

# JM&B Monthly Gold & Silver Report

## July 2006

<http://www.johnson-matthey.ch/>

### Introduction

The purpose of this report is to comment on developments in the gold and silver markets on a monthly basis. For more information about this report, please consult the Appendix. Johnson Matthey plc issues reports on platinum group metals:

[http://www.platinum.matthey.com/publications/price\\_reports.html](http://www.platinum.matthey.com/publications/price_reports.html)

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## 1. Commentary

Gold and silver consolidated further in price in July, however as the month drew to a close, both metals showed positive technical trends and looked set to move higher. Any USD weakness going forward could send gold and silver in pursuit of higher price levels, as seen in May 2006.

## 2. Gold

### 2.1 News and Fundamental Considerations

#### Selected News Items from the Month

#### Investment Demand

**UAE, 3rd July 2006, (Ame Info FN)** – The Governor of the UAE Central Bank, Sultan bin Nasser Al Suwaidi told reporters this week that the bank was preparing to convert up to 10 per cent of its currency reserves into gold, although he said that the bank currently held very little gold in its reserves.

'I don't think it is appropriate to buy gold now - it is too expensive. The appropriate time might come very soon. We could go up to 10 per cent,' he said.

Gold analysts predict a choppy market for the yellow metal over the summer months with a rally likely in the autumn. This is the pattern that gold trading has followed over the past five years, with the second half stronger than the first, although the \$725 spike in gold prices this year almost broke this pattern before the recent sell-off.

Summer purchase?

So with gold trading at \$613 an ounce at the time when the UAE governor spoke this week, how low will the yellow metal have to go before the UAE decides to buy?

That is a moot point but July and August look the quietest months for the gold market, and it could be that the UAE makes its historic diversification while other market participants are on the beach in the South of France. Ten per cent of the UAE's \$23 billion foreign currency reserves would be a substantial injection in to the narrow gold market.

Mr. Al Suwaidi also said that the UAE was waiting for the right moment to buy euros, a move that was announced earlier this year but has yet to be executed. Again the figure of 10 per cent of the UAE's foreign currency reserves is the target for diversification.

'We are waiting for (market) conditions to change,' he said this week. 'When there is a clear trend going up, you move into it. If it is going down, you wait for the bottom and buy. There is no trend at this point.'

\$23bn reserves

On present reserve holdings, he commented: 'We are in general investing in short-term debt instruments in the US because we expect US interest rates to go further up.'

The UAE dirham is pegged to the US dollar and Mr. Al Suwaidi confirmed that any more rises in US interest rates would be matched immediately in the UAE. He expects two more interest rate rises from the Federal Reserve.

Many economists see US dollar devaluation now on the agenda as the US economy adjusts to accommodate its twin deficits, and that means that for the UAE holding non-dollar assets like gold and the euro will help protect the value of its foreign currency reserves.

## China

**Beijing, 20th July 2006, (Business Daily)** – China's retail sales grew steadily during the first six months of 2006 and a solid consumption growth trend will be maintained in the second half of the year. Retail sales rose 13.3 percent year-on-year in the January to June period to 3.6448 trillion yuan (\$455.6 billion,) the National Bureau of Statistics said. As a comparison, retail sales in the United States for the same period dropped 0.7 percent to \$96 billion.

Actual growth was 12.4 percent, 0.4 of a percentage point higher than a year ago. Sales in June alone rose 13.9 percent to 605.8 billion yuan (\$75.7 billion.)

"The relatively rapid growth of retail sales, accounting for around 65 percent of the total social consumption, indicates consumption is now providing more support to the country's economy," said Qi Jingmei, a senior economist with the State Information Centre.

According to Qi, consumption in both urban and rural areas registered more than 10 percent growth. Such a high growth rate has seldom been seen in rural areas. "The major reasons behind the strong consumption are the country's robust economic growth and increasing incomes," she said. The current round of economic growth began in 2003, creating a good market environment for consumers and boosting spending confidence, she said.

And as investment continued to boom, a significant portion directly or indirectly transferred into consumption power. Consumer spending was also driven by higher incomes, Qi said.

Figures released by the National Bureau of Statistics said per capita disposable income in towns and cities was 5,997 yuan (\$749.6) for the first half of the year, a growth of 10.2 percent. Farmers' per capita cash income was 1,797 yuan (\$224.6,) 11.9 percent higher than the same period 2005.

