

G F M S



Precious Metals Forecasting Monthly



December 2008



Date of release: 5th December, 2008



© Copyright GFMS Ltd - December 2008

All rights reserved. No part of this publication may be reproduced, stored in a retrieval system or transmitted in any form or by any means without the prior written permission of the copyright owner. **Brief extracts** (excluding tables or graphs) may be reproduced only for the purpose of criticism or review and provided that they are accompanied by a clear acknowledgement as to their source and the name of the copyright owner.

Published by GFMS Limited
Hedges House
153-155 Regent Street
London, W1B 4JE
tel: +44 (0)20 7478 1777
fax: +44 (0)20 7478 1779
email: info@gfms.co.uk
web: www.gfms.co.uk

Table of Contents

<i>Gold</i>	3
<i>Silver</i>	6
<i>Platinum</i>	8
<i>Palladium</i>	11

Disclaimer

Whilst every effort has been made to ensure the accuracy of the information in this document, GFMS Ltd cannot guarantee such accuracy. Furthermore, the material contained herewith has no regard to the specific investment objectives, financial situation or particular needs of any specific recipient or organisation. It is published solely for informational purposes and is not to be construed as a solicitation or an offer to buy or sell any commodities, securities or related financial instruments. No representation or warranty, either express or implied, is provided in relation to the accuracy, completeness or reliability of the information contained herein. GFMS Ltd does not accept responsibility for any losses or damages arising directly, or indirectly, from the use of this document.



1. Gold

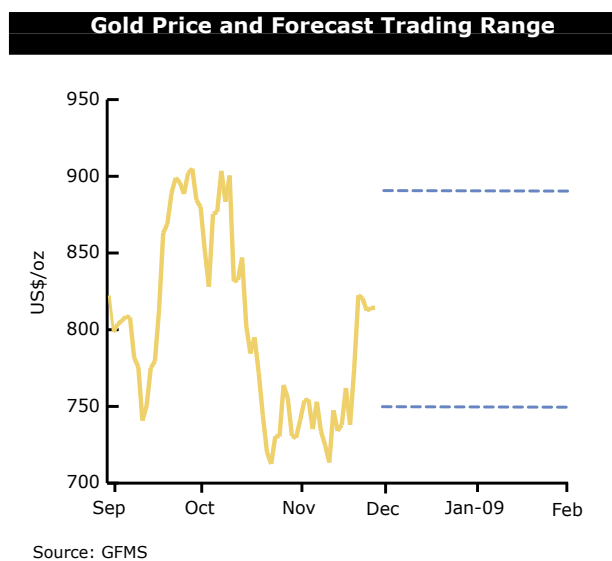
Key Gold Market Developments:

- On an intra-month basis gold prices jumped 12% to an end-month level of \$814, the biggest monthly gain this year, fuelled by the strengthened investor fears about further global economic deterioration as more countries, including the United States, fell into a recession.
- After a sharp rise in October gold lease rates eased in November with one month rates fluctuating between 1.0% and 1.7% as LIBOR rates had eased.
- At end-November, a new all-time high of about 1,181 tonnes was registered in total holdings of gold ETFs. However, overall activity was largely flat posting a rise of 1% or 14 tonnes compared to the end of previous month.
- On the Comex, the net long position surged by 10% (equivalent to a nominal 25 tonnes) to an end-November level of 93,235 contracts (equivalent to a nominal 290 tonnes).
- Non-proprietary positions in Tocom gold futures (courtesy of Sumitomo Corporation) plummeted by 25% throughout the period on the back of a strengthening yen and totalled 14,355 contracts at end-November.

Outlook for Next Three Months:

There are no visible signs that economic conditions will improve until at least well into the new year. In early 2009, we expect investor interest to remain the main driver for the gold prices. Gloomy economic and financial outlook should be supportive – deepening recession might keep a lid on stock prices forcing governments, at least, in the United States and Europe to cut their interest rates further. We also believe that the US dollar rally may stall in the beginning of the next year on the back of a further decline in the US economic outlook and easing risk aversion given that much of the forced liquidations of positions that we have seen recently will be over by that time.

GFMS expect gold to trade in a range of **\$750/oz** to **\$890/oz** from December 2008 to February 2009. During this period we do not forecast investment demand to be strong enough for the price to break through the \$890/oz level due to ongoing wave of redemptions, primarily by hedge funds. Support level at \$750/oz should stand resilient on the back of interest from bargain hunters and jewellery demand kicking in below \$800.



