Prices

Prices and Futures Markets

Platinum

A combination of the poor equity markets in 2002, the prevailing low interest rate environment in the USA and Japan, and US dollar weakness, has resulted in hedge funds and smaller investors increasing their exposure to precious metals in 2003. This had a marked influence on the price of platinum during the first nine months of the year.

The platinum price began 2003 strongly, climbing from $600 at the start of January to breach $700 in early February, and again in March. The rally was largely investor-driven, with activity on TOCOM leading the market. A burst of futures long liquidation, coupled with a drop in physical purchasing by the Chinese jewellery sector, saw the platinum price fall back towards $600 by the end of April. From then on, renewed speculative buying of platinum derivatives fuelled another rally that touched $714 in September. The net speculative long position on NYMEX increased from around 95,000 oz at the end of April to almost 350,000 oz in early September.

Although purchases of platinum by Chinese jewellery manufacturers softened during the first nine months of the year, auto industry demand remained strong. With supplies from South Africa lower than expected, the market remained in deficit, helping to support higher prices. Lease rates, however, softened from around 20 per cent in early March to 5 per cent by mid-September as spot metal bought by funds and by dealers to hedge option positions was lent to the market.

The rally in the platinum price that had developed steadily throughout the second half of 2002 accelerated in **January** 2003. The price of the metal climbed rapidly from an opening fixing of $600 to reach $671 on the 30th. Investor buying of platinum futures was primarily responsible, with supply concerns (based on the smelter explosion at Lonmin and the possibility of a strike at Norilsk) and a swift rise in the price of gold boosting sentiment. With physical availability also tight, strong borrowing and subsequent dealer short-covering pushed one-month lease rates above 18 per cent by the 30th, helping to drive up the spot price.

February was marked by considerable volatility in short-term lease rates and the platinum spot price. Further investor buying in Asia and dealer short-covering propelled spot quotes in Tokyo above $710 on the 4th, while the morning fixing in London was settled at $703, the highest since 1980. Long liquidation as investors took profits then caused the price to slump to $676 on the 6th. A jump in borrowing produced a brief recovery to $692 on the 12th but as greater volumes of physical metal were offered and funds closed out long positions on NYMEX the price subsided to $664 on the 21st. Platinum ended the month with light volumes being traded either side of $680.

Early **March** saw renewed buying of platinum futures on TOCOM as the yen strengthened against the dollar and the gold price moved above $350. With short-covering evident, platinum climbed to a new fixing high for the year of $705 on the morning of the 11th. In contrast to the futures activity, purchases of platinum by industrial users and the Chinese jewellery sector fell away as the price rose above $700. From the 18th onwards investors began rapidly liquidating long futures positions across a range of hard commodities, including platinum, and the price turned sharply downwards. Few buyers of physical metal were willing to bid as the market fell, and as short-term lease rates slid to around 10 per cent the platinum price slumped to fix at $625 on the 28th.

After rebounding to $645 over the final three days of March, a marked strengthening of the dollar versus the yen, plus a fall in the price of gold, triggered further selling of platinum by Japanese investors on TOCOM in **April**. By the morning of the 8th, platinum had dropped to a fixing of $611 in London. At this level bids for physical metal picked up and the price briefly recovered to $640 before increased offers of platinum on the spot market then weighed on the price. With the potential impact of the SARS virus on Chinese jewellery demand also starting to affect market sentiment, platinum fell to end the month at $603.

May saw the platinum market turn upwards again in a remarkably rapid rally. The price gained $82 on the London fixings (over 13 per cent) in just 17 days of trading, reaching $685 on the 27th. Funds came back into the market strongly, the net speculative long position on NYMEX rising from approximately 95,000 oz at the start of the month to almost 245,000 oz by the 27th. The increasing weakness of the dollar against the euro and the yen, also encouraged greater purchasing of physical platinum by end users. At the same time, offers of spot metal decreased and short-term lease rates climbed back up towards 20 per cent.

Over the final few days of the month, however,

Average PGM Prices in $ per oz

	Jan-Sep 2002	Jan-Sep 2003	Change
Platinum	523.55	667.42	27%
Palladium	355.08	201.17	– 43%
Rhodium	888.28	539.90	– 39%
Iridium	329.64	94.74	– 71%
Ruthenium	70.48	34.44	– 51%

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

investor profit-taking coupled with an improvement in physical availability of metal resulted in the price weakening to $642.

