

Investment Recommendation

- Palladium (precious metal)

Recommended strategy:

<i>Buy</i>	\$<u>560</u>/oz
<i>Minimum expected target</i>	\$<u>637</u>/oz (profit: 13.75%)
<i>Maximum expected target</i>	\$<u>710</u>/oz (profit: 26.79%)
<i>Sell</i>	Trailing stop loss
<i>First stop-loss</i>	\$<u>530</u>/oz
<i>Time frame:</i>	2-4 weeks

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1. Fundamental Analysis

Palladium form a group of elements referred to as the platinum group metals (PGM). The Metal is mostly used in automotive, electronics and dental industry. Palladium is a substitute for Platinum.

Key points:

- Hard commodity, thus provide a hedge against inflation
- A good substitute for Platinum (i.e. in car industry). Manufacturers shift to Palladium as it is currently approx. 4 times cheaper than Platinum.
- With a recession fear, car makers (biggest consumer) are to cut costs by replacing highly priced Platinum with Palladium.
- Increasing demand due to shortage and high price of Platinum
- Shortage in supply due to production problems in South Africa (temporal closure of mines, strikes, energy supply crisis) [5]
- During 2000-2001 crisis, Palladium reached its high at \$1110/oz
- On 22nd of January, 2000 (Palladium's past years high) the ratio of Palladium : Platinum was 1.8 : 1. Now it is approx 1 : 4 thus there is potential that the current ratio is likely to reduce

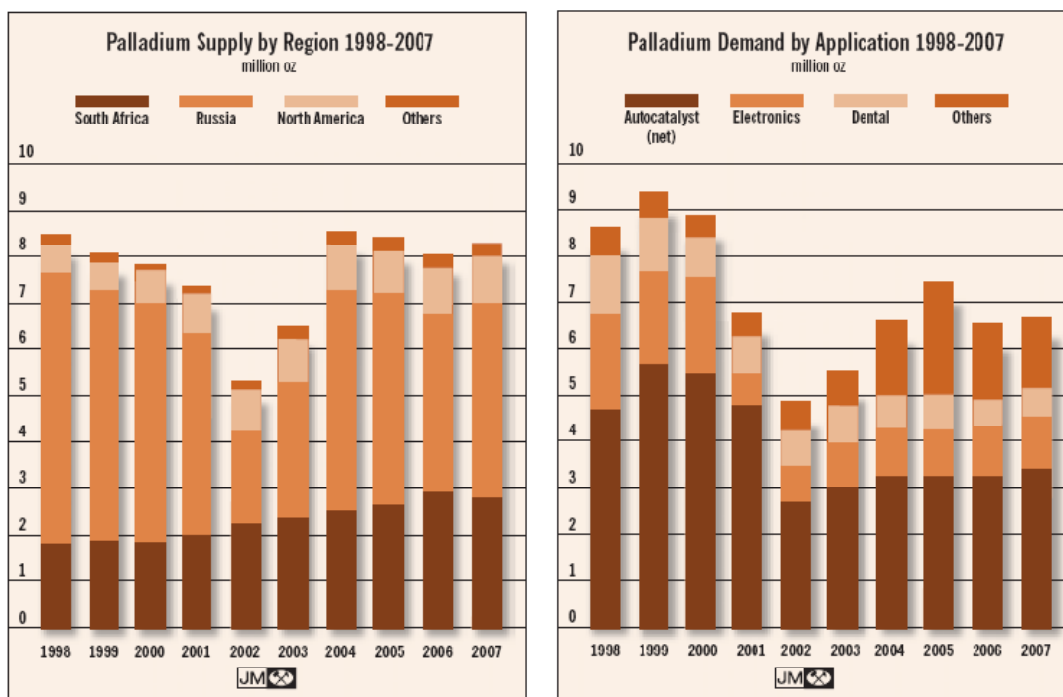


Figure 1. Palladium supply and demand (source: Johnson Matthey's Platinum 2007 Interim Review)

Although supply was higher than demand for past few years, we expect this to change due to very recent changes and problems on platinum market which are not reflected on above graphs.

2. Technical Analysis

Looking at the 10 years plot, significant resistance level can be identified at: \$559/oz, \$637/oz and very strong at \$710/oz. Technically, current situation is similar to the one observed 8 years ago.



Figure 2. Long term view

Moving to medium term view, strong upward trend has increased in speed, and is currently moving within the channel drawn on a short term plot. Volume and MACD(12,26,9) confirm the upward trend marking new highs.

