26 March 2009

Commodities
Global

HSBC Global Research

Precious Metals Daily

- **Gold rallies after US data show that the economy shrank and that profits plunged in Q4; later in the trading session, a rally by US equities undermines gold's gains**
- **Gold could come under further pressure as long as Treasury Secretary Geithner's proposed reforms win financial markets' approval and Fed officials assert inflation pressures are mild**
- **PGMs rally on indications of increased jewelry demand and the possibility of greater use of hydrogen-powered vehicles; further PGM price gains are likely, we believe**

Precious metals overview

		Gold	Silver	Platinum	Palladium
prices USD/oz	AM fix	935.50	13.60	1,144.00	217.00
	PM fix	938.25		1,152.00	222.00
	Spot	939.85	13.64	1,146.00	222.55
EFPs	Current	0.15	-0.0250	3.50	1.45
Nymex speculative position		Moz	Moz	'000oz	'000oz
- as at 11/07/06	Long	22.316	242.2	661.0	953.1
	Short	4.747	63.4	215.0	447.7
	Net	17.568	178.8	446.0	505.4
	Change	.283	-.035	-58.0	-12.1

Source: HSBC, CFTC

Market focus, emerging trends

Gold prices rallied following the release of economic data showing a sharp decline in US GDP for Q4 2008. According to the Commerce Department, GDP contracted at an annual rate of 6.3%, the steepest quarterly drop since Q1 1982. The Commerce Department also reported that Q4 corporate profits dropped 10.7% at an annualized rate, the sharpest decline since 1954. The negative economic data triggered a brief rush into gold and the other precious metals, in our opinion. The bullion rally stalled later in the day, however, after Treasury Secretary Timothy Geithner, testifying before the House Financial Services Committee, outlined plans for more rigorous scrutiny of the financial sector, including new rules on the reporting of derivatives trading and oversight of non-bank financial institutions. Regulatory reform, Mr. Geithner said, should have an international dimension to ensure stability of the international financial system. According to Bloomberg and other new services, the financial markets were favorably impressed by Mr. Geithner's proposals, and equity markets pushed higher, which in turn pared gold's gains, we believe.

James Steel
Analyst
HSBC Securities (USA) Inc.
+1 212 525 6515
james.steel@us.hsbc.com

Inflationary expectations, it is widely acknowledged, exert a strong influence on gold. Bearing this in mind, we believe that recent comments by monetary officials in the US and the euro zone have potential ramifications for gold prices. In an interview with Reuters, Philadelphia Federal Reserve Bank President Charles Plosser said that inflation expectations have remained stable, and that he is not worried about ballooning inflation this year. According to Mr. Plosser, the Fed's balance-sheet expansion is necessary to support the economy and ensure that deflation does not "become an issue." Meanwhile, in a speech to the Economic Club of Minnesota, Minneapolis Federal Reserve Bank President Gary Stern said that despite concern about future inflation stemming from the Fed's injection of huge amounts of liquidity into the system to combat the financial crisis, there would be ample time to withdraw excess liquidity from the system when the need arose. Striking a different note, Richmond Fed President Jeffery Lacker, in a speech to the Charleston Metro Chamber of Commerce, said that a rise in inflation "down the road" could not be completely ignored, and that choosing the right time to withdraw the stimulus to head off inflation will be a challenge. European Central Bank Governing Council member Ewald Nowotny, in a press interview in Austria, said that there are deflationary tendencies worldwide, and that there will be price declines in some European countries over the coming months.

Gold prices should continue to be influenced by investors' assessment of Treasury Secretary Geithner's proposals to overhaul financial market regulation. The reaction of the equity and the bond markets since Mr. Geithner began unveiling his plans has been positive, which is a negative for gold prices. The USD, however, has weakened, thereby lending support to gold. We believe that at the very least, some of the "panic bid" in gold has abated since Mr. Geithner unveiled his proposals and his reforms met with some level of investor approval. This may weigh on gold prices going forward, we believe. Also, monetary officials in the US continue to warn of the risks of deflation and do not appear to be overly concerned about the prospect of rapidly rising inflation in the near term. A lack of inflationary pressure also would tend to weigh on gold, in our view.

