Precious Metals Weekly

29 May 2009

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Highlights

- **Precious metal prices on the rise –** Dollar weakens and thus strengthens gold & Co.
- **Gold rises above $ 965 –** Supported by concerns about a possible down-grade for the USA. Purchases mostly by speculators.
- **Silver with disproportionate gains –** As usual the white metal receives guidance from gold, but shows bigger gains in percentage terms.
- **Platinum rising as well –** In 2008 again a deficit on the platinum market and that despite nose-diving car production. Reasons mainly lower production and higher Chinese demand.
- **Palladium with another surplus –** Norilsk official: “State owned palladium reserve last for another five year of sales”. Norilsk in the red, production to shrink.
- **Rhodium rises temporarily to $ 1.500 –** And that despite a surplus. No changes for ruthenium and iridium.

The next edition of the Precious Metals Weekly will presumably be published on 8 June.

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*

The platinum metals market in the last two weeks concentrated itself on the annual "Platinum Week" in London. In the third week of May every year market-participants representing manufactures, producers, banks and investors gather in the British capital. Even though this year the numbers that travelled to London were lower and there were mixed impulses on the actual market situation (a much-changed scenario after the boom-years of 2007 and 2008), given the dismal state of the global economy the mood in the traders circles was not too bad. The relatively high volatility of precious metals which provides one or the other opportunity to book in some additional trading-profits as well as the recently-again increased investor interest surely contributed to this. This latter at least partly counter-balanced the considerably reduced industrial business.

Traditionally British precious metals processors Johnson Matthey (JM) publish their market report on platinum metals during the course of "Platinum Week". JM said that demand for platinum from China in 2008 (as well as the first quarter of 2009) has gone up significantly, which was mainly on account of the reawakened interest in platinum-jewellery. Industrial demand, on the other hand, has gone down considerably due to the global collapse in automobile sales. Despite this negative trend in this most important demand sector for platinum (minus 8.2 per cent to 3.8 million ounces) the market was in deficit in 2008 by 375,000 ounces; four times higher than in 2007.

One reason for this deficit was the change on the supply side: new production fell by 9.5 per cent to 5.97 million ounces. In 2009 JM expect the market to be by-and-large balanced.

Platinum price profited from the JM publication and as well as from the rather positive analyst's-survey –done by the new agency Reuters – which expects further gains in the coming 18 months. In line with this the price in this reporting period has moved up from $ 1,100 to above $ 1,160 an ounce.

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*

Like platinum, palladium could also recover from its two-day losing streak this Friday morning in Asia and almost touched this reporting periods high of $ 235 an ounce (recorded last week).

That the metal could not get to its early-months level of $ 240 an ounce – despite gold and silver rallying strongly – should have to do with the generally negative picture given by JM during "Platinum Week". The company reported that despite considerably lower palladium production in 2008 – down to 7.31 million ounces – the market was in excess by 460,000 ounces and in this context they did not give cause for much hope for 2009 either; demand from the automobile sector this year is expected to be lower by a couple of hundred thousand ounces than in 2008. But, and that is the silver-lining in the story, at the same time JM pointed out that despite the falling demand the market would have been in a deficit had there been no sales from Russian State stock-piles. However at the moment there does not seem to be any sign of such sales drying up – to the contrary, the warehouses appears to be still very full: a representative of Norilsk Nickel said during "Platinum Week" that the current stocks of the Russian State would at present rate-of-sales last for another five years. As a result hopes have to be based on jewellery demand which went up 20 per cent in 2008 (to 27 tonnes) and on the planned introduction of an ETF in the USA, which should draw-in some investors.

For 2009 Russian mining giant Norilsk Nickel is anticipating further falling new production of its most important products; nickel production is to shrink from 300,000 tonnes in 2008 to 285,000 this year. The company said that this will affect the output of platinum metals that are dependant on its nickel outturn: platinum is expected to be down from 659,000 to 640,000 ounces and palladium from 2.82 million to 2.71 million ounces.

As the Russian government continues to increase its influence on Norilsk by pumping billions into it through banks owned by the State, the company has in 2008, for the first time in its 7 year history, reported a loss. According to the newspaper "Kommersant" on Tuesday, the minus at the end of last year was $ 555 million. Main reasons for this were the lower metal prices and revaluation losses on assets. In 2007 the metal-producer had reported profits of $ 5.3 billion.

Rhodium, Iridium, Ruthenium

The three "minor" platinum-group-metals recorded relatively unspectacular movements in the past two weeks. The prediction made by JM during "Platinum Week" of an increasing surplus in the rhodium market due to the currently low demand from the automobile industry has so far had no negative effect on the price – quite the opposite in fact, as the metal temporarily traded close to $ 1,500 an ounce-level.
Iridium and ruthenium have remained unchanged during the course of the last two weeks.

