

Forecast 2009

An Alchemist Publication

The text below reviews the 2008 Forecast in comparison to the actual results of 2008. The pages that follow detail the forecasts for 2009.

The Forecast for 2008 reviewed

2008 was a memorable year for the gold market, with the price, as measured by the PM Fix, hitting a new historic high of \$1,011.25 on 17th March. Platinum also hit a record high, of \$2,276, on the morning of 4th March 2008 (almost 50% above the previous peak recorded in December, 2007). Expanded trading ranges were a feature of the markets, particularly for silver, platinum and palladium. Gold's range of 34% of the average price was very similar to that of previous years. Very few of the forecasts predicted such high trading ranges. However, despite a year of volatile trading, contributors to the 2008 Forecast also had an excellent year in terms of the accuracy of their predictions. With the exception of palladium where most forecasters failed to predict the weakening of the price, the average of the forecasts was within 1% of the outturn average for the year.

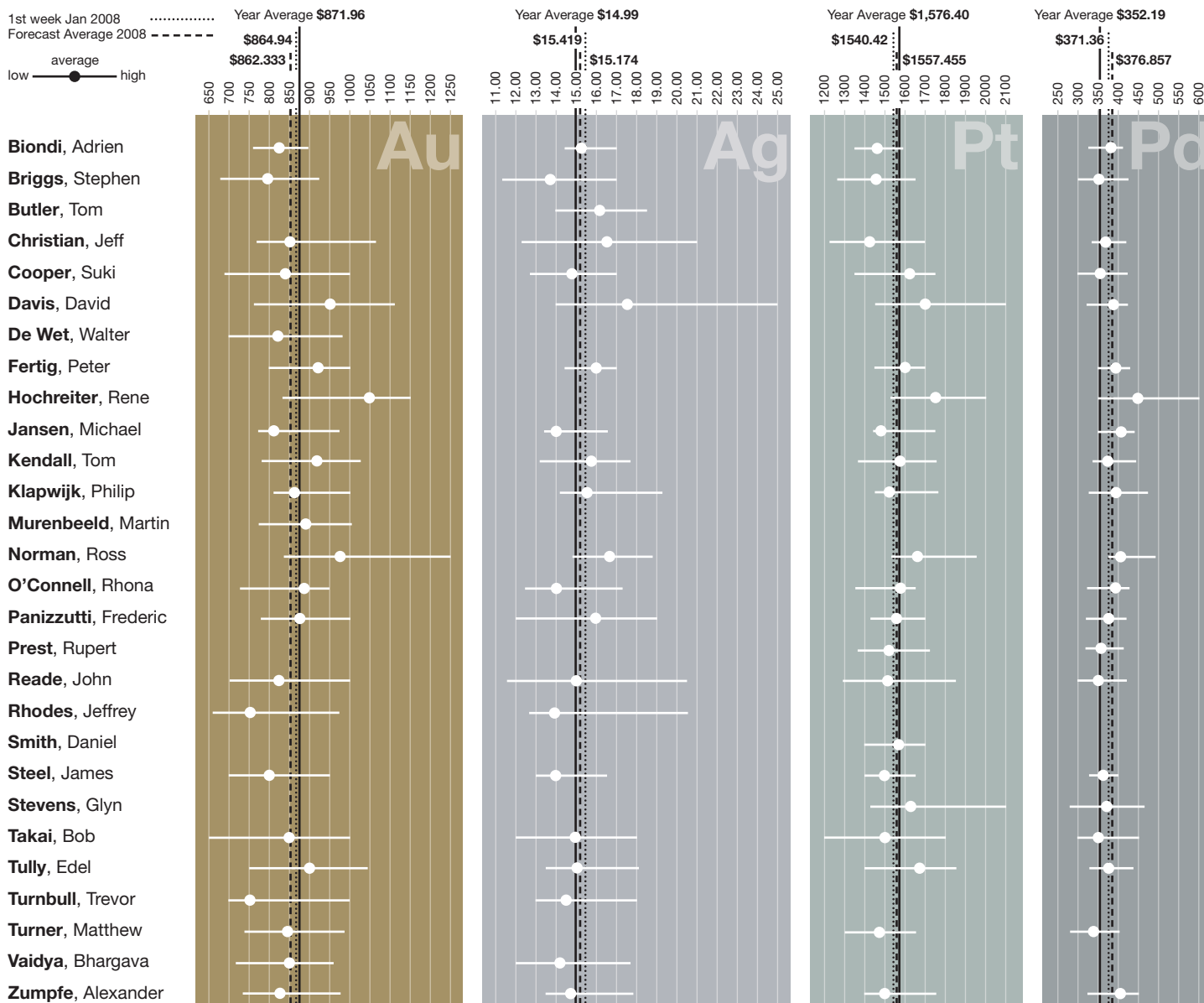
Given **gold's** \$240 rise during 2007, it was perhaps not surprising that most forecasters were unwilling to predict further substantial rises and the average of the forecasts was within \$3 of the price in early January. Caution was justified in that the year average turned out to be only \$7 higher than at the start of the year. Frederic Panizzutti won the gold prize with an exact forecast of \$872. The average trading range for all contributors was \$266 compared with the actual range of \$299. Although **silver** did not break any records, the 2008 average came in at \$14.99, representing the seventh

increase in a row. But as with gold, silver's positive performance in 2007 deterred bullish forecasts. The average of the forecasts, at \$15.17 was marginally lower than the price at the beginning of January and turned out to be just a little on the optimistic side compared with the outturn of \$14.99. Bob Takai won the prize for silver with a predicted average of \$15.00.

Platinum suffered the most dramatic collapse following its all-time high in March 2008, falling to \$763. With the rise in price during 2007 of more than \$400, forecasters were again cautious about further increases. This was justified though the outturn price at \$1,576 was marginally higher than both the average forecast and the price at the start of the year. However, the forecasters significantly underestimated platinum's trading range which at 96% of the average price was nearly four times as wide as the average forecast. Amidst all this volatility, Tom Kendall won the prize for platinum with a prediction of \$1,575 just \$1 below the outturn for the year. For **palladium**, not enough forecasters were able to predict the weakening of the price during the course of the year from its initial level of just over \$370 and the average forecast was some 7% higher than the outturn. Bob Takai, however, was just as accurate with his prediction and landed his second prize, with a forecast of \$350, just \$2 below the outturn.

Congratulations go to the three winners, who will take home 1 ounce gold bars for each metal won – and our thanks go to PAMP SA, Switzerland for their generous donation of the prizes and also to all who took part in the survey.

Last Year's Averages



Forecast 2009: An Overview

For the first time in five years, LBMA contributors predict that on average the silver, platinum and palladium prices will be lower than the average of the previous year. Contributors predict silver will average \$11.58 in 2009, down from \$14.99 actual average for 2008. Prices go from bad to worse for the PGMs. Platinum is expected to average \$996 in 2009, down sharply from \$1,576. Even more dramatically, palladium is expected to average only \$218 in 2009, compared with the 2008 average of \$352. All three metals, silver, platinum and palladium are forecast higher than they averaged during the first week of January 2009, as indeed is gold. Gold remains the only metal predicted to finish at a higher yearly average.

Contributors expect gold to be the only metal to finish with a higher 2009 average of \$881 – some \$30 above the price in early January 2009. This year, 75% of forecasters expect gold to hit record highs again, with a predicted average high of \$1,074. Perhaps not surprisingly the trading range for gold is expected to widen further.

For silver, though the most bullish contributors are expecting the market to reach the \$20 level, the average forecast shows little advance on the price at the start of the year. The major influencing fact emerging from the contributors' analysis is industrial demand.

In the PGMs, the message from contributors seems clear: the US Dollar and automobile production will determine how low platinum and palladium reach this year. In platinum, contributors are predicting only \$1,263 as the average high, some \$300 below the actual average in 2008. In palladium, contributors see the market following a similar pattern to that of platinum.

What will actually drive precious metals this year – exchange rates, industrial production, investment or politics? To get the views of the experts, read on.

Hussein Allidina
Morgan Stanley, New York

Range: \$750-\$1,100

Au

Average: \$950

In 2008, gold proved itself as a safe haven, gaining over 4% in a year when most other asset classes printed double-digit losses. Despite its resilience, gold has not rallied to the extent that we had expected. Fund deleveraging and redemptions have played a significant role in capping gold's upside. We believe that this pain is largely behind us and are constructive into 2009. While headwinds in the form of a stronger USD and deflation may pressure gold in the near-term, fiscal and monetary stimulus will, with a lag, lend to elevated levels of inflation, in our view, positive for gold investment demand. Concerns over fiat currencies should also lend to increased gold purchases from both individuals and central banks. Moreover, although jewellery demand is likely to remain contained as consumers in emerging markets suffer from declining income, production of gold is also likely to suffer owing to weaker base metals prices and issues surrounding mining nationalization, labour and credit availability.

Robin Bhar

Calyon Credit Agricole CIB, London

Range: \$775-\$975

Au

Average: \$890

In 2008, the average price of gold rose by 25%, much more than the 15% increase seen in 2007, and the best performance of the four precious metals under consideration in the survey. With the New Year barely a few days old the unprecedented events of 2008 associated with the global financial crisis provoked by the credit crunch continue to dominate market sentiment. The failure of financial powerhouses, particularly Lehman Brothers and, in its wake, the emergence of systemic risk prompted investors to seek a safe-haven such as gold. Although prices failed to regain an earlier peak of just over \$1,030/oz they remained well supported and ended the year just

\$20/oz short of the \$900/oz mark. We do expect further gains over the course of 2009, driven by more safe-haven buying, US dollar weakness and a rebound in oil prices in the second half of the year. Investor appetite for popular gold coins, small bars and exchange traded funds amid economic uncertainty should be undiminished and will help to offset weaker jewellery offtake. Declining mine output, capped central bank sales (we are sceptical sales will reach the yearly limit as agreed to in the Central Bank Gold Agreement) and geopolitical tensions will also prove supportive factors as well. However, the key factor determining the outlook for gold prices should continue to be the US dollar. We believe that high risk aversion and continued de-leveraging may still prompt some further US dollar upside during the first quarter but this is likely to be limited. Thereafter, the outlook for the US currency turns increasingly negative; a combination of factors – quantitative easing – in particular, will result in a weaker trajectory over much of 2009. It is more difficult to assess the real impact of quantitative easing, via the aggressive expansion of the Fed's balance sheet, on the US dollar, but just the perception that the Fed is printing money without sterilising the additional boost to money supply could act to exaggerate US dollar weakness and at the same time raise inflationary expectations. With interest rates close to zero the aim being to counter any deflationary pressures that naturally arises during a severe economic downturn with a financial crisis. Coupled with a massive fiscal stimulus this scenario could result in a lack of confidence in dollar-denominated assets and a flight to gold; a return to gold prices in excess of \$1,000/oz by late 2009 looks a distinct possibility.