PGM prices jumped in part, we believe, on a more favorable outlook for platinum jewelry demand. Based on our conversations with jewelers and merchants, we believe that platinum jewelry demand has risen recently as low prices have attracted new buyers. Also, the relatively narrow price premium between platinum and gold has encouraged some consumers to shift to platinum jewelry at the expense of gold jewelry, according to our contacts in the jewelry sector. We believe that PGM prices also were supported by a modestly more optimistic outlook for hydrogen-powered vehicles, which require PGMs. Linde North America announced the launch of a "new technology," which it said will help hasten commercialization of hydrogen-powered vehicles in the US. Also, according to the company, the proposed US government stimulus package's heavy emphasis on alternative fuels will support Linde North's efforts in this regard. Platinum prices have further upside, we believe, based tight supplies and indications of greater jewelry demand. However, until hydrogen-powered vehicles are available on a mass scale, we believe that demand for PGMs from this sector will not be significant.

Disclosure appendix

Analyst certification

The following analyst(s), who is(are) primarily responsible for this report, certifies(y) that the opinion(s) on the subject security(ies) or issuer(s) and any other views or forecasts expressed herein accurately reflect their personal view(s) and that no part of their compensation was, is or will be directly or indirectly related to the specific recommendation(s) or views contained in this research report: James Steel

This report is designed for, and should only be utilised by, institutional investors. Furthermore, HSBC believes an investor's decision to make an investment should depend on individual circumstances such as the investor's existing holdings and other considerations.

Analysts are paid in part by reference to the profitability of HSBC which includes investment banking revenues.

For disclosures in respect of any company, please see the most recently published report on that company available at www.hsbcnet.com/research.

** HSBC Legal Entities are listed in the Disclaimer below.*

Additional disclosures

1 This report is dated as at 26 March 2009.
2 All market data included in this report are dated as at close 26 March 2009, unless otherwise indicated in the report.
3 HSBC has procedures in place to identify and manage any potential conflicts of interest that arise in connection with its Research business. HSBC's analysts and its other staff who are involved in the preparation and dissemination of Research operate and have a management reporting line independent of HSBC's Investment Banking business. Chinese Wall procedures are in place between the Investment Banking and Research businesses to ensure that any confidential and/or price sensitive information is handled in an appropriate manner.

HSBC

Disclaimer

** Legal entities as at 22 October 2008*
'UAE' HSBC Bank Middle East Limited, Dubai; 'HK' The Hongkong and Shanghai Banking Corporation Limited, Hong Kong; 'TW' HSBC Securities (Taiwan) Corporation Limited; 'CA' HSBC Securities (Canada) Inc, Toronto; HSBC Bank, Paris branch; HSBC France; 'DE' HSBC Trinkaus & Burkhardt AG, Dusseldorf; 000 HSBC Bank (RR), Moscow; 'IN' HSBC Securities and Capital Markets (India) Private Limited, Mumbai; 'JP' HSBC Securities (Japan) Limited, Tokyo; 'EG' HSBC Securities Egypt S.A.E., Cairo; 'CN' HSBC Investment Bank Asia Limited, Beijing Representative Office; The Hongkong and Shanghai Banking Corporation Limited, Singapore branch; The Hongkong and Shanghai Banking Corporation Limited, Seoul Securities Branch; HSBC Securities (South Africa) (Pty) Ltd, Johannesburg; 'GR' HSBC Pantelakis Securities S.A., Athens; HSBC Bank plc, London, Madrid, Milan, Stockholm, Tel Aviv, 'US' HSBC Securities (USA) Inc, New York; HSBC Yatirim Menkul Degerler A.S., Istanbul; HSBC México, S.A., Institución de Banca Múltiple, Grupo Financiero HSBC, HSBC Bank Brasil S.A. - Banco Múltiplo, HSBC Bank Australia Limited, HSBC Bank Argentina S.A., HSBC Saudi Arabia Limited.