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

In the past 14 days gold rallied strongly and by this morning had put on more than $ 40 an ounce (almost 5 per cent) as it traded up to a high of $ 967 an ounce. The yellow metal has not been to such heights since the slightly higher level it recorded in the middle of March. Beyond that, in February, this years high was recorded at $ 1,005 an ounce. Thus at the moment the metal is only 5 per cent away from this mark.

The price surge in the last two weeks was not so much due to demand for coins and bars which had played a far more significant role in the first quarter. Also purchases in the form of ETF's did not really tilt the balance even though the open positions here added almost 20 tonnes. It was primarily the speculative demand that drove the gold price: open positions on the futures exchanges added almost 2 million ounces (ca. 70 tonnes) in the last two weeks.

Gold buyers were mainly influenced by the moves in the USD exchange rates and by the price of oil. In the reporting period oil was up over 10 per cent (trading above $ 65 a barrel) and simultaneously the US currency lost significantly, among others, against the euro; for the first time since January it was trading under the 1.40 mark. This was a result of concerns over a possible down-grading of US sovereign risk that had the green-buck dropping fast; rumours were that the extremely increased national debt could lead to the country losing its AAA rating.

Such a development was naturally grist to the mill for every speculator who, in the current global crisis, is looking very critically at the economic and financial environment and related politics in industrial nations. Should the USA actually lose its top rating, the gold price could climb further and not just the speculators but also the rather conservative and longer-term investors would then be driving a rally.

Interestingly enough, at the moment, despite high prices, not much scrap material is coming to the market – it appears that the stocks here dried up in the last run gold made in March – therefore we cannot not rule out the yellow metal testing the $ 1,000 an ounce mark in the near future. Medium term we continue to maintain that the gold could record a fresh all-time high of up to $ 1,100 an ounce sometime this year.

In the present situation it is therefore not so obvious that a very important demand sector – jewellery – is in the doldrums: For example, yesterday India reported that imports in May were a mere 15 tonnes; 50 per cent lower than previous month. After 2 tonnes in January and none in February and March, so far total imports in 2009 have therefore been only 47 tonnes. Under these circumstances it is almost impossible to expect that India will even remotely come close to its previous years import tonnage. In 2008 these were ca. 400 tonnes; in the five years before that each year between 370 and 525 tonnes per annum.

Demand for gold jewellery has fallen not only in India but also in Dubai (a minus of 40 per cent in May as compared to similar period previous year) and the once important Italian market has of late also suffered severely. Between January and March this year only 6.7 tonnes of gold jewellery were sold in Italy, 18 per cent less than comparable period previous year. In 2008 Italian jewellers sold a total of 51 tonnes of gold and the Chairman of the Italian Jewellers Union, Luigi Cassata, now expects 2009 to show another drop of 30 per cent.

That the gold price can not only hold on to its high levels in such a situation, but as mentioned earlier, in fact can further rally is mainly thanks to the investment demand. As the World Gold Council (WGC) announced last week, demand in the first quarter of 1,016 tonnes on this account is 38 per cent more than comparable period of last year. The growth, in addition to the increased demand for bars and coins, especially in the beginning, was mainly due to the significant increase in investments in the form of ETFs (Gold ETF's are exchange-traded bonds that are backed by physical metal).

In the first quarter of this year no where else in the world were gold bars and coins more sought after than in Germany. As per the WGC, investor demand in the first quarter for this form of metal was 59 tonnes – up 400 per cent compared to the similar period last year. The second-largest gold bars and coins market in the first quarter was Switzerland – up 437 per cent (to 39 tonnes), with the USA coming in third at 27.4 tonnes (a plus of 216 per cent).

Silver

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

Silver continued to be driven by the gold price, but it was decidedly more volatile. In the past two weeks the metal rallied from $ 13.90 to touch a peak of $ 15.36 an ounce.

Here also it was buying on the futures exchanges that pushed the metal up. The open positions on the COMEX, New York added over 24 million ounces (ca. 800 tonnes) only in the last week. As long as gold continues to climb, silver should do so as well. On top the white metal has the additional advantage of benefiting from any possible improvement in the global economy and as such could do better than the other precious metals.

Heraeus

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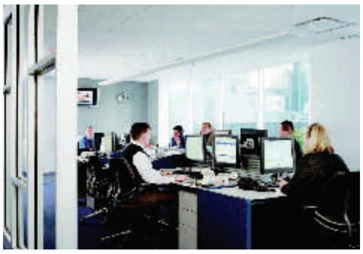

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