

PRICES & FUTURES MARKETS

PLATINUM

During the first nine months of 2005 supplies of platinum increased but failed to keep pace with strong growth in demand. The availability of metal, however, was not excessively tight, with short-term lease rates typically being quoted in the 3 to 6 per cent range. The primary stimulus to the price came from the speculative side of the market, with funds building record long positions.

The platinum price rallied from a low of \$843 in early January 2005 to a peak of \$881 at the beginning of February, and then largely traded between \$860 and \$880 until the middle of June. Platinum briefly broke out of this range during the second half of June, surging to hit \$900 on the back of substantial fund buying. Further fund-driven rallies then pushed the metal up to \$924 in early August and to \$930 in September. The buying reflected the ongoing flow of money into the commodities markets as a whole, and gold in particular, as investors sought to diversify their portfolios, achieve higher absolute returns and to hedge against the anticipated weakening of the US dollar.

The platinum price began 2005 weakly, sliding from around \$860 at the end of 2004 to \$843 on the 5th of **January**. However, good physical demand soon appeared from industrial end users and Chinese jewellery manufacturers, and as the US dollar weakened against the yen significant buying was seen from TOCOM investors. With US-based funds also increasing their long exposure the platinum price rose steadily, ending January trading either side of \$870.

The rally continued in Asia on the 1st of **February** as a burst of short covering on TOCOM pushed the spot price up to \$881. At this level bids for metal were scaled back, with demand from Chinese buyers dwindling as the Chinese New Year holiday approached. At the same time the dollar recovered ground against the yen triggering selling by Japanese investors. As a result, by the 9th of February platinum had dropped to \$847.



The dip encouraged renewed speculative buying and the price recovered to trade between \$856 and \$877 through to the end of the month.

The price climbed unevenly during the first half of **March** as funds continued to add to long positions, platinum fixing at \$883 on the 16th and 17th. The precious metals markets then reversed direction as the dollar strengthened again and platinum fell to hit \$858 on the 23rd. The price subsequently traded quietly between \$855 and \$865 through to the 19th of **April**, supported by firm physical demand.

Funds then became more active and the platinum price rallied to \$880 on the 26th of April. At that point the net speculative position on NYMEX had risen to just over 320,000 oz, up from less than 260,000 oz two weeks earlier. As in March, the move to \$880 sparked long-liquidation and the price consequently eased back to end the month at \$867.

Additional fund buying took the price up to \$881 on the 11th of **May** but once again the move above \$880 was swiftly followed by a fall, platinum sliding to \$853 on the 16th. The long liquidation was part of a broader sell-off, with gold, base metal and oil prices all dropping as funds continued to trade commodities against the dollar. Bids from end users picked up below \$860 and platinum recovered to trade between \$858 and \$868 from the 18th onwards.

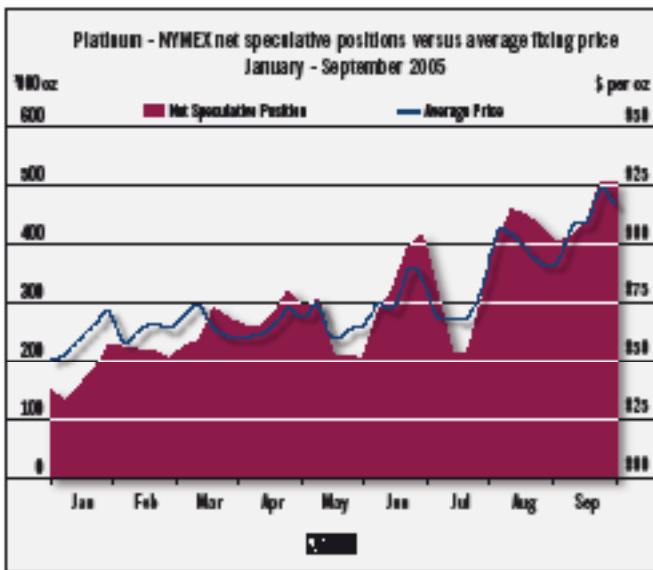
Platinum remained range-bound until the 15th of **June**, when a sudden reversal in the value of the dollar drew a surge of fund buying into the metals and oil markets. Platinum fixed at \$877 in London that afternoon, passed \$890 on the 17th and reached \$900

The platinum price in dollars increased by 9 per cent over the first nine months of the year but climbed by more than 20 per cent in euros and yen due to the relative strength of the US currency.