Their income from working in the cities jumped 20.1 percent, 3.5 percentage points higher compared with a year ago. "The trend of solid consumption growth will be maintained during the second half of 2006 and even into early next year, as economic growth continues and incomes increase," Qi said.

Rapid economic growth spurs consumption and the effect generally shows up four to five quarters later. As for overall industrial growth, inhibiting factors like supply of coal and electricity weakened this year, allowing higher consumption ability. Moreover, the recent salary rise for public servants, retirees and military staff, as well as anticipation of higher incomes, will boost China's spending.

"The upgrading of the consumption structure will push up consumption volume as well," Qi said. According to a recent report by the State Information Centre, consumption tends to be focused on high value-added products.

**The top five categories for the January to May period were petroleum products, vehicles, telecom products, jewellery, and construction and decoration; all had a year-on-year growth of more than 25 percent.**

Statistics released yesterday said sales of telecom products grew 25.5 percent in the first half, sales of petroleum products rose 38.4 percent, while vehicle sales climbed 27.7 percent.

Another factor that will push up consumption is more spending on services. In 2005, China's per capita gross domestic product (GDP) reached \$1,700. "History shows service consumption will enjoy a boom at this stage," Qi said.

However, compared with a 29.8 percent growth in fixed-assets investment and a 23.4 percent growth in trade during the first half, consumption growth, with a 13.3 percent rise in retail sales, is relatively slow. "Its contribution to the economy is much lower than that of investment and trade," said Zhuang Jian, an economist with the Asian Development Bank.

The final consumption (household and government consumption) percentage of GDP fell from 61.8 percent in 1991 to 52.1 percent in 2005, according to official statistics. The percentage of household consumption of the GDP dropped from 48.4 percent to 38.2 percent in the same period.

The government has adopted a strategic focus to boost domestic consumption in the 11th Five-Year Program Period, in a bid to reduce the economy's reliance on investment and trade. It is widely agreed that the current economic growth model, driven by fixed-assets investment, is unsustainable. But making consumption into a powerful engine for growth in investment and exports may not be easy, said Zhuang.

"Inequality of income is one of the major factors hindering further consumption," he said. The small group of high-income earners tend to invest, while the large group of low-income earners have limited consumption power. In addition, rising healthcare costs, housing prices and tuition fees have made consumers cautious about spending.

Though the government is moving to reform the distribution system and improve the social security network, it will take time before people are better off and the welfare infrastructure is established. "As long as these two problems remain unsolved, consumption is unlikely to get a big boost," Zhuang said, predicting retail sales will maintain the growth rate of around 13 percent in the second half of the year.

**2.2 Technical Comments**

**Long Term Technical Comments**

Gold consolidated in price in July, ending the month with a positive technical bias:



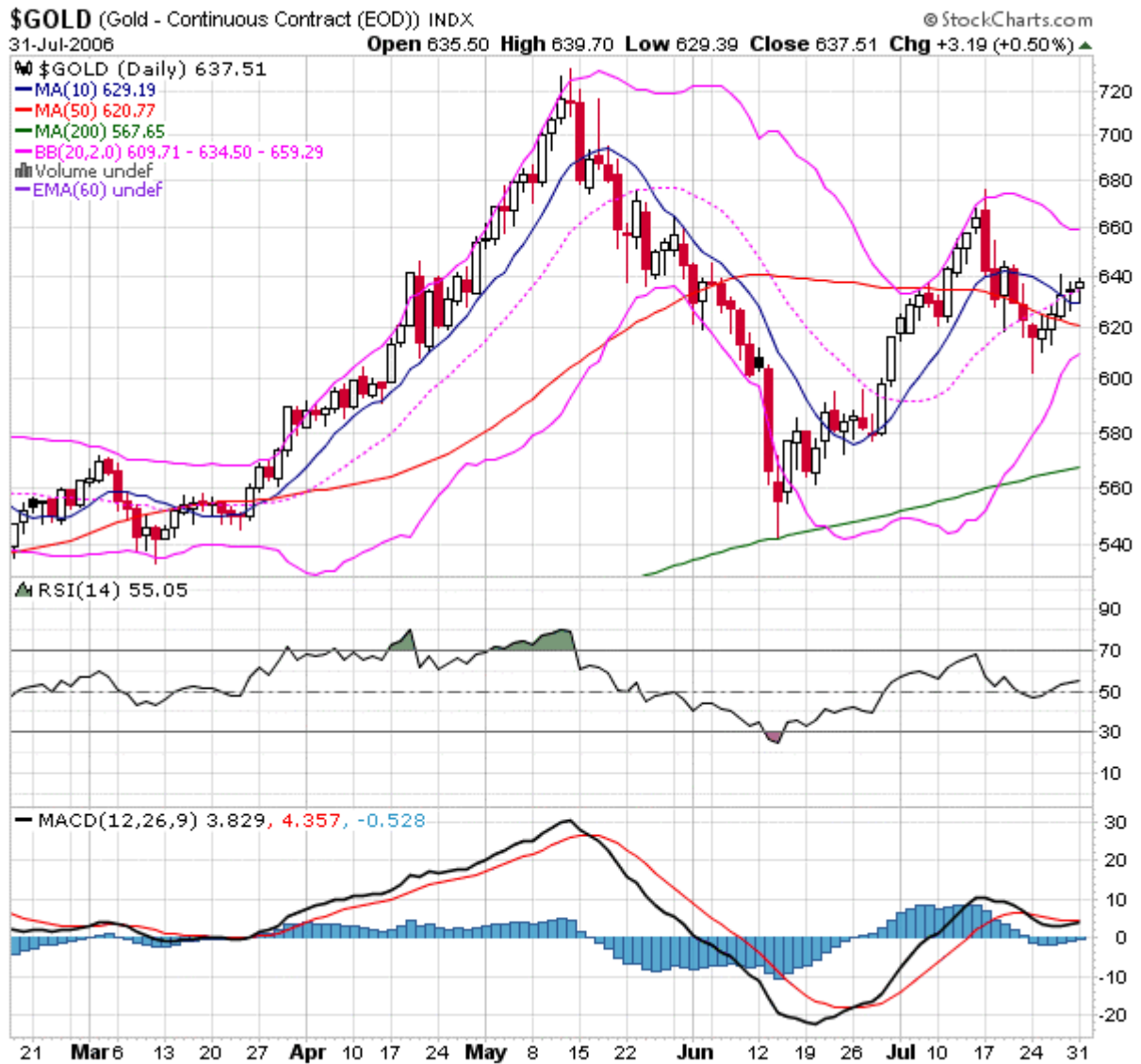
## Daily/Weekly Technical Comments

London afternoon fix in USD/oz:

Open	High	Low	Close
3 <sup>rd</sup> July	14 <sup>th</sup> July	24 <sup>th</sup> July	31 <sup>st</sup> July
623.0	663.3	605.7	632.5

London afternoon fix in €/oz:

Open	High	Low	Close
3 <sup>rd</sup> July	14 <sup>th</sup> July	24 <sup>th</sup> July	31 <sup>st</sup> July
486.6	525.1	479.3	495.7



Gold's 2 ½ month correction may have been completed late July with the price stab down to just above 600 USD/oz.

