



Precious Metals Update

31 January 2012

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Highlights

- **US Central Bank fires up the market with low interest rates till 2014** – Precious metals build on their early-year gains, partly due to a weaker US-dollar.
- **Gold breaks all resistances** – Euro-Nations can finance themselves rather well, despite repeated downgrades by rating agencies.
- **Silver gains further** – Investors, but more the industrial buyers, missed favourable prices and now have to get back in the market at higher levels.
- **Platinum rallies and makes good ground, especially against gold** – After reaching a 2 year low, investors and speculators re-discover their love for the metal. Strikes and supply-disruption fears further feed the price-rise.
- **Palladium follows platinum** – Largest increase in positions on the CME in 6 months; despite this, palladium struggling at the Chart-resistance point of \$ 700 an ounce.
- **Minor platinum-metals record gains too** – Rhodium up \$ 100; buying interest from the industry as well as dealers, especially from Asia.

Platinum

All prices for the period from 11th Jan. until 31th Jan. 2012

PT	US\$/oz	€/oz	€/gram
High	1,627.50	1,235.68	39.72
Low	1,457.60	1,039.80	33.43
Latest	1,621.00	1,226.66	39.44

Since our last report, platinum has benefited from the general uncertainty surrounding the power-supply situation at the South African mines. In this connection there were various reports about the fragility of the electricity supply situation and the reserves at the energy-monopoly Eskom.

Even though shortly afterwards one or the other mining company said that they were "satisfied" with the present power supply as far as the mining industry is concerned, it certainly again goes to show how delicate the situation is in South Africa.

A further driver during the last weeks of January was platinum's demand from Asia, particularly shortly before the start of the Chinese New Year festivities. Apparently a large number of industrial end-users covered themselves; and as expected, at the end of January physical

demand calmed down with the start of the Chinese holidays.

Also, the illegal strike at Implats' owned Rustenberg-mine added coal to the fire and helped the metal add further in value. The company estimates a strike-related loss-in-production to the tune of 3000 ounces per day. After the expiry of the deadline last Friday, the miners were granted an extension to return to work by 1st February.

Gold's premium over the price of platinum has shrunk considerably from \$ 200 to now only \$ 110 an ounce. Here the over-proportionate price-rise since the interest-rate declaration of the US-FED (see gold) is clearly evident.

The open positions on the futures exchanges moved strongly, up almost 18 percent. Relatively small, but consistent, were the flows into the ETF market.

PD	US\$/oz	€/oz	€/gram
High	698.00	529.97	17.04
Low	619.40	482.45	15.51
Latest	692.00	522.98	16.81

Palladium

The increase in speculative palladium positions on the futures exchanges was by far stronger than that of platinum. Here the American futures exchange CME added almost 48 percent to its open positions in the past 5 days; the largest position increase on the CME in 6 months. It is interesting to note that the Japanese investors

see the situation slightly differently; their positions have remained unchanged during this reporting period.

Palladium is again scratching at the \$ 705 mark. This is a level at which the market has more than once been disappointed in recent weeks.

Rhodium, Iridium, Ruthenium

The minor platinum metals recorded gains across the board. Ruthenium is currently quoted at \$ 105 – \$ 120 and iridium \$ 1,040 – \$ 1,090 an ounce.

More considerable were the gains in rhodium, currently priced a \$ 100 higher at \$ 1,400 – \$ 1,475 an ounce.

It was mainly demand from industrial buyers and dealers, especially in Asia, that moved the minor metals upward.

AG	US\$/oz	€/oz	€/kilo
High	33.95	25.81	829.81
Low	29.42	23.12	743.32
Latest	33.65	25.52	820.48

Silver

The positions on the North American futures exchanges recorded considerable gains last week. In the past two and a half weeks the positions have gone up almost 30 percent to now 143 million ounces.

The decision of the US FED to keep interest rates low till 2014, and which in the end catapulted all the metals upward, surprised the market participants; particularly the speculative investors, who were forced to detach themselves from their unprofitable short-positions.

On the ETF side, all ETFs recorded small inflows during this reporting period. Only the

Zuricher Kantonalbank ETF complained of noticeable large outflows of about two and half percent last week.

In the options market, in the past two weeks Call Options with strike prices between \$ 35 and \$ 40 and tenors of 3-4 months were increasingly bought to cover industrial demand.

On the demand side, granules and investment bars reflected a slow-down. Here the price around \$ 33.50 an ounce appears to be scaring away investors.

Gold

In the second week of January France and Austria lost their AAA rating at Standard & Poors. Further, Malta, Slovakia, Slovenia, Cyprus, Italy, Portugal and Spain were downgraded one notch.

And only a day later, as a necessary consequence, the EFSF safety-umbrella was downgraded too, as now only 37 percent of the bonds of the EFSF were guaranteed by AAA countries. At this news, gold went up \$ 20 an ounce. The bond-investors were however unimpressed by all this and at the money-market paper auction on the same day 1.5 billion euro flowed into the crisis-fund at very favourable conditions.

In the end Germany is currently the only remaining nation with a AAA rating with a stable outlook. Subsequently there was good news from the Finance Ministry; they apparently recon that the German debt for the full year 2011 could be retrospectively corrected downwards to 79 percent of GDP. As such a possible downgrading of Germany or a change in the outlook does not appear to be on the cards in the foreseeable future.

The announcement by the Indian government of raising the import-duty on silver to 6 percent and on gold to 2 percent with immediate effect had practically no effect on the gold market. Generally such tax-increases are naturally seen as rather negative (for demand), however in this case the market got back within days to concentrating on the more important stimulators like the economic-crisis, economic growth (demand) in China, especially shortly before the Chinese New Year, as well as the marriage-season in India.

The news about the EU putting sanctions on Iran not only drove the price of oil up – keeping in mind the inflation aspect – it also pushed gold up to a peak of \$ 1,675 an ounce.

The Iranian Rial lost almost 10 percent of its value at the announcement of the sanctions. We expect the political developments in the Gulf region will continue to affect the gold price in the coming weeks.

The actual driver for precious metals in this reporting period was the announcement by the US-FED on 25th January that they would continue with their (almost) “zero-interest-rate” policy till the end of 2014. After a weak start from \$ 1,650 an ounce, the yellow metal rallied strongly to touch a peak of \$ 1,710 an ounce.

As the opportunity cost of holding gold for the longer-term is now going to continue to remain low (so far the market had expected the FED to keep low interest-rates till the middle of 2013), investors as well as short-term speculators again rushed to gold. Another argument mentioned, which accelerated the effect, was the weak US-dollar that had dropped to 1.30 against the euro.

The futures exchanges showed an interesting picture. Whilst the North American exchanges saw an increase in the positions (plus 15 percent), the open positions on the TOCOM, Tokyo were slightly reduced. The ETF-investors again showed that they had a clam hand; here the open positions in the last week went up slightly with increasing speed.

On the technical side, gold continues to have upward room; the next resistance is at the \$ 1,810 mark. Even though, after the strong rally since the beginning of the year (plus \$ 200 an ounce) a small price-correction would be quite natural.

AU	US\$/oz	€/oz	€/gram
<i>High</i>	1,744.80	1,322.82	42.53
<i>Low</i>	1,624.04	1,269.04	40.80
<i>Latest</i>	1,739.00	1,318.60	42.39



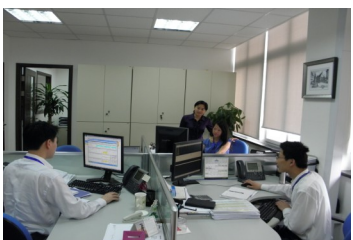
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