Average PGM Prices in \$ per oz

	Jan-Sep 2004	Jan-Sep 2005	Change
Platinum	844.71	877.12	4%
Palladium	237.23	189.00	-20%
Rhodium	878.05	1,779.32	103%
Iridium	185.33	163.25	-12%
Ruthenium	60.40	71.03	18%

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



The net non-commercial position in platinum on NYMEX climbed from around 150,000 oz in January to over 500,000 oz by the end of September, the increased fund investment driving the price upwards.

on the 20th as the dollar weakened. By that stage the net speculative position on NYMEX had leapt to almost 400,000 oz, up from little more than 200,000 oz at the beginning of the month. Platinum slipped back to fix at \$879 on the 21st in the face of fund profit taking but then recovered to trade between \$880 and \$895 for the remainder of June.

Early July saw another round of long liquidation in the metals markets as the dollar recovered some ground. As a result, the platinum price dropped back into its previous trading range of \$860 to \$880. The announcement by the Chinese government of a revaluation of the renminbi on the 21st, however, immediately spurred increased fund buying of commodities, particularly those for which China accounts for a substantial proportion of physical demand. The platinum price moved swiftly above \$880 and had reached \$898 by the afternoon of the 29th.

The rally continued into the first half of August, short-covering by individual investors on TOCOM contributing to the upward momentum. The price moved above \$900 on the 1st and hit \$914 on the 4th. After a brief round of profit-taking platinum ran up to \$924 at the morning fixing on the 12th as the precious metals markets moved up in parallel with a surge in the price of crude oil. At that point the net speculative position on NYMEX had passed 460,000 oz – the highest level for almost six years.

Increased offers of metal then came forward and the rally began to falter, end users being largely absent

from the market. Funds started taking profits and by the close of trading on the 16th platinum had retreated to \$887. Nevertheless, sentiment remained bullish and platinum continued to trade firmly either side of \$890 through to the end of the month.

The crude oil and precious metals markets continued to attract fresh fund investment in September. Platinum jumped from \$893 on the 1st to \$909 the next day as the dollar weakened amid the aftermath of hurricane Katrina. The metal was supported around that level through to the 15th before embarking on another strong rally as the price of gold surged from less than \$450 towards \$470. Platinum passed \$920 on the 19th and hit \$930 the following day as short covering on TOCOM intensified. By that stage the net speculative position on NYMEX had soared to just over 507,000 oz, but physical demand, particularly from the Chinese jewellery sector, was minimal. After easing back to \$910 on the 28th in the face of profit taking, platinum rebounded to end the third quarter at \$929, a rise of nearly 10 per cent from the opening fixing of the year.

PALLADIUM

The palladium price traded calmly between \$180 and \$200 for the great majority of the first nine months of 2005, despite very substantial fund buying on NYMEX during the first quarter of the year. Physical demand was also firm throughout the period, particularly from Chinese jewellery manufacturers. However, with supply sufficient to meet demand, substantial stocks of metal available

The palladium price was confined to a \$20 trading range between \$180 and \$200 for much of the first nine months of the year.



to the market, lease rates around 1 per cent and rumours of option related selling above \$200, no rally lasted for more than a few days.

The palladium market was quiet at the beginning of **January**, holding close to \$180 through to the 10th. That afternoon an upturn in fund buying was noted on NYMEX and the price moved up to reach \$192 the following day. Demand from industrial end users, however, was light and as increased offers of metal came onto the market the price fell back below \$185. A second minor rally was also capped at \$192 and palladium ended January at \$189.

The palladium price drifted down from an opening fixing of \$189.50 on the 1st of **February** to \$178 on the 8th, falling in line with the slide in the platinum price. From then on the price was becalmed, trading between \$179 and \$184 for the remainder of the month.

The spell was broken in early **March** when a rush of fund buying on NYMEX caused a flurry of short covering. Palladium jumped from \$184 on the 2nd to \$208 on the afternoon of the 4th as a result, with large volumes of metal changing hands across the fixings in London. By the 8th funds had amassed a net long position equivalent to 884,000 oz on NYMEX, an increase of 170,000 oz since the start of the month. However, with plenty of metal on offer the price then slipped back to trade either side of \$200 through to the 31st, despite additional fund buying that took the net speculative holding on NYMEX up to almost 1 million oz.

