

€1.000,-

Precious Metals Weekly

27 May 2010

First time in history -

Gold reached € 1.000 per oz. (€32,15 per gram)

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Highlights

- **Sharp price reversal in the white metals** – Investors want to get away, this leads to a heavy price fall.
- **Gold first time ever above €1.000** – After climbing to new record levels, the yellow metal just slightly loses support. But the high physical demand avoided a bigger drop. ETF's with fresh record inflows. Delivery periods for gold bars are going to get shorter.
- **Silver still follows gold** – Fears of strong decrease of industrial demand keeps investors closely observing the market. But for unforeseeable market events investors still rather fancy gold instead.
- **Platinum collapses** – Latest global car market figures makes the future demand for the car industry difficult to predict. Jewellery sector in China loses interest by seeing rising prices. Overall positive sentiment of market participants seen at the London Platinum week.
- **Palladium sometimes in free fall** – Losing one third of value in almost three weeks. But a low at \$400 seems to be overdone right now.
- **"Minor" platinum metals mainly unchanged** – Rhodium losing clearly, Ruthenium stays stable and Iridium climbs to a new high in a decade.

All prices for the period from 14 May until 27 May 2010

PT	US\$/oz	€/oz	€/gram
High	1,727.90	1,402.60	45.10
Low	1,452.50	1,153.50	37.08
Latest	1,535.00	1,250.80	40.13

Platinum

It is not possible to begin any other way; our report must simply start with the proverbial question on Radio Erivan: "Do platinum metals prices still go up during the course of the annual Platinum Week gathering in London?" Answer: "In principle, yes, but sometimes things could be different." And faithful to this answer were the happenings of previous week: While hundreds of representatives of mining companies, traders, bankers, investors, recyclers and industrial end-users gathered in London to exchange ideas, at least some of them who at the start of the proceedings claimed that platinum metals prices always went up after the annual third-week of May's get-together, were given a bitter lesson by the market.

Initially, after reaching its high since early 2008 of \$1,745.50 an ounce during the period of our previous report, platinum retracted slowly and then last week the momentum picked up. Eventually it crashed down to trade at times as low as \$1,452 an ounce (its' lowest since February 2010). This loss means a minus of 17 per cent in just five trading days and brings to mind the unprecedented collapse of autumn 2008.

As then, industrial end-user watched the slide with a big smile – while others with a tear (namely investors) – and grabbed the opportunity provided by the low prices to cover a considerably portion of their future demand. This behaviour certainly contributed to the following price recovery, which then stabilised around the \$1,500 an ounce mark.

Even though we have for sometime looked at the preliminary exorbitant rise in the price of platinum with a degree of scepticism, its recent collapse – at least the speed with which it dropped – appears to be overdone. As such we are eye-to-eye with those end users who have covered some of their future demand at levels under \$1,500 an ounce.

Palladium

PD	US\$/oz	€/oz	€/gram
High	541.00	433.31	13.93
Low	393.00	312.78	10.06
Latest	446.75	364.00	11.70

Palladium was massacred brutally in the last two weeks and, not totally unexpectedly, was pulled down to reality: with industrial demand strongly absent and investors simultaneously reverting to profit-taking, the white metal lost over 30 per cent within 25 days as it dropped from around \$570 an ounce to at times a mere \$393 an ounce. As far as the percentual drop is concerned we are of the opinion that the earlier rally that was mainly driven by overdone

Rhodium, Iridium, Ruthenium

Rhodium could not decouple itself from the negative moves in the other four major precious metals in the past 12 days. One-off sales by some investors and holding back by industrial end-users saw the metal drop \$250 to \$2,600 an ounce. This level then saw some buying interest come in; as such the lower side seems to be limited.

This irrespective of the fact that platinum's downward slide last week went through the chart-support lines and broke the long-term upward trend the metal has been since end of 2008 and now must at all costs defend its low of last week.

Should it not succeed, a retraction down to \$1,375 an ounce is possible. For this reason industrial end-users should not cover all their future requirements at current levels but should keep some powder dry for such a possible eventuality.

Investment demand played a very prominent role in the discussions during Platinum Week. Participants agreed that it is this sector that is mainly responsible for the considerable rise in the price of platinum since December. There were considerably differing opinions on whether this development was sustainable. Johnson Matthey in their annual market analysis publication pointed out that demand for metal from the automobile catalyst sector in 2009 broke down considerably – a massive minus of 39 per cent. It was thanks to the Chinese jewellery market (demand up by 50 per cent) and the aforementioned investors that actually helped platinum firm up to such high levels. According to JM, mine production in 2009, relative to previous year, was more-or-less unchanged, while supply from recycling was down by almost a quarter.

All-in-all the fundamentals for platinum do not look very good at the moment. Latest news from China speaks of ebbing jewellery demand due to the high prices and the most recent automobile sales figures are also not as positive as they once were, at least as far as their tendency is concerned. What remains is the question about how the investors will behave in wake of last week's slaughter. We will know more next week, when latest figures from the New York exchange come in.

speculation has now more-or-less corrected itself and in the current environment prices under \$400 an ounce should not be sustainable for any length of time. As such the following recovery to \$446 an ounce does not come as a complete surprise and industrial end-users should consider using any fresh dips to cover more of their requirements.

