

PRICES AND FUTURES MARKETS

PLATINUM

Market Review

A general fall in world commodity prices depressed the platinum price at the beginning of 1999 but it soon recovered as it became clear that Russian pgm exports would again be delayed. The price jumped by over \$40 to a high of \$384 at the end of February before falling back to \$346 at the end of April when Russian palladium shipments were briefly resumed. The market then quietened down over the summer months and the price stabilised at around \$350. Towards the end of September a sharp recovery in gold propelled platinum to a high of \$429. Platinum averaged \$359.04 during the first nine months of 1999, compared with \$380.26 for the same period in 1998.

Platinum held on to the gains made at the end of December 1998 and recorded \$362.50 at the first London fix of 1999. On 10th January there were reports that President Yeltsin had signed a decree setting Russian export quotas for 1999 at 20 tonnes of platinum and 100 tonnes of palladium and that deliveries were imminent. This news was, however, quickly overshadowed by widespread turmoil in the world financial markets following a

large devaluation in the Brazilian currency and the resignation of the country's Central Bank president. Commodity prices began to fall and platinum, also affected by a drop in the gold price, sank to a low of \$342 on the 28th. During the second half of the month there was confusion in the market about whether the Russians had restarted pgm exports. The general feeling was that if any metal had been shipped in early 1999 it would have been from the previous year's quota.

The platinum price recovered sharply during February, its rise tempered only by occasional profit taking. Speculative buying and the continued lack of Russian sales helped platinum reach \$384 on the 24th, its highest price since July 1998. At this point the premium to gold was \$95. Platinum ended February at \$378, \$31 higher than at the beginning of the month.

After the gains of the previous month, March was fairly uneventful for platinum. On the 3rd, Vladimir Potanin, the head of the Interros group (the largest shareholder in Noril'sk Nickel) announced that Noril'sk had received a ten-year quota for exports of pgm, instead of the historical one-year quota. It later transpired that this was for palladium sales only. The month's high for platinum of \$379.50 was recorded on the 1st and from then on the price slipped downward, falling to a low of \$361 at the month's end.

Daily Platinum and Gold Prices in 1999



\$ per oz

London afternoon prices



Platinum's decline continued into the beginning of April with the price falling to \$354.25 on the 6th. This trend was attributed to fund selling, later confirmed in a report from the US Commodity Futures Trading Commission that showed a substantial reduction in speculative long positions of 210,000 oz in the previous two weeks' trading. A spate of buying lifted platinum to the month's high of \$365.50 on the 19th but the rally proved shortlived. Reports of future IMF gold sales to fund debt relief for poorer countries, and substantial shipments of palladium from Russia at the end of the month, pulled platinum down further to a three-month low of \$346 on the 29th.

May was a quiet month for platinum. Firmer gold and palladium prices lifted platinum to \$356 on the 7th and the price remained around this level for much of the month, before rising to \$365 on the 28th. There was a tightening in the physical market at the beginning of June, with three-month lease rates reaching 6 per cent. News that the Hartley Platinum mine in Zimbabwe was to close reinforced the positive sentiment and the price rose to \$367.50 on the 4th. Persistent fund selling later in the month then caused the price to drop sharply from \$367.50 on the 10th to \$344.50 on the 22nd, the lowest level since the end of January. Bargain hunting at the end of the month lifted platinum to finish June at \$349.

July was another quiet month for platinum with little activity in the market. The first in a series of gold sales by the Bank of England triggered a drop in the gold price early in the month and this pulled platinum down to \$345 on the 6th. The platinum price then recovered to trade in a \$347 to \$353 range for the following three weeks before falling back to \$343.75 at the month-end London fix. Reports by some analysts that platinum was overvalued compared to gold, causing some investors to buy gold futures and sell platinum, may have contributed to platinum's descent.

A general rally in the metal markets at the beginning of August gave support to platinum and the price recovered to \$350.50 on the 3rd. News that over 4,000 miners at Northam Platinum, the smallest of the established South African platinum producers, were on strike then lifted the price to \$354.25 on the 5th. It slipped back to \$349 at the end of the week following news that the industrial action had ended. A bout of selling on NYMEX caused a brief slump to \$344.50 on the 16th but platinum soon recovered, rising steadily to the month's high of \$357.50 on the 20th. The price then slipped back to end August at \$349.

