Platinum 2009

18th May 2009

Good morning to everyone, and welcome again to Platinum 2009.

As usual, I'm going to concentrate on what's been happening in the Pt and Pd markets, and finish with a couple of slides on Rh, but anyone would like some more detail on Rh or the minor metals, we'll be happy to take them in the Q & A session after the presentation.

I'm broadly going to stick to the normal format in terms of presentation of the numbers for 2008, but I'm also going to talk a little bit more about what we think is going on at the moment

Platinum

Starting with platinum…..

Platinum: Key features

- Platinum market in deficit by 375,000 oz in 2008
- Supplies fall 9.5% due to range of issues in South Africa
- Demand shrinks by 5.0 per cent
    - Automotive demand weak
    - Industrial demand initially resilient
- Jewellery and investment activity rekindled by fall in price
- Unprecedented price volatility

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The headline is that the market was in continued deficit in 2008 at a deficit of 375k oz.

Supplies fell to a level last seen in 2002 due, in large part but not entirely, to the many issues in S.Africa.

Demand also contracted rather unsurprisingly on the back of weakening automotive demand, but recessionary impacts in other industrial areas had only limited effect by the end of the year.

In both the jewellery and investment sectors it was “a year of two halves”, with demand strongly suppressed in the first 6 months when price was at historical highs, but resurgent in the last few months of the year.

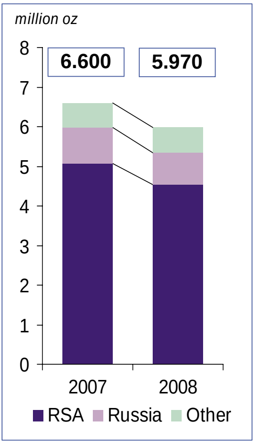
It was, also, a year of exceptional price volatility which gave analysts, traders, and end users alike many a sleepless night which have continued into this year.

Platinum Supply and Demand

'000 oz	**2007**	**2008**	**%**
Supply	**6,600**	**5,970**	**(9.5)**
Demand	**6,680**	**6,345**	**(5.0)**
Movements in stocks	**(80)**	**(375)**	

In number terms, this means : supply fell by 630k oz to 5.97m oz, whilst demand contracted by 335k oz to 6.35m oz, leaving the market in overall deficit of 375k oz.

Platinum Supply Falls 9.5%



- South African supplies decrease to 4.53 million ounces due to wide range of issues
- Russian supplies fall to 820,000 oz
- Supplies from elsewhere rise by 5,000 oz to 620,000 oz

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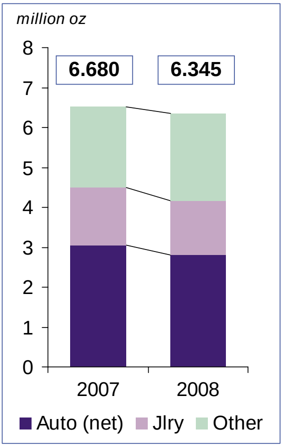
Production issues in 2008 in South Africa have been widely reported, and total supply was down by around half a million oz on 2007. Approximately two thirds of this reduction reflected an actual fall in production. The balance was the net changes in pipeline and stock movements.

Some of the issues which affected output might be fairly described as “one-offs” . In the end, the electricity problems which hit the industry in the early part of the year only accounted for about 60k oz of lost production, but pretty much all producers suffered problems of one form or another, be that flooding, smelter outages, labour issues, or shaft refurbishments.

Production at Norilsk Nickel was down by approximately 95k oz.- They have cited maintenance and repair at the Nadezhda Metallurgical plant as one of the causes for the reduction, and they also noted a drop in precious metal grades in ores mined.

North American output was flat. There were declines at Stillwater due to the downsizing of its East Boulder operations and of course at North American Palladium who put its Lac des Iles mine on care and maintenance in October, but that was offset by growth at Valé’s operations in the Sudbury basin. Zimbabwe again showed growth in 2008, with output up slightly at both Mimosa and Ngezi, and overall there was a slight increase in supply from other regions.

Platinum Demand Falls by 5.0%



- Total demand declines by 335,000 oz to 6.345 million oz
- Gross autocatalyst demand falls by 340,000 oz
- Net jewellery demand drops 90,000 oz to 1.365 million oz
- Industrial demand falls by 90,000 oz to 1.76 million oz
- Net physical investment demand climbs to 425,000 oz

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Switching now to the demand side…

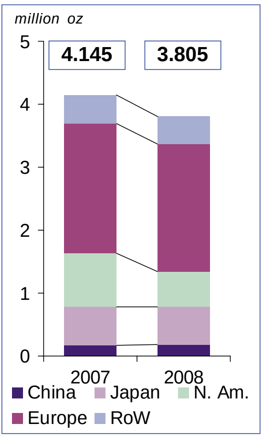
2008 saw the first fall in autocatalyst demand for Pt since 1999, but this time of course it was due to vehicle production numbers as opposed to any substantial shift in technology

Jewellery demand suffered in the first part of the year, but bounced back in spectacular fashion in the last few months to finish the year just 90k oz down on 2007.

