have re-shuffled their assets in their flight to quality; some of this has certainly gone towards investment in platinum. For example since October the platinum ETF stocks have doubled to slightly over 15 tonnes. However last week, whilst the price went up, these stocks have been reduced slightly.

Also the recent, sporadic demand for platinum and palladium investment bars in Germany and neighbouring countries alone cannot possibly be responsible for the rally; the volume such demand could represent is far too low to have such an effect.

Perhaps a closer look towards China could provide an answer. In April alone Chinese imports via the Shanghai Gold Exchange stood at 3.5 tonnes. Higher automobile sales, more stringent emissions regulations for small-engines and a recovering jewellery demand could explain such import volumes – but only partly.

Possibly China could be answering the question raised in our previous report in connection with recent Chinese gold purchases as to whether the nation is building (or has already built some) state reserves comprising of other commodities too. So far this is pure speculation and no hard evidence is available and for certain there have been no official announcements to this effect as well.

As far as the earlier mentioned issue of new production is concerned, AngloPlatinum announced this week that they produced 404,000 ounces of platinum in the first quarter; 5.8 per cent less than compared to the similar period previous year. This is primarily on account of (planned) maintenance work at various smelters that prevented ore being processed. However for the full year Anglo anticipates production-levels to be similar to those of 2008, namely 2.4 million ounces.

As far as future developments are concerned, there remain a lot of imponderables. To begin with, the global automobile sales will have a say; it cannot be ruled out that the recent healthy demand in China and Germany will cool down first before any recovery is seen in other countries. In Germany it was reported that the daily number of applications for the “wreckage premium” are already 80 per cent off their highest levels seen a few weeks ago.

Possibly platinum will again test the $ 1,200 an ounce mark but that it will significantly go over this level is currently difficult to envisage. On the other side, $ 1,120 an ounce provides a first buying opportunity for chartists and a much stronger support is waiting at $ 1,080 an ounce. Industrial market-participants should consider any dips to the latter level to cover some of their future demand.

Palladium

PD	US$/oz	€/oz	€/gram
High	*243.00*	*182.00*	*5.85*
Low	*208.00*	*156.00*	*5.02*
Latest	*240.00*	*178.80*	*5.75*

Though palladium did not really get a life of its own this week, it did well in the shadows of platinum.

During this period the metal climbed from a low of $ 208 an ounce (recorded on Monday morning in Asia) to $ 243 an ounce yesterday afternoon; matching basically its April high. Palladium might attempt to break this latter level, however given the present state of the automobile industry it is highly unlikely that it will go much further in the near future. If for some reason it should, then we would in fact observe a decoupling from the ‘real’ industrial market and the metal would be exposing itself to a considerable setback potential.

The world’s largest palladium producer Norilsk Nickel reported end of last week that in the first quarter they produced 590,000 ounces of metal; 7,000 ounces less than the comparable period previous year. For platinum, with an outturn of 141,000 ounces, they showed a small plus of 3,000 ounces for this period.

Rhodium, Iridium, Ruthenium

The “minor” platinum metals this week again reflected very different behaviours.

Rhodium was initially hurt by selling seen at the end of last week. Traders in this situation wanted to sell as much as possible from their long positions and industrial end-users found the recently increased price-level too high to step up on the plate.

Under this pressure the price further gave way and fell to $ 1,250 an ounce; a minus of another $ 100 an ounce since our previous report. At these lower levels, buying interest was quickly rekindled, some even from Japan where the market had been closed for a few days due to holidays. At the moment the metal is trading above the $ 1,400 an ounce level – again and, as often, when prices increase quickly, the buying-interest can hardly be satisfied.

In that respect rhodium has been living up to its reputation of being an unpredictable metal – either everyone wants to have it at the same time or no one wants it at all (and this comes with corresponding consequences on the price).

For the coming days we do not rule out the metal gaining some ground, however in the end the overall economic environment should prevent it from flying too high.

Again ruthenium and iridium managed to stay unaffected by the generally positive mood of the other precious metals. Compare to previous week they remained unchanged at $ 70 – $ 100 an ounce (ruthenium) and $ 400 – $ 430 an ounce (iridium).

