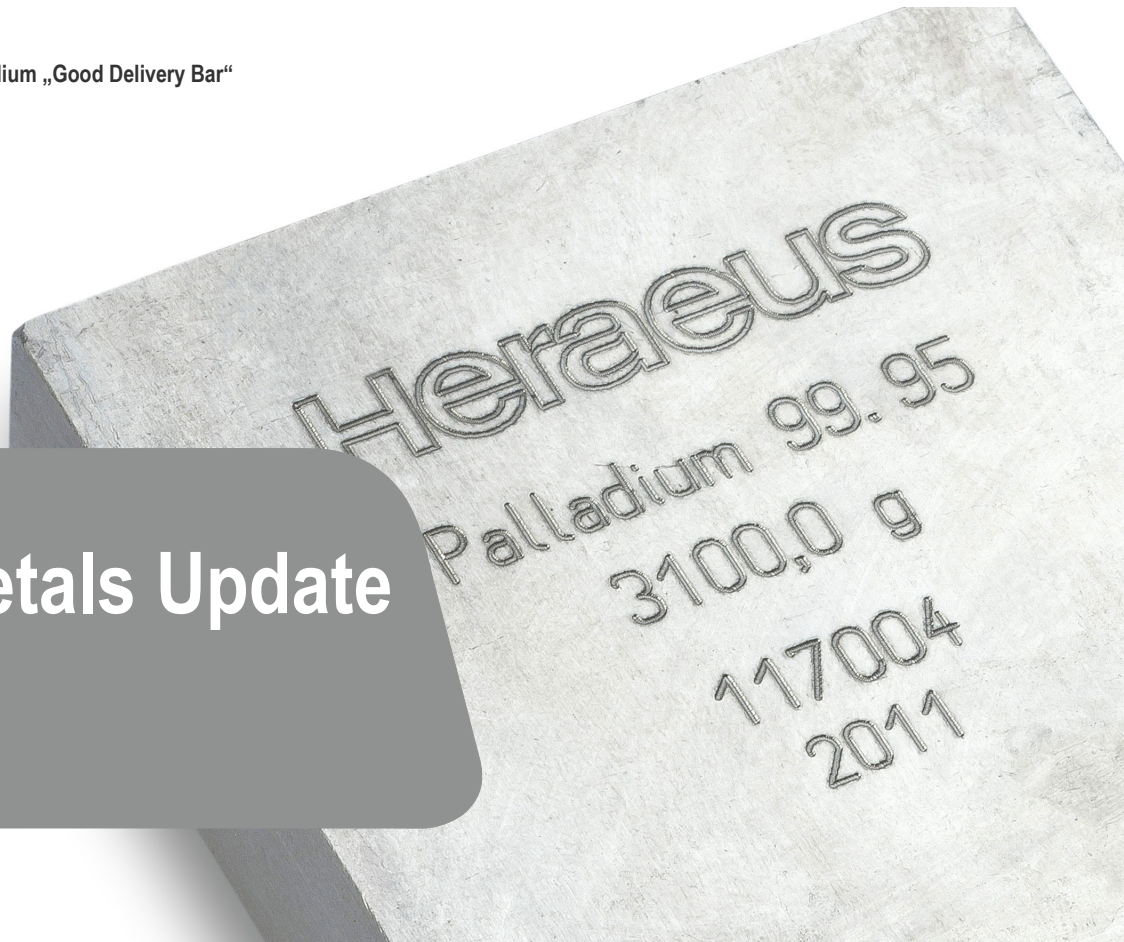


Picture: The New Heraeus Hanau Palladium „Good Delivery Bar“

Precious Metals Update

14 November 2011



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Highlights

- **Precious metals undergo a small renaissance** – New trend or just a flash in the pan?
- **Gold again touches \$1,800** – Greece, Italy and interest-rate cuts continue to effect course.
- **Silver remains very volatile** – Suffers from its dual role as an investment and industrial metal.
- **Platinum finds bottom at \$1,500** – Worries about economic growth effect industrial demand. Quite the opposite with investors; they use the opportunity to buy physical “cheaply”.
- **Palladium sluggish** – Investors and speculators continue to show little interest.
- **Minor Platinum metals continue to remain calm** – Rhodium with some investor-demand. Ruthenium stays weak but with first signs that the price-fall is slowing.