For much of September the pgm markets took their lead from gold. On the 7th a proposal from the IMF to revalue rather than sell ten million ounces of its gold reserves boosted gold, and platinum reached \$355. Heavy fund buying and a

tightening in lease rates over the following two weeks caused platinum to rally to a seven-month high of \$382.50 on the 22nd. On the 27th a joint statement by 15 European central banks, announcing that they would limit gold sales to 400 tonnes per annum for the next five years, triggered short covering in the precious metals markets. Gold recovered sharply to over \$300 and platinum followed, reaching its highest price during the first nine months of 1999 of \$429 at the morning fix on the 29th. The price softened to \$409 in the afternoon and fell back to \$393 at the end of September.

Futures Markets

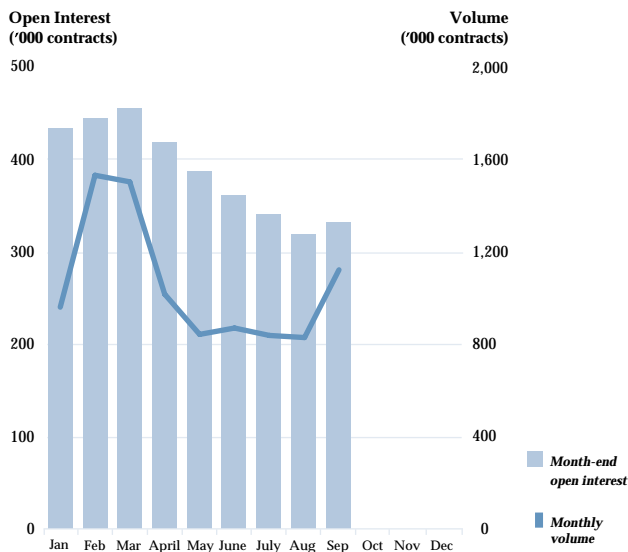
During the first nine months of 1999 the number of futures contracts traded on TOCOM was 9,650,370, a decline of 14 per cent compared with the same period of 1998.

Open interest rose steadily at the beginning of the year, from 432,291 in January to a year-to-date high of 454,512 contracts in March. Monthly trading volumes also rose strongly during this period with over 1.5 million contracts being traded in February and March. These increases correlated to a rise in the platinum price, which peaked at ¥1,500 per gram during February due to delays in Russian pgm shipments.

The number of contracts traded began to tail off during April, dropping below 900,000 in May and remaining at this level for the following three months. In September the volume climbed back up to 1,135,814 contracts as speculators responded to a sharp rise in the platinum price. Open interest also fell from the peak in March, declining to just over 300,000 contracts in August before edging up to 331,119 contracts at the end of September.

TOCOM warehouse stocks remained between 27,000 oz and

TOCOM Platinum Futures in 1999
Monthly Volume and Month-end Open Interest



28,000 oz for the first four months, then fell to a low of 22,100 oz in July before recovering to 28,775 oz at the end of September.

Activity on NYMEX was fairly light during the first nine months of 1999 with trading volumes averaging around 40,000 contracts per month before soaring above 100,000 lots in September. Open interest fell to just over 11,000 contracts in May, then recovered to 15,840 in September. Warehouse stocks have remained fairly steady so far this year, at between 50,000 oz and 71,000 oz.

PALLADIUM

Market Review

Concerns over Russian pgm exports once again dominated the first four months of the year. Palladium rallied from \$334 at the beginning of January to \$384 in April but then plummeted to \$284 in early May following large Russian sales at the end of April. The price then quickly recovered and settled down at around \$340 until the beginning of September, when rises in platinum and gold lifted palladium to a high of \$396. The average palladium price for the first nine months of 1999 was \$343.17, compared with \$284.36 for the same period of the previous year.

The palladium price had begun to rise at the end of December 1998 in anticipation of Russian supply problems. This rally continued into the beginning of 1999 and palladium recorded \$337 at the afternoon fix on 4th January. US fund selling, and reports from Russia that a decree setting export quotas had been signed, then dragged palladium down to a low of \$310 on the 14th. Confusion over Russian shipments at the end of the month left traders wary

of selling and palladium edged up to \$335 on the 29th.

Palladium continued to recover at the beginning of February, supported by steady industrial buying. Continuing uncertainties over Russian supplies were reinforced by news that Russia's Uneximbank, part of the Interros group that controls Noril'sk Nickel, had missed debt repayments. It was also reported that the mine was considering cutbacks in nickel production in 1999. A run of buying on TOCOM pushed palladium up to a nine month high of \$362 on the 10th with a \$2 premium to platinum. Palladium then settled down into a \$346 to \$359 range for the rest of the month.

Reports that Noril'sk Nickel had been assigned a ten-year quota for pgm sales and would soon begin shipments were largely ignored by the market at the beginning of March. But fears that Russian supplies would be disrupted due to strained relationships between Russia and NATO over the crisis in Kosovo caused the price to leap to a ten-month high of \$372.25 on the 26th. The price then eased back to end the month at \$362 with a \$1 premium to platinum.