Gold Supply & Demand		
(tonnes)	2008	2009F
Supply		
Mine production	2,403	2,520
Official sector sales	269	280
Old gold scrap	1,053	960
Total Supply	3,725	3,760
Demand		
Jewellery	2,085	2,230
Other	645	646
Total Fabrication	2,730	2,875
Bar hoarding	254	266
Net producer de-hedging	278	62
Implied net investment	463	557
Total Demand	3,725	3,760

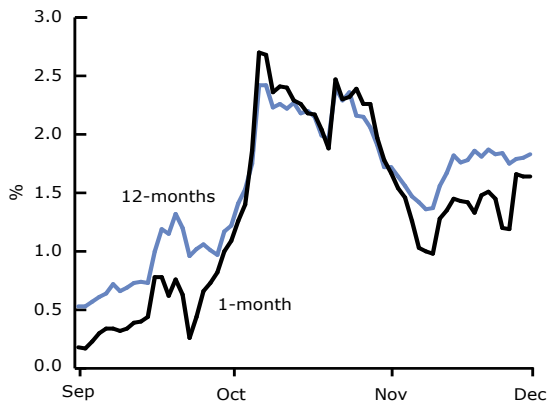
Source: GFMS



Gold Market News:

- Oil prices are down about 70% in November since their record highs of nearly \$147 a barrel in July. The downtrend continued throughout the month, the price dropping below \$50 at some point and indicating the weakening link between oil and gold price.
- The Perth Mint suspended gold orders until January 2009 due to an unprecedented demand for physical bullion.
- Gold holdings of a new physical gold fund launched by Julius Baer at end-October totalled 146,400 oz of metal.

Gold 1-month and 12-month Leasing Rates

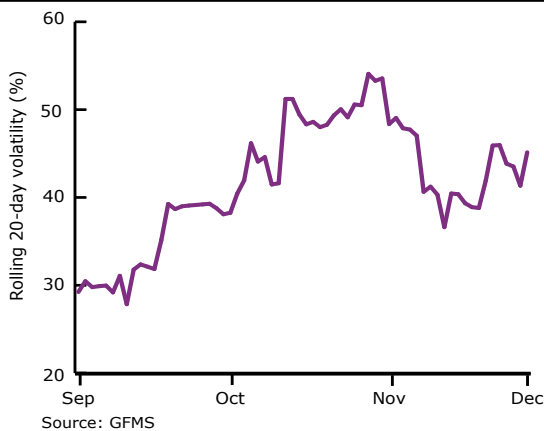


Gold Prices in November

	Max	Min	Average	YTD Avg
US\$/oz	822.50	713.50	760.86	874.27
Euro/kg	20,640	18,251	19,204	19,044
Yen/g	2,549	2,201	2,369	2,938
Rps/10g	13,185	11,625	12,157	12,196
Rmb/g	180.57	156.68	167.06	195.51
Rand/kg	268,142	231,051	247,689	270,751
C\$/oz	1,011	856	928	918

Source: Thomson Reuters EcoWin

Gold Price Volatility over Last 3 months

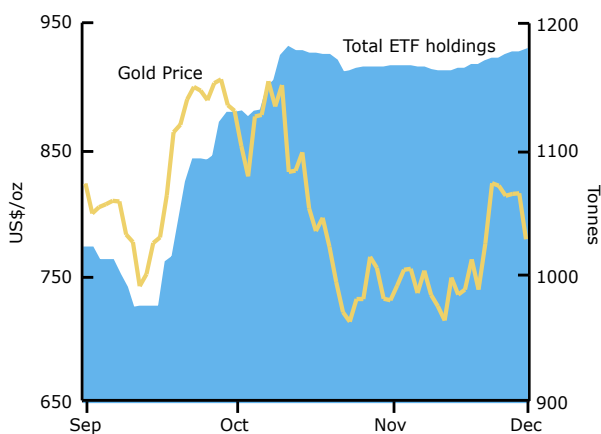


Major FX Rates and World Stock Indices in November

	Max	Min	Average	YTD Avg
US\$/EUR	1.31	1.25	1.27	1.48
JPY/US\$	99.71	94.99	96.87	104.34
DJ AIG	9,625	7,552	8,615	11,432
S&P 500	1,006	752	883	1,253
HUI	247	167	203	380
XAU	102	70	85	159

Source: Thomson Reuters EcoWin

Combined Daily Gold ETF Holdings



Major Gold Futures Markets and ETFs

Week	COMEX net long futures beginning position*	TOCOM customers' net long position**	ETFs total, tonnes		
10 Nov	69,496	216	14,792	15	1,162
17 Nov	71,116	221	14,808	15	1,165
24 Nov	93,235	290	13,346	13	1,173
01 Dec	94,288	293	13,463	13	1,179
YTD Avg	180,003	560	87,716	88	1,008

