Heraeus

Precious Metals Weekly

14 May 2009

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Highlights

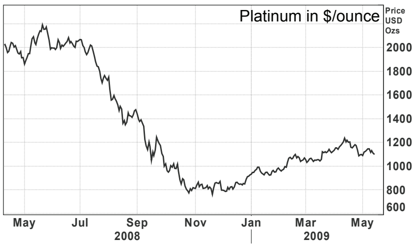
- **Precious metals follow different paths –** Gold profits from falling dollar and rising oil price. White metals in contrast face a lack of follow-through buying after last weeks gains. And there are also no signs of a real economic recovery.
- **Gold rises back to $ 925 after small set-back –** Temporarily trading as high as $ 930, highest since beginning of April. Biggest ETF with first (small) inflows since 9 April.
- **Silver on highest level since February –** But only for a short moment in time. GFMS: Mines produce more and industrial consumption falls. And, as a result, the price towards the end of the week too.
- **Platinum can't defend recent gains –** And falls back to $ 1,100 on missing demand. Europe buys less cars in April, but we see in the recent numbers a silver living. However there's still the chance for a set-back.
- **Palladium falls considerably –** Recent chart-driven gains without concrete fundamental backing were not sustainable.
- **Rhodium rises to $ 1,500 –** But there demand fades and price starts to slide again. No changes for ruthenium and iridium.

The next edition of the Precious Metals Weekly will be published on 29 May.

Platinum

All prices for the period from 8 May to 14 May 2008

PT	US$/oz	€/oz	€/gram
High	*1,155.00*	*860.00*	*27.65*
Low	*1,102.00*	*807.00*	*25.96*
Latest	*1,102.00*	*812.65*	*26.11*



Contrary to palladium, platinum had already broken its upward trend, which began in December, when it fell to $ 1,070 an ounce at the end of April. However the following recovery could not be sustained and did not last long. Since its recent high of $ 1,168 an ounce of last Thursday, the metal has been slowly spiralling downwards and was trading at $ 1,102 an ounce earlier this morning; a tick away from the psychologically important level of $ 1,100 an ounce. Should this be breached, then a test of two week ago low of $ 1,070 an ounce cannot be ruled out. Looking at the technical picture and the still bleak fundamental outlook we are also no longer convinced that this latter mark will hold under all circumstances. Generally we continue to support our recommendation for some limited scale-down buying given last week to the industrial end-users, however we now feel that they should perhaps look also lower levels, e.g. $ 1,040 an ounce, at least for some of their buy-orders.

This mornings European automobile sales figures appear to have been seen quite negatively by the market. April was again a bad month and the industry has now been headed south for almost a year. According to the ACEA (European Automobile Manufacturers' Association) dealers sold 1.25 million new automobiles in Europe last month; a minus of 12.3 per cent compared to April of previous year. First four months of this year are now at a minus of 15.9 per cent. The below-average monthly drop in April, we feel, gives some hope that the downward trend may be coming to an end, despite recent signs that sales figures in the so-far strong German market are expected to go down in the coming months.

On the producer side, the mining companies are still trying to figure out how best to go about with the currently low prices and the demand situation. The issue of further consolidations and mergers remains very much alive, though amongst the big four (Anglo Platinum, Impala, Lonmin and Norilsk) this is unlikely to happen due to cartel reasons. What cannot be ruled out is any of these companies taking over smaller producers or they themselves being taken over by other mining giants from outside the sector. In context to the earlier variant, for example, the media was this week again discussing Impala's possible interest in Northam (number 4 in South Africa).

This week Lonmin announced its half-year results. They produced 312,000 ounces of platinum in the period October – March; a plus of 8 per cent over the comparable period previous year. For more details please see link on page 4.

Palladium

PD	US$/oz	€/oz	€/gram
High	*242.00*	*180.00*	*5.79*
Low	*218.50*	*160.00*	*5.14*
Latest	*220.00*	*162.80*	*5.23*

During the course of this week palladium was unable to climb back to the high seen last Friday. After a still good start in Asia on Monday at $ 242 an ounce, the easing had already started by the time European markets got underway and by yesterday evening the metal was down to $ 218.50 an ounce. This negative development was certainly helped by the fall in the price of platinum but also the fact that last weeks highs were really not backed by fundamentals. Industrial end-users will anyway welcome this recent price drop; however also investors need not look at it too critically as yet. The upward trend the metal has been in since December will only be in danger should the metal fall below the $ 210 an ounce mark in the near future. In such a case, prices below $ 200 an ounce could become a possibility, which on the other hand will present good buying opportunities for industrial end-users. European buyers would additionally benefit from a recently strengthening euro (vis-à-vis the US-dollar).

Gold

AU	US$/oz	€/oz	€/gram
High	*930.00*	*685.00*	*22.02*
Low	*907.0*	*668.00*	*21.48*
Latest	*923.00*	*681.00*	*21.89*

Unlike the primarily industrially used white metals, the price of gold moved positively in the past few days. However no spectacular gains were recorded: From $ 914 an ounce on Friday, gold moved up slowly but surely to $ 930 by last evening before it again gave some ground. It was mainly speculative buying that moved the metal upwards; but the largest Gold-ETF also recorded a tiny plus – the first one since 9 April. In contrast, interest in bars this week was again very mellow.

Dealer-interest was certainly rekindled by the moves in currencies and oil. Analysts argued that the hopes of a recovering global economy were weighing on the US-dollar and pushing oil up: yesterday morning the US-dollar recorded its seven week low against the euro and yen. Some banks are now no longer ruling out a €/$ rate of 1.40 in the coming days. In addition, after a period of almost six months, on Tuesday oil was again trading above $ 60 a barrel and on Wednesday it was still holding above the $ 59 a barrel mark.