Range: \$9.00-\$18.00

Ag

Average: \$13.00

Average silver prices in 2007 performed in-line with gold, both rising by 15% year-on-year. In 2008, however, silver underperformed only increasing by 11% year-on-year, as industrial demand was undermined by slowing global growth. Often considered the poor cousin to gold because it is cheaper to buy it tends to track the golden metal higher but does experience somewhat more violent sell-offs due to its lack of liquidity leading to price volatility. We would expect this trend to continue in 2009 with volatility remaining extreme at times because of its

less favourable supply/demand fundamentals. Mine supply might not be growing as strongly due to cutbacks at base metal mines but, nevertheless, it is increasing unlike that of gold and it has also to contend with higher scrap recovery rates. At the same time, global recession will impact adversely its consumption in industrial applications (which accounts for more than half of total demand), mainly in electronics, while demand from the photographic/imaging sector is expected to fall further and an upturn in silverware fabrication is unlikely due to high prices. As we expect gold prices to continue to strengthen amid a weakening dollar, then silver can be expected to benefit as well. With industrial demand expected to remain weak the slack must be taken up through investment, mainly through ETFs, but we doubt that the appetite will be sufficient enough so as to tighten liquidity and provide a boost to prices with the upside limited by substantial physical availability. In terms of portfolio diversification, a store of value or a hedge against devalued currencies, gold looks to have the edge on silver.

Range: \$850-\$1,400

Pt

Average: \$1,050

Platinum was the second best performer amongst the precious metals complex in 2008 with prices rising by 19% year-on-year. All-time record prices close to \$2,300/oz earlier in the year was responsible for the price strength, with supply disruptions at South African mines (which account for 69% of global supply) leading to expectations of a large market deficit. However, these expectations were dashed by the slump in the autos sector globally, with sales collapsing in Western economies and slowing sharply in the emerging economies. As a result, prices entered a severe downward spiral in the second half of the year culminating in prices trading at a four-year low close to \$700/oz. The outlook for the auto sector in 2009 appears grim; global auto sales have gone from bad to worst. US auto sales slumped 37% in November to their worst level since 1982; new car registrations in Europe fell by 25.8% year-on-year in the same month, the seventh monthly decline in a row. In 2009, we currently expect overall US auto sales to decline 9.1% year-on-year to 12mn units, following an estimated decline of 18% last year, with the bulk of the decline occurring in the first half of 2009. In Western Europe we expect sales to

decline 13% in 2009, compared with a 6.7% decline in 2008. Lower prices could stimulate higher jewellery offtake but this would be little compensation for a sharp decline forecast for auto catalysts and other industrial applications. This would leave investment demand, mainly through ETFs but also through futures and OTC markets, to drive prices higher. A possible scenario for the second half of the year, we believe, on the back of gains in some industrial metals and gold regaining the \$1,000/oz mark. Overall, we expect average prices in 2009 to be lower than in 2008 on a much reduced market deficit, with potential supply disruptions offset by a weak demand outlook.

Range: \$180-\$350

Pd

Average: \$264

Average palladium prices in 2008 fell by 3% year-on-year, a markedly poorer performance against 2007's 10% gain and a far cry from a phenomenal 58% rise in 2006. Supply/demand fundamentals are inferior to those of platinum and the market remains in oversupply which we believe will continue in 2009. Mitigating factors, however, include an attractive price differential to platinum which could appeal to industrial users and speculators alike, a perception that oversupply could be drawing towards a close and speculation that Russian stockpile sales could soon be exhausted. Although fundamentals remain poor much higher gold and platinum prices in the second half of this year could put the spotlight back on palladium and given its small market size and notable lack of liquidity, a return back above \$300/oz is possible. Whether it's sustainable is another matter.

Adrien Biondi

Commerzbank International, Luxembourg

Range: \$800-\$1,050 Range: \$9.50-\$12.50

Au

Average: \$950

Ag

Average: \$11.50

The economical downturn and the global financial crisis will be no doubt favourable for precious metals, especially for gold and silver. Although, we had experienced in 2008 that a high price in gold (and silver) stops physical buying instantly with

recycling increasing substantially. When Gold went above USD 1000 an ounce it sure made all investors happy but it hurt the manufacturing/ jewellery industry in such an extent that the physical market stopped completely. As it still represents over 50% of the market, we do believe that when prices are too high, it will be only a matter of time until prices will fall to levels acceptable to physical buyers. This of course in conjunction with the level of local exchanges rates to the USD. We also do believe that we will see more investment by private investors over the next year as we had seen in the past. The radical economical slow down of 2008 has raised gold to "safe haven" status again.

Range: \$800-\$1,100 Range: \$180-\$230

Pt

Average: \$929

Pd

Average: \$205

PGMs are not so affected by investors so speculators so much as the physical side is not so present for private investors due to the VAT. Also, it is a smaller market which is used mainly by the manufacturing industry. Due to the size of the market, the offer and demand, being between mining (recycling) industry and the manufacturing industry, the fragile balance is soon damaged by technical innovations or disruptions on the supply side due to economical or political situation in producing countries or even just simple mismanagement as we have experienced it last year with South Africa's energy problems. Prices rocketed sky high in a short time just to fall again to the same level, or even lower, once the supply was normalised because the energy issues were being dealt with. Having said that, we do believe that PGMs will remain positive in future as environmental issues will sustain prices because of its chemical properties but prices will be capped do to the economical downturn.

Jeffrey Christian

CPM Group, New York

Range: \$750-\$1,200

Au

Average: \$826

We expect gold prices to be very strong during the first half of 2009, as economic and financial problems continue to

stimulate heavy volumes of investor interest. In this environment, physical supplies are expected to remain tight. Prices could surpass their record \$1,033.90 seen in March 2008. Later in 2009, as investment markets turn more hopeful about an economic recovery and focus on re-investing across a broad range of financial assets, prices could subside.

Range: \$9.00-\$20.00

Ag

Average: \$13.00

Silver prices may rise sharply early on this year, based on strong investment demand and tight physical supplies. Prices could decline later in the year as investment demand declines in a more optimistic economic environment.

Range: \$750-\$1,200

Pt

Average: \$944

We expect platinum prices to remain subdued during the first half of 2009. Weak fabrication demand from the auto industry is expected to weigh on prices. Prices could find some support from a cut back in mine supply, however. Demand in the auto sector is forecast to improve toward the end of this year. In anticipation of this improvement, platinum prices could begin to rise in the second half of 2009.

Range: \$150-\$275

Pd

Average: \$210

Weak fabrication demand from the electronics and automotive sector, two of the largest uses of palladium, is expected to weigh on prices during 2009. Demand in both sectors is forecast to improve toward the end of the year. This should help push palladium prices higher during the second half of 2009. Restrained palladium mine supply also is expected to support prices.

Suki Cooper
Barclays Capital, London

Range: \$720-\$1,000

Au

Average: \$840

In light of its dual role as a monetary asset and a commodity, gold prices suffered less than other commodities and also saw gold flirt above platinum prices, but the absence of fresh highs being set amid a gold-perfect macro environment has left many market participants disappointed. Physical investment demand in gold had an exceptional year, with total gold holdings across the 15 major ETPs closing 2008 at a record 1193 tonnes while retail sales of coins and small bars have also soared. But in the absence of fresh safe haven buying, gold is likely to come under pressure in the near term amid a deflationary environment or during bouts of dollar strength. In our view, three key factors are set to evolve favourably for the metal. First, we expect the USD to weaken against the EUR on a 12-month basis. Second, we expect oil prices to go through an initially shallow recovery this year, gaining momentum as the year progresses and, third, an inflationary environment is expected to start to build towards the end of the year. We expect these factors to support an uptrend in prices later in the year. Despite a supportive fundamental base, the inevitable slowdown in producer de-hedging means investor interest remains key for the outlook of gold prices. Where prices travel from here depends on whether investors keep turning to gold.

Range: \$8.00-\$14.00

Ag

Average: \$10.60

The underlying supply and demand outlook for silver looks set to deteriorate further in 2009. Mine supply is set to grow, despite some lost production due to cut backs in base metals production; most of the new supplies stem from the start-up of primary silver mines. The real driver of silver prices, despite its poor fundamentals, has been the tremendous growth in investment demand as investors have built exposure to silver as a proxy for gold. But now, of the two factors that were supportive for silver, one is set to hibernate – and not just through the

winter months. The market surplus is exacerbated by the industrial demand that is set to tumble due to the weakening macro-economic environment. The one end use of silver that had been solid has now turned negative. The second supportive factor – investor interest – has been a key positive driver for silver, but we would warn of the potential of a further correction should sentiment turn, unleashing mass liquidation of the vast ETP holdings. Silver could gain support if exposure is increased as a proxy for gold, but given the market is currently focussed on the weak demand, prices are more likely to remain under pressure.

