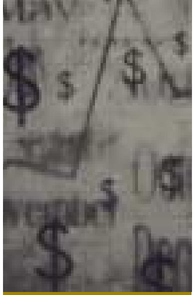


Prices and Futures Markets

Platinum

The speculative rally in platinum that peaked at $937 in mid-April, and the subsequent long liquidation of futures that caused a collapse in the price to $767 in May, dominated the first half of 2004. Fund and investor buying drove the rally, part of an increased investment in commodities as an asset class that was fuelled by low interest rates and a weakening US dollar. The strengthening of the South African rand, with its negative implications for the economics of pgm mining, contributed to investor bullishness about platinum.

Increased expectations of a rise in US interest rates, however, triggered a rapid sell-off across the metals markets in late April and early May. As a result the price of platinum fell by 18 per cent in the space of 15 days of trading. This then encouraged an upturn in bids for physical metal from end users and platinum climbed up to pass $840 before the end of May.

From early July onwards, hedge funds, managed futures funds and (in Japan) individual investors renewed their accumulation of long futures positions. Dollar weakness and rand strength again played a role, whilst labour disputes in South Africa raised the possibility of short-term disruptions to platinum supplies. The platinum price consequently reached $885 in mid-August and $875 in late September, before softening slightly to end the third quarter with a fixing of $854.

Throughout the first nine months of the year, firm auto and industrial demand for platinum underpinned the market, with buyers seeking to take advantage of price dips. The rate of purchasing by Chinese jewellery manufacturers, however, slipped compared with 2003.

During early **January** 2004, substantial volumes of platinum were purchased by Chinese jewellery fabricators in advance of the lunar New Year holiday. In addition, funds that had liquidated long futures positions at the end of 2003 began buying again on the NYMEX and TOCOM exchanges. As a result, the platinum price surged from $815 on the 2nd to a peak of $868 on the 13th. The pressure on the price then eased as the speculative buying slowed, and when investors took profits at the end of the month platinum slipped to $829.

Trading on the futures markets, rather than physical demand, largely controlled the direction of the platinum price in **February** – a theme that was common throughout the first nine months of the year. A slide in the value of the US dollar encouraged fund buying of most hard commodities including platinum, which climbed from under $830 to $864 on the 18th. In Japan, yen weakness then encouraged heavy buying of platinum futures on TOCOM (and a subsequent squeeze of short positions) that propelled another surge in the price, the metal ending February with a fixing of $877.

The speculative buying of platinum futures, particularly via the Tokyo market, sustained the price in the region of $900 throughout much of **March** and into **April**. The rally became somewhat self-sustaining as funds investing on trend or momentum models continued to increase their exposure. Physical demand, however, slid as users reduced orders to the bare minimum. The escalation in the platinum price culminated with a fixing of $937 on the 19th of April, a 24 year high.

A subsequent increase in the strength of the dollar on the back of growing expectations of a rise in US interest rates encouraged a sudden and intense round of long liquidation profit-taking by funds across a range of commodities. The platinum price plunged by more than $150 in the space of 10 days to fix at $783 on the 29th of April. The drop in the price encouraged a sharp upturn in buying by Chinese jewellery manufacturers ahead of the national holiday during the first week of **May**, and this briefly steadied the price.

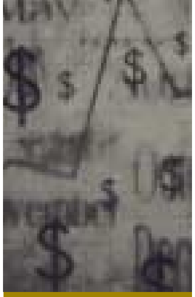
The relationship between the US dollar and other currencies, particularly the yen, continued to influence the actions of funds and other investors during May. Dollar strength during the early part of the month extended the long liquidation that had begun during the second half of April, sending the platinum price down to $767 on the 10th – a five month low. However, when the dollar weakened again, investor buying in Japan accelerated once more, leading a sharp rally in platinum that reached $845 on the 27th.

