Heraeus

Precious Metals Update

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Highlights

- **Central Banks continue to flood market with liquidity –** Precious metals profit only marginally from it.
- **Gold moves sideward –** Rating agencies downgrade sovereigns and banks in the Euro-Zone. Greece remains in the centre-point of the financial crisis.
- **Silver weary –** Investors buy again, industrial demand remains unchanged at a low level.
- **Platinum adds to its gains –** Developments at Impala's Rustenburg-mine give cause for concern. Chinese Central Bank reduced reserve-requirements as economy looses steam.
- **Palladium struggles – in vain – to stay above the $ 700 mark –** After breaking-through the massive resistance in the past weeks, the metal, at times, dropped back to $ 678 an ounce.
- **Minor platinum metals also record gains** – Rhodium up $ 75, ruthenium plus $ 20 an ounce; some resurgence of global industrial demand the cause behind this.

Platinum

All prices for the period from 31th Jan. until 21th Feb. 2012

PT	US$/oz	€/oz	€/gram
High	*1,668.00*	*1,262.17*	*40.58*
Low	*1,575.49*	*1,204.12*	*38.71*
Latest	*1,665.00*	*1,257.37*	*40.43*

In January, for the first time in 2 years, Chinese exports fell. Additionally, imports of the second largest economy in the world dropped startling by 15 percent. Thereby, after a long time, the Chinese economy showed clear signs of weakening.

At this news from China, at first all metals weakened, especially platinum. Here again it was seen how price-sensitive the market reacts on bad Chinese figures.

But this weakness did not last long, and only a few days later, earlier this week the Chinese Central Bank reduced the reserve-requirements for banks by 50 basis points. The path is now free for additional cheap money to rekindle the economy, however this brings with it the risk of an inflationary tendency.

The news from China and also the continued uncertainty about the supply concerns from mine-production in South Africa influenced the precious metal markets, especially the platinum-group-metals.

It appears that developments at the Impala Rustenburg mine in South Africa are getting out of control. After 17,000 mine workers were sacked by the management as a consequence of staging an unauthorised strike, the workers are now complaining about the body that looks after their interests – the miners union NUM (National Union of Mineworkers). More and more voices are being heard saying the NUM is more on the side of the management and is not doing enough to protect the interest of its member-workers. In order for their demands to be heard the demonstrators quickly set-up their own committee. During the conflict two non-striking workers lost their lives to their striking colleagues.

The agitations are a reflection of the frustrations of the poorer South African people. Their economic situation, despite many promises by the government, has not bettered in any significant way. South Africa has between 80 and 85 percent of the worlds' known platinum reserves. The Rustenburg-Impala mine alone accounts for 15 percent of global new production. In view of the recent developments, it is rather debatable whether the situation at the Rustenburg mine will normalise in the near future.

The platinum positions on the Futures Exchanges mirrored the price moves in recent weeks. Plus-positions were up a good 22 percent in the past three weeks.

Resistance to the upward move should now build up around the high of $ 1,670 reached on 9th February. Short-term support at the moment is around $ 1,590 – $ 1,600 an ounce.

Palladium

PD	US$/oz	€/oz	€/gram
High	*715.72*	*543.37*	*17.47*
Low	*673.43*	*514.39*	*16.54*
Latest	*699.50*	*528.73*	*17.00*

Palladium ultimately managed, after week-long vehement efforts, to break upwards through the resistance level of $ 700 an ounce. Since then it has shown no real strength and disappointed investors as it stopped at the high of only $ 716 reached on 9th February. Subsequently, during the course of this reporting period, it at times dropped down to as low as $ 678 an ounce.

The exact price movement in the past three weeks is mirrored in the figures of the positions on the Forward Exchanges. While in the first two weeks of February these positions were up 40 percent, last week saw the first liquidations, even though only marginal. It was different with private investors and ETF's. They continually bought throughout the past weeks and increased their investments by 7 percent.

Technically a few support points have built up between $ 674 and $ 660 an ounce.

Rhodium, Iridium, Ruthenium

The minor platinum-group-metals gave a mixed picture: Iridium was unchanged at $ 1,050 – $ 1,100 an ounce. Ruthenium added $ 20 an ounce and is now trading at $ 115 – $ 140. Rhodium gained $ 75 to its present price of $ 1,475 – $ 1,550 an ounce. The latter two were mainly driven by a resurgence of global industrial demand.

Silver

AG	US$/oz	€/oz	€/kilo
High	*34.48*	*26.17*	*841.38*
Low	*32.64*	*25.08*	*806.34*
Latest	*33.67*	*25.48*	*819.20*

According to the estimates of analysts at the CPM-Group silver production at mines in 2011 was up 2 percent compared to 2010. For the recently started year 2012, the experts estimate that primary global production will further increase by almost 4 percent. At the same time CPM expects secondary-market supplies (from recycling), after increasing last year, to significantly drop in 2012 (by ca. 5 percent).

