



Precious Metals Weekly

24 October 2008

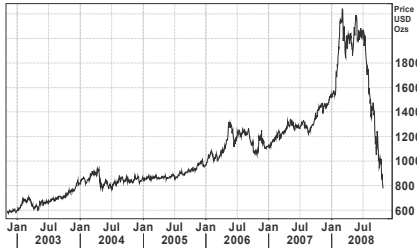
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Highlights

- **Precious metals remain under pressure** - With the exception of gold multi-year lows reached.
- **But even Gold trades only at a meagre \$ 700** - Anxious look over at the mining industry. Whilst speculators sell, the demand boom for bars and coins continues.
- **Silver holding at around 9 dollars** - But the white metal had suffered already before. Retail clients remain loyal, delivery for smaller investment bars ordered now only in December.
- **Platinum on the lowest level since 2004** - At \$ 780 things start to get tricky for the mines. But for the time being this is outweighed by doubts about the state of the global economy and more concrete by the downturn of the car sector.
- **Palladium trading only at \$ 160** - Since March metal loses nearly 75% of its value. First mine closed in Canada. Norilsk open to offers for Stillwater. Industry sees low prices as buying opportunity.
- **Rhodium in free fall** - Metal trades down to \$ 1,600. Ruthenium and iridium loose value as well.

All prices for the period from 3 October to 24 October

PT	US\$/oz	€/oz	€/gram
High	1,040.00	761.00	27.26
Low	770.00	610.00	19.93
Latest	772.00	600.00	21.28



Platinum

Like a lot of other industrial commodities platinum came last week under extreme pressure in light of an expected massive global recession. Starting at just under \$ 1,000 an ounce early October the price had fallen to \$ 770 by yesterday afternoon; its lowest since mid 2004. Back then the metal had traded twice as low as \$ 765 an ounce – a low last seen before that in November 2003 (lowest in that year was \$ 600 in April).

Beside the general scepticism about the future growth of the commodities markets, platinum more specifically got hit by the situation evolving in the automobile industry. In the last weeks there has been continual bad news coming from this sector, most recently with (profit) warnings from Toyota, Fiat and Daimler.

Despite all the current panic on the metals markets with respect to the future prospects, some industrial end-users are seeing the current low prices as an opportunity to cover already metal requirements for the next few years. As a result several tonnes of the metal might have been bought in recent weeks. In Euro terms the metal costs now after all under € 600; that is the lowest since 2003.

These contrarians are psychologically supported also by what is happening on the production side. For the moment it looks like the much publicised and anticipated expansion programmes will rather gather dust for some time to come. Even a replacement of the slowly maturing older mines now seems more and more difficult at current prices, not to talk about any expansion of the output.

Palladium

One cannot speak of palladium having had a bright "Indian Summer" for some time now, and in the last two weeks the metal lost even more value as the downward trend which began in March took further toll. From almost \$ 200 an ounce end September (not to forget the March high of \$ 580) the metal fell to \$ 160 in the last days; thus not far from the then short-lived 2003 low of \$ 140 an ounce. Before that one has to go back another six years to early 1997 to find such low levels. By the way, production compared to 11 years ago has hardly increased, admittedly though it was significantly lower a few times in between .

We believe that the present price level is not sustainable in the medium-term. At the latest once the global economic crisis shows some signs of abating, demand should get a fresh impetus for example from the Asian car market bouncing back or from globally more stringent emission control requirements com-

ing into force in the foreseeable future. Apparently we are not the only ones of this opinion: since the beginning of the most recent price dip, industrial addresses have increased their activity and have been hedging palladium prices well in to 2010.

In addition there is also some support for the price from the production side: The Canadian producer North American Palladium announced recently that under the present market conditions they will be – at least temporarily – closing their mine at Lac des Iles and have to let 350 workers go. As per media reports the mine produces about 4 per cent of the worlds palladium.