June was marked by another round of fund long liquidation of platinum futures on both TOCOM and NYMEX in response to a strengthening of the dollar against other major currencies. This dragged the platinum spot price down to a low of $774 on the 15th and investor sentiment remained predominantly bearish for the remainder of the month, the net

Average PGM Prices in $ per oz

	Jan-Sep 2003	Jan-Sep 2004	Change
Platinum	667.42	844.71	27%
Palladium	201.17	237.23	18%
Rhodium	539.90	878.05	63%
Iridium	94.74	185.33	96%
Ruthenium	34.44	60.40	75%

Platinum and palladium prices are averages of London am and pm fixings. Other pgm prices are averages of Johnson Matthey European base prices.



speculative position on NYMEX entering negative territory for the first time since November 2001. Support for the price came at around $780 in the form of physical demand, with steady purchasing by the Chinese jewellery trade and good buying interest from a number of industrial sectors.

During **July**, the price of platinum was re-established above $800, with the strength of the rand generating renewed concerns over the viability of planned mine expansions in South Africa – a stronger rand has negative implications for platinum supply as it makes the economics of both existing and planned mines less favourable. By mid-month the net speculative short position that had accumulated on NYMEX during late June had been reversed as the rand moved under R6.0 to the dollar, its strongest level since October 1999. Japanese investors also switched an increasing proportion of their funds into commodities on TOCOM as the price of oil soared and the Tokyo equity market fell. The platinum price consequently climbed to reach $836 on the 20th, before easing back to $818 at the month's end.

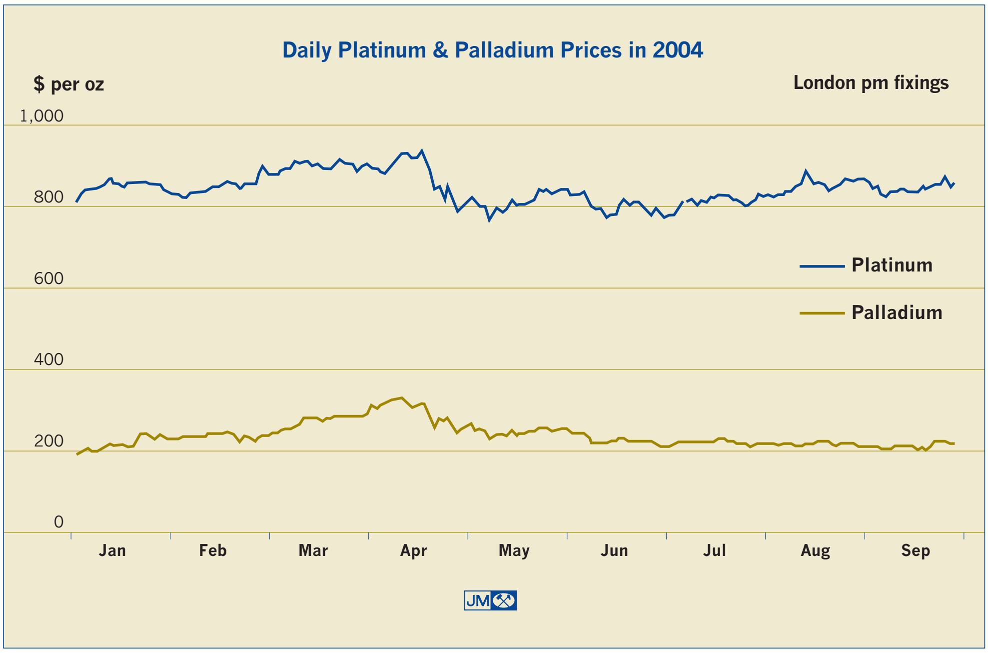
The price of platinum gathered renewed upwards momentum in **August** as investors reacted to the increasing possibility that mine workers in South Africa would strike, setting aside the longer-term, positive implications for platinum supply of a sharp weakening of the rand versus the dollar. Speculative long positions on both NYMEX and TOCOM continued to rise, driving the price from an opening fixing of $827 to a peak of $885 on the 16th. After briefly falling back under $850, platinum climbed again and ended the month firmly at $864.

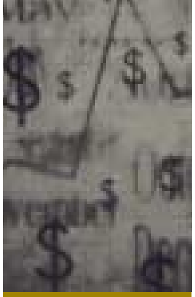
September was initially marked by a speculative sell-off in platinum, gold and silver as funds took profits across the whole precious metals sector. After touching $873 on the 2nd, platinum slid rapidly to $827 on the 9th. The drop in the price triggered an upturn in orders for physical metal by Chinese jewellery manufacturers, following a very subdued period of purchasing during July and August. The price subsequently turned upwards and traded either side of $840 until the 20th.