Range: \$750-\$1,375

Pt

Average: \$1,020

Deteriorating demand with vehicle sales falling not only in the US but also softening in emerging markets has weighed on prices. In our view, even though the supply side remains supportive, a recovery in demand will determine whether prices start to recover slowly or encounter a sharper pick-up. We believe production is likely to be curtailed quickly the longer prices stay subdued, and in turn, the platinum market should move into balance towards the end of 2009. Platinum stocks remain close to historical lows, providing a deflated cushion should production cuts start to emerge. Although market focus has shifted from the supply-side problems, these issues have not gone away. The tumultuous mining environment that tightened the market in H1 08 on the back of power shortages, flooding, maintenance issues and labour strife has another issue to deal with in 2009 as the biennial wage negotiations take place in South Africa this year.

Range: \$150-\$300

Pd

Average: \$210

Over the next 12 months, we expect palladium's fundamentals to remain weak. Certainly in the near term, the bleak outlook for the auto sector and the deteriorating macro-economic environment are likely to keep prices under pressure. Above-ground inventories also remain high, and we expect the market to remain in surplus in 2009 as lower demand offsets the reduced forecast in production from Russia. However, the unknown level of Russian

state stocks continues to weigh upon the market. Strong investment demand has been a key supportive factor for palladium prices, and although prices eased last year to levels not seen since 2001, alongside a decline in net fund length, ETP holdings have remained close to record levels. Even though ETP holders typically have a longer term perspective, prices could face further downside risk should these holdings also be liquidated. As such, we remain cautious about the prospects for palladium in the months ahead.

David Davis

Credit Suisse Standard Securities
Johannesburg

Range: \$735-\$1,080

Au

Average: \$898

The gold price has not been immune to the unfolding and ever deepening and widening global financial crises. Almost all commodity prices, including the oil price, have tumbled, some more than others, as the financial markets react to the paradigm shifts of a projected sharp downturn in global growth. We expect the impact of the decline in global GDP to have a muted effect on demand, particularly for jewellery, during 2009 which will likely put downward pressure on the price. We also expect to see strong investments in ETFs during the year. On the supply side, we believe the driving forces which are most likely to put upward pressure on the gold price are diminishing mine supply and Central Bank sales, and producer de-hedging. We expect the muted demand for jewellery to be offset by diminishing supply. Volatility in the gold price will likely arise from fluctuations in the oil price and the USD as well as geopolitical tensions.

Range: \$820-\$1,200

Pt

Average: \$1,010

Precious metal prices have fallen significantly since July 2008 in an environment which has seen a downturn in the global economy, which is still reeling from the continuing effects of the subprime fall-out. As a result, global vehicle manufacturing growth and hence

autocatalyst production is expected to decline sharply year on year. We also believe that the effect on the global economy will be prolonged, which will prolong the turnaround in global vehicle production and as a result the demand for autocatalysts will not recover as quickly as the platinum industry expects.

Our supply-and-demand model paints a bleak picture for the platinum industry in 2009; our model indicates an oversupply of platinum going forward from 2008. Under these circumstances, we do not expect metal prices to recover significantly in 2009. The natural reaction to a supply-and-demand imbalance is a move to a new equilibrium, not only to correct the imbalance, but also to correct any metal price pressure. We are therefore of the view that restructuring of the industry is inevitable; which will likely shift the supply-and-demand dynamics and put upward pressure on metal prices in the longer term

Range: \$160-\$240

Pd

Average: \$202

The significant supply-demand surplus in the palladium market will likely mean limited upside price potential in 2009 especially as we believe, global vehicle manufacturing growth and hence autocatalyst production is expected to decline sharply year on year.

Walter De Wet

Standard Bank, London

Range: \$750-\$1,080

Au

Average: \$915

After another good year for gold in 2008, we believe the metal would post a higher average price in 2009 yet again. We further expect the metal price to remain highly volatile. The great uncertainty in world financial markets, combined with increased credit risk, should support the yellow metal. That said, we do believe that the support will be muted during the first few months of 2009. Risk aversion remains extremely high. As a result the US dollar continues to find support despite the massive expansion in the US

monetary base. Furthermore, consumers worldwide are under pressure and jewellery demand is low.

Should the uncertainty ease as we head towards 2009H2, it could lead to a large decline in demand for US Treasuries and substantial dollar weakness against most major currencies. Gold is set to benefit from this dollar depreciation.

Range: \$8.50-\$17.50

Ag

Average: \$13.00

Relative to gold, the outlook for silver remains bearish. Supply is not an issue and industrial demand is expected to remain weak throughout 2009. However, the metal could benefit from a higher gold price and a weaker US dollar. But on average the metal could find it difficult to beat the average price set in 2008.

Range: \$800-\$1,200

Pt

Average: \$1,030

With auto sales under pressure the demand for platinum should also decline in 2009. This decline may be exacerbated by jewellery demand and other industrial demand that could also show a fall this year. Although there are some production closures in South Africa, we doubt it would be enough to offset the fall in demand. Furthermore, production disruptions due to electricity supply in South Africa should be limited. This year we expect a surplus in the platinum market – something which would keep the price depressed.

Range: \$165-\$260

Pd

Average: \$220

Like platinum the demand for palladium is under pressure. With the US being a major consumer of palladium any recovery in autocatalytic converter demand this year seems unlikely. While supply could decline this year due to mine closures mainly in South Africa, the metal is likely to take its cue from platinum movements.

Rene Hochreiter

Allan Hochreiter (Pty) Ltd, Johannesburg

Range: \$600-\$750

Au

Average: \$675

Deflation and a strong US dollar are likely to put pressure on the price. The metal price performance has been a massive disappointment during the 2008 liquidity crisis. Sentiment towards the metal is likely to remain poor.

Range: \$800-\$1,500

Pt

Average: \$1,200

Poor production performances and large cut-backs from SA producers are likely to see a balanced to a moderate supply shortfall as car sales rebound in 2009. Euro emission standards tighten continuously and sales remain strong in China, SE Asia and BRIC countries (by far the biggest car market sector in the world now). A US auto bail-out will further increase demand.

Range: \$200-\$400

Pd

Average: \$300

Metal stockpiles are depleting rapidly and stocks may actually be down to zero already. US demand has been surprisingly firm, even during the "Big 3 Crisis". If the Big 3 bailout happens, Pd imports will continue into the US at unchanged levels.

Michael Jansen

JPMorgan Chase Bank, London

Range: \$725-\$1,100

Au

Average: \$825

The market is polarised on gold in the near term, but the medium to longer term outlook appears solid due to pent up inflationary pressures emerging from

significant monetary and fiscal stimuli in play. However the lack of a trend in EUR or CHF gold prices since March 2008 highlights the USD as the dominant driver. In as much as the market is concerned about the US' twin deficits and ZIRP, non-US central bankers and fiscal authorities are also pump-priming their economies. This means that few central bankers have the stomach for a stronger currency vis-à-vis the USD, in turn undermining the ability of gold to benefit from poor USD fundamentals. There is increasing talk of gold becoming a third currency but we discount it significantly. The market is simply too small to cope, which the world's currency reserve holders know. We expect deflation risks to edge inflation risks in the first half of 2009 before the global economic environment improves towards year end.

Range: \$8.00-\$13.50

Ag

Average: \$10.00

Gold continues to trade at a significant historical premium to silver, currently around 75 times the price against a 10 year average of 60 times. We don't see this situation improving anytime soon, with silver's discount likely to persist courtesy of a more aggressive growth profile in mine supply (new mines in Central and Latin America for instance) while silver's demand schedule will be heavily crimped by the global collapse in industrial activity. There continue to be a plethora of potential new uses for silver on the horizon but we don't expect these to gain any traction in 2009. Silver also remains vulnerable to a potential ETF liquidation event.

Range: \$750-\$1,450

Pt

Average: \$880

Demand is expected to remain poor throughout 2009, both from jewellery and industrial fabricators, with OEM demand from vehicle manufacturers expected to remain extremely weak. The main source of volatility in the platinum price will accordingly emanate from the supply side and in particular whether the industry heavyweights act as a swing producer and cut production to deliver a more balanced market. If this takes place then platinum's cyclical low has already likely been achieved but poor demand caps the extent of the upside in 2009H1. The

beginning of a cyclical global recovery in late 2009 should allow platinum to move considerably higher, especially if producers have shown production constraint through the first three quarters.

Range: \$160-\$250

Pd

Average: \$195

Palladium has likely posted its cyclical downleg low at \$160/oz in early December and is expected to trade a \$160 - \$250 range in 2009 with a bias to hold around the middle of this range. The demand schedule will be poor in 2009 with palladium the dominant PGM in catalysts in the North American market, but the flipside is some pricing discipline by producers and possible storage of PGMs off-market.

Tom Kendall

Mitsubishi Corporation, London

Range: \$725-\$985

Au

Average: \$880

The battle between the opposing forces of present-day deflation versus the fear of future inflation will be crucial to the direction of the gold market this year. On balance we believe the former will dominate for at least the first six months of 2009. There will also be tremendous competition for investors' cash this year with record volumes of bonds due to be issued by both governments and financial institutions, and both groups likely to have to pay more for their borrowings. At the same time, fund managers will be unwilling or unable to use the same kind of leverage that helped to drive commodity and asset prices to record highs in 2008.

The outlook for jewellery and industrial demand for gold is poor and is likely to outweigh any positive price pressure from declining mine supply for the time being.

So we foresee a difficult first half for the gold market but note the potential for a return to significant and sustained US dollar weakness by Q4 and the looming spectre of inflation. Those pressures could drive gold back up towards the \$1,000 level before year-end.

Range: \$7.70-\$14.05

Ag

Average: \$11.65

Based on the fundamentals it should be an unhappy year for investors in silver. However, the fundamentals haven't meant much for a while now and the metal is likely to continue to attract its share of investment. The gold:silver ratio may come a little lower from current levels around 76:1 but a swift return to the 50 to 55 area (which would imply a much higher silver price) seems highly unlikely.

