



Publication of *Platinum & Palladium Survey 2010*

Platinum's gross surplus jumped in 2009, expected to remain at elevated levels in 2010. In contrast, the palladium market was in balance last year, with only a modest gross deficit forecast for 2010.

At briefings today in London and Johannesburg, GFMS launched its *Platinum & Palladium Survey 2010*. This is the seventh report on these markets by GFMS, the independent precious metals consultancy. The following sets out some of the highlights of the survey from the briefing given at the London launch by Peter Ryan, senior consultant of GFMS.

Looking first at **platinum**, GFMS believe that the gross surplus in 2009 surged by 47% to 849,000 ounces, the largest surplus recorded by GFMS in its 11-year data series. This owed much to far weaker global demand, which fell by 14%, or a sobering 1.07M ounces, to 6.41M ounces, its lowest level since 1999. Unsurprisingly, autocatalysts accounted for the bulk of the decline, impacted by the global recession, which saw vehicle sales first slump towards end-2008, a situation which only started to improve from the second half of last year. The economic downturn also fed through to lower industrial demand, with a sharp reduction in planned capacity expansions impacting the glass industry in particular. This was partially offset by growth in jewellery fabrication, although this was almost entirely a "China story", where demand responded positively to weaker platinum prices, especially over the first nine months of last year.

However, according to GFMS, the size of the gross surplus in 2009 was contained by a near 800,000 ounce, or 10%, drop in global platinum supply. Close to 60% of the fall was due to far lower levels of old jewellery scrap, where there was no repeat of the record level of recycling seen in Japan in 2008. In contrast, the fall in mine production was a slim 2% (after heavy falls in 2007 and 2008), which was exceeded by the drop in autocatalyst scrap supply, the first time this sector has experienced a fall since recycling emerged in the 1980s.

In spite of the larger gross surplus for platinum last year, prices achieved a near uninterrupted rise in 2009, a situation which has continued this year. This has owed much to a surge in investment demand, highlighted by the growth in ETF demand last year, which added nearly 390,000 ounces. In fact, this trend shows little sign of slowing in 2010, encouraged by the launch of two new funds, including ETF Securities' product in the United States; in less than four months this fund has accumulated almost 340,000 ounces.

Looking ahead to this year, although platinum autocatalyst and industrial demand should benefit from the improved economic outlook, GFMS believe that this will be partially offset by weaker jewellery demand, principally in China. This stems from our view that prices will remain at elevated levels, boosted by a further rise in investment demand for commodities in general, as inflationary concerns continue to develop. At this stage, therefore, GFMS are forecasting a modest 5% rise in global demand, but its impact on the gross surplus will be offset by a recovery in global mine production and the resumption of an upward trend in autocatalyst scrap. Even so, the gross surplus is still expected to remain at historically high levels in 2010.

Turning to **palladium**, the consultancy believes that the market achieved a near balance in 2009, with a gross deficit of just 12,000 ounces. This was largely due to far weaker global demand, with only retail investment posting an increase last year. Of note, on the demand side, was sharply lower offtake in the auto sector, although the decline, at 14%, was not as severe as for platinum. There was, however, no respite from jewellery, which saw the second largest decline in 2009 (after autocatalysts). This was inextricably linked to platinum, with Chinese consumers less inclined to purchase palladium, given the weaker platinum price trend compared with 2008.

The fall in global demand comfortably outstripped the decline in palladium supply, with the latter only weaker by 259,000 ounces last year. Mine production and jewellery scrap both recorded similar falls but were eclipsed by the decline in autocatalyst scrap. Looking ahead to this year, GFMS are forecasting a larger gross deficit, although this should fall short of the deficits posted in recent years. Looking at each sector, global demand should benefit from a sharp recovery in autocatalysts, due to firm growth in every principal region. However, supply should also respond positively, with gains across the board in mine production eclipsed by a surge in autocatalyst scrap supply in 2010.

From a price perspective, GFMS are forecasting continued strength in palladium prices this year, for similar reasons as discussed above for platinum. In keeping with its sister metal, inflows into palladium ETFs this year, for example, have already eclipsed last year's volumes, with the new ETF Securities fund in New York accounting for over 600,000 ounces at the time of writing.

The statistical highlights of the report are outlined overleaf.





Platinum Highlights

- Global **mine production** slipped by less than 2%, or 113,000 ounces, to a six-year low of 6.04M ounces. South Africa, Russia and Canada all posted sizeable declines, with some offset coming from Zimbabwe. The losses for South Africa, which left the full year total nearly 2% lower at 4.60M ounces, were the product of high cost mine closures, strike-related stoppages and the impact stemming from efforts to conserve electricity usage.
- Measured **scrap** supply fell by 36% to 1.22M ounces. This was largely due to a halving of **jewellery recycling**, mainly the result of a 50% fall in Japanese recovery, where lower yen platinum prices discouraged selling back by consumers. Augmenting this was the first ever drop in the recovery from **spent autocatalysts**. Although various scrappage schemes boosted second half 2009 volumes, this did not offset a first quarter slump, which suffered from the stockpiling of material by breakage and scrappage yards.
- **Autocatalyst** demand fell by a noteworthy 28% to an eight-year low of 2.60M ounces. The western markets bore the brunt of the decline in 2009 auto sales, with Europe, where platinum demand is concentrated, seeing a one-third fall in offtake, to its lowest level since 2001. European platinum demand was further impacted by continued substitution in diesel in favour of palladium.
- The only area of demand to rise last year was **jewellery**, which surged by 38% to 2.26M ounces. This was almost entirely due to far stronger Chinese offtake, the product of lower yuan platinum prices, especially during the first nine months of the year. As a result, global jewellery offtake saw its share of total demand jump to 35%, its most significant contribution to the world total since 2004.
- Investment in **ETFs** recorded their most significant gain since their launch in 2007. Last year saw 384,000 ounces added to the global total, with ETF Securities (+264,000 ounces) and ZKB (+120,000 ounces) accounting for the bulk of the increase.

Palladium Highlights

- World palladium **mine supply** fell by just 1% to 6.31M ounces in 2009. This occurred in spite of South African output rising by close to 5%, to 2.48M ounces, helped by gains at palladium-rich mines and the release of process inventories. However, this was more than offset by a near halving of Canadian production, due to industrial action and the closure of the Lac des Iles mine at the end of 2008.
- The fall in measured **scrap** supply in 2009 was mainly due to lower **autocatalyst recovery**, although this was partially offset by a jump in the palladium richness of spent canisters treated by the industry. The decline for **jewellery scrap** last year, at 71,000 ounces, was largely the result of a price-related slump in the Japanese market.
- **Autocatalyst** demand in 2009 fell by a relatively modest 14% to 3.91M ounces, to its lowest level in GFMS' 11-year series. In spite of a slump in North America and Japan, European demand fell by "just" 9%, assisted by scrap incentive schemes which favoured gasoline vehicles (and hence palladium) and further inroads made by palladium in the diesel sector, while Chinese offtake, which leapt by 40%, benefited from the country's stimulus package, which drove a 43% increase in vehicle production.
- Every area of demand, aside from **retail investment** (+76,000 ounces) fell last year. Excluding autocatalyst, **jewellery** and **electronics** saw the largest declines, impacted (respectively) by strong competition from platinum in China and the fall-out from the global recession.
- Investment in **ETFs** grew by 507,000 ounces in 2009, almost entirely the result of a jump in demand for ETF Securities' London fund, where end-year holdings reached 665,000 ounces.

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Platinum & Palladium Survey 2010 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 Emma Hastings
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