Possible and actual disruption to pgm supplies from South Africa then sparked another price rally: a fire at Northam's mine was followed by the announcement of wage disputes at Anglo Platinum and Impala. With the rand also strengthening against the dollar, investors and funds renewed their buying of platinum futures. This propelled the price up to $875 on the 28th, before profit-taking saw platinum soften to end the month with a fixing of $854.

Palladium

The palladium price enjoyed a strong start to 2004 as funds and investors began buying substantial volumes of derivatives via the New York and Tokyo exchanges, as well as through





over-the-counter transactions. The price climbed from under $200 to almost $250 in January, with many speculators bullish on the basis that palladium's discount to the price of platinum was unsustainably large. After a brief dip, the rally accelerated in March as increasing volumes of speculative money flowed into a range of hard commodities, palladium reaching $288.

The funds' appetite for the metal was boosted further in early April by an announcement that a diesel autocatalyst containing a proportion of palladium in place of platinum had been developed. The price subsequently jumped to hit a peak of $333 on the 13th of April. However, when funds started to close out long positions and take profits, the rally collapsed. The palladium price plunged to $237 on the 29th of April, and, after a brief rebound, slid to $209 on the 2nd of July. In contrast to platinum, the price of palladium then remained subdued through to the end of September, trading for the most part in a narrow range either side of $220.

Although industrial demand for the metal improved over the first nine months of the year, and jewellery manufacturers in China began producing palladium products, rising supplies were more than sufficient to accommodate the increased demand. Increasing mine supply was supplemented by sales of Russian palladium from inventory by Stillwater Mining and a growing volume of metal was recovered from autocatalyst recycling.

After a weak end to 2003, heavy buying of palladium futures on NYMEX by funds in **January** forced the price up from close to $194 on the 2nd to $246 by the 23rd. The speculative buying, however, was not matched by an upturn in end user demand; consequently when the rate of fund buying slowed the price dropped back to end the month at $230.

Funds continued to add to their net long positions in palladium during **February** but sales of metal on the spot market, much of which was believed to have been of Russian origin, were sufficient to offset the effect of speculative buying. As a result, the price of palladium remained subdued, in stark contrast to the rising platinum price. A slow climb up from $230 to $246 was followed by a swift retreat back to $230.

The fund buying of futures persisted throughout **March** and into early **April**, and was complemented by a surge in demand for metal from Chinese jewellery manufacturers. At the same time the availability of palladium fell from the high levels seen at the start of the year. This combination of factors had a marked impact on the price. From $235 on the 1st of March, it sped upwards to reach a peak fixing of $333 on the 13th of April, the speculative buying spurred by an announcement that a diesel autocatalyst containing palladium had been developed. However, the rally was extremely short-lived and the price plunged to $250 by the end of the month as funds took profits across almost the entire spectrum of precious and base metals.

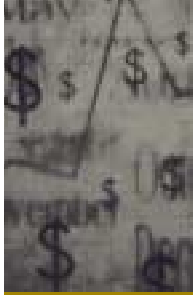
Funds continued to cut their long positions in palladium during the first 10 days of **May**. The price fell from $262 to $229 as a result, mirroring the sliding platinum and gold markets. When the fund selling abated the palladium price bottomed out and volatility dropped. For the rest of the month the volume of palladium traded in both the futures and spot markets was subdued. After the initial rush in March and April, purchasing of palladium by Chinese jewellery manufacturers contracted sharply. Movements in the price became muted as a result, the metal fluctuating between $230 and $255.

The price of palladium followed platinum downwards during the first half of **June**, sliding from $250 at the opening fixing to a low of $215.50 on the 15th. From then on trading was slow in both the spot market and on the futures exchanges. The price struggled back up to $230 on the 21st but then softened again, ending June at $217.

Palladium made small gains in mid-**July**, again responding to rallies in the platinum and gold prices. However, after reaching a high of $228 on the 20th, it subsided to $216 at the month end in response to good availability, uninspiring physical demand, and modest fund selling on NYMEX.

