

# The Platinum Metals Report

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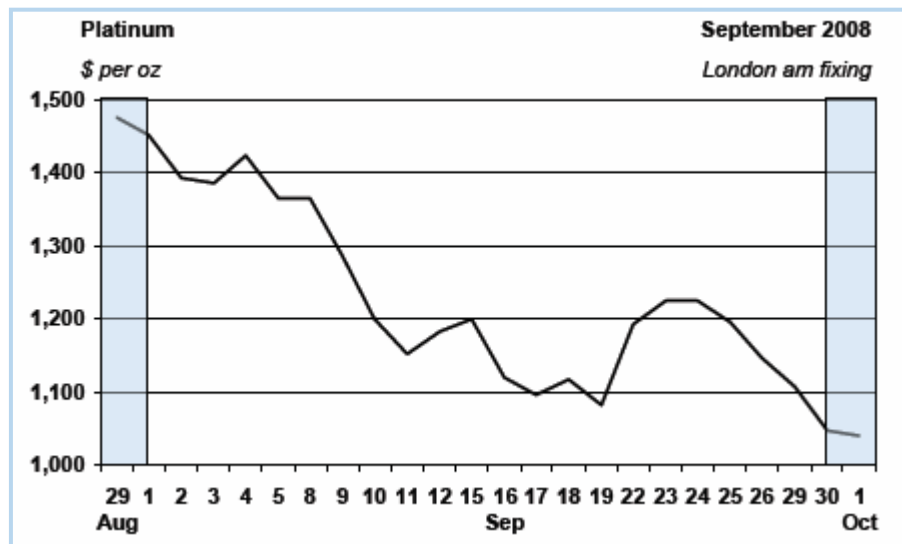
September 2008

Johnson Matthey

*September was another difficult month for the platinum group metals with the prices of platinum, palladium and rhodium all falling heavily alongside those of other commodities as the global economic situation worsened. Fundamentals were largely irrelevant as the sell-off of investment fund positions continued across all three of the major platinum group metals for the first half of the month and buying generally remained weak throughout. However, slowing automotive sales and production in many markets also played its part in depressing sentiment and driving the prices lower. Even ruthenium and iridium were affected to some degree, with the prices of both falling back marginally during the same period.*

## PLATINUM

Platinum started September at \$1,451, over \$250 below where it had been at the start of August and weakened throughout the month, dropping to close at a final fix of \$1,004, its lowest value since February 2006. Although sales of fund positions continued to weaken the price, this selling slowed in the second half of the month. A lack of buying interest was more instrumental in allowing the price to move lower throughout September.



Platinum's first fix of September was at \$1,451 and the price quickly slipped lower. Although the gold price remained firm, supported by its status as a safe haven investment, platinum was driven lower by sales of 50,000 oz by the General Public and funds on TOCOM. Worries over the future of US bank Lehman Brothers also dogged the markets, placing downward pressure on both commodities and equities. Amidst quiet physical demand, Asian long liquidation followed on the 2<sup>nd</sup>, with poor Japanese automotive sales the cause. A bout of US Dollar strength pushed platinum below \$1,400 and down to a second fix of \$1,380 that day.

The following day, news emerged that US hedge fund Ospraie was to shut its flagship commodities fund, due to the sharp fall in prices during recent months. Platinum dipped

as low as \$1,330 on TOCOM early on the 4<sup>th</sup> but strong buying in Shanghai (over 200kg changed hands that day) rescued the price which bounced sharply higher, to fix at \$1,423 that morning. However, this strength was only temporary as poor economic data continued to emerge: US jobless totals rose and stocks fell in New York and Tokyo, pushing platinum down to \$1,365 on the 5<sup>th</sup>.

The US Dollar continued to benefit from a flight to safety by investors and it reached a one year high against the Euro on the 9<sup>th</sup>, again cutting support from the platinum price. Investors on TOCOM responded by selling their long positions, and NYMEX long positions fell too. Very strong buying on the Shanghai Gold Exchange could not support platinum and the price tumbled to a low of \$1,152 on the 11<sup>th</sup>. Interestingly, sales of metal from the European Exchange Traded Funds slowed almost to a halt at the same time. The deaths of two mine workers in separate accidents in South Africa had no discernible effect on the price, in stark contrast to the situation earlier in the year.