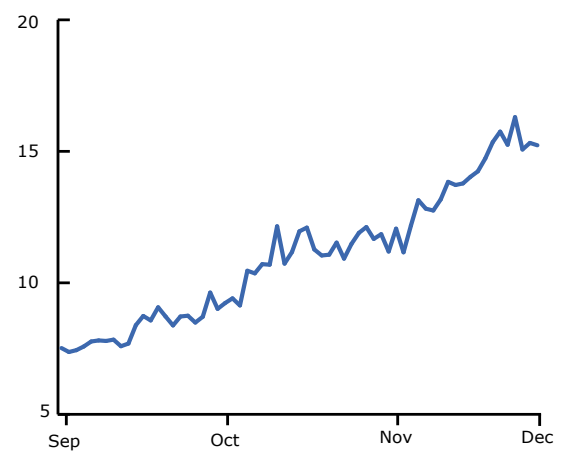
* Combined non-commercial & non-reportable positions, contracts

** Non-proprietary net positions

Source: Comex, Sumitomo Corp., Tocom, respective ETF issuers

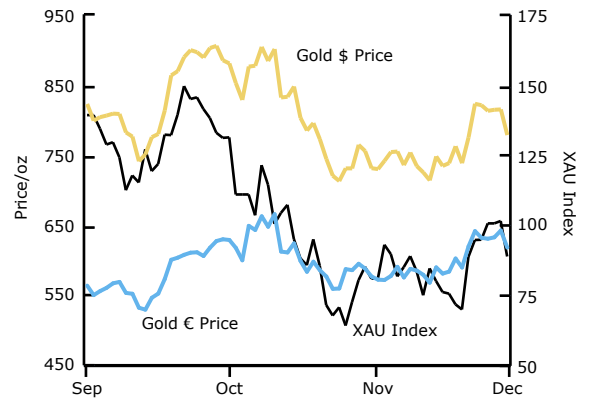


Gold/Oil Price Ratio



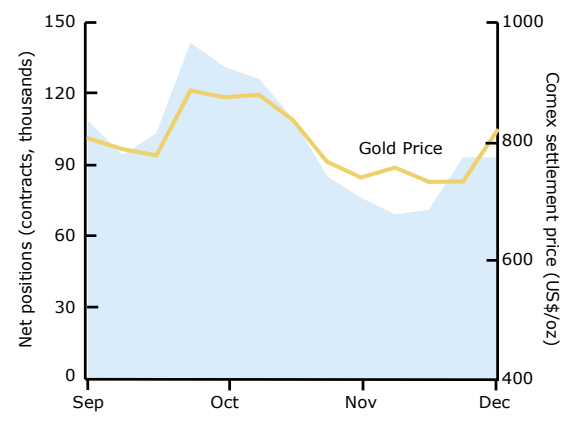
Source: Thomson Reuters EcoWin

Gold Price and XAU Index



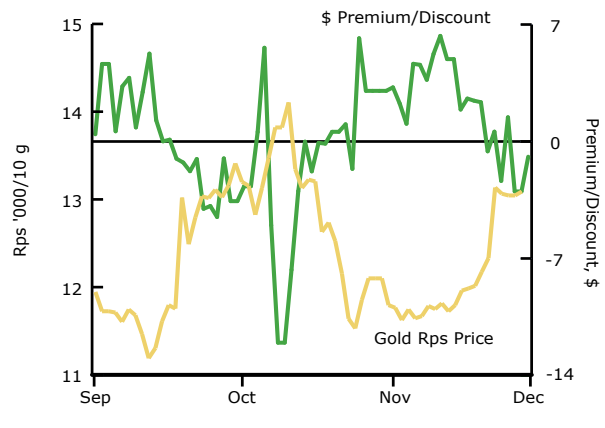
Source: Thomson Reuters EcoWin

Speculative Net Position in Comex Futures

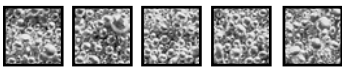


Source: CFTC

Premium/Discount on Indian Physical Market



Source: GFMS



2. Silver

Key Silver Market Developments:

- After touching a low of \$8.88 on 24th October (a level not seen since January 2006) the silver price rebounded to end November at levels around \$10.
- A price divergence between gold and silver continued to extend as evidenced by the spike in the gold:silver ratio to a level of 84:1 on 21st November, a figure substantially above the 62:1 average in place since 1980 and a peak not reached since March 1995.
- The massive correction in silver sparked fresh demand from India on the back of the Diwali festive season (mid-October to mid-November) and relatively low silver prices compared to gold.
- After hitting a new all-time high of over 8,250 tonnes in mid-October, total holdings of silver ETFs slightly decreased to finish November at a level around 8,080 tonnes due to some investors locking in profits on the back of recovering silver prices.