### 3. Silver

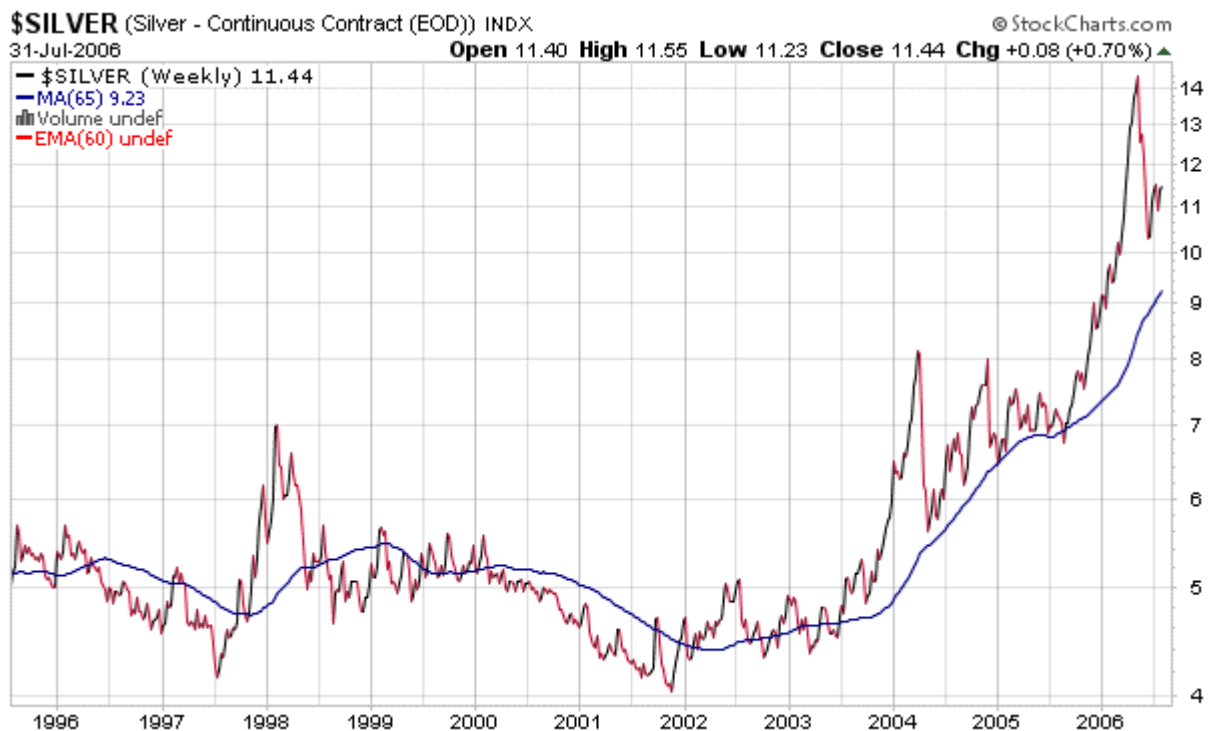
#### 3.1 News and Fundamental Considerations

No news this month.

#### 3.2 Technical Comments

##### Long Term Technical Comments

More price consolidation for silver in July:



##### Daily/Weekly Technical Comments

London fix in USD/oz:

Open	High	Low	Close
3 <sup>rd</sup> July	14 <sup>th</sup> July	19 <sup>th</sup> July	31 <sup>st</sup> July
11.28	11.63	10.52	11.44

London fix in €/oz:

Open	High	Low	Close
3 <sup>rd</sup> July	14 <sup>th</sup> July	19 <sup>th</sup> July	31 <sup>st</sup> July
8.813	9.179	8.417	8.973



Silver has a similar price chart to gold in July, with a higher low than June and a good technical finish towards month's end. Silver looks set to test resistance at around 11.80 USD/oz.

John Fineron 2<sup>nd</sup> August 2006

## Appendix: More about this report

### Purpose of the Report

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This report is prepared in the English language, as are the vast majority of contributions on precious metal markets.

### Structure of Report

The report comprises two sections:

#### Fundamental Considerations

This section addresses aspects of supply and demand in gold and silver, which typically affect the market over periods of **several years**. Over the long term, the price of a commodity will rise or fall until natural supply and demand reach equilibrium. Completion of this process, can take many years and is significantly influenced by hoarding and dis-hoarding. For example, dis-hoarding of stockpiles to compensate for supply shortages can proceed over decades and thereby delay movement to a true equilibrium price.

#### Technical Comments

This section describes aspects of technical analysis in gold and silver, which can be used to assist in buy and sell decisions over periods of **weeks to months**. Traders often use technical analysis to trade or profit from price movements up or down. Because large traders, e.g. hedge funds, often use the same signals, price-movements are often amplified and technical signals become self-fulfilling prophecies due to the herd-mentality.

Learn more about technical analysis:

<http://stockcharts.com/education>

and the terms used:

<http://stockcharts.com/education/GlossaryA.html>

Learn more about candle charts:

<http://www.litwick.com/about.html>

All charts used are courtesy of Stockcharts.com unless otherwise stated.



Find out more about the Elliot wave principle:

<http://www.prognosis.nl/principle/index.html>

Please note that our technical comments will be purely technical in nature and will not attempt to rationalise or second-guess the reasons for price movements.

### **Advice on buying and selling precious metals**

It is not the policy of Johnson Matthey & Brandenberger AG, to advise customers on specific buy or sell points. We are however prepared to assist customers in formulating views on precious metal markets and preparing strategies suited to their individual buying and selling needs.

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