Rumour and speculation regarding Russian sales continued to dominate the palladium market in April and for much of the month palladium traded at a premium to platinum. The untimely death of the head of the Krasnoyarsk Precious Metals Refinery in Russia, and the continuing conflict in Kosovo, helped push the price up to \$384 on the 20th. A week later it was finally confirmed that metal had been exported from Russia, a new 5 per cent export tariff that came into effect at the end of the month having prompted significant shipments in the preceding few days. An unusually large sale of palladium, believed to be of Russian origin, during the final London afternoon fix of the

Daily Palladium Prices in 1999



month caused the price to plummet to \$295 on 30th April.

After falling to a low of \$284 in early May, the palladium price recovered, boosted by renewed demand, to reach a high of \$344 on the 14th. The price remained around this level until the second half of June when persistent market selling triggered a steady retreat to \$321 at the end of the month.

A rally in platinum and speculation that Russian palladium exports would be minimal in the short term gave support to palladium during July and the price rose to \$339 on the 15th. Reports that supply contracts between Russia and Japan were expected to be finalised at the end of July with shipments due in mid August tempered any further increases and palladium ended the month at \$337.

After falling back to \$331.75 at the beginning of August palladium recovered to \$345.50 on the 9th following further political turmoil in Russia. President Yeltsin had sacked his Prime Minister, Sergei Stepashin, and local sources were divided as to whether this would lead to more stockpiled palladium being sold to fund political campaigning or to exports being further delayed. An initial bullish feeling in the palladium market soon died away, and when there was no immediate evidence of either action, the palladium price fell back to \$341.

During September palladium followed a similar path to platinum. The price rose steadily through the first two weeks, edging above platinum on the 3rd despite news that the Russians had resumed palladium shipments, which had been suspended since the end of April. The palladium price levelled out in mid month and traded in a tight \$359 to \$368 range until the 27th when sharp gains in gold and platinum thrust palladium up to a high of \$396 on the morning of the 29th. In common with platinum the price fell back and it ended the month at \$377.

Futures Markets

There has been a high level of activity in the palladium futures contract on TOCOM during 1999. In the nine months to the end of September, five million contracts were traded compared to 3.8 million during 1998; an increase of 32 per cent.

Trading volumes rose from around 500,000 contracts in January to a high of 877,143 in April. In common with platinum this trend mirrored a rise in the metal price which reached a year-to-date high of ¥1,460 per gram in April. Monthly volumes then began to ease following the resumption of Russian palladium exports and fell to 215,808 contracts in September. Open interest reached a peak of 131,405 in May and then fell back to 83,912 contracts in September.

Activity on NYMEX also rose during the first few months of 1999, with the volume of contracts traded climbing to a high of 8,890 in May. This level fell below 3,500 lots in June and then recovered to 5,836 in September. Open interest rose above 3,000 contracts in March, falling back slightly in the following months before recovering to 3,054 contracts in September. Warehouse stocks peaked at 62,600 oz at the end of February and then drifted down to end September at 32,000 oz.

RHODIUM

Firm demand coupled with limited availability have been behind both of rhodium's rallies so far in 1999. The price rose to \$900 at the end of January before easing to \$850 in April. A second rally in May then pushed rhodium back up to \$930 and the price stabilised at this level, dropping by only \$10 at the end of August.

In common with platinum and palladium, the price of rhodium had begun to rise at the end of December 1998 in anticipation of forthcoming Russian supply problems. At the start of January the Johnson Matthey base price for rhodium was \$780, compared with \$370 at the beginning of the previous year. Firm industrial demand coupled with dwindling supplies in the market lifted rhodium further to a five-year high of \$900 at the end of January 1999. A slowing in demand then allowed rhodium to soften to \$850 in April.

Rhodium experienced another sharp rally during the second half of May as a rise in demand from Japan, coupled with a continuing lack of Russian supplies, propelled it to \$930 at the end of the month. The price stabilised at this level until the end of August when it slipped back slightly to \$920.

RUTHENIUM & IRIDIUM

The first nine months of 1999 were quiet for both ruthenium and iridium with little movement in their prices. The two metals stabilised at \$39 and \$415, respectively, and remained firm until the end of September.

Ruthenium remained subdued during the first nine months of 1999. The only movement in the JM base price was a slight correction from \$41 at the beginning of the year to \$39 during May.

After the strong gains made by iridium over the previous two years the price stabilised during 1999. At the start of January the Johnson Matthey base price for iridium was \$410. It edged up to \$415 in mid month and remained at this level through to the end of September.