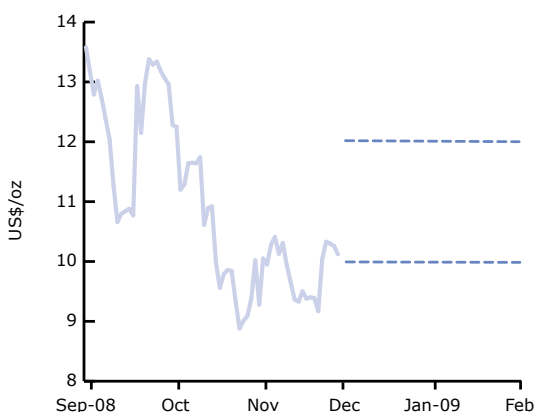
Outlook for Next Three Months:

Unlike gold's robust performance, its sister metal silver showed a lack of upward impetus in November struggling to withstand new bouts of liquidations. Massive forced selling by funds in the futures and OTC markets have been partly offset by strong investment demand in ETFs and physical bullion. As such, the metal traded range bound between \$9-10/oz throughout November posting a monthly gain in price of less than 1%. A sluggish price recovery has triggered further stop-loss sales to which have been added some new shorts, in part basis bearish views on the outlook for silver's supply/demand fundamentals. Nevertheless, low prices sparked fresh buying interest from industrial users and private investors, especially in India, where silver demand reached an unprecedented high level, all together providing support to the market at the level of \$9/oz. We believe silver has made its lows and now set for a modest rally. In the next three months we expect the metal to trade in the range of **\$10/oz to \$12/oz**.

Silver Market News:

- Sumitomo Corp. Japan's third-biggest trading house, said it has reached a basic agreement to buy Apex Silver Mines Ltd's 65% interest in San Cristobal mine, Bolivia, in a deal worth \$22.5 million. Sumitomo currently owns a 35% interest in the mine indirectly through Minera San Cristóbal, S.A., a subsidiary of Apex Silver (MSC).
- Vancouver-based First Majestic Silver temporarily suspended all activities at its Cuitaboca project, Mexico, until metal prices improve.

Silver Price and Forecast Trading Range

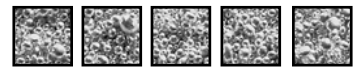


Source: GFMS

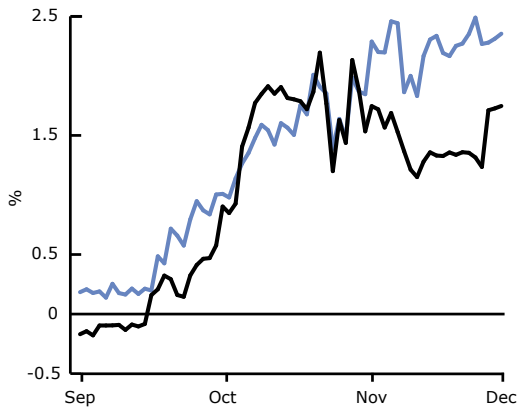
Silver Supply & Demand

(Moz)	2008	2009F
Supply		
Mine production	674	682
Net Government Sales	22	15
Scrap	177	169
Total Supply	874	866
Demand		
Industrial	460	429
Jewellery	155	158
Other	235	220
Total Fabrication	850	808
Net producer de-hedging	5	-
Implied net investment	18	57
Total Demand	874	866