Palladium continued to trade steadily in a narrow

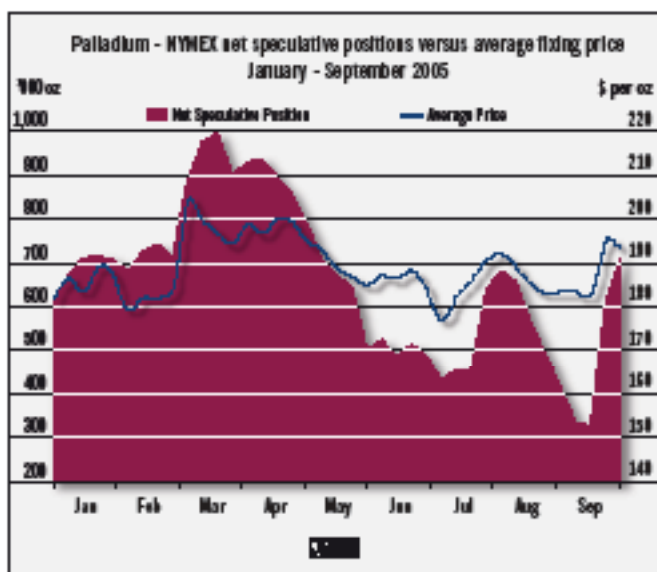
range either side of \$200 throughout **April**, but by early **May** long liquidation on NYMEX had begun to affect the price. Palladium fell back below \$190 on the 13th and ended the month at \$185. The net speculative position on NYMEX shrank to just over 500,000 oz as long contracts were liquidated and new shorts were initiated. Good physical demand, however, continued to underpin the market, helping to cushion the effects of the fund selling.

The price settled into another narrow trading range in **June**, palladium fixing at \$185 on the 1st, edging up to \$190.50 on the 7th on the back of strong rallies in platinum and gold, and then meandering back down to settle at \$183 on the 30th.

In early **July** the price of palladium slid to \$172 as some managed futures funds increased their short positions in an effort to provoke a more concerted sell-off. Other funds, however, saw the dip as a good buying opportunity and with bids from end users also increasing palladium recovered to \$180 on the 7th. The price got a further boost from the Chinese currency revaluation on the 21st, moving back above \$190 as a large volume of short contracts were covered. Palladium ended the month on a firm note at \$192.

Palladium held above \$190 throughout the first week of **August**, trading in an exceptionally narrow band between \$191.50 and \$193. Thereafter, the price subsided once again, despite platinum spiking to over \$920. Funds began establishing substantial new short positions from around the 9th onwards and by the 15th palladium had faded to \$185. The market then entered another period of very low volatility, the metal drifting between \$182 and \$185 all the way through to the 15th of **September**. The price then embarked on a brief rally, pulled higher by a sharp upturn in fund buying. However, although the net speculative position on NYMEX more than doubled to 710,000 oz during the last two weeks of the month, after fixing at \$202 on the 20th palladium softened once again and ended the third quarter at \$194.

The palladium price slid from over \$200 in March to a low of \$172 in July as a marked increase in fund short positions on NYMEX reduced the net speculative position by more than half.



OTHER PGM

The upward trend in the rhodium price that was established in 2004 continued throughout the first nine months of 2005, the JM base price climbing from \$1,330 to \$2,700. Speculative buying contributed to

the rally, but it was primarily driven by tightness in the lending market and strong growth in demand that outpaced supplies.

The prices of ruthenium and iridium also benefited from firm end user demand from March onwards, ruthenium advancing from \$55 to \$85 and iridium rising from \$145 to \$185.

The rhodium market was quiet in early January 2005, the Johnson Matthey base price remaining stable at \$1,330. On the 11th the price began moving upwards in response to tightness in the lending market. As short term lease rates climbed above 20 per cent some industrial users sought to buy rhodium and close out leases. With speculators competing for the limited volumes of metal on offer, the price strengthened to \$1,665 by the middle of February.

The availability of metal then improved and rhodium fell back to trade between \$1,500 and \$1,600 all the way through to the end of May. Good physical demand, including some forward buying by end users, provided solid support at the lower end of the price range.

June saw a second, more substantial rally develop as demand from end users once more outweighed the amount of rhodium on offer. As the price began to move up out of its previous range, the scramble to cover near-term requirements intensified. With some consumers also buying metal to help cover future needs the price climbed above \$2,000.

After briefly dipping to \$1,850 rhodium traded between \$2,000 and \$2,100 from mid-July to the end of August. However, when more buyers returned to the market in early September the price gained renewed upwards momentum. With very few offers of any significant size to be found the JM base price climbed rapidly, passing \$2,500 on the 16th and reaching \$2,700 by the end of the month.

Offers of ruthenium outweighed buying interest in early 2005, and the price slipped from \$68 to \$55 by the middle of February. However, good industrial demand emerged from March onwards, particularly from the electronics sector. As a result the price moved steadily up to reach \$85 in August, then held that level throughout September. The iridium market followed a very similar track. The price slipped from \$162 at the start of the year to \$145 in February, then rallied from early April on the back of firm demand. By the end of September the JM iridium base price had reached \$185.

