JM&B Monthly Gold & Silver Report
August 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

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1. Commentary

Gold drifted down in price in August, but remained within the confines of a large triangle, which should soon be tested. Technical indicators point to an upward break in price. As anticipated silver moved above resistance at the beginning of August and settled into the 11.80 to 12.50 USD/oz range. At the end of August silver broke out of this range. Three closes above resistance are usually needed to confirm a break, should this occur, there is not much in the way of a test of the highs seen in May 2006!

2. Gold

2.1 News and Fundamental Considerations

Selected News Items from the Month

Supply & Demand

London, 16th August 2006, (World Gold Council) – Rising gold price pushes spending on gold to record high in Q2'06:

- Investment demand for gold increased 19% in tonnage terms and 75% in value terms year on year
- Gold jewellery demand reached a quarterly record of $11.4 billion
- Q2'06 total demand in tonnage terms decreased 16% year-on-year
- Q2'06 total demand rose 23% in dollar terms reaching a record of $16.2bn

Market sentiment towards gold remained strong in the second quarter of 2006 as total demand for gold rose, in dollar terms, to half-year and quarterly highs despite significant price volatility. Investment demand increased on the back of sustained interest in gold-backed Exchange Traded Funds and related products, as well as supportive economic and geopolitical conditions, while changes in consumer attitudes combined with rising disposable incomes in key markets saw consumers spend more on gold jewellery than ever before – an amount marginally higher than the previous record set in Q4 2003.

Identifiable investment demand for gold in Q2'06 surged 19% in tonnage terms compared with the same period last year to 130 tonnes, driving the total value of investment demand for gold in H1'06 up 40% to $6.1 billion, according to figures compiled by GFMS Ltd for the World Gold Council ("WGC").

Gold jewellery demand rose 12% in value terms to $11.4 billion for the quarter. Many consumers, manufacturers and retailers remained sensitive to price volatility, showing a reluctance to commit to purchasing that resulted in a 24% fall year on year in tonnage terms to 562 tonnes. This drop in gold jewellery demand in volume terms affected overall demand for gold, which was down 16% to 802 tonnes on the same period in 2005. The average price of gold for the quarter was up by 47% year on year.

James Burton, Chief Executive of the World Gold Council, commented today: "Price volatility has, as expected, had a detrimental effect on demand in tonnage terms. However it is reassuring to see people are spending more on gold. Sentiment towards gold has remained strong, and today's figures indicate continued investor interest and a record high in dollar terms for gold jewellery purchasing.

"Earlier this month, the World Gold Council published research revealing substantial growth in the potential market for gold jewellery. This quarterly all-time record for gold jewellery demand in dollar terms goes a long way toward reinforcing the findings of this research and further supports the positive work of the World Gold Council in marketing gold jewellery to target markets around the world.

"I am further encouraged by strong results in investment demand for gold. The sustained investor interest in gold-backed Exchanged Traded Funds was particularly satisfying, with streetTRACKS Gold Shares, the World Gold Council product listed on the New York Stock Exchange, accounting for the majority of growth."

Investment Demand

Strong demand from investors across almost all categories drove investment to high levels in the first half of 2006. In the second quarter total identifiable investment demand for gold rose 19% to 130 tonnes and 75% in value terms year on year, taking the total value of identifiable investment for H1'06 to $6.1 billion. Increased investment brought added volatility to the price, which, at an average of $627.71 for the quarter, was 13% higher than in Q1 and 47% higher than in Q2 2005.

Exchange Traded Funds (ETFs) remain an attractive method through which both retail and institutional investors choose to access gold, with $789 million flowing into this investment category during the second quarter of 2006. The bulk of investment in ETFs was accounted for by the market leader streetTRACKS Gold Shares, listed on the New York Stock Exchange, which at the end of June 2006 held 371.9 tonnes of gold worth $7.3 billion at market price as at June 30.

Volatile prices affected the market for coins and bars in the second quarter of 2006. The impact of price movements varied between countries and between investment products. A substantial amount of selling back of bars occurred most notably in Japan. In contrast, the market for new coins, notably in Turkey, was more buoyant and the US was also strong. Demand for official coins increased 64% on the same period last year. Solid growth was also seen in medallions and imitation coins, a market concentrated in the Middle East and India.

Jewellery Demand

Price movements during the quarter were exceptionally volatile, having a demonstrable impact on jewellery demand in tonnage terms, while positive consumer sentiment toward gold jewellery drove demand in value terms to record levels.

Price volatility affected the gold jewellery market in different ways. The most obvious was the reaction of jewellery buyers in markets in much of Asia (notably India) and the Middle East. When prices moved rapidly, consumers tended to hold back from purchasing. In Q2 2006, this resulted in a drop in overall jewellery demand by 24% to 562 tonnes compared to a year earlier.