Platinum

All prices for the period from 26th Oct.until 14th Nov. 2011

PT	US\$/oz	€/oz	€/gram
High	1,691.00	1,229.25	39.52
Low	1,550.00	1,112.95	35.78
Latest	1,645.00	1,200.62	38.60

In its fight against inflation the Chinese central bank has raised interest rates five times since October 2010 to the present 6.56 percent. Additionally it pulled out large sums of money from circulation; cash reserves required to be kept by commercial banks at the central bank have gone up to record highs. The recent, somewhat fading price-pressure now gives the central bank some eco-political room to manoeuvre. Most experts are not expecting a rate-cut in the short-term, instead lower reserve requirements. Expensive money is also putting a brake on Chinese industrial production; here growth was at its slowest in almost a year. This slow-down, even if only marginally, was reflected in platinum's price developments in the past weeks.

Inflation in China in October fell to a mere 5.5 percent. With this the rate is unexpectedly moving away from July's three-year-high of 6.5 percent and September's 6.1 percent. The government is expecting inflation to drop further. However the effect on individual foods has been very different. While prices for pork and eggs have fallen, milk products and beef have stayed at very expensive levels.

Palladium

PD	US\$/oz	€/oz	€/gram
High	675.77	490.32	15.76
Low	620.00	453.95	14.59
Latest	656.00	479.70	15.42

Palladium confined itself most of the time to a tight trading range only \$50 wide. Not only the speculative positions on the futures exchanges but also the ETFs

Rhodium, Iridium, Ruthenium

While trading in iridium came to almost a complete stop during this reporting period, some buying interest, mainly from speculators, was seen in rhodium. The ounce currently costs \$1,650 - \$1,680.

Situation of ruthenium was completely different. Here the price-fall continued undis-

Silver

AG	US\$/oz	€/oz	€/kilo
High	35.66	25.69	825.95
Low	32.07	23.52	756.18
Latest	34.32	25.16	808.91

Silver continues to find itself in an area of conflict between its correlation to the gold price and the fear surrounding further economic development. During this reporting period silver remained very volatile and traded in the range between \$32.07 and \$35.66 an ounce.

The search for the future trend is mirrored in the forward positions on the exchanges.

Food-stuffs are the largest price-inflator in China. On average these have gone up in price by around 11.9 percent compared to previous year. The government remains concerned about social unrest as expensive food effects the complete population, especially in the poorer regions in the country-side.

In the past weeks positions on the futures markets and ETFs held by investors showed no mentionable change.

Noteworthy is the present, strong, physical demand for platinum bars. Here, despite the added VAT charge, a new trend seems to building up for the assumedly cheaper metal as compared to gold; even though the physical platinum bar market is a small fraction of the size of the gold market. Apparently these bars are being delivered to Customs / Duty Free storages and thereby are free of the VAT charge.

On the technical side, there is resistance around \$1,665 - \$1,670 an ounce. A break through this could open up a path towards \$1,880.

showed no change in their stocks. In our opinion, short-term the next small technical resistance around \$ 700 an ounce should hold.

turbed, however in the last few days the first signs of the speed of this fall slowing down have been noticed. It is too early to say whether this fresh buying (or less selling) reflects a stabilisation or perhaps even a change in trend.

Whereas in the first half of this reporting period forward positions on the exchanges went up a good 20 percent, in the second-half they remained, by-and-large, unchanged. Investors in ETFs behaved contrarily; here the positions were up around 4 percent in the last two weeks.

Gold

Simultaneous to the publishing of our previous report, the EU-nations announced a debt hair-cut for Greece

The banks should voluntarily accept a 50 percent write-off of their Greek debt. And private investors should exchange their bonds early 2012 with bonds secured by the EFSF rescue-funds.

And while Europe was working out a way to increase the “fire-power” of its Euro Rescue Fund, Papandreou decided to hold a general public referendum.

One condition of the agreed EU help-packet was that the government in Athens take drastic steps to save. Massive strikes in Greece were the result. With the surprising call for a referendum, Papandreou was looking for political support from the people. However, at first, there was confusion surrounding the referendum. To begin with, the Prime Minister did not mention any deadlines by when the referendum was to take place nor what the actual questions would be. He only said that the result would be binding to his government. As a reaction to this, the EU-nation’s meeting in Cannes decided not to disburse any further credit-tranches to Greece till the referendum. For Mrs Merkel, the referendum would be a simple YES or NO to the euro, with all its consequences.