Not only Canada is effected by the low palladium price: A representative of the Russian mining giant Norilsk said on Tuesday that they were considering looking for potential buyers for their interests in the US palladium producer Stillwater. For details please see link on page 4.

Rhodium, Ruthenium, Iridium

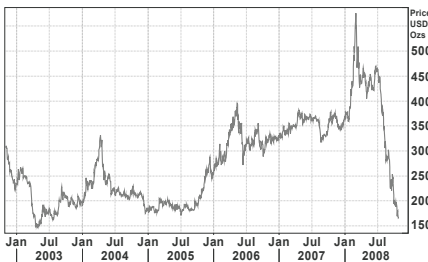
Since last summer, amongst the precious metals it has been rhodium that has got hit the worst. And the trend continued in the last two weeks. With little or no demand and more metal being offered the price fell another \$ 1,500 an ounce to its lowest since 2005 of \$ 1,600 an ounce.

Yesterday we have then seen a short-lived change in trend. Amongst others, some trading companies covered short positions and thereby moved the metal back up. Additionally at the lower level it appears that the recently regular sales (including those from one or more addresses in the automobile industry?) also stopped or at least slowed down. Whether this is only a temporary halt or already a final one is not clear. Short-term anything can happen, but on a medium-term

basis we expect a bottom to build in the \$ 1,500 and \$ 2,000 an ounce range; after all the metal at its lowest this week was only worth 1/7th its mid June value. Back then an all-time high of \$ 10,140 an ounce was recorded. As such the current levels should be attractive enough for one or the other industrial end-user to purchase metal on a forward basis. And, as it is the case with platinum and palladium, increased production is definitely not on the cards for sometime to come.

The other "minors" were relatively quiet in the last two weeks, albeit also with a negative tendency. Ruthenium fell \$ 50 (or 20%) to \$ 180 – \$ 230 an ounce and iridium is slightly off at \$ 400 - \$ 440 an ounce.

PD	US\$/oz	€/oz	€/gram
High	204.00	150.00	4.82
Low	160.00	120.00	3.86
Latest	180.00	133.00	4.27



Gold

Gold also could not avoid being effected by the escalating financial crisis in the past three weeks. Early October the yellow metal fell initially from \$ 830 to \$ 765 an ounce. What at the first sight appeared to be a relatively modest drop loses its glitter when one considers that the metal at the beginning of the crisis on 6th October had climbed up to \$ 931 an ounce within a week and then within the same period lost almost \$ 160 (i.e. 17 per cent) to reach the above mentioned low.

Last night's fall took more wind out of gold. With the background of an ever-strengthening US-dollar, oil price falling to well below \$ 70 a barrel and global stock markets taking another drubbing, the metal quickly shed another \$ 40 before recording its low since September 2007 of \$ 722 an ounce. However complex the reasons for the losses may be, at the end of the day it was the speculative addresses who got out or had to get out of the gold market. It is likely that much of the sales by those "investors" were a result of the need to raise capital in order to be able to cover losses and margin-calls in other markets.

Silver

Silver performed relatively worse than gold at the beginning of the reporting period. It fell from its early October level of \$ 11 an ounce to \$ 9,90 on last Friday; its lowest since February 2006. In the following 48 hours the metal managed to recover up to just over \$ 10 but not for long; in the last hours it was back again into single-digits, trading at just below the \$ 9,25 an ounce mark. This again reflected the sceptical approach by speculators with long positions, e.g hedge funds, to a metal that is ultimately more an industrial one than an investment vehicle. Also the above mentioned cash-flow and capital needs (see gold) of such "investors" must have played an important role in their liquidation decision.