During the course of yesterday, surprisingly positive retail-sales figures from the US then moved the US-dollar in the other direction: the dollar strengthened, however the oil price remained unchanged at its high levels, mainly due to lower oil-stocks in the US. As a result and as mentioned above, gold corrected only mildly downwards.

Rhodium, Iridium, Ruthenium

Demand reported in our last report moved rhodium on Monday up to $ 1,500 an ounce. With the background of falling platinum and palladium prices, rhodium then lost ground and was trading this morning at $ 1,250 – $ 1,350 an ounce. Should the price fall below $ 1,200 an ounce, it should present the industrial end-users an attractive opportunity to cover some of their demand.

Iridium at $ 400 – $ 430 an ounce and ruthenium at $ 70 - $ 100 an ounce remained unchanged.

Silver

Compared to last Thursday, at $ 13.90 an ounce silver this morning appeared hardly changed. However in the interim the metal had broken through the $ 14 an ounce mark for a short while to reach $ 14.35 an ounce; its highest since middle February. Back then silver had traded for a few days as high as $ 14.60 but shortly thereafter collapsed to $ 12.50 an ounce.

Among others, silver this week was initially driven by a climbing gold price which in turn, as mentioned earlier, was reacting to a weakening US-dollar and higher oil price. Additionally last Fridays news of slowing down of unemployment rise in the USA was interpreted by many dealers and investors as a possible change in the trend for the industrial metals; and silver certainly belongs to this category. Also ETF-demand was recently again lightly positive as seen, for example, by Zurich Cantonal Bank’s weekly statement which said that their silver-backed ETF-holdings rose 600.000 ounces last week.

That the metal in the end could not hold on to its gains, was, in our opinion, mainly due to some fundamental news that was reported in the last 48 hours: To begin with Fresnillo, the world’s largest primary silver producer, announced that they plan to double their current annual production of 35 million ounces (ca. 1,100 tonnes) by 2018. Fresnillo CEO Jaime Lomelin said the production has already more than doubled over the past ten years and that he is confident that his company would be able to do so again in the coming decade.

A rising new production is not only expected at Fresnillo, but also at its smaller US-based competitor Coeur d´Alene. The company reported a first quarter record silver production of 3.9 million ounces; a plus of 65 per cent compared to the similar period of 2008. The increase was mainly from its new San Bartolome mine in Bolivia which started production last year. This year this mine alone is expected to outturn 9 million ounces of silver. Production costs at San Bartolome were at $ 6.74 an ounce (for the company as a whole these were much higher at $ 8.63 an ounce). Coeur also started production at a another mine in Mexico in the first quarter and this should significantly help raise production this year; the present plan for 2009 stands at 5.3 million ounces from this mine.

UK based precious metals consultancy firm GFMS this week published their annual study of the silver market. Here, in line with that mentioned above, GFMS report an increase in new production last year by 2.5 per cent to 680.9 million ounces. 2008 was the sixth year in a row reflecting increased new production. Mine silver supply now accounts for 77 per cent of total global supply. Recycling, the other significant supply source, on the other hand showed a small decrease; from 182 to 176.6 million ounces.

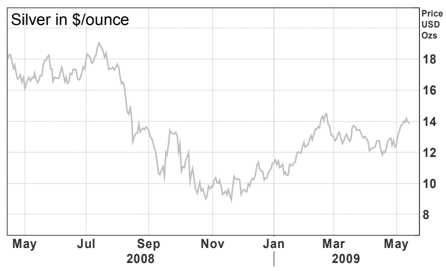
Only 28 per cent of new production came from primary mines (those that produce only silver or predominantly silver), with the large rest coming as a by-product to gold and base metal mining. The largest producing nation was again Peru, followed by Mexico, China, Australia and Chile.

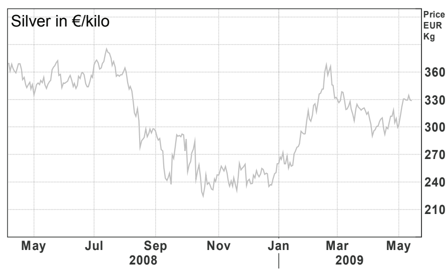
Negative for the silver demand-supply equation was the missing consumption. Demand fell as whole from 840 million to 833 million ounces. Seen sector-wise miscellaneous industrial usage recorded a drop of 1.4 per cent (to 447 million ounces), the photograph industry again a strong decrease of 5 per cent to 158 million ounces and jewellery demand fell 3.2 per cent to 158 million ounces.

On the positive side, investment demand has been very strong. Bars and ETF’s recorded a doubling in demand to 50.2 million ounces; coins and medals were up too, less in percentage terms, but to an even higher absolute number of 65 million ounces. This new investment demand for silver by and large evened out the effects of increased production and simultaneous reduction in industrial demand. This is certainly one of the reasons why the silver price for the past few months on average is relatively high, unlike the losses that the platinum group metals, have had to book.

As far as the future is concerned a lot will depend on what happens next on the investment side and whether this demand can continue to hold. In case demand falters on that side, a recovering economy would be essential to give the metal the support needed to avoid bigger price losses.

AG	US$/oz	€/oz	€/kilo
High	*14.35*	*10.49*	*337.30*
Low	*13.66*	*10.09*	*324.40*
Latest	*13.85*	*10.21*	*328.30*





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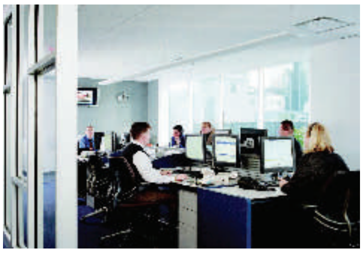

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