It was hoped that the EU - rescue plan would dampen the distrust and lack in confidence in the markets and to show that the Eurozone had found solidarity and put together a functional mechanism. The uncoordinated (with other EU members) call for a referendum by Papandreou only added more fuel to the uncertainty. Should a NO follow, then the Greek economy would collapse and the financial markets would not buy any “Drachma” bonds that the Greeks would issue.

And then there was more commotion on 2nd November. While it appeared that the Prime Minister Papandreou had unconditional support of his government, he was challenged by his finance minister. Hopes of a possible rejection of the referendum idea made its round in the financial markets and equity and commodity prices rallied across the board.

Only three days later Papandreou resigned. Within a week the new government was to be sworn-in and a confidence vote held. The new coalition wanted a green light from the Parliament for the latest help packet from Europe and the strict austerity measures it required before calling new elections. The incoming Prime Minister Papademos, was till end of 2010 the Vice-President of the ECB.

The European Central Bank countered the agitation in the financial markets by a surprise cut of 0.25 percent to 1.25 percent in interest rates. This cut could lead to the strengthening of inflationary tendencies and to the general benefit of metal positions, as seen in the rally of gold up to \$1,744 an ounce. The massive buying of German sovereign bonds in recent days, mainly by foreign investors, reduced the yield for short due-dates (6 months) to a minimal 0.08 percent; de-facto Germany could now borrow short-term at “zero” percent. Given the present inflation rates and current historically low interest rates, investors will just have to live with negative real interest rates; this has further supported precious metals prices

The political and economic chaos is escalating not only in Athens, but in Rome too. Just before the resignation of the Prime Minister Berlusconi, risk-premiums for Italy have shot up to record highs since the introduction of the euro. Yield on 10-year Italian sovereign bonds spiked to 7.45 percent. The risk-premium to comparably German bonds also reached a record high since the introduction of the euro.

Italy has so far not completely eroded the trust investors have in it. Two days after the announcement of Berlusconi’s resignation, and one day after the collapse in price of Italian sovereign paper, as mentioned above, last Thursday Italy managed to place euro 5 bn. 1 year bonds at 6.1 percent in the market. The auction was over-subscribed by almost 100 percent.

Italy, with a debt to GDP ratio of 120 percent, is after Greece the second largest debtor amongst the Euro nations. A comprehensive austerity packet was waved through parliament. In addition to massive tax-reforms – which are expected to bring in additional euro 20 bn. per annum – are privatisations and programmes for increasing competitiveness foreseen.

The situation will remain full of suspense as next year Italy has a re-financing demand of 300 bn.

Metal positions on the futures exchanges in the past two weeks were up by almost 15 percent. Interesting to note here is that the TOCOM (Tokyo exchange) saw a reduction; here, it was certainly an effect of the massive currency intervention in the yen by the Bank of Japan. On the other hand, ETF positions remained unchanged in the past two weeks.

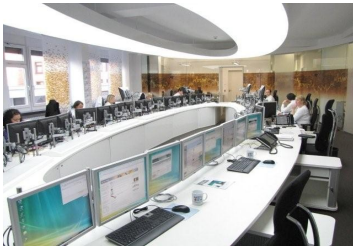
AU	US\$/oz	€/oz	€/gram
High	1,802.60	1,326.52	42.65
Low	1,681.70	1,213.24	39.01
Latest	1,776.00	1,300.45	41.81

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The Chinese have stayed faithful to the yellow metal. According to analysts at GFMS, gold purchases in China have gone up from 215 tonnes in 2000 to over 452 tonnes last year. Of special mention here is demand for gold bars – this has gone up from less than 10 tonnes five years ago to over 180 tonnes in 2010.

Colleagues at GFMS estimate that sale of investment bars could reach 250 tonnes for the full year 2011. It is apparent that the demand for bars has exploded in the last ten years, with jewellery demand remaining a constant around 200 tonnes. Contrary to demand for bars, jewellery demand has shown no growth, but at the same time, despite higher prices, it has not gone down either.

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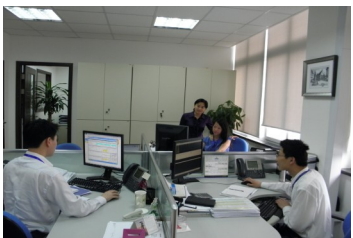
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