All markets showed a fall in volume terms compared to the very strong Q2 2005, though the extent of the decline varied markedly. Demand in China was less affected than in other markets, falling just 2%, since price volatility is less of a deterrent to purchase and local market sentiment continues to expect further price growth. In Vietnam and Turkey demand fell 1% and 3% respectively, while India - traditionally the market most sensitive to price volatility - was most severely affected, declining 43% when compared with an exceptionally strong second quarter of 2005. Saudi Arabia also reported a significant decline (32%), compounded by a stock market slump in March, which had a serious impact on wealth and consumer spending.

All gold jewellery markets were affected at the trade level, as manufacturers and retailers strove to reduce exposure to risk brought about by periods of price volatility. In the second quarter of 2006, this resulted in substantial de-stocking.

Supply

Despite an increase in the supply of scrap, overall gold supply was constrained in the second quarter of 2006 as a result of lower central bank sales and substantial de-hedging by gold mining companies. Scrap supply increased 57% in tonnage terms on the same period in 2005, largely due to price volatility.

Official sector sales declined in the second quarter, decreasing 63% year on year in tonnage terms. Sales under the Central Bank Gold Agreement have been much lower than expected in the current CBGA year, which ends on September 26, raising the possibility that sales may fall short of the 500 tonne limit. The 500 tonne annual allowance is a limit under the terms of CBGA2, and any shortfall of this limit cannot therefore be made up in future years.

Mine production remained broadly stable during the period, rising 2% year on year in tonnage terms.

Outlook for 2006

Looking toward the remainder of 2006, the political and economic climate remains favourable to gold investment, the fundamentals of the market are perceived as strong and the diversification benefits of gold are being increasingly recognised. Prospects for gold jewellery demand will depend very heavily on future price volatility. A period of price stability should see a recovery in the volume of demand and further growth in value. Consumers will return to the market once they perceive that the period of exceptional price volatility is over.

Gold supply and demand (WGC presentation)

	2004	2005	Q1'05	Q2'05	Q3'05	Q4'05	Q1'06	Q2'06[1]	*% ch Q2'06 vs Q2'05*	*% ch H1'06 vs H1'05*
Supply										
Mine production	2,469	2,520	579	611	654	677	582	625	*2*	*2*
Net producer hedging	-427	-113	-22	-75	-21	4	-142	-157	...	...
Total Mine supply	2,042	2,407	557	536	633	681	440	468	*-13*	*-17*
Official sector sales[2]	470	661	268	144	86	163	98	53	*-63*	*-63*
Old gold scrap	849	886	204	198	210	274	271	310	*57*	*45*
Total Supply	3,361	3,953	1,029	877	929	1,118	810	832	*-5*	*-14*
Demand										
Fabrication										
Jewellery	2,613	2,709	707	774	659	569	532	541	*-30*	*-28*
Industrial & dental	410	420	100	111	106	104	108	109	*-2*	*3*
Sub-total above fabrication	3,023	3,130	807	885	765	672	641	650	*-27*	*-24*
Bar & coin retail investment[3]	397	412	130	120	93	69	84	101	*-15*	*-26*
Other retail investment	-57	-22	-10	-9	-8	4	5	-11	...	...
ETFs & similar	133	208	89	-2	38	84	109	39	...	*70*
Total Demand	3,496	3,727	1,016	995	888	828	838	780	*-22*	*-20*
Balance[4]	-134	226	13	-117	41	289	-28	52	...	...
London PM fix (US$/oz)	409.17	444.45	427.35	427.39	439.72	484.20	554.07	627.71	*47*	*38*

Data in this table are consistent with those published by GFMS but adapted to the WGC's presentation and take account of the additional demand data now available. The "balance" figure differs from the "implied net (dis)investment" figure in GFMS' supply and demand table as it excludes "ETFs and similar" and "other retail investment". Note that jewellery data refer to fabrication and quarterly data differ from those for consumption in tables 1 and 2. 1. Provisional. 2. Excluding any delta hedging of central bank options. 3. Equal to the sum of the first three rows in Table 1. 4. This is the residual from combining all the other data in the table. It includes institutional investment other than ETFs & similar, stock movements and other elements as well as any residual error.

More supply/demand graphs are available at the World Gold Councils website at www.gold.org .