Gold

More general fears related to the possible outcome of the stress tests of the US banks conducted by the FED and at the same time concrete assumptions that some institutions might have severe fresh financial-shortages, triggered - together with other reasons - a fresh buying wave for gold. From its last weekends $ 880 an ounce the metal bounced up to $ 925 an ounce within a week; its highest level since early April. Eventually gold could not hold onto all its gains and slid to its current level of just under $ 915 an ounce.

Compared to the other three more industrial metals charts helped less in the case of gold, however here also the metal appears to have left the downward trend it has been in since March. For the coming days we expect reduced volatility and a trading-range between yesterday’s high and $ 895 an ounce. On average the metal next week should trade higher than in the past six weeks.

Physical demand from investors in the past few days seems to have abated again. ETF-stocks in fact recorded a small reduction and the slipping physical demand for investment bars has reduced delivery times for almost all denominations – most now available for prompt delivery.

AU	US$/oz	€/oz	€/gram
High	*925.30*	*693.00*	*22.28*
Low	*879.60*	*663.00*	*21.32*
Latest	*913.70*	*680.85*	*21.89*

Silver

Silver recorded significant gains this week and by yesterday afternoon was at one stage trading at $ 14.14 an ounce. However the white metal could not hold onto its two-and-half month high for too long and eventually dropped to $ 13.80 an ounce. The massive gains – up to $ 1.50 an ounce on the week at one stage – were primarily on the back of rising gold and a very positive chart-situation (as in case of the other white metals) was helping further. This time the recent rally got an extra impetus once silver broke through the $ 12.70 an ounce level marking the end of its generally downward trend, built over the last two months.

The fundamentals should also have contributed at least slightly to the gains, with lower production being reported from Mexico (see below) and increasing hopes for a better industrial demand.

We do not expect silver to test last February’s high of $ 14.60 an ounce in the near future. Instead the metal should consolidate and trade in a range between $ 12.70 an ounce and this year’s afore mentioned high.

Last Thursday the National Statistics Bureau of Mexico published the February export figures. According to these, exports were down 59.1 per cent (to 81.1 tonnes) as compared to the similar period in previous year. Responsible for this slump was the 66 day strike at the Penoles refinery. Penoles itself suffered from this: the parent company of the world’s largest silver producer Fresnillo lost $ 18 million in the first quarter; in the same period of 2008 the Mexicans had booked four times this amount as profits. In contrast to the situation in Mexico, production in Peru has gone up in the recent past. In March the South Americans produced 318 tonnes of silver; 9.8 per cent more than in the comparable period last year. Gold production in Peru in the month was also higher at 15.64 tonnes; 1.5 tonnes more than in March 2008.

AG	US$/oz	€/oz	€/kilo
High	*14.14*	*10.57*	*339.80*
Low	*12.03*	*9.06*	*291.30*
Latest	*13.80*	*10.28*	*330.61*

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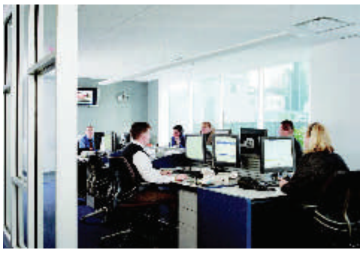
Heraeus Metallhandelsgesellschaft mbh
Heraeusstr. 12 – 14
63450 Hanau, Germany
Telefon: + 49 (0) 61 81 / 35-2750
Fax + 49 (0) 61 81 / 35-94 44
E-Mail: trading@heraeus.com
Web: www.heraeus-trading.com
Reuters Page: HERH; Dealing: HERA



Heraeus Precious Metals Management LLC
540 Madison Avenue
New York, NY 10022
Tel: + 1 212 / 752 2180
Fax: + 1 212 752 7141
E-Mail: hpm.sales@heraeus.com
Reuters Dealing: HPMM

Heraeus Ltd
Room 2103, Peninsula Square
18 Sung On Street
Hunghom, Kowloon (Hong Kong)
Tel.: + 852 2773 1733
Fax: + 852 2773 1090
E-Mail: tr.hlh@heraeus.com
Web: www.heraeus.com.hk
Reuters Dealing: HLHK

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