In **June**, the platinum price began a sustained, if slightly erratic, rally that continued through to the middle of September. The speculative buying of futures on NYMEX and TOCOM again provided much of the impetus, but underlying physical demand provided a solid foundation. By the 4th of June the platinum price had bounced to $669, led by strong buying by Japanese investors. Greater lending and larger offers of physical metal then pushed short-term lease rates back under 10 per cent and the spot price dipped briefly below $650. However, as speculative buying resumed the price firmed to end June at $667.

During **July**, lease rates softened further while the spot price continued to rise – a reflection of the fact that fund buying, rather than physical demand, was driving the platinum market. The price climbed from an opening fixing of $671 to hit $690 on the 15th, and after a brief pause, surged to reach $700 on the morning of the 29th. Demand for platinum from Chinese jewellery fabricators, however, waned as the price rose and platinum fell back to fix at $684 on the 31st as some investors took profits.

Platinum was by no means unique in attracting strong flows of speculative money throughout July and into August – aluminium, copper, nickel, zinc and silver also rallied as increasing confidence in a sustained global economic recovery led funds to increase their holdings of most hard commodities.

The platinum rally resumed from the 5th of **August** onwards as funds continued to extend their long holdings on both NYMEX and TOCOM. The price breached $700 again on the 20th with further buying and short-covering in Tokyo, and the morning fixing was settled at $703.

On the physical side, trading of platinum began on the Shanghai Gold Exchange on the 13th, with just under 12,000 oz of metal changing hands. Towards the end of the month, the platinum price gained further momentum from the rising price of gold, moving from $691 to $709 on the 28th and ending the month at $707. The steep moves in the price of both metals were linked to the expiry of options, as well as to further investor buying of futures.

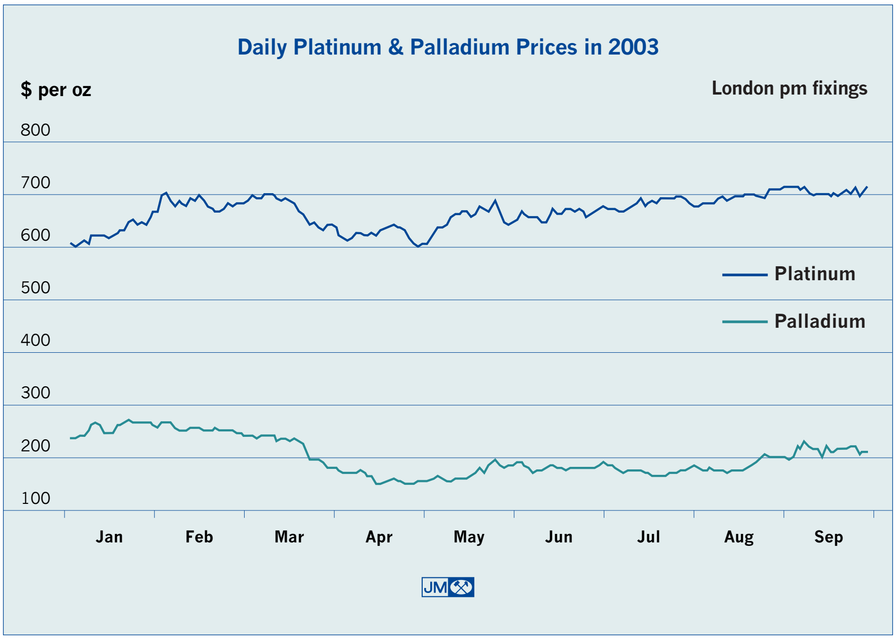
The platinum price remained firm throughout much of **September**. A new high for the year of $714 was set at the morning fixing in London on the 2nd, the net speculative position on NYMEX having grown to nearly 350,000 oz. Chinese purchasing of physical metal increased noticeably in advance of the key October holiday season, with the Shanghai Gold Exchange recording rising volumes of trade. Although a degree of long liquidation was seen on TOCOM and NYMEX from the 15th onwards, the price remained well supported around $700, ending September at $710.

