

The Platinum Metals Report

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August 2007

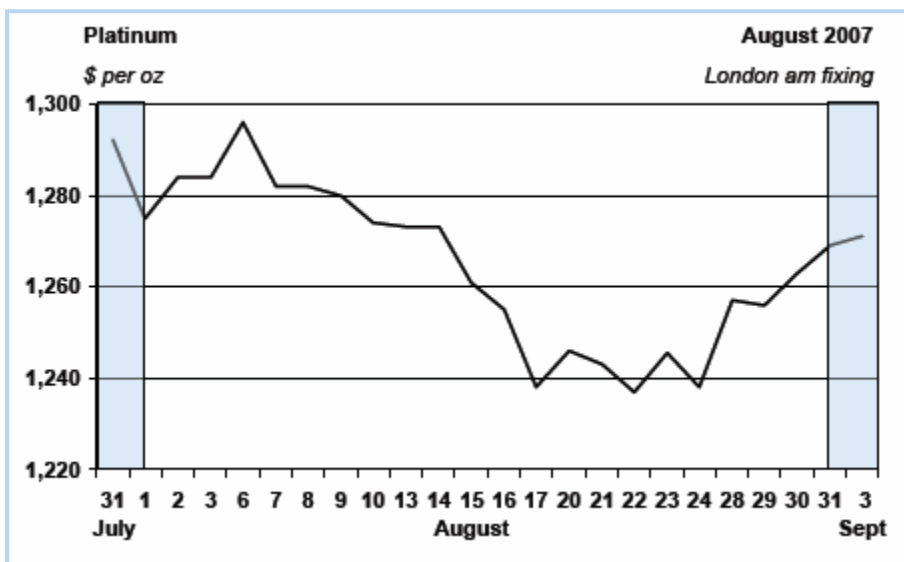
Johnson Matthey

While August is traditionally a quiet month in the commodities markets, the reverberations felt from the US sub-prime mortgage crisis rippled through the platinum group metals sector this year. As equity prices fell, many funds sold off the comparatively liquid commodities, in physical form and on the futures exchanges, driving their prices down.

Platinum and palladium were both affected by this activity and prices lost ground. Platinum, however, was more resilient than its sister metal, receiving support from continued loss of platinum production to strikes and from the threat of further strikes. Both metals recovered ground at the end of the month when central banks intervened in the crisis by adding liquidity to the banking system. The three minor PGM were little affected by all of this as their less liquid markets made their sale less attractive.

PLATINUM

Platinum had a volatile August, hitting a high of \$1,296 early on before dropping to a low of \$1,237 on the 22nd. The prospect of further disruptions to supply helped platinum close the month at \$1,268, only \$7 lower overall. Long futures positions also fell heavily but started to recover at the end of the month.



The downward pressure felt by platinum in its fall from \$1,333 to \$1,292 at the end of July was continued into August. The financial markets started to focus on credit risk, knocking the gold price lower. In South Africa, an announcement was made that the NUM was to accept Impala's latest wages offer, lessening the chance of loss of production at that company. Platinum was also sold off by the general public on TOCOM and by a number of hedge funds and the price lurched down to \$1,275 at the first fix of the month.

The global equity markets staged a halfhearted rally and platinum rose back to \$1,283 later that day. High levels of purchasing on the Shanghai Gold Exchange supported the price at this level with over 200kg traded on the 2nd. Although Northam announced a wage deal, it also reported decreased production for the previous six months, again supporting the price. Gold started to edge higher and platinum followed, encouraged by Anglo Platinum's latest annual production forecasts which showed a likely shortfall of 200,000 - 250,000 oz in 2007. As a result, platinum reached its monthly high on the morning of the 6th in London, at \$1,296.

Profit-taking on TOCOM and a falling oil price weakened platinum on the 7th and it moved down to fix twice at \$1,282 in thin trading. However, the main news of the day in the platinum markets was Xstrata's bid for Eland Platinum. The next move was on the 9th. A rash of bearish news for the platinum price - the likelihood of a wage deal being struck between Anglo Platinum and the NUM and the announcement of good growth in production by Aquarius (despite the loss of 40,000 oz of production at Mimososa due to strikes) - weakened the level of support for platinum. More importantly, though, the European Central Bank added almost 100 billion Euros into the banking system to improve liquidity. This had the immediate effect of strengthening the US Dollar against the Euro and driving down metal prices. Net long speculative NYMEX positions also fell dramatically (moving from 512,000 oz on the 7th to 413,000 a week later) and platinum was driven down to \$1,268 but with good physical interest in China and elsewhere.

Platinum fixing prices – August 2007			
	<i>High</i>	<i>Low</i>	<i>Average</i>
\$ per oz	1,296.00	1,237.00	1,264.40
£ per oz	637.60	617.10	629.90
€per oz	942.15	909.75	928.35

With trading still quiet in all of the precious metals, the next move came on the 15th when Asian stock markets lost considerable ground, again on fears of

the global effects of the sub-prime issue. Platinum found support at \$1,260 but fell below that on technical selling on the 16th. With funds still looking to divest liquid assets to cover losses elsewhere, platinum started spiraling lower, to \$1,255 and \$1,245 on the 16th and \$1,238 in the London morning fix on the 17th, with Chinese buyers taking advantage of the fall to buy over 300kg of platinum on that day on the Shanghai Gold Exchange.