Industrial areas are yet largely to feel the full impact of the recession and were only down by a similar amount to jewellery.

Investment demand was up strongly, and this was due to large bar investment in Japan as opposed to ETF holdings, which although growing, showed less growth than in 2007.

Platinum Demand: Autocatalyst



- Gross auto sector platinum purchases fall by 8.2% to 3.805 million oz due to falling production
- US demand falls 290,000 oz
- Diesel sector supports European demand
- Demand falls in Japan but rises slightly in China

For once, the biggest story in the platinum autocatalyst sector was not about growth in the European diesel sector but about the global crisis of the auto industry.

Global light duty production in 2008 fell to a little under 68 million vehicles; a reduction of about 4%, but the impact on platinum demand was more significant than this because, almost without exception, manufacturers heavily reduced their orders with suppliers, and catalysts did not escape.

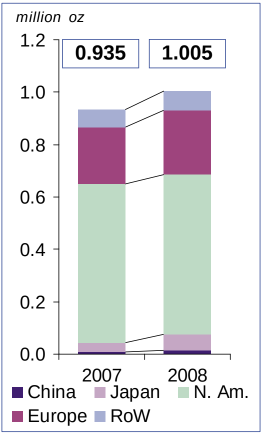
Auto production levels varied a lot around the world. As far as reductions are concerned, the States “led the way” (if that’s the right expression) with a 19% drop in passenger vehicles and about a 10% fall in heavy duty. That took 290k oz out of US demand for Pt – and remember that’s out of a total in 2007 of only 845,000 oz, so a very sharp decline indeed.

However, demand In Europe was supported to a certain extent by continued growth in the fitment of DPFs on diesel vehicles in advance of Euro V which takes effect at the end of this year. Demand fell by only 35k oz to 2.02 million ounces. Gasoline usage of Pt in Europe is now actually below 100,000 oz.

Japan only started to show production declines in the very last few weeks of 2008, but continued throughout the year to substitute Pt for Pd in what remains a predominantly gasoline market. There is, however, a limit to how far they will go on substitution as the Japanese producers are very much driven by mine ratio in their selection of pgm catalyst.

China on the other hand did still see some growth in vehicle production and demand was helped by new waves of emissions legislation. China is largely a Pd catalyst market, but Pt demand still grew by a modest 10k oz.

Platinum Demand: Autocatalyst Recycling



- Recovery of platinum from spent catalysts continued to rise to 1.005 million ounces
- North America remains biggest market
- H1 2008 remarkably strong due to high metal prices
- H2 dramatically weaker as prices fell

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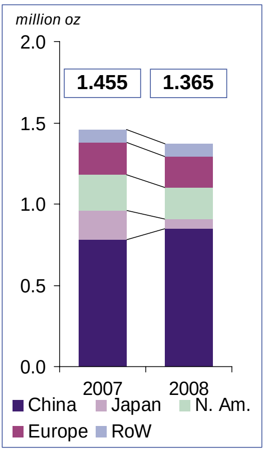
We often don’t say very much about autocatalyst recycling, but it is a significant number, and due to the rather extraordinary price climate last year the market demonstrated some unusual behaviour.

The first half of the year saw some exceptional volumes of scrap catalysts coming back through the collectors, smelters and refineries. The whole market was reacting to the high pgm prices, and the volumes were exaggerated by substantial clearouts of stock at the various collectors. Towards the end of the year, and certainly continuing into this year, the volumes have fallen off dramatically. We think that’s partly a function of collectors holding onto scrap in the hopes of better prices, but it also of course reflects the fall in new car sales ; if you don’t buy a new car, you are less likely to scrap an old one.

That effect is beginning to be offset by national government schemes to help boost new car sales – in Germany for example, they’ve already seen as many cars scrapped in the year to date as they would normally see in a whole year. The full effect of this is yet to work its way through in terms of metal becoming available to the market.

Net Platinum Demand: Jewellery



- Net demand for platinum fell by 6.2%
- High prices in first half of 2008 drive global demand sharply lower
- Only China showed net growth for the year as a whole
- Recycling rises from 360,000 to 480,000 oz in Japan
- Gross demand for platinum jewellery fell by only 2.1%

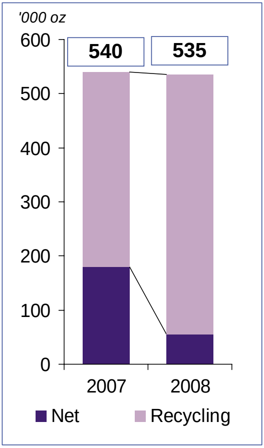
Jewellery demand for platinum is a very interesting story because of three key issues : how demand reacted to the volatile price climate of 2008, the level of recycling, and the massive recent increases in new metal demand.

Looking first at demand here in our traditional way and at what happened overall in 2008, we see that net demand for platinum in the jewellery sector fell by 90k oz or 6.2%. Net demand is how much new metal was consumed by the industry after discounting all the scrap which was returned to the market, irrespective of where that scrap ends up.