Source: GFMS

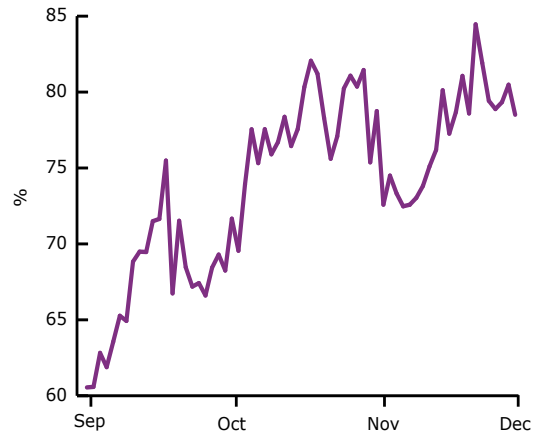


Silver 1-month and 12-month Leasing Rates



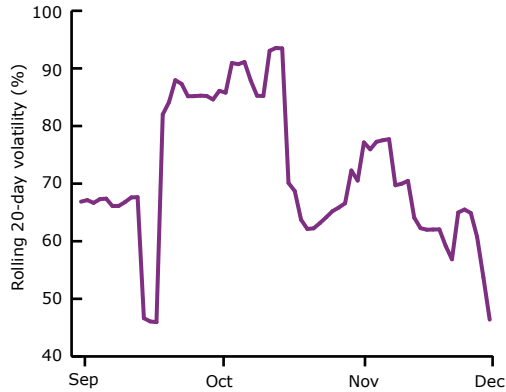
Source: Thomson Reuters EcoWin

Gold/Silver Ratio



Source: GFMS

Silver Price Volatility over Last 3 months



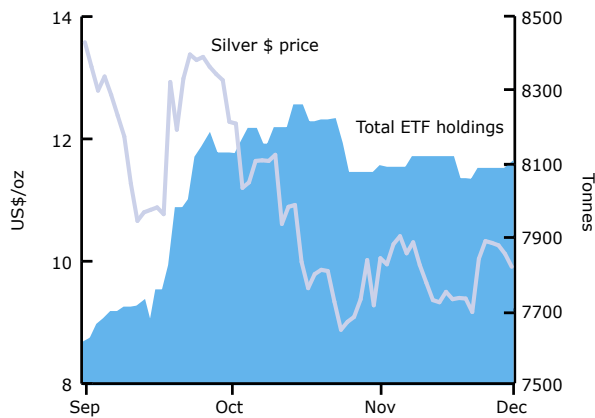
Source: GFMS

Silver Prices in Major Currencies in November

	Max	Min	Average	YTD Ave.
US\$/oz	10.41	9.17	9.87	15.29
Euro/kg	261.83	235.74	248.97	330.19
Yen/g	329	280	307	513
Rps/kg	4,019	3,457	3,647	10,656
Rmb/g	2.28	2.01	2.17	3.42
Rand/kg	3,320	3,022	3,210	5,488
Au/Ag Ratio	84	72	77	59

Source: Thomson Reuters

Combined Daily Silver ETFs Holdings



Source: Thomson Reuters EcoWin, respective ETF issuers' data

Major Silver Futures Markets and ETFs

Week beginning	COMEX net long futures position*	Equivalent tonnes	ETFs total, tonnes
10 Nov	27,964	4,349	8,113
17 Nov	27,458	4,270	8,113
24 Nov	23,682	3,683	8,081
01 Dec	24,894	3,871	8,081
YTD Average	53,066	8,253	7,008

*Combined non-commercial & non-reportable positions, contracts

Source: Comex, respective ETF issuers' data

3. Platinum

Key Platinum Market Developments:

- After falling to five-year lows in October (some two-thirds below the March record), platinum at last found support in November at levels around \$800.
- Fixes in the month averaged \$841 (down 8% on the October average) closing November at \$876 for an intra-month gain of \$38.
- General Motors, Ford and Chrysler are at a severe risk of bankruptcy due to plummeting car sales in the United States, which hit a 26-year low in November.
- European automakers are also threatened by plunging car sales as evidenced by the respective 50%, 30% and 14% declines in year-on-year sales in Spain, Italy and France during November.
- Japan's Toyota (the world's largest car maker) has lost its coveted AAA rating (downgraded by Fitch to AA).

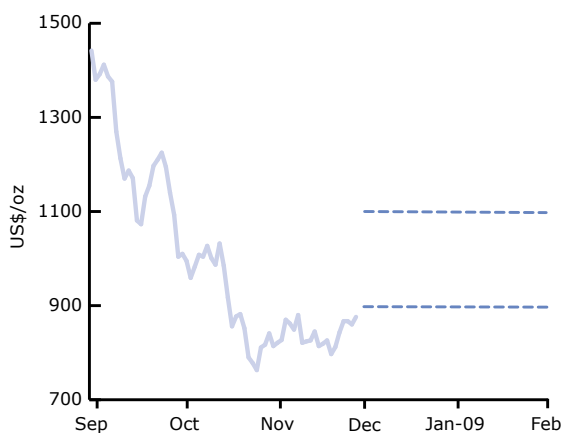
Outlook for Next Three Months:

In what is now a recessionary environment, we see limited scope for significant upward price development, although at current sub-\$900 levels, platinum appears oversold. In the absence of major cuts in mine production early next year we expect platinum to trade in the range of **\$900/oz** to **\$1,100/oz** in the next three months.

Platinum Market News:

- New legislation was initiated in Russia which means that the state will no longer have a monopoly on platinum exports.
- \$25 billion bailout awaited by GM, Chrysler and Ford was blocked by Democratic leaders of the US Congress.
- Production of Pt by Anglo Platinum this year should be reduced by as much as 200,000 troy ounces after it was forced to shut the Polokwane smelter for repairs.
- Lonmin announced its intention to cease open-pit mining at Marikana and possible suspension of its operations at Limpopo as sub-economic.
- Aquarius announced a shaft closure at its Marikana mine and a 4% cut in its 2009 production target. (Note: Both companies, Lonmin and Aquarius, own mines at Marikana)

Platinum Price and Forecast Trading Range



Source: GFMS

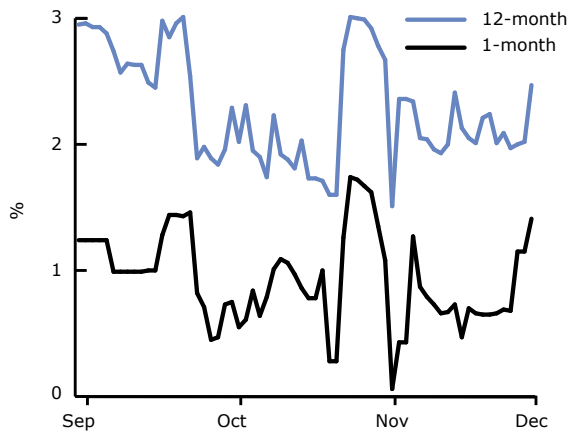
Platinum Supply & Demand

('000 oz)		
	2008	2009F
Supply		
Mine production	6,150	6,600
Autocatalyst scrap	1,019	1,107
Total Supply	7,169	7,708
Demand		
Autocatalysts	4,071	3,884
Jewellery	942	1,561
Other	2,094	2,090
Total Demand	7,108	7,535
Gross surplus/(deficit)	61	173
Identifiable stock movements	-70	-30
Residual surplus/(deficit)	-9	143