Platinum fixing prices – September 2008

	<i>High</i>	<i>Low</i>	<i>Average</i>
\$ per oz	1,451.00	1,004.00	1,224.20
£ per oz	804.35	555.75	680.90
€per oz	991.10	705.30	851.15

Good industrial buying finally emerged on the 11<sup>th</sup> and the price crawled as high as \$1,200 on the 15<sup>th</sup>. Later that day, Lehman Brothers filed for Chapter 11 bankruptcy protection and Merrill Lynch was sold to Bank of America. Amidst the resulting

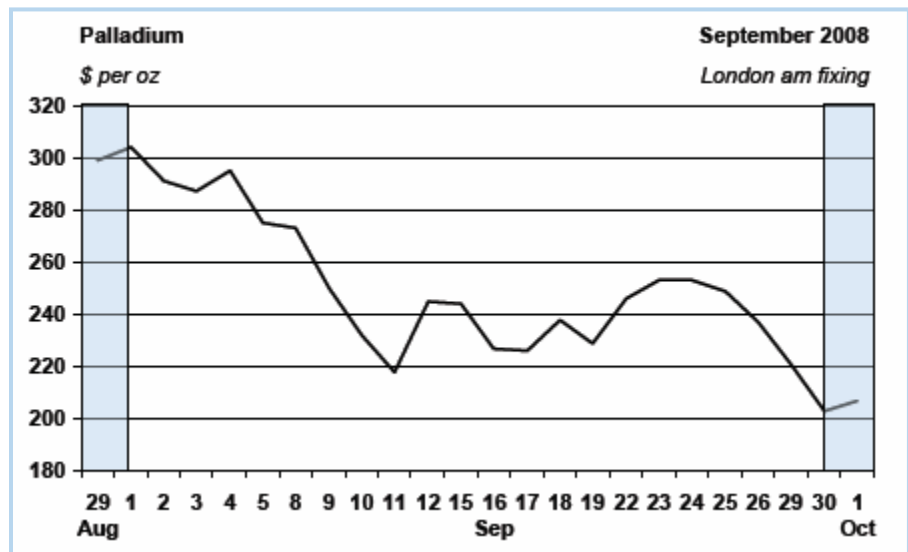
chaos, the dollar weakened but all manner of investments weakened too, led by plummeting equities. However, the dollar rebounded as the Federal Reserve unexpectedly left interest rates unchanged and the platinum price lurched to \$1,073 on the 17<sup>th</sup>.

The markets continued to show extreme volatility. The US Federal Reserve announced a rescue package for troubled insurer AIG and most commodities strengthened in response. Platinum bounced to test \$1,100 the same day and kept on moving, briefly touching a spot price of \$1,185, dragged higher by gold's largest ever one day move. However, it dropped back quickly to fix at \$1,118 at the first fix on the 18<sup>th</sup>. Platinum then fell almost \$50 overnight before a proposal from the US Treasury on dealing with so-called toxic debts provoked wild outbreaks of optimism. The dollar fell back and platinum started to move higher. On the 22<sup>nd</sup>, the effects of short covering on TOCOM and good purchasing in Shanghai were reinforced by the resignation of South African President Thabo Mbeki. The oil price spiked at the same time and platinum climbed to \$1,225 on the 23<sup>rd</sup>.

Profit-taking on TOCOM and elsewhere forced platinum back below \$1,200 on the 25<sup>th</sup> despite growing net long speculative positions on NYMEX. Macroeconomic concerns then re-emerged as worries started to develop that the US Treasury's rescue plan (purchasing toxic debts) might not go ahead. The stock markets responded negatively as did the platinum group metals which simply collapsed. Platinum fell below \$1,100 on the 29<sup>th</sup> and then spiraled lower on the 30<sup>th</sup> as US lawmakers rejected the rescue plan. The price crashed to \$1,047 at the first fix of the day and ended the month very weakly indeed, at \$1,004, its lowest point since early 2006.

## PALLADIUM

Palladium suffered alongside many other commodities during September. It started the month at \$304 and fell back below \$200, following platinum lower on concerns over the global economy and the health of the financial system. However, the link to the gold price weakened as gold benefited from its “safe



haven” status. Despite the price weakness, futures positions actually grew during the month and ETF positions saw almost no selling whatsoever.