Range: \$780-\$1,340

Pt

Average: \$1,080

Platinum is probably the metal with the best potential returns over the coming year. The short-term outlook for demand from both the automotive and jewellery sectors is undoubtedly pretty dismal. However, the news cannot really get much worse and the market appears to have already priced in all but an Armageddon scenario. Unless the Chinese authorities fail to prevent economic stagnation then we believe that last year's low of \$744.25 is unlikely to be broken.

The upside potential comes from renewed investor interest plus a supply response to low prices that has so far been quiet but significant - more may be in the pipeline. In addition, although the temporary closure of large swathes of South Africa's metallurgical industry means that the availability of power is unlikely to be a factor this year, other risks to PGM production (labour unrest, elections, safety, process breakdowns, etc) remain high.

Range: \$160-\$325

Pd

Average: \$235

As with platinum we believe that the low of the previous 12 months is unlikely to be broken this year. It is even possible (though perhaps unlikely) that the palladium price could outperform platinum. That outcome would require the market to believe that Russian sales of metal from state stocks had ended for

good and we remain unconvinced that this will be the case. So the price is likely to struggle to move much above the mid-\$200s until perhaps the fourth quarter of this year.

Philip Klapwijk

GFMS Ltd, London

Range: \$780-\$1,260

Au

Average: \$970

The outlook for gold has been transformed due to the official policy response to the unfolding global economic crisis. Above all the reckless expansion underway in American government spending, the associated ballooning of the US budget deficit and the huge expansion in the Federal Reserve's balance sheet and in money supply can only lead to a weaker dollar, a slump in US government bond prices and, in time, a major bout of inflation. Given that similar, albeit perhaps not such extreme measures are likely to be adopted in Europe and Japan, it is probable that euro and yen alternatives to dollar assets will also not be particularly attractive. Gold, on the other hand, the supply of which is growing only incrementally, should see substantial new investor interest. This demand will comfortably overcome the not insignificant headwinds from weaker jewellery consumption and waning support from de-hedging.

Range: \$10.35-\$20.50

Ag

Average: \$14.40

Silver is likely to remain handicapped for much of 2009 by weakness in fabrication demand. Industrial uses are set to fall sharply, all the more so because offtake had actually held up well until the fourth quarter of 2008. Consumption in photography and jewellery is also set to decline. On a positive note though, the collapse in base metals prices has meant that an expected supply shock from a substantial rise in mine production has been delayed, probably for a number of years. Furthermore, as with gold, silver is set to benefit from a new wave of investment demand. Indeed, even though

fabrication's weakness could mean that no fresh highs are reached this year, silver could actually perform somewhat better than gold on an intra-year basis given its low starting point and the greater scope for investment to drive up prices in this smaller, more volatile market.

Range: \$850-\$1,440

Pt

Average: \$1,090

The slump in car output forecast this year, especially in Europe where the majority of autocatalyst demand for platinum is concentrated might be expected to impart a downward bias to prices in 2009. However, the dramatic drop to sub-\$800 lows in the fourth quarter of 2008 would suggest that this fact has already been largely discounted. Indeed, it is probable that gains in the price since then will be built upon over the course of this year. The reasons for this include forecast weakness in South African mine production, a useful recovery in jewellery demand and a global stock position that remains tight, meaning that an expected recovery in investor interest, partly on the back of a rally in gold, could bring about quite substantial price gains.