Issuer of report
HSBC Securities (USA) Inc.
452 Fifth Avenue
HSBC Tower
New York, NY 10018, USA
Telephone: +1 212 525 5000
Fax: +1 212 525 0356
Website: www.research.hsbc.com

This material was prepared and is being distributed by HSBC Securities (USA) Inc., ("HSI") a member of the HSBC Group, the NYSE and the NASD. This material is for the information of clients of HSI and is not for publication to other persons, whether through the press or by other means. It is based on information from sources, which HSI believes to be reliable but it is not guaranteed as to the accuracy or completeness. Expressions of opinion herein are subject to change without notice. This material is not, and should not be construed as, an offer or the solicitation of an offer to buy or sell any securities. HSI and its associated companies may make a market in, or may have been a manager or a co-manager of the most recent public offering of, any securities of the recommended issuer herein. HSI, its associated companies and/or their directors and employees may own the securities, options or other financial instruments of any of the issuers discussed herein and may sell them to or buy them from customers on a principal basis. In Singapore, this publication is distributed by The Hongkong and Shanghai Banking Corporation Limited, Singapore Branch for the general information of institutional investors or other persons specified in Sections 274 and 304 of the Securities and Futures Act (Chapter 289) ("SFA") and accredited investors and other persons in accordance with the conditions specified in Sections 275 and 305 of the SFA. This publication is not a prospectus as defined in the SFA. It may not be further distributed in whole or in part for any purpose. The Hongkong and Shanghai Banking Corporation Limited Singapore Branch is regulated by the Monetary Authority of Singapore. In Hong Kong, this document has been distributed by The Hongkong and Shanghai Banking Corporation Limited in the conduct of its Hong Kong regulated business for the information of its institutional and professional customers; it is not intended for and should not be distributed to retail customers in Hong Kong. The Hongkong and Shanghai Banking Corporation Limited makes no representations that the products or services mentioned in this document are available to persons in Hong Kong or are necessarily suitable for any particular person or appropriate in accordance with local law. All inquiries by such recipients must be directed to The Hongkong and Shanghai Banking Corporation Limited. In the UK this report may only be distributed to persons of a kind described in Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2001. The protections afforded by the UK regulatory regime are available only to those dealing with a representative of HSBC Bank plc in the UK. HSBC México, S.A., Institución de Banca Múltiple, Grupo Financiero HSBC is authorized and regulated by Secretaría de Hacienda y Crédito Público and Comisión Nacional Bancaria y de Valores (CNBV). HSBC Bank (Panama) S.A. is regulated by Superintendencia de Bancos de Panama. Banco HSBC Honduras S.A. is regulated by Comisión Nacional de Bancos y Seguros (CNBS). Banco HSBC Salvadoreño, S.A. is regulated by Superintendencia del Sistema Financiero (SSF). HSBC Colombia S.A. is regulated by Superintendencia Financiera de Colombia. Banco HSBC Costa Rica S.A. is supervised by Superintendencia General de Entidades Financieras (SUGEF). Banistmo Nicaragua, S.A. is authorized and regulated by Superintendencia de Bancos y de Otras Instituciones Financieras (SIBOIF).

In Australia, this publication has been distributed by The Hongkong and Shanghai Banking Corporation Limited (ABN 65 117 925 970, AFSL 301737) for the general information of its "wholesale" customers (as defined in the Corporations Act 2001). Where distributed to retail customers, this research is distributed by HSBC Bank Australia Limited (AFSL No. 232595). These respective entities make no representations that the products or services mentioned in this document are available to persons in Australia or are necessarily suitable for any particular person or appropriate in accordance with local law. No consideration has been given to the particular investment objectives, financial situation or particular needs of any recipient.