Still silver appears to be performing better than the almost-primarily industrial precious metal platinum. Part of this is explained by the bias to silver by (private) long-term investors looking preferably at physical metal. Also, with its present relatively low price, demand for it as a jewellery metal might have gone up; this seems to be confirmed by reports from India that reflect a dramatic surge for physical metal sales. This partially led to delivery delays for standard bars in London of which each has to weighed to determine the exact weight before shipment. However it was not only in London that vault managers and their staff had to clock in overtime. Also in Germany private investor demand for silver-bars continues to be frenetic. We (and not just us) are still working through the extremely large orders of the past weeks. For smaller investment bars up

Seen from this angle, gold did seem to fulfil at least partially its role as a safe-haven, as it is "readily sellable asset" in times of a crisis. This comes however at the expense of the long-term oriented, predominantly private investor who will, for the moment, have to live with the depreciated values. This last mentioned group of market-participants continued building up their stocks but it appears not at a rate fast enough to compensate for the aforementioned liquidations coming from the funds and holders of other non-physical longs positions. Demand for physical (investment) gold was strong not only in Europe – here significant delivery delays continue to haunt the market – but also in North America. Also the physical-gold backed ETFs continued to rise in volume.

At the other end of the physical spectrum, demand by the jewellery sector and for other industrial applications appears to have slowed down recently. Similar news came from the Far East, India, Europe and the USA. This might also have had an additional dampening effect on the price, even though it was perhaps not the main one for the moment.

to 5 kg ordered today, delivery before middle December would be the exception. The additional flight of physical silver out of London has lead to increased lease rates in almost all periods. At times - for periods up to six months - these were over the US-dollar interest rates and the forward market in a slight backwardation.

In the coming week the financial market uncertainty is not going to go away. Simultaneously the global economic climate seems to be getting more dismal. In this environment we would not expect silver to make a sustained climb back to \$ 12 an ounce or more. An important reason for this is that the aforementioned physical investor demand (which, in addition to private investors, also includes institutional buyers of ETFs) in the longer term will most likely not be able to compensate for the eroding demand from the industry and the hefty sales from the speculators camp. On the other side, we feel the downside risk is also limited. The trading range in the coming days should therefore be around minus 10 per cent to plus 20 per cent from present levels.

As far as silver and the September LBMA Conference in Kyoto is concerned, silver this time was not centre-stage. Only Mark Fellows from Brook Fellows consulting discussed the metal in his presentation and pointed at the significantly increased costs of production at the silver mines. In 2006 these were around \$ 4.40 , as against today's \$ 7,90 an ounce. Additionally Fellows estimates silver production to increase by 25 per cent in the next five years, mainly as a secondary effect to increased base-metal production.

AU	US\$/oz	€/oz	€/gram
High	931.00	685.00	22.02
Low	698.00	542.00	17.43
Latest	700.00	555.00	17.84

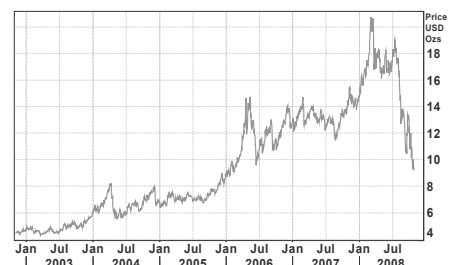
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As far as India is concerned, reduced demand has to a great extent to do with the dramatic weakening of the Indian Rupee against the US-dollar. The currency has lost 20 per cent in the past eight weeks, making gold accordingly more expensive in the local currency. Middle October gold recorded an India Rupee all-time high of Rs. 45.000 an ounce.

In the coming days, subject to no new and significant financial market distortions, we do not expect any major change in the trend. In view of the relatively low prices, we would advise industrial users to consider price-hedging, using the forward market. At the moment we see a medium-term downside risk to be in the range of 5 – 10 per cent; on the other side, technical resistance is at \$ 760 and then again only above \$ 800 an ounce.



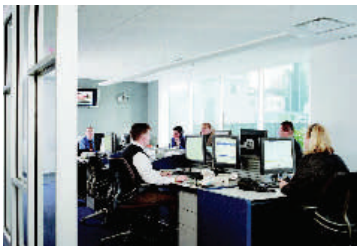
AG	US\$/oz	€/oz	€/kilo
High	12.28	9.05	291.00
Low	9.09	6.75	217.00
Latest	9.18	7.30	234.70



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