Source: GFMS



Platinum 1-month and 12-month Leasing Rates



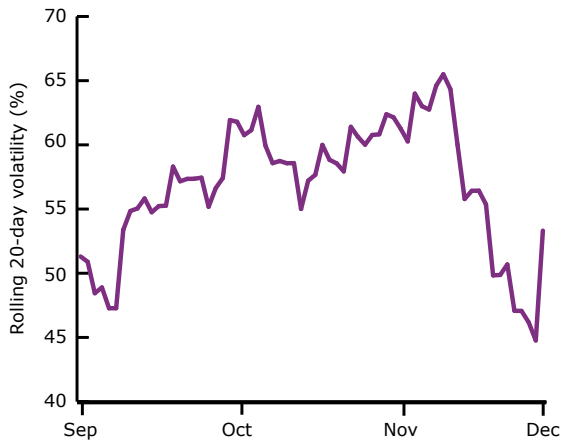
Source: Thomson Reuters EcoWin

Platinum Prices in November

	Max	Min	Average	YTD Avg
US\$/oz	880.00	797.00	840.30	1613.88
Euro/kg	22,199	20,461	21,209	34,657
Yen/g	2,790	2,435	2,617	5,438
Rub/kg	772,302	703,159	737,686	1,754,638
Rmb/g	193.14	175.13	184.50	362.49
Rand/kg	283,894	257,780	273,511	575,597

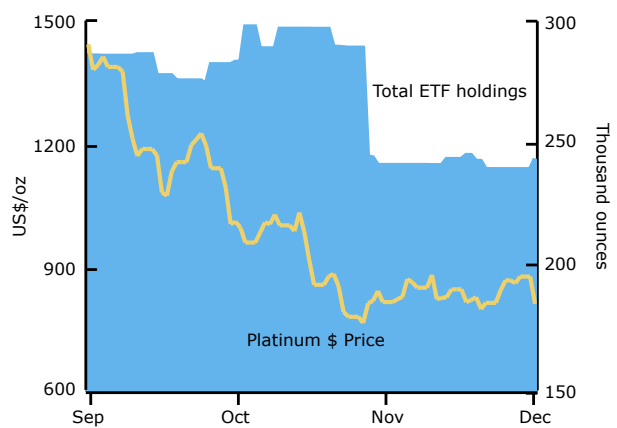
Source: Thomson Reuters EcoWin

Platinum Price Volatility over Last 3 months



Source: GFMS

Combined Daily Platinum ETF Holdings



Source: Thomson Reuters EcoWin, respective ETF issuers

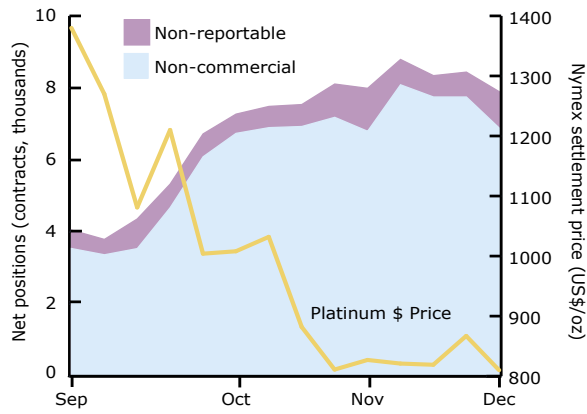
Major Platinum Futures Markets and ETF Holdings

Week beginning	COMEX net long futures position*	Equivalent tonnes	TOCOM customers' position**	Equivalent tonnes	ETFs total, tonnes
10 Nov	8,790	13.7	4,954	2.5	7.5
17 Nov	8,341	13.0	5,852	2.9	7.6
24 Nov	8,439	13.1	6,397	3.2	7.5
01 Dec	7,895	12.3	4,949	2.5	8.2
YTD average	8,237	12.8	22,578	11.3	10.5

* Combined non-commercial & non-reportable positions, contracts; ** Non-proprietary net positions