Thus last year production from mines accounted for an estimated 70 percent of supply and that from recycling 30 percent.

Conclusion: The currently high price appears to continue to stimulate new mines or capacity expansions at existing mines.

The speculative long-positions on the Futures Exchanges went up over 40 percent during this reporting period, while ETF positions added only a meagre 1 percent.

Economy

Unemployment in the USA in January fell to 8.3 from 8.5 percent and was at its lowest since February 2009.

This kindled hope that the world's largest economy was on its way to a recovery, while the Euro-Zone, due to its ongoing debt-crisis, was stuck in the mire.

Here the Troika (ECB, IMF and the EU) agreed on the basic aspects of the austerity-packet for Greece, which among others include: freezing of salaries, reduction of labour-costs and reduction of jobs in public services. Politics is so trying not only to deal with financial crisis of the nation but also fundamentally make the Greek economy more competitive. Without the consensus and the disbursement of the second tranche of the rescue -packet, Greece would definitely have gone insolvent in March.

Still, Greece remains only one aspect of Europe's problems. During this reporting period rating agency Moody's cut the credit-worthiness of a series of European nations.

Affected are Italy, Portugal, Spain, Malta, Slovakia and Slovenian. Additionally the outlook for three EU-nations with Aaa-rating was reduced to "negative"; namely France, United Kingdom and Austria. The surprise to the markets here was limited; some weeks earlier, larger rival Standard & Poor's had already done a similar down -grade.

The credit-worthiness Italy and France has now been rated as "sceptical" by Moody's. The experts dropped the Italian rating by a notch from A2 to A3 and Spain two notches to A3 from A1. Portugal, Malta, Slovakia and Slovenia also slid down a notch each.

France, the second largest economy in Europe after Germany, Austria, and even the United Kingdom (which is outside the Euro-Zone) got a warning from the rating agency and their outlook was downgraded to "negative".

Even then the analysts still believe in the Euro-Zone and continue to remain optimistic about future economic growth and the financial strength of the Euro-Zone.

After the downgrade of four Spanish banks by rating agency Fitch, the largest of the rating agencies Standard & Poor's cut the rating of 15 Spanish banks. This was backed by the reasoning that after the downgrade of Spain's sovereign bonds, the banks were at a larger risk.

Gold

AU	US$/oz	€/oz	€/gram
High	*1,762.90*	*1,343.27*	*43.19*
Low	*1,703.69*	*1,291.47*	*41.52*
Latest	*1,738.00*	*1,315.12*	*42.28*

We expect global new production in 2012 to remain by-and-large unchanged.

China, with a 5 percent increase last year, will increase its lead in 2012 as the largest gold producer. Here the experts forecast production to increase to 383 tonnes 2012; an expected plus of 6 percent. The production at the second and third largest producer nations, namely Australia and the USA, as in previous year, are forecast to remain more-or-less unchanged in 2012.

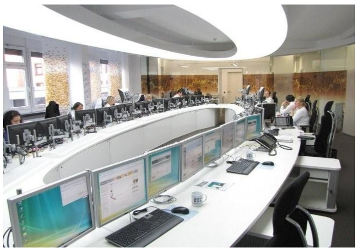
South Africa, the world's largest gold producer till 2006, confirmed the multi-year 2011 downward-trend and expects further erosion in production in 2012. Here 184 tonnes are forecast for 2012, versus the 274 tonnes out-turned in 2006.

Analysts at the World Gold Council published their 2011 report for the gold market last week. According to this mine production was 2,810 tonnes last year compared to 2,709 tonnes in 2010. Despite the high price, production from the secondary market was depressed; recycling was down by 2 percent to 1,612 tonnes.

Central Banks bought up a net 440 tonnes in 2011; a new 40 year high. For 2012 our colleagues at WGC expect Central Bank demand to touch ca. 400 tonnes.

WGC is of the same opinion which we have often mentioned in the past that though India in 2011, with 933 tonnes, is the largest buyer of gold, it will certainly be overtaken by China in 2012 (2011: 770 tonnes). Already in the fourth Quarter Chinese gold demand was up at 191 tonnes, significantly higher than India's 173 tonnes.

On the technical side, the yellow metal certainly has room to move upwards; a small hurdle to be taken is currently at $ 1,760 an ounce. Here an increasing oil price could be a good driver.



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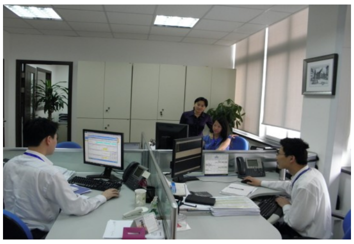

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