



Publication of *Platinum & Palladium Survey 2011*

Platinum's gross surplus grew again in 2010 and another large surplus is expected in 2011. In contrast, palladium's gross deficit returned to a sizeable level in 2010 and is set to remain high in 2011.

At briefings today in London and Johannesburg, GFMS launched its *Platinum & Palladium Survey 2011*. This is the eighth 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 Philip Klapwijk, GFMS' executive chairman.

Reviewing **platinum** first, the consultancy sees the metal as having registered a gross surplus of almost one million ounces in 2010, which represents an increase of 10% to the highest level in GFMS' 12-year data series and it was the sixth consecutive year of a gross surplus being recorded. Klapwijk commented, "the core message here therefore is that, despite a decent rise in fabrication demand as the world economy got back on its feet, there was an even greater supply response, partly as a result of firmer platinum prices".

A key change for demand was the 16% rise in autocatalyst fabrication but the level achieved remained well down on pre-crisis volumes due to a sluggish recovery in Europe's diesel sales plus further thrifting and substitution to palladium. The benefits of an improving economic backdrop were also apparent in GFMS' figures for offtake by the chemical industry and yet more so the glass sector. In contrast, heavy price-led losses in Chinese jewellery demand fed through to a 17% drop for the global jewellery figure. As for supply, jewellery scrap rose by 30%, while autocatalyst scrap grew by a notable 15% as it returned to a secular growth path, partly as a result of collectors no longer withholding supplies for lengthy periods. In addition, for the first time in four years, mine production in South African rose (by 3%), in part due to a release of metal from the process pipeline, and this, plus gains in Zimbabwe, outweighed losses elsewhere to give a global 2% rise in output.

The fact that platinum prices rose in 2010, despite another gross surplus, was attributed to sustained investment, with the launch of the first ever US ETF and the marked rise in total ETF holdings singled out. Klapwijk noted here, "platinum, along with the other precious metals, benefited from a range of factors such as low interest rates, inflation fears, Eurozone sovereign debt travails and quantitative easing in the US".

As for 2011, GFMS are expecting another sizeable gross surplus, partly as mine output is set to rise, due mainly to forecast gains in North America, and both jewellery and autocatalyst scrap are also forecast to increase. Demand should also grow but only modestly as disruption in Japan from its recent earthquake, still sluggish European diesel sales and substitution limit autocatalyst needs and as the price constrains jewellery demand. Despite that, Klapwijk stated, "higher investment on the back of a supportive macroeconomic environment and bullish gold prices should mean we'll see platinum comfortably north of \$1,900 by year end".

The principal change as regards **palladium** was its return in 2010 to a substantial gross deficit, which GFMS estimate at just over 550,000 ounces. Much of this was due to the 30% or near 1.2m ounce recovery in autocatalyst demand to a 10-year high, chiefly as car sales rebounded, especially in gasoline and therefore palladium-focused markets, but also as a result of substitution within diesel from platinum to palladium. There was also a notable recovery for electronics offtake, again to a 10-year high. Not all was positive for demand as jewellery offtake fell by over 300,000 ounces, due largely to losses in China. On the supply side, GFMS believe that, after three years of losses, mine production rose, by 5%, with most of the gains originating in South Africa (including the release of refining circuit inventory). Autocatalyst scrap also increased, and by more than 20%, as higher prices largely eliminated supply withholding and due to improved recycling efficiencies.

This return to a marked gross deficit and the emergence of the first residual deficit since 2000 undoubtedly contributed greatly to the doubling in palladium's annual average price but GFMS also believe that investor interest was critical. Klapwijk added, "we certainly saw some profit taking in the OTC market as investors closed out long established positions. However, sentiment was lifted by the launch of the first ever US ETF and the inflow of over a million ounces into all ETFs over the year was remarkable". Such support was felt necessary to overcome still substantial disposals from Russian state reserves since, in 2010, GFMS estimate that these sales reached 800,000 ounces.

Looking ahead, GFMS feel palladium will again see a large gross deficit since ongoing, if less dramatic, gains for autocatalyst demand should broadly counter the marked rise in North American mine output and further gains for autocatalyst scrap. Investment in ETFs should also remain significant, if well short of 2010's impressive volumes. Sales from Russian government reserves should also again feature in 2011, although thereafter only residual volumes were expected as this sales programme winds down. However, as the background to broader investment in precious metals remains supportive, the consultancy expects the price to push higher, perhaps reaching as much as \$975 before the year is out.

See overleaf for statistical highlights.





Platinum Supply & Demand Overview

000 ozs	2009	2010	yoy
SUPPLY			
Mine supply	6,048	6,186	2%
Autocatalyst scrap	780	898	15%
Old jewellery scrap	463	603	30%
Sub total - Supply	7,291	7,687	5%
DEMAND			
Autocatalysts	2,588	3,006	16%
Jewellery	2,292	1,894	-17%
Other demand	1,535	1,825	19%
Sub total - Demand	6,415	6,725	5%
Gross surplus/(deficit)	876	962	10%
Industry stocks	665	0	na
ETFs	(384)	(550)	43%
Residual surplus/(deficit)	1,157	412	-64%

Source: GFMS

Palladium Supply & Demand Overview

000 ozs	2009	2010	yoy
SUPPLY			
Mine supply	6,320	6,613	5%
Autocatalyst scrap	1,067	1,291	21%
Old jewellery scrap	116	163	40%
Sub total - Supply	7,504	8,067	8%
DEMAND			
Autocatalysts	4,028	5,222	30%
Jewellery	1,110	809	-27%
Other demand	2,453	2,588	5%
Sub total - Demand	7,591	8,618	14%
Gross surplus/(deficit)	(87)	(551)	535%
Russia	1,100	800	-27%
ETFs	(507)	(1,033)	104%
Residual surplus/(deficit)	507	(784)	na

Source: GFMS

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Platinum & Palladium Survey 2011 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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GFMS Limited is the world's foremost precious metals consultancy, specialising in research into the global gold, silver, platinum and palladium markets. GFMS is based in London, UK, but has representation in Australia, India and Russia, and a vast range of contacts and associates across the world.

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