All markets suffered badly in the first half of the year when the platinum price was at record levels. By and large, platinum retained its share of bridal markets, but the luxury sectors lost sales. Availability of credit also became an issue, and with prices at double the level of a year ago, stocks had to be substantially reduced. Only China, with spectacular growth in the last few months of the year, managed to show net growth in demand for the year as a whole, and I’ll talk more about that in a moment.

However, this doesn’t tell the whole story. The price levels in the first half of 2008 caused a surge in the amount of second hand and stock jewellery which was scrapped and sold back to the market. This effect was most prevalent in Japan and to a lesser extent in China. Recycling, when it changes substantially year on year, distorts the view of the health of the industry. In the book you’ll see that we show a table separating gross demand, recycling, and net demand. I’ll show this in more detail on the next slide, but overall what it means is that gross demand for platinum jewellery only fell by 2.1% in 2008.

Platinum Demand: Japanese Jewellery



- Recycling very strong in first two thirds of 2008
- Manufacturing volumes for whole year slightly down on 2007
- Overall: net demand strongly lower

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So, to show this recycling effect with the specific example of Japan…

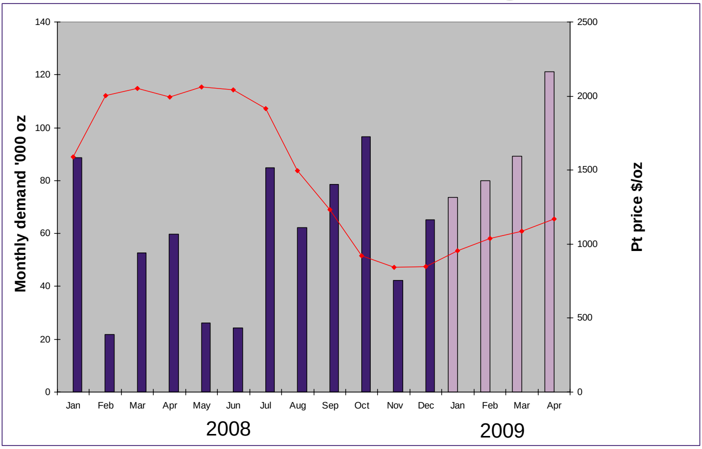
The purple bar is global net demand: our conventional figure

The lilac bar is recycling of metal: the amount of old stock and old jewellery recycled whether the metal is re-used within the jewellery industry or sold back to the market

And the totals written on the graph are gross demand: the sum of jewellery manufacturing volumes and any changes in unfabricated metal stocks within the industry

So, with recycling reaching 480k oz in 2008 overall, the net demand for metal was reduced to only 55k oz. However, gross demand was hardly down at all on the previous year, so the industry in Japan actually stood up quite well.

Platinum: sales through SGE



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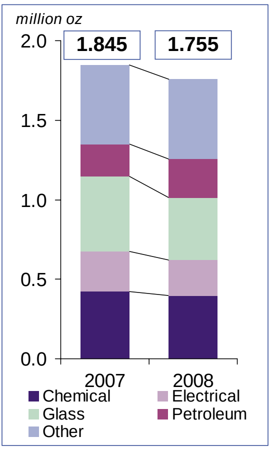
I’ve talked about those first two issues : the impact on demand of volatile price and of recycling, and now the third issue : the significant recent increases in demand.

We use a number of methods to evaluate Chinese demand for jewellery. One of these, which some people like to use a as “proxy” for jewellery demand, is platinum sales through the Shanghai Gold Exchange or SGE. I would stress that this is not a perfect measure – first of all because the SGE includes metal sales for all applications, not just jewellery. Secondly because a lot of metal finds its way into China through other routes. Nevertheless, we can say that the majority of metal traded on the SGE is for jewellery, and it is a very public domain view of what’s going on.

So, on the chart, bars are monthly demand, and the red line’s the Pt price.

First of all we can see the price effect in most of the first half of 2008. Then we can see average demand levels consistently higher in the second half of the year when price was falling, and then, interestingly, we can see demand climbing month on month since November against a constantly rising price.

Platinum Demand: Industrial



- Industrial demand falls by 4.9% to 1.76 million oz
- Impact of economic slowdown relatively limited in 2008
- Chemical and electrical industries suffer from slowdown
- More metal released from CRT glass factories
- Petroleum refining healthy
- Limited price sensitivity seen

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Turning now to industrial demand for platinum, the overall figure shows a reduction of 90k oz in 2008 as compared with the previous year.

There is generally a time lag between the onset of recession and a fall in demand for Pt, because plants don't just stop running, and any expansions which are in the process of construction are likely to continue.

However, demand for platinum-based process catalysts in the chemicals industry did show a recessionary effect toward the very end of the year, with significant cutbacks in the production of plastics.

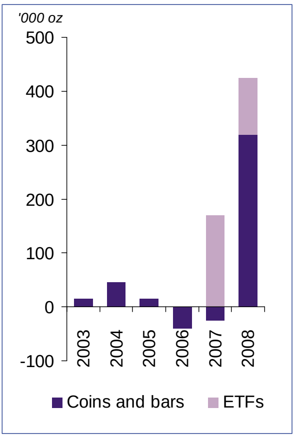
In the electronics sector, the main use of platinum is in the coating of hard disk drives, and although production of hard disk drives actually increased, some destocking of platinum inventories took place towards the end of the year which led to a decrease in overall demand.