Palladium started September at \$304 - its highest point for the month but over \$70 lower than it had been at the start of the previous month. The selling pressure was immediate with net long speculative NYMEX positions declining by almost 95,000 oz in the first full week of September, from an initial 500,000 oz. The prospect of widespread damage to oil production in the Gulf of Mexico from Hurricane Gustav briefly supported the oil price and the prices of the precious metals. However, when this proved to be less damaging than had been expected, all of these commodities gave up their gains, with palladium testing the support at \$300, where it fixed later that day.

The US Dollar gained ground the following day and quiet physical demand and signs of slowing automotive sales in Japan saw palladium slump below \$300 and fall to \$286 at the second fix of the day. On the 3<sup>rd</sup>, a decline in Eurozone GDP helped the dollar to firm, intensifying the downward pressure on palladium. However, palladium investors showed some buying interest and the price climbed back to \$295 on the 4<sup>th</sup> before yet more negative North American automotive sales data stopped the rise.

Further negative news kept coming from the automotive industry over following days, applying downward pressure to the palladium price. The dollar also continued to strengthen, reaching a one year high against the Euro on the 9<sup>th</sup>. Palladium slipped below \$280 on the 5<sup>th</sup> and continued inching lower. Weaker than expected Chinese automotive sales on the 8<sup>th</sup> dragged palladium to \$273. However, on the following day - the 9<sup>th</sup> - heavy liquidation on TOCOM hit palladium harder and it dropped to a morning fix in London of \$250 before finding any significant buying interest. However, the dollar kept rising and palladium kept falling to a low of \$218 on the 11<sup>th</sup>. Futures interest finally stabilised and, in fact, net long speculative NYMEX positions started to grow again.

The oil price temporarily paused in its decline and industrial buying provided a further fillip to the platinum group metals on the 12<sup>th</sup>. Palladium bounced to \$245 that morning in London. However, Lehman Brothers' decision to file for Chapter 11 bankruptcy protection caused concern in the market and palladium slowly turned around again, slipping to \$224 on the 16<sup>th</sup>.

Palladium fixing prices – September 2008			
	<i>High</i>	<i>Low</i>	<i>Average</i>
\$ per oz	304.00	199.00	284.85
£ per oz	168.50	110.15	138.40
€per oz	207.65	139.80	173.10

Palladium found good buying support at this level, close to \$220. It also gained further ground on the 19<sup>th</sup> as the US Treasury cheered the markets by proposing to support banks by buying

some of their less attractive debts, Palladium ground higher, rising to \$252 on the 23<sup>rd</sup> as a result before some gentle profit-taking emerged. Just as in platinum, when problems started to emerge in the Treasury's plan, the palladium price weakened, responding to concerns over the likely effects on the global economy. US lawmakers finally rejected this plan on the 29<sup>th</sup> and palladium plunged lower to end the month at \$199.

## OTHER PLATINUM GROUP METALS

**Rhodium dived from an opening Johnson Matthey base price of \$6,100 to close September at \$4,300, following two weak months in July and August. Ruthenium and iridium fell too due to slow industrial purchasing.**

Rhodium began September at \$6,100 but negative automotive sales data – particularly from North America – eroded what buying interest there was. It also appears that some automakers or hedge funds were selling metal, further increasing the imbalance in the market. Rhodium took an immediate \$200 step lower to \$5,900 on the 2<sup>nd</sup>. As the platinum price fell, the selling pressure on rhodium intensified and it plunged \$1,000 in a day, hitting \$4,900 on the 3<sup>rd</sup>. News of the closure of Ospraie's flagship commodities hedge fund applied more pressure and rhodium dropped to \$4,500 on the 4<sup>th</sup>.

This precipitous drop encouraged some industrial buying and the price flickered back into life, rising to \$4,750 on the 6<sup>th</sup> before reaching a plateau at that level. However, more bad North American automotive data hit the price again on the 10<sup>th</sup> and rhodium dropped back to \$4,600. It fell again the following day – the 11<sup>th</sup> - to hit \$4,375 but the selling diminished in volume and was almost matched by some low buying interest, slowing the fall. The excitement was now essentially over and rhodium moved little over the remainder of the month, ending September at \$4,350.

Ruthenium began September at a Johnson Matthey base price of \$300 and weak industrial buying finally caused the price to soften on the 23<sup>rd</sup> when it slipped to \$295. The price fell another \$5 lower on the 29<sup>th</sup> and ended the month at \$290. Even iridium felt some effect from the global economic fallout, with the price falling from \$460 to \$455 in the middle of the month.

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