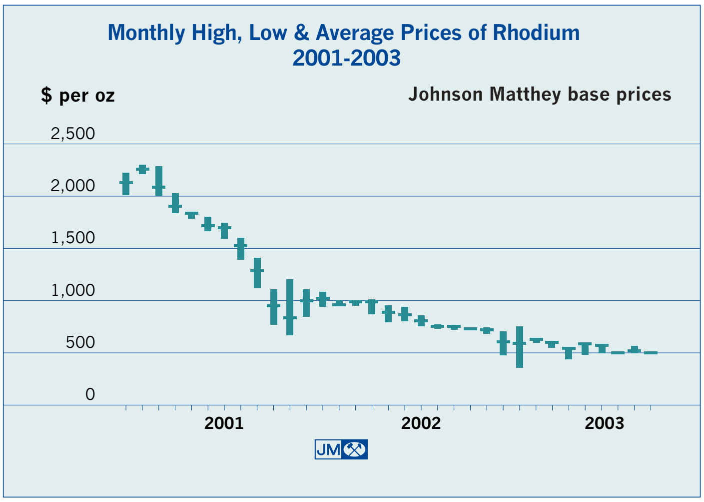
Palladium

Continued weakness in the electronics industry, coupled with relatively low levels of purchasing by the auto industry, undermined the palladium price during the first half of 2003. Against this background of soft demand, any upturn in the volume of metal offered on the fixings tended to push the price lower.

After opening the year at $234, the price dropped by $80 or 34 per cent by the end of April. A modest increase in fund buying of palladium on NYMEX then triggered a small recovery and the price traded between $170 and $180 throughout much of May, June and July.

Speculative buying increased rapidly from early August on both NYMEX and TOCOM, and this was primarily responsible for palladium rallying to a peak of $232 in early September. However, with Russian metal in particular being sold strongly into the rally the price eased off to end the month at $209.





Monthly High, Low & Average Prices of Rhodium 2001-2003

Substantial offers of spot metal and selling of futures weakened the palladium market towards the end of 2002, but as physical availability tightened and short positions were closed out in early 2003 the price staged a recovery. From an opening fixing of $234 on the 2nd of **January** the price climbed to $267 on the 10th. This improvement attracted more metal back to the spot market and on the 14th palladium dropped back to $242. The rise in the platinum price then provided a moderate boost to palladium as investors opened new long positions on TOCOM and NYMEX. The palladium rally, however, stalled at $271 on the 22nd and the metal ended the month at $256.

Trade in palladium remained thin during **February** and with physical demand weak, relatively small volumes of metal offered on the fixings were sufficient to undermine the price further. After initially edging up to $266 on the 4th, the price stuttered downwards over the course of the month to end at $244 on the 28th.

The palladium market was very subdued for the first three weeks of **March**, the London fixings fluctuating between $230 and $242 through to the 20th. On the 21st, however, the price softened further and then entered a precipitous decline. Initial offers of metal on the afternoon fixing of the 24th met with no buying interest and the price slid to $216 before matching bids were found. This led to stop-loss selling by dealers and the fall continued as moderate volumes of palladium struggled to find buyers. The price dropped below $200 on the 25th and March closed with palladium under pressure at $180.

The slide persisted in **April** as the fundamentals of weak industrial demand and oversupply continued to weigh on the market. The price had dropped to $170 by the 9th, slid to $161 on the 14th, and then slumped to $144 on the morning of the 17th – a six-year low. However, the fall under $150 and a concomitant increase in the ratio between the platinum and palladium prices to over 4:1, encouraged an upturn in speculative buying on NYMEX. This was sufficient to halt the slide and palladium ended the month at $154.

The palladium market traded uneventfully during the first half of **May**, consolidating between $152 and $164 from the opening fix through to the 19th. A rally began to develop from the 20th onwards as improved bids for spot metal led to a morning fixing of $168. Fund activity on NYMEX also increased, and with platinum also rising strongly, palladium moved up to $177 on the 21st. Comments by General Motors that it was examining the potential for increasing the use of palladium in its autocatalysts in place of platinum then added momentum to the investor buying on NYMEX. As dealers started covering short positions and Japanese investors began opening long positions on TOCOM the rally gathered pace, reaching $185 on the 23rd and hitting $206 on the morning of the 27th. The rise was not, however, supported by any lasting improvement in physical demand and as increased offers of metal again outweighed buying interest the price subsided to $183 by the 30th.