The glass industry saw the closure of much of China's CRT tv glass production (which is now being replaced of course by LCD and plasma screens). That resulted in the release of several tonnes of platinum back to the market, but there again this was partly offset by expansions in LCD glass capacity in RoW regions.

Platinum demand in catalysts for petroleum refining actually grew by about 40k oz last year. The petroleum refining sector has generally been operating at close to capacity globally, and is not always in the right geographical location. Expansions tend to follow a longer term cycle which is currently seeing a lot of plant builds in the Middle east and India.

Industrial demand overall, with some exceptions, is relatively price inelastic, so demand changes are driven by economic cycle rather than price.

Platinum Demand: Investment



- Physical platinum investment demand rises to 425,000 oz
- Japanese investors buy 275,000 oz, despite net disinvestment in H1
- ETF net purchases volatile and fall from 170,000 oz to 105,000 oz

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We divide physical investment demand for platinum into two segments : coins and bars, and ETFs.

Investment bars have so far been a largely Japanese phenomenon, and can be further divided into two sections : over the counter or OTC trade, and Pt Accumulation Plans, or PAPs.

Historically these two types of investment have shown subtlely different responses to price changes, but last year the dominant effect of price movements was disinvestment in the first half of the year, which was subsequently dwarfed by massive purchases of bars in the second half. Demand was also strengthened by an appreciation of the Yen, making bars even cheaper in Yen terms.

The overall result was exceptional investment in large bars for the year as a whole, and that trend is continuing in the first few months of this year, albeit at a somewhat slower pace.

Exchange Traded Funds enjoyed their first full year of trading in 2008.

Investment in the London-based ETFS showed very close positive correlation with price, rising sharply in the first half of the year, and falling equally sharply in the second. The Swiss-based ZKB fund showed a lot less reaction to price, and investment rose steadily throughout the year.

The combined net investment for the year finished at 105k oz, somewhat down on 2007 despite the full year of trading last year.

Platinum Outlook

- Automotive demand remains weak but should start to recover slightly in advance of car production
- Industrial demand to weaken from 2008 levels
- Net jewellery demand currently very strong
- Recycling remains depressed
- Investment interest hard to forecast
- Supply should recover but issues which affected 2008 production have not disappeared
- Market expected to be closer to balance

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And so to our outlook…

2009 is obviously not going to be a good year for global vehicle production. When things will start to recover is a matter of opinion, and the press is full of both positive and negative stories on a daily basis. What we can say is that, in the same way that producers ran down their stocks as the market declined, they will have to ramp up their stocks when the market recovers, and we expect to see a demand effect somewhat ahead of the market recovery.

On the industrial side, as I said earlier demand tends to lag behind the onset of recession. We do now expect to see the full impact of the downturn on industrial demand in 2009, and that will be particularly felt in the glass industry and process catalysts.

I think the story we can't stress enough is how the jewellery market is responding to fill the gap. Jewellery has historically been regarded as the market balancer, picking up demand when industrial needs are weak and prices are lower. However, what is happening at the moment is not only a surge in demand, but one which is happening during a period of what are, historically, very high prices…

We've had a sustained six month period of sales into China at levels not seen since 2002, when the price was half what it is now, and that can't be explained by stockbuilding. April has just seen the biggest month ever on the SGE, with sales at 3.8 tonnes or 121k oz. There is anecdotal evidence that some of these purchases may be speculator driven, and hence might not be sustained, but what is undeniable is the volume of Pt jewellery being manufactured in the Shenzhen region, the number of items on display in the shops, and above all. the actual level of retail sales.

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Platinum Outlook

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Auto industry scrap recycling has not yet shown much sign of recovery, although as mentioned earlier some of the current government led incentive schemes are helping to accelerate throughput

The investment sector, as always, is hard to call. ETF demand so far this year has been quite strong, as has large bar investment in Japan. We also have the potential for a new ETFS fund in the States. I think the question is whether, as a fall-out from the global financial crisis, platinum as an investment commodity may attract a broader audience. It's too soon to say.

On the supply side, there may well be further "one-off" disruptions in 2009, and probably more activity to rationalise production, but overall there is inherent growth capability from existing operations as well as from the most recent mines to come on stream.

We predict that, after a deficit of 375k oz in 2008, the market in 2009 will be closer to balance.

Forecast Platinum Price: what we said in November 2008

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Back in November we predicted what some people may have regarded as a rather large range for the price of Pt of between $700 and $1400, and I'd like to say that we were absolutely right. The price briefly touched $756 on the 27th October, before reaching the dizzy heights of $1241 on 14th April.

I say this not really because it's something to brag about, but more to highlight how challenging an exercise price forecasting has been of late.

Forecast Platinum Price for the Next 6 Months

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Nevertheless, we have to make one, and this is it…

A somewhat tighter range than last time.