Range: \$175-\$290

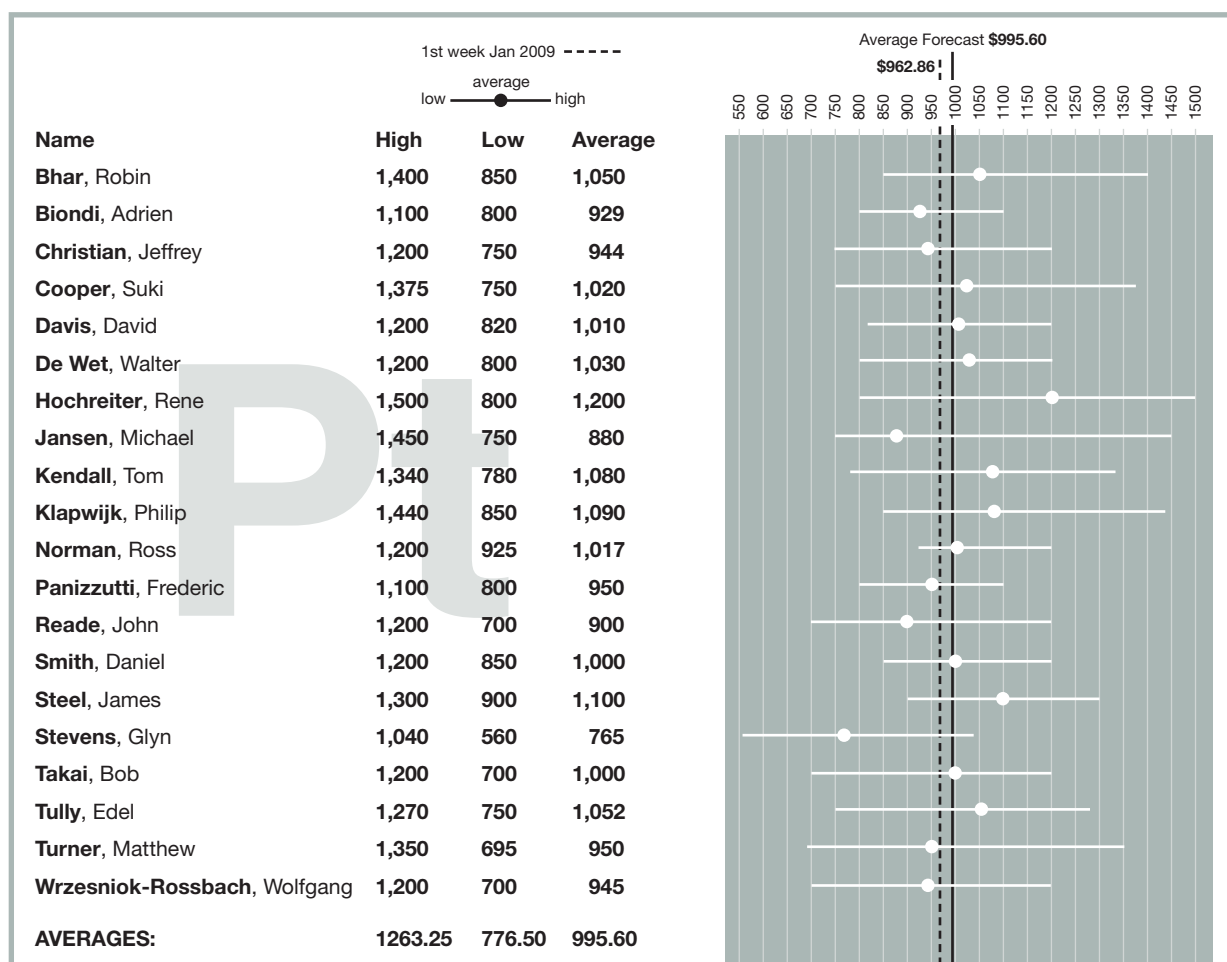
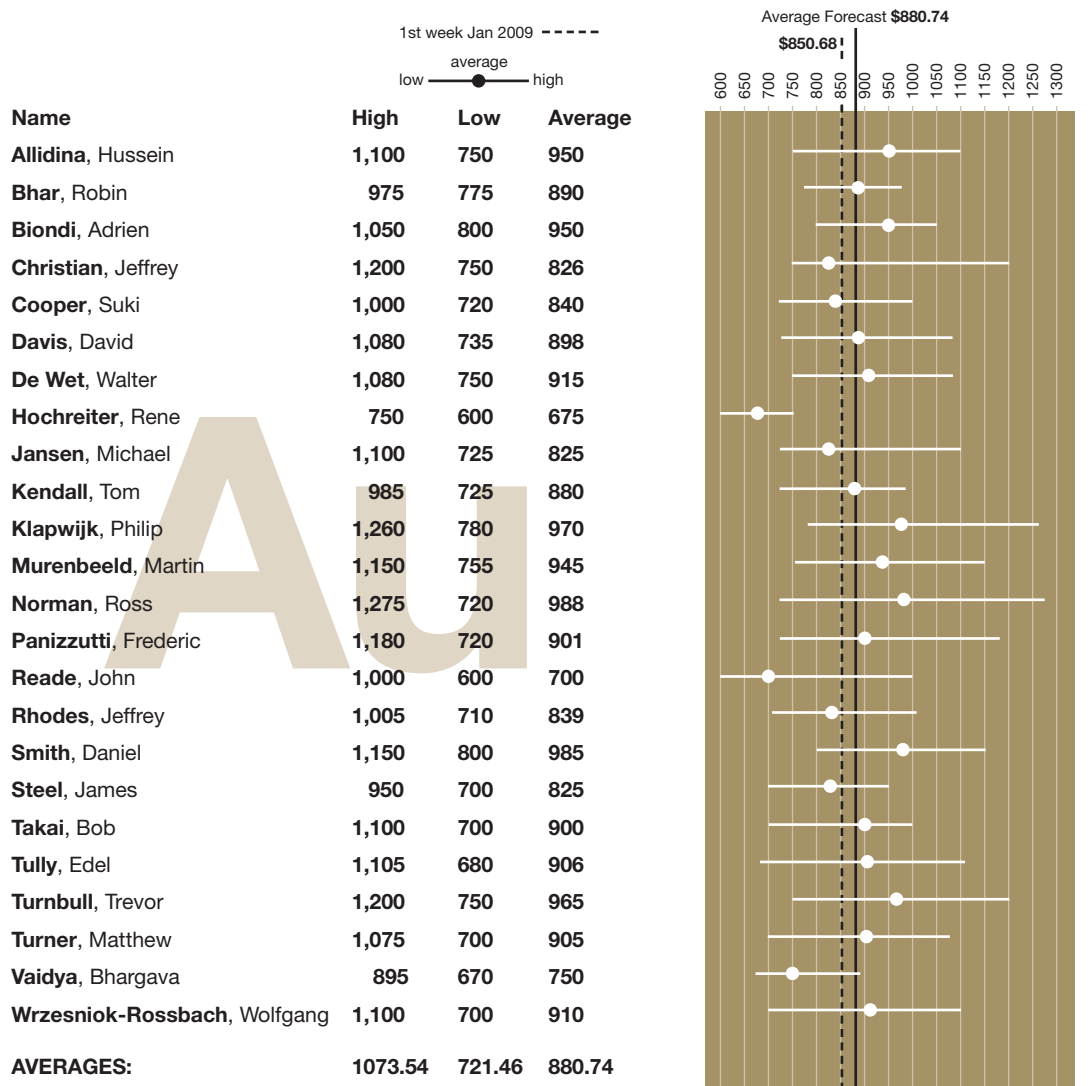
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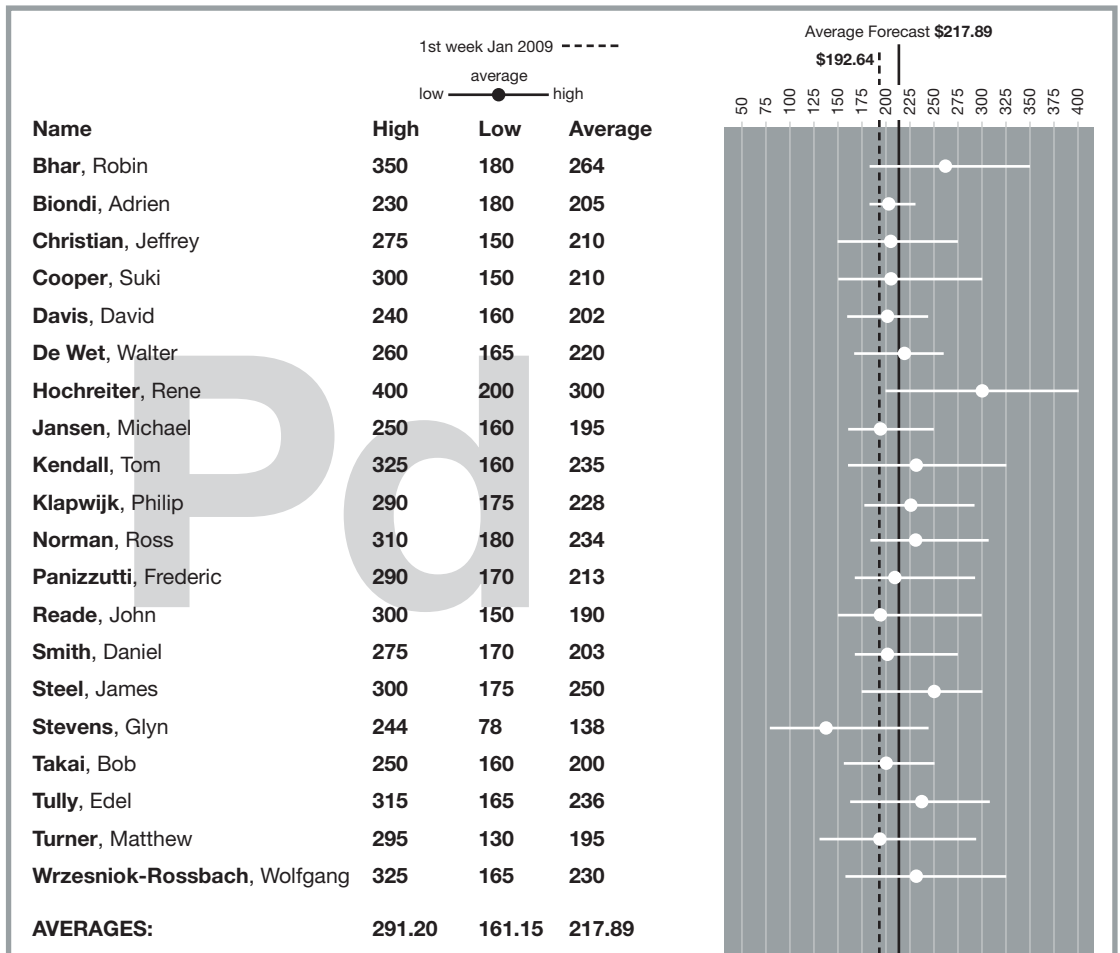
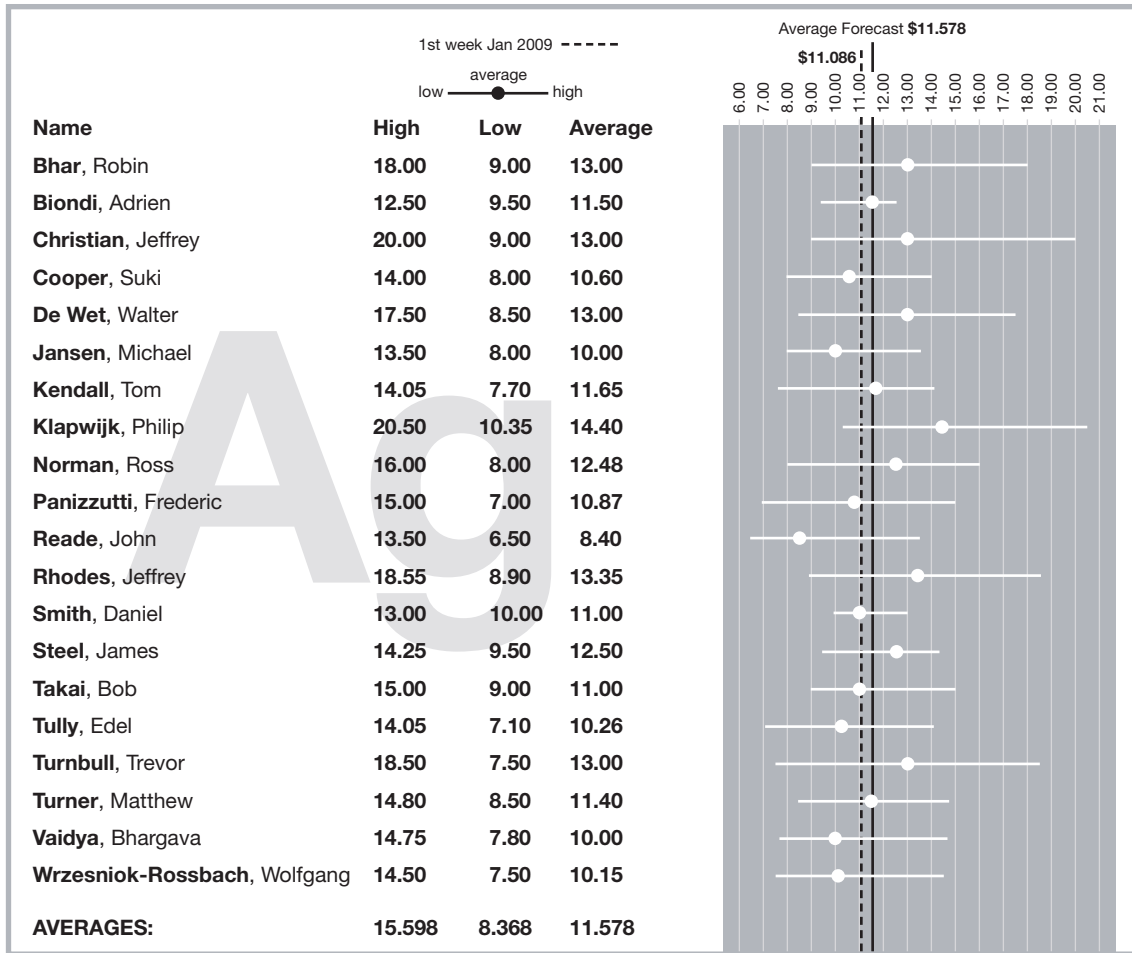
Average: \$228

With the crisis in the automotive industry now even being reflected in formerly strong markets like China, it is probable that autocatalyst demand this year will fail to record the growth once expected. Moreover, other areas of demand such as jewellery and electronics will also be under pressure. As with platinum though, it would seem that much of this bad news has already been reflected in the price. Furthermore, supply trends are by no means uniformly negative: although autocatalyst recycling is slated to rise in 2009, only marginal growth, at best, is expected in mine production. The palladium market has also already digested massive sales from August to October last year by long-standing fund investors. Stocks may therefore now be in stronger hands, with existing holders unlikely to bail-out of positions until prices are nearer the \$300-mark.

About the Forecast

Contributors supply their estimates for the coming year of the high, low and average price for up to four metals: gold, platinum and palladium based on the London PM fixing and silver based on the London fixing. Contributors also provide a brief commentary on what they see as the main influences and price trends. A prize is awarded to the contributors whose averages have come closest to the actual averages in each metal. In the case of a tie, the prize is awarded to the closest estimate for the annual high and low.





Martin Murenbeeld
Dundee Economics, Victoria

Range: \$755-\$1,150

Au

Average: \$945

At least two factors suggest that 2009 could be an explosive year for gold: policy reflation and geopolitical crisis. The latter cannot be predicted with any degree of accuracy, but difficult economic times often go hand in hand with geopolitical crises. Policy reflation had been predicted last year in this space to buttress the gold price against the downdraft of economic recession, and it is predicted to continue doing so in 2009. Since all major countries are/will be “reflating” their economies in hopes of stabilizing asset prices (the deflation thereof has crippled the international financial sector) it is our view that gold will likely set a new high again in 2009 – despite the broadly disinflationary/deflationary macro-environment. This means that gold demand will continue to be driven by investment demand, by way of diversification out of currencies and other “paper” assets. Jewellery demand, being driven by wealth and price factors, will be weak in 2009.