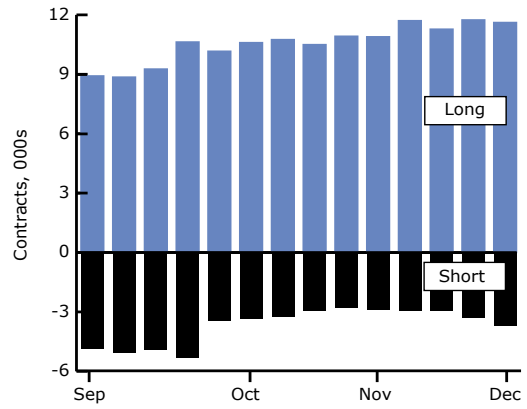
Source: Comex, Sumitomo Corp., Tocom, respective ETF issuers

Nymex "Fund" Net Positions



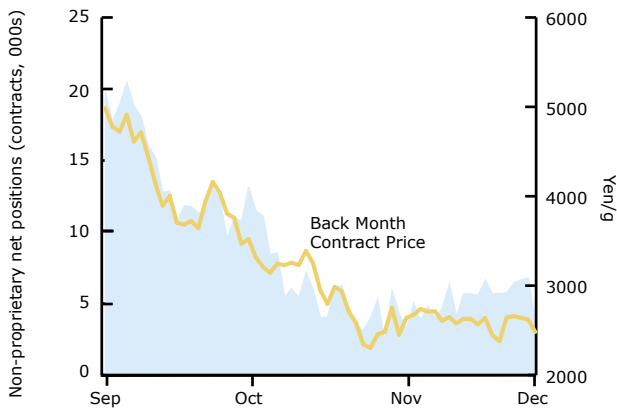
Source: CFTC

Nymex Total Speculative Futures Positions



Source: CFTC

Tocom Non-Proprietary Net Positions



Source: Sumitomo Corp., Tocom

Platinum Premium/Discount against Gold



Source: Thomson Reuters



4. Palladium

Key Palladium Market Developments:

- Contrasting the trend seen in platinum, the average price of palladium in November actually recorded an increase, as a rally early in the month led to a spike to \$233.
- Palladium's monthly average totalled \$207, a near 10% month-on-month gain.
- November's average was still down by 43% on a year-on-year basis.

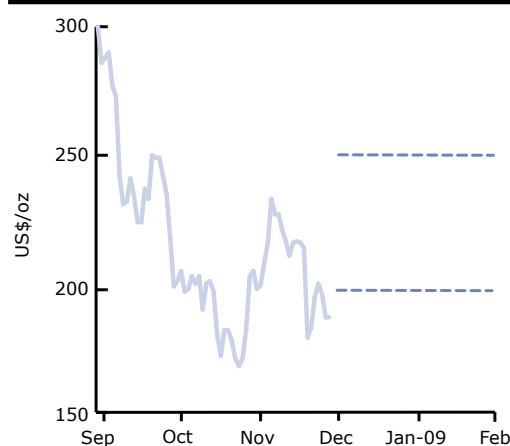
Outlook for Next Three Months:

Such historically low prices are likely to attract a degree of fresh investor interest, particularly those eyeing the longer-term investment potential of the metal. Although autocatalyst demand for the metal will be hurt by slowing automobile production in the United States (a predominately gasoline-based market) palladium demand will find some support from emerging markets (where some production growth remains) and will be further aided by substitution gains within gasoline systems and further inroads into diesel. GFMS views palladium trading in the range of **\$200/oz to \$250/oz** in December 2008 - February 2009.

Palladium Market News:

- Plummeting production of new cars in North America is expected to cut global demand by 350,000 oz. in 2008.
- North American Palladium Ltd. reported a Q3 loss of \$71.2 million, hurt by a sharp fall in metal prices. Palladium production volumes in Q3 2008 decreased by 8% to 63,791 ounces vs. 69,283 ounces in the same period last year. Lac des Iles will remain on care and maintenance until metal prices improve.
- New legislation introduced in Russia removed the state monopoly on palladium exports.

Palladium Price and Forecast Trading Range



Source: GFMS

Palladium Supply & Demand

	2008	2009F
('000 oz)		
Supply		
Mine production	6,692	6,878
Autocatalyst scrap	1,225	1,521
Total Supply	7,917	8,399
Demand		
Autocatalysts	4,830	4,913
Jewellery	1,072	1,148
Electronics	1,383	1,478
Other	1,147	1,241
Total Demand	8,432	8,779
Gross surplus/(deficit)	-515	-380
Identifiable stock movements	250	500
Residual surplus/(deficit)	-265	120

Source: GFMS

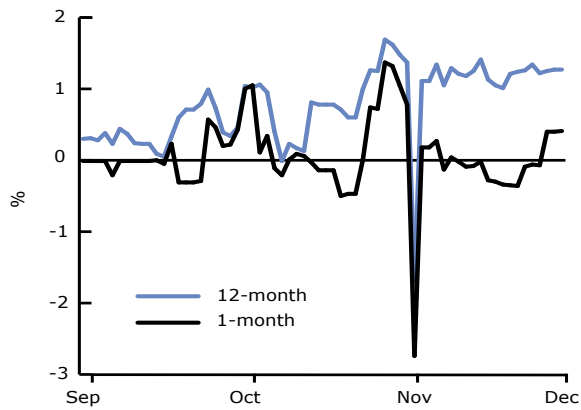
Major Palladium Futures Markets and ETF Holdings