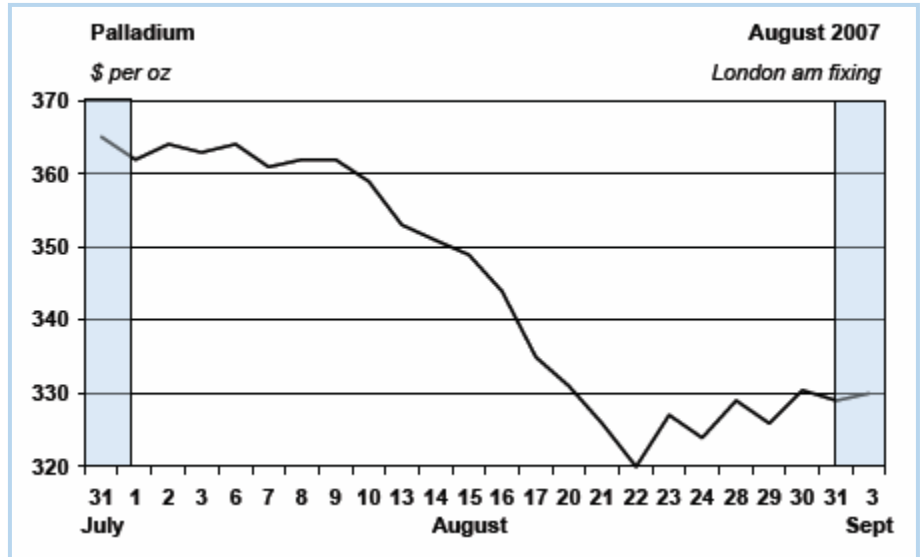
At this point, the US Federal Reserve cut its discount rate in order to protect the economy and encourage lending. This sign proved positive for the commodity market and most metals rallied, also helped by fears over oil supply on the risk of disruption due to hurricanes in North America. Platinum climbed \$7 between the fixes to a pm price of \$1,245. More substantial Chinese consumer purchasing balanced the effect of fund sales of metal for the next few days although the platinum price dipped to a monthly low of \$1,237 on the 22nd.

Slowly, though, the selling pressure eased. Buying on TOCOM and high interest on the am fix saw platinum recover to \$1,245.50 on the 23rd. Further physical purchasing on the

28th, after a European bank holiday, was enough to firm the price in quiet conditions and platinum climbed back to a month-end \$1,268.

PALLADIUM

Palladium lost almost ten per cent from its price during August, with global credit worries mainly to blame. Its relatively weak market fundamentals ensured it did not reclaim much of its loss at the end of the month, unlike platinum. It started the month at \$362 and ended at \$330, having fallen to a low of \$320.



Palladium's first fix of the month was firmly in the range in which it had moved in July, at \$362. It moved sideways over the following few days, inching up to a peak of \$366 at the second fix on the 2nd of the month and tracked platinum and gold, moving a little lower on the 7th and slipping to \$359 before bouncing back above \$360. The ECB's actions in providing liquidity to the financial markets strengthened the dollar and drove palladium down to \$349 on the second fix of the 10th.

In a quiet market beset with occasional turbulence, there was no new technical support level evident and fund sales of metal ensured that palladium softened to \$346 on the 13th. The slide continued as more long positions were sold or closed on NYMEX (net long speculative positions fell from 1.365 million ounces on the 7th to 1.17 million ounces on the 14th). Technical selling in platinum on the 16th was matched by sales and the price moved below \$340. Weakness in the financial markets continued to take its toll and palladium eventually fell to its monthly low (and its lowest for nine months) of \$320 on the 22nd. Good buying on the fix on the following day boosted the price by \$7.

Palladium fixing prices – August 2007			
	<i>High</i>	<i>Low</i>	<i>Average</i>
\$ per oz	366.00	320.00	343.55
£ per oz	180.20	160.75	170.95
€per oz	267.95	237.00	252.20

Although platinum ended the month strongly, palladium was unable to follow this example with the price undermined by yet more reductions in long positions on the

commodities exchanges. For example, NYMEX positions crashed to only 874,000 oz on August 28th, roughly half a million ounces lower than at the start of the month. In the circumstances, the fact that palladium closed the month at \$330, \$32 lower overall but \$10 above its low point, showed a remarkable degree of resilience.

OTHER PLATINUM GROUP METALS

There was much less volatility in the minor metals markets than in those of platinum and palladium, although rhodium and ruthenium both posted moderate increases. These price movements reflected changes in the balance of supply and demand in the physical market rather than the problems occurring in the wider financial markets. Iridium remained at \$450 throughout the whole of August.

Volatility remained fairly low in the rhodium market and most of the month of August saw good two-way trading even though the price consistently remained in excess of \$6,000. It started the month trading at a Johnson Matthey base price of \$6,050 and edged \$25 lower before buyers became a little more active and drove the price up to \$6,150 on the 7th. The price stayed close to this level until the end of the month when it stepped a notch higher to end at \$6,175.

The Far East purchasing of ruthenium which had started moving the price higher at the end of July was still in place at the start of August. Ruthenium firmed from an initial Johnson Matthey base price of \$440 to \$490 on the 6th before buying interest vanished. It remained there with little activity for most of the rest of the month before taking a single step lower to \$475 on the 30th.

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