The US dollar will also remain a key determinant of the US dollar price of gold, of course. Unfortunately the market continues to trade gold in sync with the US dollar’s euro cross-rate, meaning that (as in 2008) any rise of the dollar against the euro will hurt the dollar price of gold. This won’t always be so; Asia is becoming a more dominant gold player and hence Asian currencies will one day eclipse the euro in this regard. We remain broadly bearish on the dollar, but periodic bouts of strength against the euro will dampen the gold price.

We’ve allowed for some increased central bank purchases in our forecast, because central bankers might discover in 2009 that the “plain vanilla” investments of T-bills and gold favoured by their predecessors are better investments than the “toxic paper” (and the equities of issuers thereof) which they seemed to have preferred as of late. (Banking is becoming more traditional again!)

Inflation is unlikely to be an issue in 2009; indeed, the key negative in the outlook is rampant deflation – which could upset our forecast. Yet money velocity could rise in 2009, which will set the stage for more inflation in 2010 and beyond. We assume central bankers will be slow to counter

any initial signs of inflation because they won’t want to risk aborting the economic recovery. (It is safe to say central bankers are, and will be for the time being, “lusting” for signs of inflation; their collective desire to generate higher asset prices is a boon to gold!)

Ross Norman
TheBullionDesk.com, London

Range: \$720-\$1,275

Au

Average: \$988

Debt aside, at the heart of the financial crisis is the massive monetary expansion of the Federal Reserve’s Monetary Base (essentially liquid dollar supply) growing at a mammoth annual rate of 75%. Currently most of this cash is inert and vaulted – and therefore not inflationary. There remains the risk that in the second half of 2009 that this cash is mobilised as markets bottom out and we swing rapidly from a deflationary environment to an inflationary one. This could potentially see a re-run of the 1970’s with gold moving much higher. In short, gold is likely to be binary in 2009 – either travelling sideways give or take \$100 as redemptions kill the prospective rallies to fund losses elsewhere – or doing that in H1 before moving much higher in H2 as an inflation hedge and on risk aversion. We favour the latter view, which will be good for gold.

Range: \$8.00-\$16.00

Ag

Average: \$12.48

Silver retains the attraction of an industrial metal and comparatively less of the appeal as an investment vehicle compared to its sister metal gold. However, mine production cut-backs following the sharp decline in the host base metals prices should provide an uplift to prices which is partially offset by weaker photographic and industrial demand. Investment demand will help keep a firm note as will a buoyant gold market.

Range: \$925-\$1,200

Pt

Average: \$1,017

Platinum is likely to be hampered in early 2009 by particularly weak automotive sector demand as car sales continue to experience sharp declines, as do the many other industrial sectors that utilise platinum. Jewellery sales are also expected to remain relatively lacklustre throughout 2009. This weakness is already largely in the current price and looking ahead it is likely to be met with lower mine sales which would mitigate the expected price decline. On a more bullish note, consumer metal stocks are said to be relatively modest leaving scope for re-stocking (and firmer prices) in the second half of 2009 coupled with some further buying from the investment sector, as investors prepare for a modest recovery in global industrial production.

Range: \$180-\$310

Pd

Average: \$234

Like platinum, palladium is likely to be negatively impacted by the sharp decline in vehicle sales, but this is largely factored into the current price level. With Russian palladium stocks already diminished, this will provide a positive tone to the market, aided by the possibility of some re-stocking by auto-makers in the second half of 2009.

Frederic Panizzutti
MKS Finance S.A.

Range: \$720-\$1,180

Au

Average: \$901

In 2008, gold closed up 4.7%, but fluctuated widely throughout the year, marked by the financial crisis. In 2009 investors shall continue to remain concerned about further failures in the financial sector. As credit risk continues to prevail, investors will not be looking at the

return on their capital but at the return of their invested capital. In H1 the risk of a global recession and depressed growth rates remains likely. Low interest rates may result in increased worldwide inflation towards the end of 2009. This, combined with continuing credit risk considerations, should motivate investors to allocate a higher percentage of their assets into gold and, in particular, into physical gold to reduce credit exposure to a minimum. Physical gold will again be considered as the ideal insurance against volatile and almost unpredictable markets and as a hedge against further weakening USD and USD denominated assets. We expect physical demand to remain sustained this year. Following some liquidation of positions by funds during the last quarter of 2008 we expect the market to remain very volatile in H1 on the back of decent buybacks. We expect the highs in 2009 to be seen during the early part of the year before the market stabilizes and builds solid ground in H2. Several rallies combined with erratically trading sessions cannot be excluded throughout the year. We believe that investors will maintain a conservative approach to the markets with capital preservation remaining the highest priority.

Range: \$7.00-\$15.00

Ag

Average: \$10.87

Silver surprised many in 2008 and did not perform as most expected. Ample physical liquidity and risk aversion resulted in poor interest for silver. We don't expect any major shift of view in 2009. With depressed markets conditions we expect less consumption of silver in the first half of this year. It is envisaged that silver will only play a minor role in portfolios on the back of a more conservative investment approach. During the first few months of the year silver could trade marginally higher on the back of some fund driven positions. But this is likely to slow down in the second half of the year resulting in lower silver prices. Over all we expect silver to remain a "side" investment throughout the year and to face, from time to time, some upside momentum in the shadow of gold rallies.

Range: \$800-\$1,100

Pt

Average: \$950

Platinum is set to remain driven by industrial demand in 2009. Investments and speculative interests should significantly decrease. Markets will favour more conventional and liquid assets this year on the back of more cautious and conservative asset allocation management. The global slow-down in growth in H1 should result in depressed industrials based physical demand for platinum. We expect the platinum price to gradually shift lower during the first three quarters of the year but to correct higher toward year end on the back of recovering markets and renewed demand. The white metal shall face less volatility this year on the absence of large speculative interest. Still, as experienced in the past, any unexpected and unpredictable platinum production or exportation disruption could result in a shift in the price trend.

Range: \$170-\$290

Pd

Average: \$213

Palladium will follow the same path as platinum. Ample physical availability will further weight on any potential rally and keep the metal in a tight range. We don't expect palladium to surprise much the market this year. Some short lived price actions remain possible as a side effect of other precious metals rallies mainly on the back of basket buying. Palladium shall remain predominantly industrial driven in the first 3 quarters of the year and suffer from the depressed overall market situation. Some demand is likely to surge toward the end of the year assuming world economies show some signs of recovery.

John Reade

UBS Investment Bank, London

Range: \$600-\$1,000

Au

Average: \$700

We forecast that gold will average \$700/oz in 2009, the first decline in the average price since 2001. The metal will be hurt by a number of negative headwinds this year: a stronger US dollar; deflationary risks in developed markets; weaker jewellery demand from major consuming countries such as India and the US; and a decline in producer de-hedging. Although the strong physical investment demand that characterised the second half of 2008 is likely to continue along with further inflows into the gold ETFs, disinvestment and deleveraging in the futures and OTC markets are likely to limit gold's upside; even the physical investment may slow should concerns about the failure of the financial system recede somewhat. Gold will have a volatile year, however, and we see the metal trading as low as \$600/oz and as high as \$1000/oz.

Range: \$6.50-\$13.50

Ag

Average: \$8.40

Silver will remain out of favour in 2009 and should fall in absolute terms and relative to gold. Industrial demand will continue to be hurt by slumping economic activity, while a weak gold price should keep the metal on the back foot. The only positive factor that we see for silver in 2009 is lower mine supply – or at least slower mine supply growth – as by-product output from some mines is curtailed due to low base metal prices and weak demand for industrial metals. Finally, we see far less safe-haven buying of silver, not least because of onerous storage and taxation issues involved in holding stashes of the physical metal.

Range: \$700-\$1,200

Pt

Average: \$900

Despite superior long-term supply and demand fundamentals and low physical stocks of bullion, platinum will struggle to

recover much of the ground that it lost in 2009. Platinum's spectacular price decline in 2008 revealed just how much investment and speculation had contributed to the multi-year surge in price and, in the absence of this interest, the metal will languish near current levels this year. Investors will return to platinum at some point, but a recovery in sentiment towards the auto industry – and improved financial health of the major car companies – will probably be required. But watch out for Chinese imports of platinum: a major increase in Chinese jewellery demand for platinum could quickly improve the fortune of this metal more quickly than we currently anticipate.

Range: \$150-\$300

Pd

Average: \$190

Palladium is dogged by supply uncertainty and demand insecurity and we expect the metal to struggle in 2009. The uncertainty of Russian supply returned to haunt palladium in late 2008, due to a surge in Russia exports – so much for the argument that state stocks were nearing depletion and that remaining sales would be slower and measured. Meanwhile the near-death experience of the US car industry slashed demand for metal for catalysts in large gasoline-powered vehicles, the most important application for the metal. Still, at \$180/oz, palladium's price reflects most of this bad news and assuming a recovery in global vehicle demand in the next few years (probable) and an end to Russian stock sales (decidedly unknown) the metal will likely perform very well in the medium to long term: but very probably not in 2009.

Jeffrey Rhodes

INTL Commodities, Dubai

Range: \$710-\$1,005

Au

Average: \$839

Gold followed its stunning performance in 2007, when it gained 31% year on year, with a further 6% gain to end 2008 at \$880 after breaking the \$1,000 barrier in March as the yellow metal surged to an all time high. In 2008, the gold price (basis the PM fix) averaged \$872, up 25% on

2007 and it represented the 7th straight increase in the annual average price of gold since the current 'winning streak' started in 2001. Over this period gold's annual average has increased by 222% from \$271 and with the world's financial markets still reeling from the impact of the credit crunch and effective demise of the investment banking model many feel that gold's bull market will extend into an unprecedented 8th year. So what do I think 2009 has in store? With governments around the world seemingly throwing financial caution to the wind in an effort to generate growth in order to drag their respective economies out of recession, and the US cutting interest rates to zero, the seeds of future inflation are being sown and the scene appears set for another good year for the yellow metal as gold is firmly back in favour as the safe investment asset that is no one government's liability. The early indications 'from the street' are that investment funds are likely to move into gold in Q1 this year as an alternative currency or monetary asset, however as the global recession and unemployment bites into discretionary spending, demand for physical gold, including jewellery is likely to fall, and this could limit gold's upside potential to last year's high, while dips towards \$700 would probably find willing buyers, suggesting a similar trading range in 2009 to that seen in 2008, although perhaps not quite as extreme in terms of price volatility with a lot of the action expected to be contained between \$850 and \$750.