Week beginning	COMEX net long futures position*	Equivalent tonnes	TOCOM customers' position**	Equivalent tonnes	ETF total, tonnes
10 Nov	6,959	21.6	2,725	1.4	22
17 Nov	6,732	20.9	3,200	1.6	22
24 Nov	6,905	21.5	3,376	1.7	20
01 Dec	6,475	20.1	2,732	1.4	20
YTD average	9,124	28.4	9,522	4.8	18.2

* Combined non-commercial & non-reportable positions, contracts; ** Non-proprietary net positions

Source: Comex, Sumitomo Corp., Tocom, respective ETF issuers

Palladium 1-month and 12-month Leasing Rates



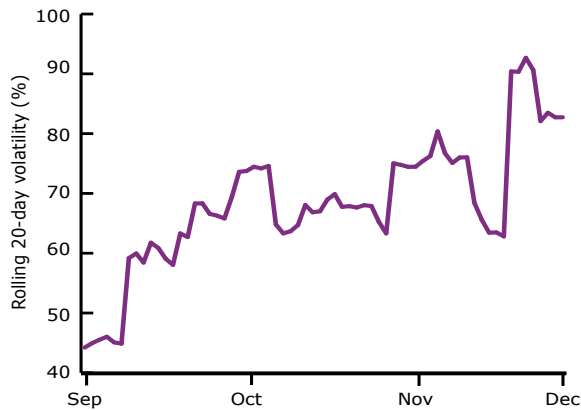
Source: Thomson Reuters EcoWin

Palladium Prices in November

	Max	Min	Average	YTD Avg
US\$/oz	233.00	179.00	207.43	366.40
Euro/kg	5,860	4,595	5,236	7,888
Yen/g	735	547	646	1,232
Rub/kg	201,620	157,924	182,034	449,274
Rmb/g	51.13	39.33	45.54	82.55
Rand/kg	74,310	59,791	67,524	74,310

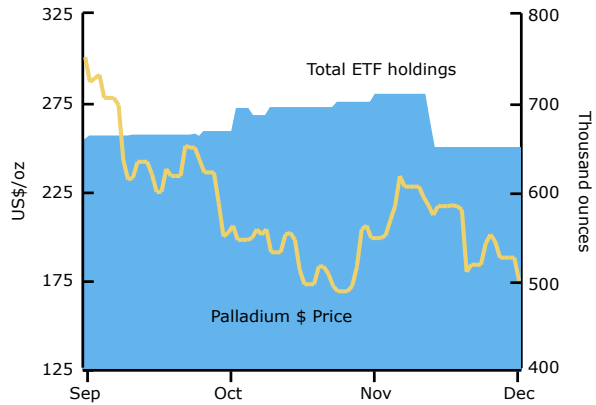
Source: Thomson Reuters

Palladium Price Volatility over Last 3 months



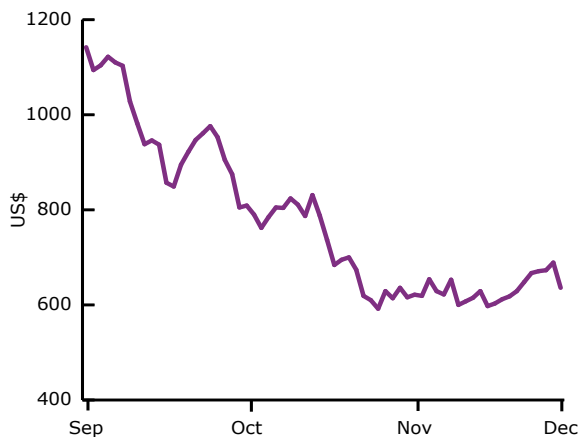
Source: GFMS

Combined Daily Palladium ETF Holdings



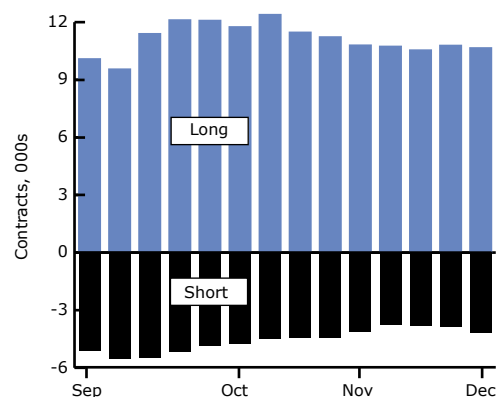
Source: Thomson Reuters EcoWin, respective ETF issuers

Platinum - Palladium Price Spread



Source: Thomson Reuters EcoWin

Nymex Total Speculative Futures Positions



Source: CFTC