Hedging

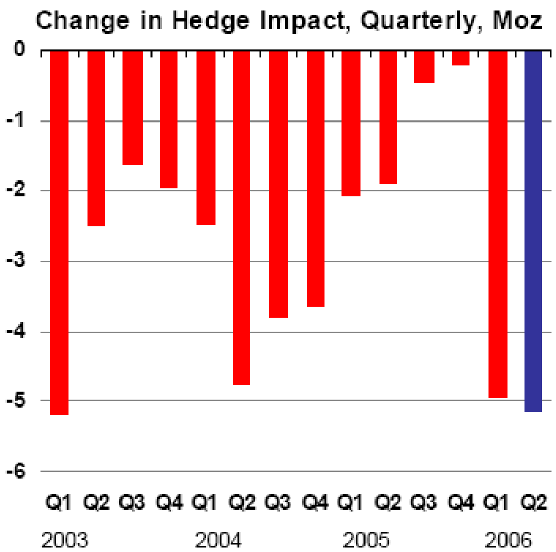
London, 3rd August 2006, (Mitsui Metals) – The Hedge Book Q2 2006

- Hedge Impact declines by 5.1 Moz
- Q2 06 Hedge Impact falls to 43.0, Moz; largest % fall ever

A 3.0 Moz hedge reduction by Barrick and a 1.0 Moz hedge reduction by AngloGold Ashanti led global hedging down by another 5.1 Moz in Q2 06, an 11% decline. At 43.0 Moz the Hedge Impact of the global book is now 10.1 Moz lower than it was at the start of the year, completely reversing the slowing trend of dehedging seen during 2005.

The rate however might slow again in the second half of the year as Barrick have now completed their promised 2006 reduction of 7.7 Moz (though as they have said they will do 2.8 Moz more by 2009 at the latest, further cuts cannot be ruled out), and AngloGold Ashanti have said they are not going to make large scale buybacks.
In addition to Barrick and AngloGold Ashanti, the other main hedger, Newcrest, made a sizeable cut. Together these "Big Three" hedgers accounted for 82% of the dehedging, higher than their 64% share of the global book. However, importantly, of the 52 other companies with hedge books at the start of the quarter, 40 reduced their positions, taking nearly 1.0 Moz off the global Hedge Impact. This is in contrast to recent quarters, when the smaller hedgers have seen net increases in their hedges or only small net cuts.

Despite the gold price hitting 25-year highs during the quarter, there were no significant moves by mining companies to take advantage and lock in prices by selling forward. Only six saw their hedge positions increase and only Rio Narcea increased its position by more than 0.1 Moz, and that was for project-finance reasons. Furthermore the amount of put options purchased actually fell. We speculate that companies might believe they are too expensive given the increase in price volatility.



Commenting on these findings, John Levin, Head of Marketing of Mitsui Global Precious Metals, said: "The first half of 2006 has been extremely aggressive in terms of hedge book reduction, more so than we were anticipating. The market always looks ahead however, and it may be wondering how the next two quarters could possibly replicate the investment made by gold producers thus far in 2006. That having been said, the broad based nature of the dehedging gives no indication the phenomenon is over just yet".

Despite the extent of the dehedging, the mark-to-market value of the global book, continued to decline, deteriorating to a negative $12.9bn, $1.0bn worse than Q1 06's $11.9bn.

Central Banks

Frankfurt, 22nd August 2006, (Dow Jones) – Bundesbank President Axel Weber still opposes gold sales for budgetary measures, daily newspaper Bild reported Tuesday.

"It's not a good idea to touch the substance. It would be better to consequently push for the reduction of debts," Weber said. "Gold is an important factor for the confidence in the stability of the euro," he added.

The Bundesbank has gold reserves of around 3,400 metric tons. But Weber also noted, that the bank "has never said not to sell gold in general." "It's imaginable to shift reserves from gold into foreign currencies. But we won't tap into the reserves", he said.

2.2 Technical Comments

Long Term Technical Comments

The long-term trend for gold is still up:

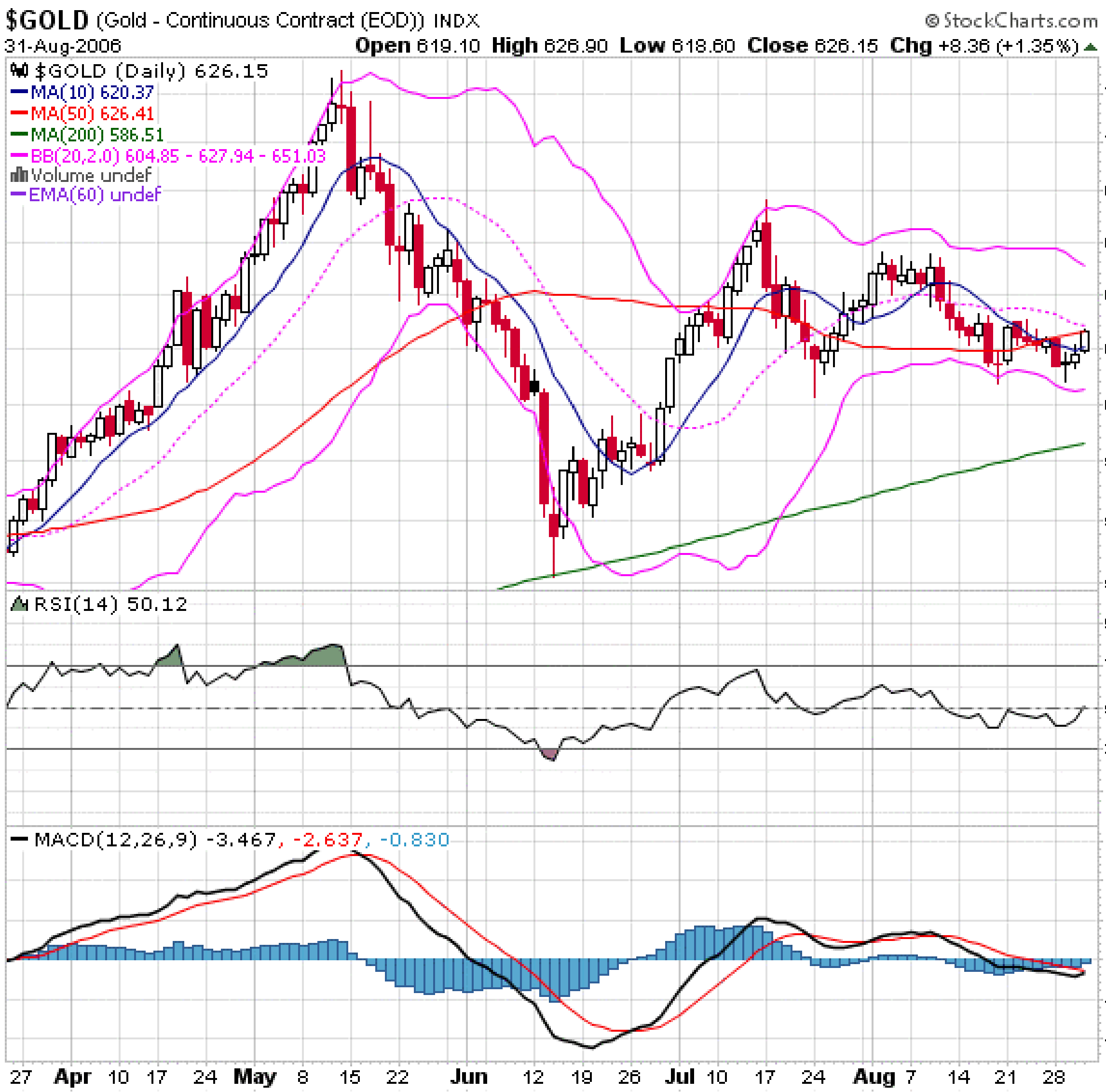
Daily/Weekly Technical Comments

London afternoon fix in USD/oz:

Open	High	Low	Close
1st August	4th August	18th August	31st August
637.25	652.25	613.90	623.50

London afternoon fix in €/oz:

Open	High	Low	Close
1st August	4th August	18th August	31st August
500.04	505.31	478.14	486.20



Gold drifted down in price in August, but remained within the confines of a large triangle, which should soon be tested. Technical indicators point to an upward break in price.

3. Silver

3.1 News and Fundamental Considerations

Several interesting topics are covered in this document:

www.silverinstitute.org/news/3q06.pdf

3.2 Technical Comments

Long Term Technical Comments

The long-term technical picture for silver remains positive:

Daily/Weekly Technical Comments

London fix in USD/oz:

Open	High	Low	Close
1st August	31st August	1st August	31st August
11.36	12.60	11.36	12.60

London fix in €/oz:

Open	High	Low	Close
1st August	24th August	1st August	31st August
8.900	9.805	8.900	9.800

As anticipated silver moved above resistance at the beginning of August and settled into the 11.80 to 12.50 USD/oz range. At the end of August silver broke out of this range. Three closes above resistance are usually needed to confirm a break, should this occur, there is not much in the way of a test of the highs seen in May 2006!

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Appendix: More about this report

Purpose of the Report
The purpose of this report is to comment on developments in the gold and silver markets on a monthly basis. Johnson Matthey plc issues reports on the platinum group metals:

http://www.platinum.matthey.com/publications/price_reports.html

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http://www.adobe.com/products/acrobat/readstep.html

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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