Unlike much of last year, the market now seems to be more driven by fundamentals. We expect jewellery demand to keep price above $950 at the bottom end, and if industrial demand starts to show a rally, we could see trading at a level of $1350.

Palladium

And so to Pd…

Palladium: Key features

- Palladium surplus decreases to 460,000 oz in 2008
- Supplies fall by 14.8 per cent on lower primary production and lower Russian stock sales
- Demand rises by 0.2 per cent
- Autocatalyst demand decreases in North America but rises in all other regions
- Jewellery, physical investment and industrial demand remain strong
- Price driven by fund investment and shows huge volatility, in common with platinum

The headline here is that the market was in surplus last year, but at a significantly reduced level than in 2007 at 460k oz.

Supply was affected by the same issues which impacted Pt supply in South Africa, but in addition it was significantly reduced in Russia, with both primary production and state stock sales down, and of course by mining contractions in N.America.

Demand actually increased overall, albeit by a nominal 15k oz. Decreases in autocatalyst demand in North America were partially offset by continuing substitution of platinum in diesel catalysts in Europe, and by further growth in the predominantly gasoline markets of Asia.

Jewellery sales grew overall during the year, as did physical investment where, contrary to Pt, ETF holdings showed more growth than in 2007. Industrial demand largely held firm until cracks appeared in some areas towards the end of the year.

The price showed similar volatility to Pt, slightly higher in percentage terms in fact, and was almost if not completely divorced from fundamentals.

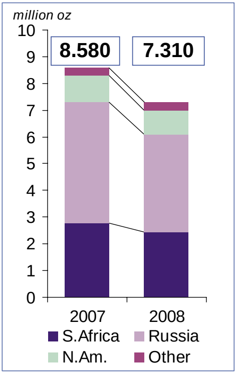
Palladium Supply and Demand

'000 oz	**2007**	**2008**	**%**
Supply	**8,580**	**7,310**	**(14.8)**
Demand	**6,835**	**6,850**	**+0.2**
Movements in stocks	**1,745**	**460**	

Looking at the numbers, supply fell by some 14.8% to a level of 7.31m oz, whilst demand remained roughly static at 6.85m oz.

As a consequence, we saw a significant decline in the surplus of 2007, falling by 1.29m oz to a level just below half a million oz.

Palladium Supply Falls by 14.8%



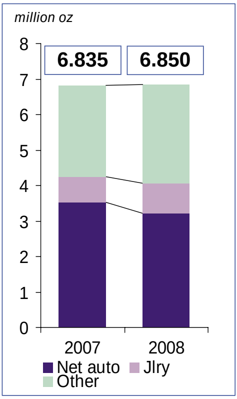
- Supply shrinks by 1.27 million oz
- South African supply falls by 12.1% to 2.43 million oz
- Russian production falls by 11.5% to 2.7 million oz
- Sales of Russian state stocks fall by a third to 960,000 oz despite large shipments of palladium

South African supply fell by a similar percentage amount as platinum due to the same range of issues discussed earlier.

Primary production from Russia, which is essentially Norilsk Nickel, fell quite sharply by some 350k oz, again due to the issues mentioned earlier. It’s also possible that the focus has been shifted to maximising Ni output whilst minimising throughput at the concentrators and smelter, and that would mean lower pgm overall.

And on the eternal question of Russian state stocks, although 2008 trade statistics showed massive movements of Pd out of Russia, our understanding is that only in the region of 30 tonnes have actually been priced – the rest lies in vaults in Switzerland awaiting future sale.

Palladium Demand Climbs by 0.2%



- Global demand grows by 15,000 oz to 6.85 million oz
- Autocatalyst demand falls in North America
- Jewellery demand rises in China, North America and Europe
- Electronics demand increases
- Investment demand remains strong

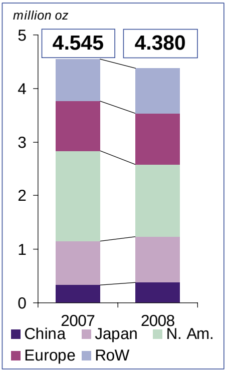
On the demand side, we did of course see the impact of the reduction in global vehicle production, and this was felt most in North America which is by some margin still the biggest user of Pd in autocatalysts.

Pd showed growth in the jewellery sector, where the exceptional price differential with Pt in the first half of the year helped it to gain a firm foothold in certain areas, notably the male wedding band sector in Europe and N.America. China also saw some good growth, albeit this was severely curtailed towards the back end of the year as Pt started its surge.

Electronics demand, driven by requirements in multi layer ceramic capacitors, was yet to feel the downturn and showed quite strong growth, mainly in the Far East.

And investment demand showed continued growth in ETF holdings

Palladium Demand: Autocatalyst



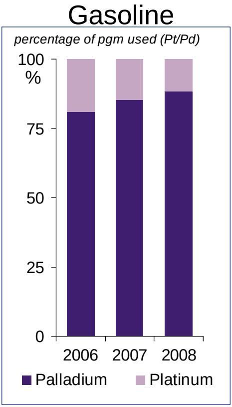
- Palladium autocatalyst demand falls by 165,000 oz to 4.38 million ounces
- North American demand falls by 350,000 oz to 1.345 million ounces
- Demand grows in all other regions
  - Pd replacing Pt in diesel and in gasoline
  - Rising production in China and Rest of World

Looking first in a little more detail at the autocatalyst demand, we saw an overall decline of 165k oz, somewhat lower than the reduction in Pt.