Range: \$8.90-\$18.55

Ag

Average: \$13.35

Silver has started the New Year with early signs that the price volatility seen in 2008 is likely to be maintained in 2009 amid the often conflicting influences of gold and the base metal sector. In 2008, ATM options volatility approached 90% at one stage, quite unprecedented in my 30 years in the bullion market, and we saw silver trade between \$21.25 in March and \$8.50 in October before ending the year with a \$3.50 decline at \$11.25. The outlook for industrial demand for is much more important for silver as the most industrial of precious metals, as last year's 23.75% decline compared to gold's 6% gain illustrates, and the price is likely to be driven by the performance of global economies, especially China and India, although Investment Funds could well view silver as a 'cheap' way into the 'the gold as a safe haven asset story'. Price

prediction is never an exact science and with respect to silver it is even more difficult, as options volatility highlights, and it should really come with 'this could damage your wealth' advisory warning. With gold likely to find favour in Q1 we could see silver move higher in its wake with the 200 day moving average located at \$14 the obvious target, although a spike into the area of technical congestion between \$16.50 and \$18.50 could well come into play. On the downside any declines below \$10 should find physical buying interest and unless gold completely collapses it is difficult to see silver penetrating \$8.50 in 2009.

Daniel Smith

Standard Chartered Bank, London

Range: \$800-\$1,150

Au

Average: \$985

In line with our view of a weakening USD, particularly against the EUR in H1, we believe the gold price will gather momentum in 2009 and retest USD 1000/oz by the end of Q2. While the implication of the end of the deleveraging process and improved risk appetite is ambiguous, we believe the net impact in this context will be positive as the USD weakening trend provides a clear direction.

Range: \$10.00-\$13.00

Ag

Average: \$11.00

We expect silver prices to make further upward progress in the months ahead, on the back of rallies in other precious metals, gold in particular. While problems in the mining sector have been supportive, further support will need to come from demand to prevent any rallies from being short-lived. With the global economy likely to remain depressed into the first half of 2009, we expect silver to continue to underperform gold. However, investor interest has been surprisingly resilient and we expect this to remain a supportive factor through the year.

Range: \$850-\$1,200

Pt

Average: \$1,000

While platinum prices have fallen sharply in recent months, this has mainly been driven by a reduction in investor interest, as well as the forced liquidation of strategic stockpiles held by the automotive industry. While the automotive sector is likely to remain depressed for the next few months at least, we continue to believe that prices have largely discounted this bad news. The second half of this year has been so poor that a modest improvement in underlying conditions next year should see a substantial pick-up in car sales on a y/y basis. Restocking by the industry has the further potential to boost demand and prices. We therefore expect a modest recovery in platinum prices through the course of next year.

Range: \$170-\$275

Pd

Average: \$203

The gap between palladium supply and demand has started to close during 2008, although the industry continues to suffer from extreme weakness in the automotive sector. This should ease as we move through next year, and palladium will also benefit at the expense of platinum in the diesel market. Nevertheless, we continue to believe that palladium will be an underperformer relative to platinum, given the substantial levels of inventory that have been built up in recent years.

James Steel

HSBC Bank USA, New York

Range: \$700-\$950

Au

Average: \$825

Gold should attract safe-haven buying from risk-averse investors this year, as economic uncertainties are likely to persist for the foreseeable future. Global deflationary pressures are likely to restrain

gold rallies, in our view. Production cutbacks, declining ore grades, and power constraints will result in lower mine output this year versus 2008, we believe. Another important source of gold supply, official sector selling, is also likely to be down in 2009. Prices over USD900/oz should deter gold purchases in price-sensitive markets such as India. Coin and small-bar demand in Western economies should remain strong, regardless of price swings.

Range: \$9.50-\$14.25

Ag

Average: \$12.50

Due to low prices and production cutbacks at primary silver and base metals mines, the rate of mine output growth will be lower in 2009 than previous forecasts indicated. Lower silver supply should be offset by weaker industrial demand and further declines in silver in traditional photography. We expect ETF and small-bar and coin demand, which was robust in 2008, to remain firm this year. This should lend support to prices, despite our projection of a production/consumption deficit. Strength in gold and new sources of demand from silver, should support prices.

Range: \$900-\$1,300

Pt

Average: \$1,100

Weak automotive demand for platinum in 2008 will almost assuredly carry over in 2009, and other categories of industrial demand, including glass, chemicals, and electronics, are also likely to decline this year, given the poor outlook for industrial production this year. Production cutbacks should only partly offset the decline in demand. Jewellery consumption is likely to drop in 2009 due to the downturn in the world economy, but low prices should help stabilize demand. We anticipate that platinum will move from a deficit in 2008 to a modest production/consumption surplus this year. Despite weak demand, we do not believe current prices accurately reflect underlying fundamentals.

Range: \$175-\$300

Pd

Average: \$250

Auto sector demand for palladium has also fallen and is likely to remain poor in 2009. Any significant recovery in Chinese auto demand, should that occur, would help palladium demand specifically. Unlike platinum, palladium has only a small jewellery sector, which we expect will not be a major source of off-take this year. Draws in Russian above ground stockpiles, given many years of selling, may be a source of support for prices. This notwithstanding, we still expect the market to be in heavy surplus this year.

Glyn Stevens

INTL Commodities Inc, London

Range: \$560-\$1,040

Pt

Average: \$765

What a difference a year makes! Recession is indeed upon us, but the sheer ferocity and speed of its arrival has surprised all but the most ardent pessimist. For industrial metals, demand, or lack of it, is the key. Surely only the most stringent of producer cut-backs or perhaps mining company failures will be needed to stop the rot? Platinum is unlikely to find a saviour in the investment community - cash should remain king.

Range: \$78-\$244

Pd

Average: \$138

It is doubtful that 2009 will turn out to be a good year for palladium. If the fortunes of this metal are indeed inextricably linked to the U.S. auto market, then the outlook is bleak. The continuing glut of physical material and incessant secondary offerings can but add to the metal's woes.

Bob Takai

Sumitomo Corporation, Tokyo

Range: \$700-\$1,100 Range: \$9.00-\$15.00

Au

Average: \$900

Ag

Average: \$11.00

Range: \$700-\$1,200 Range: \$160-\$250

Pt

Average: \$1,000

Pd

Average: \$200

Gold will continue to benefit from lower interest rates, an inflated money supply, and the ongoing credit crunch. Coupling these economic conditions with unceasing world-wide political tensions, gold will maintain its safe haven investment strength for this year. Platinum, with its numerous supply hurdles and broad industrial uses, will be the first metal to benefit from any economic rebound. Silver and palladium will tread water as fundamental factors remain neutral.

Other commodities, in particular energy and base metals, will be impacted by production cut backs as numerous projects remain economically unviable given current price levels and lack of project financing. On the other hand, enormous government stimulus plans throughout the industrialized world may create sporadic shortages and resultant spikes in prices.

Our expectation is that 2009 will be a tremendously challenging year for our industry. Volatile prices, credit constraints and economic uncertainty will present us with new and unexpected risks, how we navigate these obstacles and manage these opportunities will determine our fate for the foreseeable future.

Edel Tully

Mitsui & Co. Precious Metals, Inc, London

Range: \$680-\$1,105

Au

Average: \$906

Gold was one of the few assets that provided some element of security over the course of 2008. Despite the at times unyielding pressure through forced deleveraging and systemic risk across the macroeconomic and financial platforms,

gold refused to remain downtrodden for too long. This impressive response during such a significant stage in financial history is deserving of our respect and hence our outlook for 2009 is reasonably robust for the yellow metal. Investors' long positioning in the market remains quite low and as the looming threat of inflation gathers speed, ample room for the return of significant investor participation exists. While we envisage gold can trade up to \$1,100 over the coming months, we cannot discount a strong claw back as continuing weakness across global equity markets detracts interest away from the precious metal. Gold's 2009 journey is set to be another volatile journey, and a sojourn below \$800 will not be impossible throughout various stages of the year – however at such levels, physical related buying should provide an important price floor.

Range: \$7.10-\$14.05

Ag

Average: \$10.26

Economic indicators and the tempo of industrial demand suggest that silver consumption will be severely curtailed in 2009. The ugly reality of a near global recession implies silver will struggle to rise above these acute pressures. For 2009 – while the metal will take strength from gold, its industrial aspects should over-ride its precious attributes. Silver at various times will likely outperform gold, however the white metal tends to move in extreme manners and in the current climate steep moves to the downside are a distinct possibility. Silver provided the market with a number of sharp price declines in 2008, and such intense nose-dives act as an important reminder to our market that silver is essentially an industrial based asset – unlike gold. Therefore as investment-led demand lulls, silver will be extremely vulnerable to further downside corrections. This sentiment should guide investors over the course of 2009.

