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Publication of *Platinum & Palladium Survey 2008*

Supply shock from South Africa in 2007; electric shock in 2008

At briefings today in London and Johannesburg, GFMS launched its Platinum & Palladium Survey 2008. This is the fifth major report on these markets by GFMS, the independent precious metals consultancy, who are well known for their annual Gold Survey and World Silver Survey. The following sets out some of the highlights of the Platinum & Palladium Survey 2007.

The dominant factor for platinum in 2007 was a sharp decline in global mine production. Output from South Africa (three-quarters of global production) stumbled badly, as six years of uninterrupted growth were thrown into reverse. This was caused by a renewed zero-tolerance approach to mine-site fatalities, a prevailing shortage of skilled personnel, and industrial action over biennial wage talks and employee safety. The effects of these coincided with continuing strong demand for platinum, where a further contraction in jewellery was offset by other applications, chiefly autocatalyst. Therefore, driven by the fall in mine production, **platinum was plunged back into a deficit** of just over 200,000 ounces at the underlying “gross” level. The position is worsened at the residual level by the new effect of investment in exchange traded funds (ETFs). However, although this impacts prices and lease rates, we question whether this should be regarded as an element of platinum’s underlying fundamentals.

In 2008, South Africa’s miners have been dealt a further blow and are now engulfed by a national energy crisis. It began in January, when Eskom - the state-owned electricity generator – declared it was unable to guarantee power supplies, triggering an immediate nationwide stoppage of all underground mining operations, which lasted for five days. Although mining resumed as 90% of power was restored (and later 95% in some cases), there is considerable uncertainty over the effects of this on production levels for 2008, with expansion projects also in play. Whether these will overcome the losses incurred so far and the ongoing effect of reduced power allocations, is the key question. In our view, the **chances of a material recovery in 2008 are low**, with a greater risk that output may fail to match even last year’s dissappointing result. However, this will not necessarily result in a larger deficit this year as jewellery demand is likely to contract sharply and the scrapping of old jewellery is expected to increase.

Although mine production of palladium in 2007 was less effected by the situation in South Africa, output was additionally impacted by declines in Russia and the United States. Meanwhile, fabrication demand increased as further gains in autocatalyst (both in gasoline and diesel) were supported by consolidation in jewellery applications. **This resulted in palladium swinging back to an underlying deficit in 2007** of more than 350,000 ounces, excluding the effects of further Russian inventory sales and investment in ETFs. When these are included, palladium was again in surplus at the residual level, although at only 260,000 ounces this was much reduced. As we have long argued, sales of excess Russian palladium represent a change in the ownership into the hands of investors, rather than a change in the level of global stocks. This was again the case in 2007, with investors now including ETFs.

During 2007, ETFs have emerged as a new factor for both platinum and palladium. Unlike other forms of mainstream investment (futures and OTC), ETFs are backed by the allocation of physical bullion, which is segregated from the pool of available physical liquidity. However, this remains in its original form and continues to be part of global above-ground stocks. **ETF investment is now important factor for prices and lease rates but does not cause changes in the totality of above-ground stocks.** Therefore, we have treated this as a below the line item, separate from the underlying fundamentals.

The investment climate for precious metals remains positive, with portfolio diversification and the pursuit of safe-haven assets being further stimulated by the fall-out from sub-prime and the prevailing weakness of the US dollar. Investor interest in platinum and palladium is supported by this environment and is **further influenced by strong underlying fundamentals for both platinum and palladium** and by the scale of above-ground stocks. For 2008, we remain positive for both metals and are forecasting trading ranges between $1,700 and $2,400 for platinum and $400 and $550 for palladium. As these trading ranges suggest, we are anticipating the likelyhood of considerable volatility. We would expect the higher end of these ranges to coincide either with further difficulties in South Africa or gold prices breaking strongly through the $1,000 level. We remain positive for gold also and see this as a real possibility in 2008.

Platinum & Palladium Survey 2008 contains 84 pages of statistics, commentary and analysis on all aspects of world platinum & palladium supply/demand and on PGM prices in various currencies. The publication can be ordered from GFMS for £325 / US$595 / €440 per copy. For orders and to receive further product information please contact Elena Patimova
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