The worst hit region was North America where there was the “double whammy” of the biggest percentage drop in vehicle production and it being the biggest single market for Pd autocatalysts.

Roughly half of that reduction was offset by growth in other regions : in Europe due to the substitution of Pt in diesel and to an extent in gasoline as well, and elsewhere on the back of increased vehicle production in China, Russia, and several R of W regions where gasoline engines are the dominant powertrain.

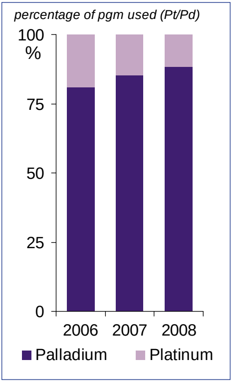
Pgm choice in European Autocatalysts



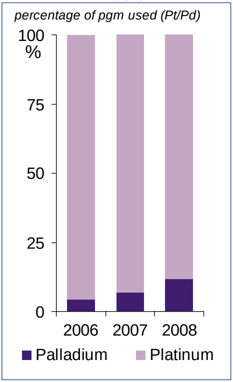
In this chart you can see the strong dominance that Pd now represents in gasoline catalysis in Europe – as I said earlier less than 100k oz of Pt were consumed in the emissions catalysts on the 9 million or so light duty gasoline vehicles which were produced.

Pgm choice in European Autocatalysts

Gasoline

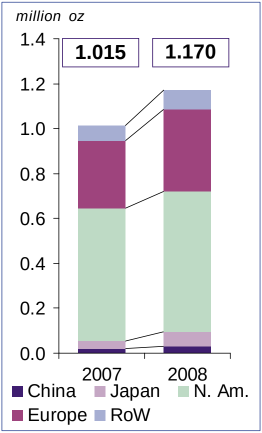


Diesel



…, and here you can see the gradual erosion by Pd of Pt’s share of diesel catalysts in Europe, although it is still only running at about 12% of total diesel catalyst pgm, or around 250k oz.

Palladium Demand: Autocatalyst Recycling



- Palladium recovery from spent autocatalysts rose to 1.17 million ounces
- Growth in every region
- North America remains largest market
  - Pd recovery now higher than Pt
- Price changes cause disruption to market and volumes remain very weak

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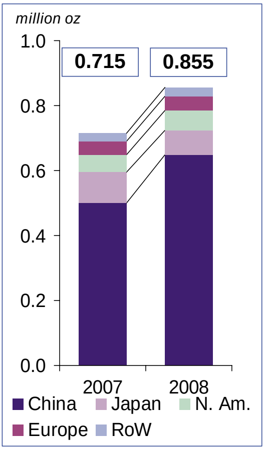
Pd recovery from recycled autocatalysts grew in 2008 and in general showed the same trends as Pt : a strong surge in recycling activity in the first two thirds of the year followed by a sharp decline.

Nevertheless there was growth in every region with the US leading the way. Pd recycling in North America is now greater than Pt recycling and likely to remain so.

Volumes have yet to show any real sign of recovery into 2009, but we would expect them to pick up in the latter part of the year.

Palladium Demand: Jewellery



- Chinese net palladium purchases rise from 500,000 oz to 650,000 oz
- Recycling of old Pd950 stock in China falls
- Chinese manufacturing of palladium jewellery strong in first three quarters of 2008
- Pd continues to establish itself in Europe and North America

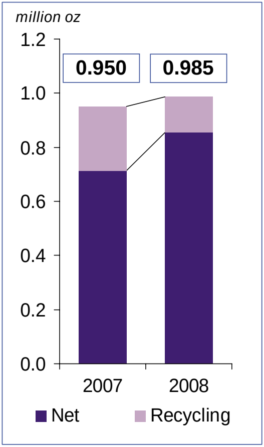
On the jewellery side, net demand for Pd in 2008 saw significant percentage growth of just under 20%, and this was driven largely by China.

When I talked about Pt jewellery I described how recycling meant that net demand fell by more than manufacturing demand. In the case of Pd, it was actually the other way around. 2007 had seen heavy recycling of old Pd950 alloy stock which had reduced net demand for new metal. Most of this recycling had been largely complete by 2008, and so there was little metal returning to the market to offset against new demand. Hence, net demand for metal grew at a faster rate than the manufacturing volumes.

Towards the end of 2008, the manufacturing base in China became dominated by Pt, to the extent that even a number of jewellers who had previously specialised in Pd started to devote most of their manufacturing capacity to Pt.

In Europe and North America, the high price of Pt and Au in the first part of the year encouraged jewellers to introduce Pd ranges, offering products at an alternative price point. At the same time, new casting alloys improved the product consistency and simplified the manufacturing process. Pd has gained a solid position in the male wedding band sector, and in Switzerland we have seen a strong emergence of Pd watches, with the number of items manufactured almost doubling from the 2007 levels.