Iridium is the only real success story in this reporting period and this rare precious metal added value again and is currently trading at \$700 - \$740 an ounce. Presently demand still seems to be holding well.

Ruthenium was off slightly and has traded down to \$230 - \$260 an ounce.

Gold

An outstanding event during this reporting period was gold breaching the EUR 1,000 an ounce barrier for the first time ever. At its peak, the yellow metal touched EUR 1,012.50 an ounce – a good EUR 230 more than where it started the year.

The German investors have not been put off the slightest by the high prices at the beginning of this reporting period. Precious metals traders and banks reported long queues at their counters two weeks ago. This increased demand was met by limited supply, so much so that despite increased production of bars (and certainly coins too), in the past two weeks – depending on the denomination – the waiting period for delivery went up considerably.

It is only at the beginning of this week that demand has ebbed out a bit, and subject to the market calming down, at least the situation viz. cast bars (between 100 g and up to 1 kg) and the 1-ounce bars should ease out and delivery periods normalise in the next week or two. However it could still be a while before the order backlog for the smaller minted bars has been worked off.

It was not just the bar buyers in the German speaking areas who intermittently provided strong support to the gold price; last week alone ETFs worth almost 20 tonnes were bought afresh. Meanwhile open positions in the nine leading products of this kind have stocks amounting to 60.7 million ounces (1.888 tonnes) – the highest ever since these investment forms first came to the market.

The increase in the price of gold in euro terms at the start of this reporting period was not only a direct result of the higher international price of gold but also of the recent loss in value of the euro. While on one side fear arising out of the precarious financial situation of some of the EU member nations has driven investors to gold, on the other side owners of old-gold (scrap) have been making hay and cashing in. This latter has been noticed not only by our colleagues in the recycling units in Germany but also the Asian market has seen a lot of scrap gold coming in; this has continued well into this week too.

As mentioned earlier, while gold in euro-terms recorded its record high last week, gold in US-dollar terms could not again get to its historic high of \$1,248.50 achieved on 14th May.

Silver

In the past two weeks silver, which had also done very well recently and had touched a high last seen early 2008, ran out of breath: from \$19.75 an ounce two weeks ago the metal sank to \$17.38 an ounce last Friday as fear drove investors away from allegedly higher-risk asset classes. However the metal managed to hold well above its months' low recorded on 5th May, albeit, unlike gold, it has made only a limited recovery in recent days.

Reports that the Mexican mining giant Fresnillo intends to push up production by 2018 by 71 per

cent to 65 million ounces did certainly contribute to the drop in price, as did the uncertainty about the economic outlook and with it industrial demand.

Further developments will strongly depend on gold; at least on the charts silver still finds itself – unlike platinum and palladium – in an upward trend that began almost seven quarters ago.

Demand for silver bars in Germany is not as robust as it was in 2008, however it is strong enough to cause delays – as in the case of gold bars – in delivery periods.

Instead fear drove away international investors from allegedly higher-risk asset classes (for some reason last week gold also found itself in this company) and the yellow metal, as other precious metals, commodities and equities, had to book severe losses.

In this environment gold had dropped by last Friday to \$1,165 an ounce before problems of the Spanish banking sector pulled it back up to \$1,215 an ounce (it was suddenly back being a crisis-metal). The further weakened, but at least at these low levels stabilising, euro made the metal in this currency that much more expensive; presently at EUR 980 an ounce the price is still some way away from a four digit figure.

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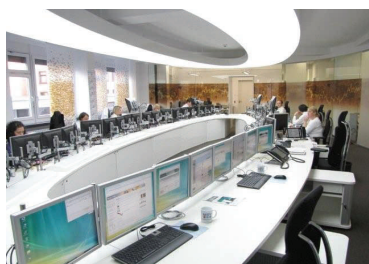
AU	US\$/oz	€/oz	€/gram
High	1,248.95	1,012.64	32.56
Low	1,165.50	927.03	29.80
Latest	1,211.65	990.24	31.82

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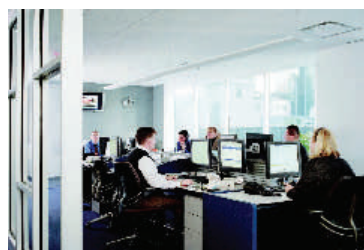
While the mines at the moment cannot really complain, parts of the jewellery industry, especially in Europe, are having their problems. At the important annual fair in Vicenza, Italy, though there was some hope voiced, by-and-large a great degree of feeling of uncertainty was apparent as far as the future of this sector in Europe was concerned. Some of the views given to Reuters can be also found via the links on page 4.

Only small reports came in from the central banks front: In Europe two central banks sold small quantities of gold in the past two weeks, partly in the form of coins. On the other hand the Central Bank of Azerbaijan announced that recently it has been in the market as a small buyer of gold and that it plans to further re-allocate a part of its present \$22 billion exchange reserves in gold.

AG	US\$/oz	€/oz	€/kilo
High	19.68	15.89	511.03
Low	17.39	13.84	444.93
Latest	18.23	14.88	478.37



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