Palladium initially followed platinum upwards in **June**, rising from an opening fix of $181 on the 2nd to $190 on the 3rd, with higher than average volumes trading through the London fixings. However, once the level of bids was scaled back the price began to fall, dropping to $169 on the 9th. Further, moderate fund buying of palladium futures on NYMEX then provided support for a brief run up to $186 on the 16th, but the price soon slipped back to trade steadily between $170 and $180 for the remainder of the month.

Another short burst of futures buying on NYMEX squeezed the palladium price up to $188 on the 2nd of **July**, but the fund interest then tapered off. With physical demand slack, the price subsequently faded to $160 by the 23rd in very thin trade. That triggered an improvement in physical buying interest and with the spread between platinum and palladium widening to $530, speculative buying of the latter also picked up again. As a result, the palladium spot price moved back up to its previous $170 to $180 trading range.

Steady buying by hedge funds on NYMEX was absorbed with little impact on the price from the 1st of **August** through to the 20th; palladium largely maintained its $170 to $180 fixing range as sales of Russian metal rose to meet the speculative demand. From then on, however, managed futures funds and smaller investors joined in, rapidly increasing their long positions. Open interest on TOCOM also began to rise, whilst hedging of substantial options positions added to the price pressure. The speculative buying appeared to be based on a number of premises: that a palladium to platinum price discount of over $500 was unsustainable; that demand for the metal would increase as auto companies switched to greater use of palladium-based catalysts; and that purchasing would be further boosted as excess metal inventories at certain auto manufacturers became depleted. As a result, palladium climbed to fix at $205 on the 26th, and despite good volumes of physical metal being offered, it ended the month firmly at $201.50.

There was no let up in the speculative buying of palladium during **September**, the rally reaching a peak on the 9th when physical buying in London and fund buying on NYMEX combined to produce an afternoon fixing of $232. The price then eased as the fund buying backed off, slipping to $214 on the 12th. With TOCOM closed on the 15th and few fresh bids from investors, offers of metal on the fixings met with indifference and palladium dropped to $197 in the afternoon as dealers executed stop-loss sell orders. The price rapidly recovered, however, as the futures buying resumed and palladium held comfortably above $200 for the remainder of the month. The net speculative long position on NYMEX had risen to almost 400,000 oz by the 26th, and palladium ended September at $209.

Other PGM

The price of rhodium was rather erratic during the first five months of 2003, fluctuating between $440 and $650 as a balance between supply and demand proved elusive. From June through to the end of September, however, the market was more stable and rhodium traded at or close to $500 for much of the period. After falling substantially in 2002, ruthenium and iridium prices continued to soften into 2003 as demand remained well below supply. Both metals, however, had established a floor by mid-year, ruthenium settling at $33 and iridium at $90.

The price of rhodium staged a recovery in early 2003, having fallen sharply during December 2002 due to increased year-end sales by producers and dealers and little buying interest. With less metal on offer in January, particularly from Russia, and purchasers returning to the market, the Johnson Matthey base price climbed rapidly from $485 to $650. However, after stabilising at $620 for most of February, the price began to slide once more as greater volumes of metal were drawn to the market from both primary sources and secondary refiners. With demand from the auto industry flat at best, the rhodium price faded to $440 in late April – its lowest point since February 1998.

The dip below $500 saw buyers return once more and rhodium briefly rebounded to $590 in May. The improvement, however, was short-lived and by early June the market had established equilibrium around $500. There was little change during July, and after a brief rise to $560 in thin summer trade in August, the price settled back at $500 through to the end of September.

During the first half of 2003 the price of ruthenium completed a three-year decline from its peak of $170 in 2000. The metal opened January at $40 and had softened to $36 by mid-February as supplies easily accommodated improved demand from the electronics and chemicals markets. After slipping further to $30 towards the end of April, the JM base price edged back up to $33 in May and then remained unchanged through to the end of September.

The price of iridium also bottomed out during the first half of 2003, after falling steeply throughout 2002 due to substantial overcapacity in the key electronic crystal manufacturing sector. The JM base price dropped from $125 to $100 during January, paused at this level in February and March, before coming to rest at $90 in April.