Gross Palladium Demand: Jewellery



- Gross demand up by less than net demand
- Recycling of old stock in China decreases
- Relatively low levels of exchange of second-hand jewellery
- Little recycling in Europe, North America but some recovery in Japan from second-hand scrap jewellery

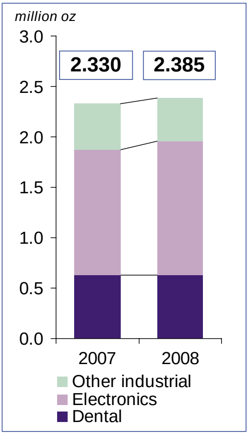
For the sake of completeness…here's the view of gross demand.

The purple bar is global net demand: our conventional figure

The lilac bar is recycling of metal: the amount of old stock and old jewellery recycled whether the metal is re-used within the jewellery industry or sold back to the market

And the totals written on the graph are gross demand: the sum of the two.

Palladium Demand: Industrial and Dental



- Global dental demand flat at 630,000 oz
- Electronics demand rises 6.9% to 1.345 million ounces
- Chemical demand falls by 25,000 oz to 350,000 oz

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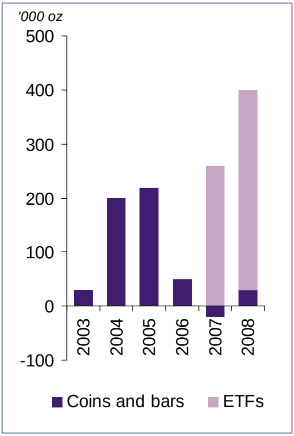
Dental demand was flat globally at 630,000 oz. There was a small increase in North America, flat usage in Japan where lower recycling balanced lower gross demand, and there was a small fall in Europe.

In the electronics sector, demand for Pd grew once again. There has been little further substitution of Pd in MLCC, the main end use, and sales in consumer electronics were strong in the first 9 months of the year.

There was however a slowdown in electronics output late in the year and that is continuing into 2009.

Chemicals demand reflects broadly the same trends as that of Pt, and a slowdown in plastics production contributed to a small decline in demand.

Palladium Demand: Investment



- Physical palladium investment demand reaches record 400,000 oz
- ETF purchases rise from 280,000 oz to 370,000 oz
- Demand from coins and bars benefits from lack of availability of other precious metal products

Physical investment demand for Pd is largely driven by ETFs.

Unlike the Pt ETFs, Pd investment grew steadily throughout the year. Holdings in the London-based ETFS grew with price in the first half of the year, but didn’t show anything like the rate of sell-offs in the second half as we saw with Pt. Investment in the Swiss ZKB fund showed steady growth throughout the year, demonstrating very little relationship whatsoever with the price.

Both funds have shown continued and strong growth into 2009.

Palladium Outlook

- Palladium autocatalyst demand to weaken again in 2009
- Industrial demand also to remain weak
- Jewellery outlook unclear
- Physical investment set to remain strong
- Primary production likely to fall from 2008 levels
- Sales of Russian state stocks likely to be required to keep the market in surplus
- Fund and investor interest to remain key to this metal

Turning to the outlook for palladium…

Like Pt, demand from the autocatalyst sector is going to be weak this year, and industrial demand will also show the full impact of the recession.

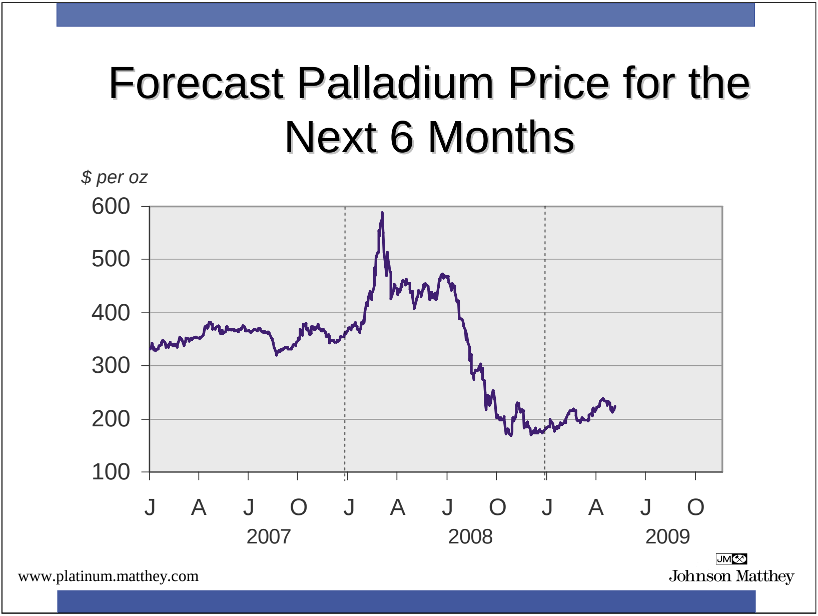
Unlike Pt, there is no obvious sign of a surge in jewellery demand to fill the void. We would expect continued growth, but at a far more modest rate.