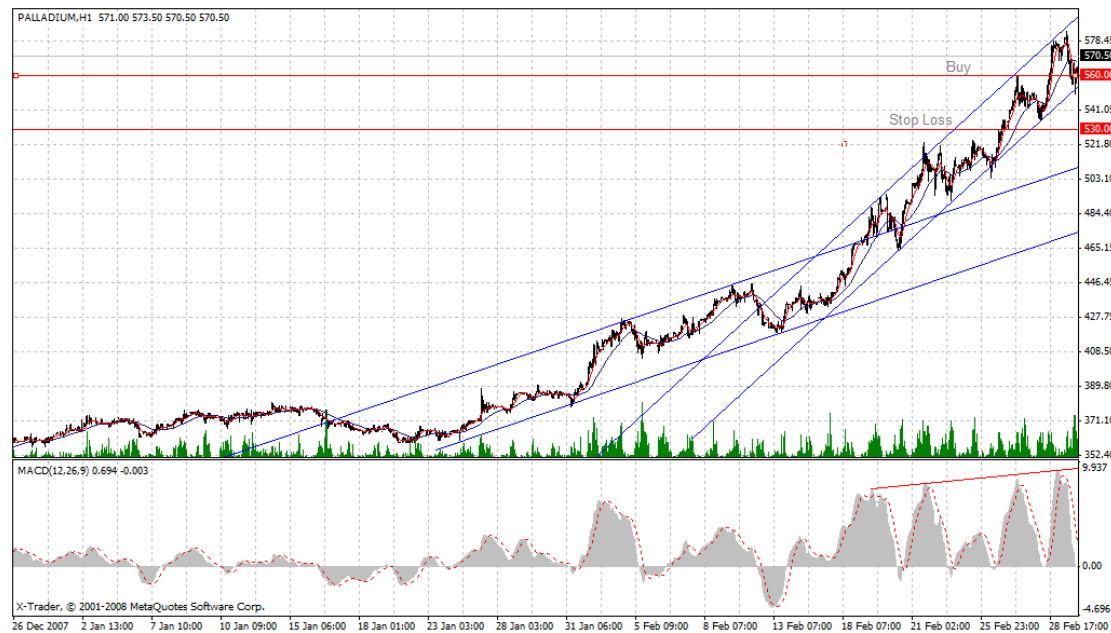


Figure 3. Medium term view

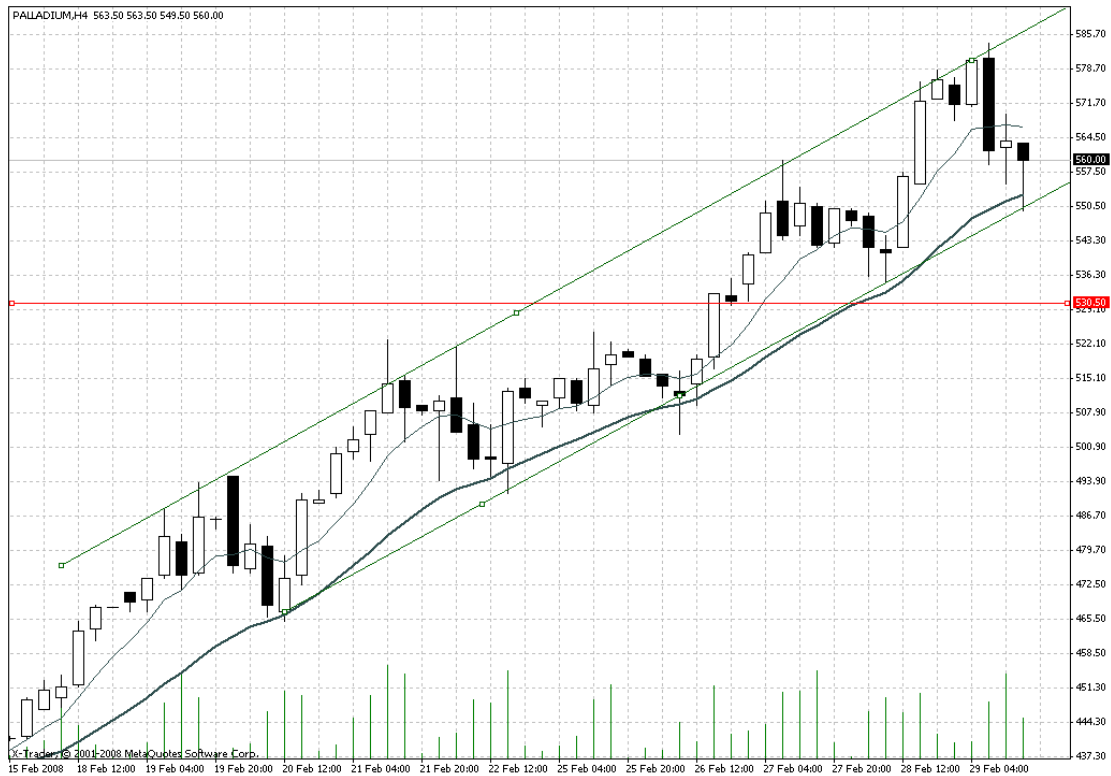


Figure 4. Short term view

The recommendation for buy would be at \$560/oz. with stop loss slightly lower than last low (\$530/oz). We would suggest the use of trailing stop loss-order set up below last low. Minimum target, based on resistance level formed on 12th of July 2000, is at \$637/oz. There is potential for a rise until \$710/oz, where strong resistance formed from one high and one low is present. This conforms to a 3:1 upside-downside trading ratio.

Bibliography

1. Trading techniques lectures
2. *Johnson Matthey's Platinum 2007 Interim Review*
3. *AcaTrader – charting application, <http://www.acatrader.com>*
4. *Xtrate Brokers – charting application, <http://www.xtb.com>*
5. *Financial Times, <http://www.ft.com>*
6. *Bloomberg, <http://www.bloomberg.com>*