



Price Forecast 2005

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Gold - Range: \$416 - \$503 Average: \$461

As in 2004, external economic developments look set to be the dominant influences on the gold price this year. The transmission mechanism will again be through investor activity. Notwithstanding the occasional bear-market rally, the dollar is set to fall further until there is a clear and sustainable reduction underway in the US fiscal and current account deficits. Such a turnaround is most unlikely to happen in calendar 2005. Similarly, increases this year in US\$, euro and yen short-term interest rates are not expected to be large enough to provide investors with attractive real returns. With stock and bond markets also likely to disappoint, if not fall absolutely, it can be seen that the thirst for "alternative assets" ought to grow. Gold should be an important beneficiary.

Silver - Range: \$6.26 - \$8.40 Average: \$6.79

Silver will face two opposite forces in 2005. The first is the negative impact of weaker fabrication demand. This is likely to come about because of a downturn in global industrial production growth, which will eventually hit industrial offtake; the secular decline in photographic use (even if partly offset by a fall in associated scrap recovery); stagnant jewellery and silverware demand. Against this, there is the positive effect of continued buoyancy in speculative demand for the metal, something that should be sufficient to overcome the negative force described above, especially if silver catches a ride on gold's coat tails. The main risk, of course, to the forecast of higher silver (and gold) prices in 2005 is that investment demand for precious metals goes into reverse, with in this case silver dropping towards a likely equilibrium level of \$5.00-\$5.50.

Platinum - Range: \$785 - \$970 Average: \$860

The platinum market is expected to record a modest "surplus" in 2005. Higher supply from mine production and auto catalyst scrap plus a further, though smaller compared to 2004, slide in jewellery demand will bring about most of the "deterioration" in the supply/demand fundamentals. Given talk of large OTC market long positions, this might all seem to be a recipe for a major price slide. However, this may well be a 2006 rather than 2005 story, due to other factors keeping speculative longs in the game. Several of these deserve a mention. First, the strength of the South African rand, which is dampening expectations of future growth in mine production from that country (a major reversal against the US\$ seems improbable over the short to medium term). Second, stability in auto catalyst demand due to increased diesel registrations compensating for the impact of thrifting and substitution. Third, the positive effect of higher gold prices on platinum: given the strong correlation between the two metals, it is probable (in the absence of a major shift in its supply/demand fundamentals) that the white metal will benefit from a strong rise in the yellow one.

Palladium Range: \$163 - \$268 Average: \$199

Disappointed speculative longs, looking to exit positions on a rally, is just one of the obstacles to palladium staging a meaningful rally in 2005. In addition, supply should be swollen by other stocks (mainly Russian origin) entering the market. Mine production is also slated to grow, albeit at a slower pace than once expected. On the demand side, the boost in 2004 from Chinese purchases of palladium jewellery is unlikely to be sustained this year. And the hope that substitution of platinum in gasoline auto catalysts would give a substantial boost to demand seems to have been dashed due to the impact of thrifting. Speculative fund purchases on dips - influenced by the huge platinum-palladium spread - should, however, prevent a freefall in the palladium price this year.

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