Range: \$750-\$1,270

Pt

Average: \$1,052

From both a supply and demand perspective, platinum entered 2008 on a tremendously strong footing and by the close of December the metal had become one of the many ugly casualties of the year. There are very few dimensions of the

market that inspire us to believe that substantially higher prices are around the corner. Simply put, unless the market is on the receiving end of a considerable supply contraction or another Eskom type event, then realistically we cannot bolster much bullish enthusiasm and believe the asset will struggle to become an elevated quadruple digit asset in 2009. Investor and speculative players, perhaps buoyed by bargain basement prices, will be weighing up the risk/reward structure of investing in the commodity spectrum once again, including platinum. A risk appetite will not return in quick fashion, rather such a re-incarnation of this community will be gradual in nature. Our consensus for global auto demand advises us to be very cautious in our price outlook for the next 12 months.

Range: \$165-\$315

Pd

Average: \$236

Much like platinum's outlook, our palladium price forecast is grounded in the health of the auto industry for 2009. With auto demand expected to wilt to new lows – the direction offered by the investor sector will be crucial to the metal's path over the months ahead. And while it is entirely plausible that palladium was severely oversold in 2008, the likelihood of a serious change in the metals fortune is unlikely if the investor community opts to forego a return to this market. Secondary supply from auto catalyst recovery could collapse drastically this year, and this should assist a higher price. A period of consolidation for palladium is probably the most likely course of action for a while, until investors opt to re-engage with the market once again.

Trevor Turnbull

Scotia Capital, Toronto

Range: \$750-\$1,200

Au

Average: \$965

We believe that cash has temporarily become the new safe haven as a result of unprecedented de-leveraging. Accordingly, the US Dollar has appreciated beyond our expectations to the detriment of gold. The question is when will the liquidity inducing policies of government take a toll on the

US Dollar and highlight that gold is no one else's paper. We suspect this revelation should begin to take hold in the spring when President elect Obama's first 100 days have passed and the potentially dismal first quarter financial results begin to be reported in the marketplace. As the fall season approaches we predict gold will have one of its best performances of recent years. We are forecasting a possible low point for the gold price in the spring of \$750/oz and a strong second half that could see the price touch \$1,200/oz. Our average for the year is slightly below the midpoint at \$965/oz.

Range: \$7.50-\$18.50

Ag

Average: \$13.00

We expect the negative impact of the global economic slowdown to outweigh the potential offset of bullion as a desirable safe haven asset class this year. Already it is clear that de-stocking is taking place and industrial demand is likely going to be slow to return albeit at reduced levels. On the bright side, mine supply should be down given that many silver producing mines depend on base metal prices for important by-product credits. In addition, there are many silver projects that may not get off the ground either due to lower in situ ore values or because construction capital is now much harder to come by in today's credit environment. We believe the net result is a higher gold:silver ratio that could approach the unheard of 100:1 level. However, we feel gold will outperform in the later half of the year and the gold:silver ratio could return to a more reasonable and sustainable 65:1. Hence our projected silver price range is between \$7.50/oz and \$18.00/oz as we apply these ratios to our gold price forecasts.

Matthew Turner

Virtual Metals, London

Range: \$700-\$1,075

Au

Average: \$905

How well gold did in 2008 depends on your perspective. Compared with almost all other commodities, it now stands at an all-time high, and recording a year-on-year gain despite a dollar rally is creditable. On the other hand... a collapsing banking sector, unprecedented debt-funded government spending, governments preparing to literally print money – this is the stuff of gold-bugs' dreams. And in such a context it is rather remarkable that the price is not much higher.

Will we see a delayed response in 2009? It's not as clear-cut as many might think. Deflation and recession are not natural allies of the gold price. An economic recovery, especially one that begins in the US, might see a dollar rally, and that would not favour gold. The perfect scenario for gold will be sluggish economies that require further government intervention, but where economic recovery kicks in strongly, taking policymakers by surprise, and hence rapid inflation ensues. This would imply a strong second-half rally.

Range: \$8.50-\$14.80

Ag

Average: \$11.40

Silver's fortunes will remain largely contingent on what happens to gold. Its fundamental outlook, based on industrial demand, remains poor, especially so in the current recession. On the brighter side, supply of silver as a by-product of base metal production is bound to contract in the wake of base metal mine production cuts. But investment demand will be the key driver. The gold:silver ratio has been declining, suggesting silver may have been oversold during the closing months of 2008. And with the COMEX long position now 33% lower than in mid-2008 there may be some scope for gains. But many investors in the key ETF will have bought at the top of the market and are nursing paper losses; is there much remaining pent-up appetite for a speculative punt on silver? We doubt it.

Range: \$695-\$1,350

Pt

Average: \$950

Platinum's 2008 rise to \$2,273/oz was spectacular, but not as spectacular as its 2008 fall to just \$763/oz. But if 2008 was the year in which supply issues blinded the market to demand destruction, could 2009 be the reverse – a focus on demand meaning the coming inexorable supply crunch gets underplayed? In South Africa the electricity situation seems contained for now, but Eskom's financing problems mean there is still no clearly visible long-term solution. The impact of weak prices and credit crisis on new mines and expansions, and an uncertain political situation with forthcoming elections, suggest difficult times ahead.

Yet maybe this is a problem for 2010, as supply shocks aren't usually price determining when demand is so weak. Car production in 2009 is likely to be much lower (although governments will intervene and legislation will help platinum offtake). Other industrial demand faces similar problems, even electronics, a sector no more recession-proof than any other. Jewellery is the best hope, but consumers' wallets are feeling the pinch.

Range: \$130-\$295

Pd

Average: \$195

Palladium was up and down like a yo-yo in 2008, both in absolute terms and relative to platinum. But after the strong start not only did palladium suffer the tremendous collapse that platinum did, but it was worse, ending the year at just 1/5th the value of platinum, whereas it had begun nearer 1/4th. Looking at the numbers, palladium mine supply might get cut more than platinum, as not just South Africa but Russia and North America are all seeing declining output. But much of this has been in response to lower prices, which tells its own story. Again, demand will be key, and whereas we once thought it might outperform platinum, as its key market, the US, was in recession before platinum's (Europe) and thus might recover sooner, the slide in Asia makes that debatable. It is however an obvious cost-saver for hard-pressed car firms.

Bhargava N Vaidya

B.N. Vaidya & Associates, Mumbai

Range: \$670-\$895

Au

Average: \$750

Global recession and financial crisis will hit entire the investment basket. Gold will be affected in its dual role of currency as well as commodity. Commodities across board have fallen by more than 50% from highs. Gold would be affected to a lesser extent due to its characteristic of being a safe investment and a hedge against inflation. The physical demand for jewellery would reduce due to current global economic conditions. Reduction in oil prices would reduce investment surplus for oil exporting nations, this would drive away another important investment group from gold. These factors would be negative for gold prices.

Range: \$7.80-\$14.75

Ag

Average: \$10.00

Silver's relationship with gold and base metals like copper will also reflect a higher and volatile price run, however, given that the main supply source of the metal is as a by-product will cap the price.

Wolfgang

Wrzesniok-Rossbach

Heraeus Metallhandelsgesellschaft
mbH, Hanau

Range: \$700-\$1,100

Au

Average: \$910

In a sense gold has been the best performing precious metal in 2008 as it was able to recoup most of the losses it had suffered together with the rest of the commodity complex between July and October. While the initial selling was mostly a result of investors getting out of their positions, the metal was able to attract in recent months massive and much more long-term oriented physical buying interest.

Given the current unprecedented level of uncertainty in the financial markets this trend should continue also into 2009, supporting the gold price and depending on the magnitude of the demand leading to a new all-time high of up to \$1,100 an ounce. An expected fall in jewellery demand, less de-hedging from mines and a slowing industrial offtake would not stop the metal from reaching new highs as at the same time production is likely to fall as well as sales by central banks. In the last few months of 2009 with a possible improvement on the economic side gold may start to give up some of its earlier gains. Meanwhile the platinum group metals will most likely take off from the depressing levels seen at the beginning of this winter.

Range: \$7.50-\$14.50

Ag

Average: \$10.15

As in the last few months silver is likely to remain caught also in the first half of 2009 in the middle between being an industrial metal and its role as the cheaper alternative for gold for investors seeking a safe haven in times of a severe economical and financial crisis. Fundamentally with a worsening recession it has all the price risk associated with a decline in industrial demand. Another big risk for silver is that those investors who have heavily invested in the white metal in the form of ETFs start to lose confidence as has happened in the case of platinum and palladium. Should a more or less bigger portion of the 8,000 tonnes-positions held in ETFs end up being sold on the market, we would not rule out a drop of the silver price to a low of \$7.50 an ounce. If on the other hand, the economy picks up again in the second half of the year and long term investors continue to diversify parts of their portfolios adding silver then we would not rule out that silver may manage to rise again into the mid-teens in the second half of the year.

Range: \$700-\$1,200

Pt

Average: \$945

After the unparalleled drop by nearly 70%, platinum should continue to build a base between \$700 and \$1,000 an ounce in the coming months. Any test of the lower end of that range is in our view not sustainable as these prices are way below the production costs of a substantial portion of

South African output. Even if the crisis in the international car markets continues and global car production drops as forecast by some analysts by another +10% in 2009 thus lowering the physical demand for the metal even further. It is more likely that mine production falls accordingly in order to keep prices stable than prices continuing to crash further in an desperate attempt to create any kind of extra demand. In the current situation no such buying can be expected neither from the car industry nor in times of a severe global recession from the second most important demand source; the jewellery sector. The situation is however going to change in the latter part of the year. With a potential recovery of the industrial off-take, existing production curbed, many new projects put on hold and with a possible rise in investor interest the platinum price may be able to recover to \$1,200 an ounce again.

Range: \$165-\$325

Pd

Average: \$230

The palladium price falling from more than \$580 to less than \$160 on the back of a slump in global demand has most likely seen its cyclical low. With an expected drop in South African and possibly Russian production, a possible extinction of much of the North American output, lower sales from diminishing Russian state stocks and an only slowly rising scrap recovery, the metal's price should be able to weather in the next couple of months the weak physical demand which relies strongly on the US car industry. When global car sales manage to recover again later this year palladium seems to have all the ingredients to outperform the other precious metals percentage-wise.

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