However, physical investment interest remains strong, and with or without a new US fund, could show strong growth. At a current ratio of one fifth the price of Pt, Pd may look underpriced.

Supply of Pd is also likely to fall again in 2009. Falling ore grades in Russia are expected to lead to lower production. N.American production is bound to be lower following mothballing and cuts in output which happened during the course of 2008 and which are therefore yet to take full effect.

So, fundamentals are improving, and that leaves Russian State stocks and what may happen there. As I said earlier, we believe there to be substantial volumes of metal sitting in Switzerland awaiting sale, and it seems that strategy regarding this metal may well determine whether the market remains in surplus or, despite the auto industry slump, moves into deficit.

As far as the price is concerned, Pd has long been divorced from the fundamentals, and with considerable above ground stocks it seems likely that fund and investor interest will remain key.



So where does that leave us ?

The Pd price will inevitably be partially dependent on what happens to that of Pt as well of course to the strength of the dollar.

If one fall-out from the global credit crisis is a broader general interest in commodity investment, then the precious metals stand to gain, and Pd should benefit from this.

On the other hand, there is a lot of metal out there to soak up new interest, and if investment demand reaches a ceiling, there is little in the short term to support the price.

Forecast Palladium Price for the Next 6 Months

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Our forecast for the next six months is $280 at the top end and $180 at the bottom.

Rhodium

Finally some words on rhodium…

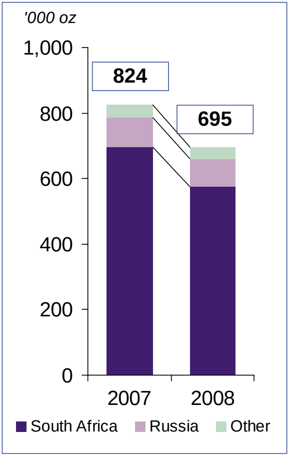
Rhodium: Key features

- Supplies fall 15.7 per cent, largely due to issues in South Africa
- Net demand shrinks by 18.4 per cent
  - Automotive demand weak
  - Autocatalyst recycling rises
  - Glass demand decreases
- Rhodium market in small surplus of 6,000 oz in 2008
- Unprecedented price volatility – even by rhodium's standards

Headline comments are that supply was down quite sharply in 2008 but demand was down by even more in both percentage and absolute terms, and we see the market as having moved last year into a very modest surplus of 6,000 oz.

Being a much smaller market than that of Pt and Pd, and being so close to balance, we saw some extraordinary price volatility last year. There were days in the summer when you couldn't get an offer for Rh, and there were days moving into the winter when you couldn't get a bid.

Rhodium Supply Falls by 15.7%

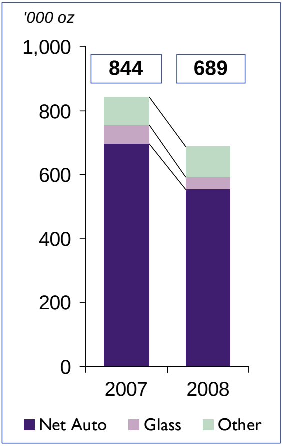


- Total supplies fall from 824,000 oz to 695,000 oz
- South African production decreases from 696,000 to 574,000 oz
- Russian and other supplies marginally down

Supplies were down heavily from S.Africa which accounts for well over 80% of primary supply.

Primary production from Russia was also a little down in line with the other pgms

Rhodium Demand Declines by 18.4%



- Total demand falls from 844,000 oz to 689,000 oz
- Gross autocatalyst demand drops from 887,000 oz to 760,000 oz
- Autocatalyst recycling climbs to 205,000 oz
- Glass demand drops to 38,000 oz

The sharp decline in auto industry purchases in the back end of 2008 really damaged overall demand because autocatalyst totally dominates the demand side of the equation.

At the same time, autocatalyst scrap recoveries were up in line with Pt and Pd.

The glass industry released a lot of Rh back to the market with the closure of many of the Chinese CRT glass plants, and there were changes to lower Rh content alloys used in fibreglass production.

Rhodium Outlook

- Continuing thrifting and weak vehicle production to depress gross automotive demand
- Automotive recycling likely to be lower than in 2008
- Dealloying process in glass industry reversing
- South African rhodium supplies likely to rise
- Market currently expected to remain in surplus in 2009

And finally turning to the outlook for rhodium…

We expect the auto industry to continue to try to thrift Rh. That said, there is perhaps a little less focus on thrifting activities because the auto industry as a whole currently has bigger issues to address.

The amount of metal coming back from scrap autocatalysts is likely to be somewhat lower than in 2008. Although we expect recovery in scrap recycling activity towards the back end of 2009, the refining circuit for Rh is such that the market wont see a lot of this metal this year.

The fibreglass manufacturers are starting to switch back to higher Rh content alloys to take advantage of their superior strength and higher temperature qualities.

We expect S.African supplies to rise with Pt, albeit at a slightly faster rate as Eastern-limb UG2 becomes an increasingly significant part of the total.

And so, overall, we would currently expect the market to remain in surplus in 2009.

Platinum 2009

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End