After a dull July, the palladium market became almost moribund in **August**. There was no fundamental news of note to move the market, and although funds increased their existing long futures positions the price held close to $220 for the duration of the month.

The story for palladium in **September** was essentially the same – ample supply to meet physical demand and little movement in fund positions on the futures markets. Palladium traded weakly in a narrow range between $204.50 and $214 through to the 23rd,



managed a brief foray above $220 on minor fund interest, then subsided to end the month at $217. As of the end of September, investors maintained a significant long futures position in palladium: the net position on NYMEX alone was around 0.5 million oz, little changed since the end of the late-April sell-off.

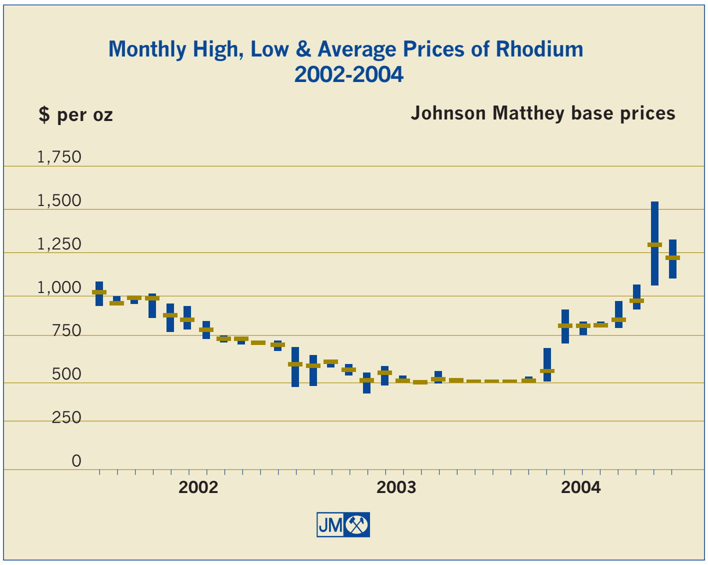
Other PGM

The price of rhodium embarked on an upward track during the first nine months of 2004. A combination of good demand, lower sales of metal from Russia, and speculative interest resulted in the price climbing in two sharp bursts from $500 in January to over $1,500 in August. The price then eased back a little, ending September at $1,300. Speculative buying also pushed the price of iridium from $87 to $230 and ruthenium from $41 to $75 during the first quarter of 2004. The price of both metals then softened before ruthenium found renewed price strength in September.

The Johnson Matthey base price for rhodium began 2004 at $500 – the point around which it had traded steadily for much of the previous year. In late February, however, speculative buying was seen in all three minor pgm markets and the price of rhodium began to climb rapidly, reaching a peak of $900 in early March. Bids for increased volumes of metal from industrial end users, concerned about the possibility of a large price spike, also contributed to the rally.

The rally came to a close as greater volumes of metal were offered to the market and rhodium slipped back to trade between $760 and $840 through until mid-June. The price then began moving upwards again as physical availability tightened, less Russian metal in particular being offered compared with 2003. By late July rhodium had been squeezed above $1,000 as speculators held back metal from the lending market. With lease rates surging some users sought to buy rather then borrow metal, accelerating the rise in the price.

The JM base price peaked at $1,525 in early August, although very little physical metal changed hands at this level. The move in the price above $1,500 saw greater offers of metal come into the market, and lease rates and the spot price eased down. Rhodium slipped to $1,100 in mid-September before firming again to end the month at $1,300.



Speculative interest was also noted in the iridium and ruthenium markets in February and early March, when fund buying of precious and base metals was reaching a peak. The JM iridium base price jumped from $87 to $230 and ruthenium from $41 to $75 in little more than a month, the high level of volatility reflecting the illiquid nature of the minor pgm markets. The price of iridium then weakened slowly over the next six months, drifting down to settle at $200 in September.

Ruthenium also softened initially, falling back to $60 in May, before gaining ground steadily in August and September on the back of renewed light speculative interest and firmer industrial off-take, ending the first nine months of the year at $74.