

JM&B Monthly Gold & Silver Report

September 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

Contents

- 1. Commentary
- 2. Gold
 - 2.1 News and Fundamental Considerations
 - 2.2 Technical Comments
- 3. Silver
 - 3.1 News and Fundamental Considerations
 - 3.2 Technical Comments
- Appendix More about this report

1. Commentary

Gold and silver could not break out above price resistance at the start of September and fell back in price to their respective 200 DMA, which provided a base.

2. Gold

2.1 News and Fundamental Considerations

Selected News Items from the Month

Central Banks

Frankfurt, 14th September 2006, (Reuters) – Europe's central banks have stepped up sales of gold as the deadline for the current phase of an agreement limiting bullion sales approaches.

But analysts said that for the first time in seven years the banks are not expected to sell their full gold quota.

The steep rise in gold prices over the past five years may encourage some central banks to hold on to their treasure trove, while others are selling as they seek to diversify their reserve holdings.

Central bankers meeting next week in Singapore for the International Monetary Fund sessions will have the opportunity to swap notes on the merits of gold versus other assets, as they review progress of the five-year Gold Sales Agreement.

Markets expect sales to fall about 25 percent short of the 500 tonnes of gold that central banks are allowed to sell in this, the second year of the pact, which runs out in just under two weeks.

And some wonder whether the pattern will be repeated in its final three years.

"Until this year they had sold the limit so it would be a departure...certainly the easy assumption that they will always sell the limit will have been shaken a bit," said Matthew Turner, analyst at precious metals consultancy Virtual Metals.

Bundesbank President Axel Weber, who oversees the world's second-largest gold hoard, told Reuters last month it was too early to speculate on whether sales caps would be met but he expected the issue to be discussed informally in Singapore.

The Bundesbank is one of 15 European central banks which set limits on sales in 1999 to help stabilise bullion prices, then languishing at under \$300 an ounce. The current agreement, which began on September 27, 2004, allows sales of 500 tonnes a year for five years but a shortfall of sales is expected in 2005-06.

"It's become clear that central banks are not going to fulfil their quota under the central bank gold agreement this year for the first time in years," HVB commodities analyst Jochen Hitzfeld said.

Turner, who estimates second-year sales so far at about 370 tonnes, agreed. "Even at the slightly picked-up rate of the last week, we are not going to make it to 500 (tonnes)," he said.

SHINE FADES?

While the Bundesbank has signalled it is unlikely to sell down its massive reserves any time soon, other euro zone banks have stepped up sales as the Sept. 26 deadline approaches.

According to the weekly balance sheet issued by the European Central Bank, gold holdings fell 114 million euros in the week to Sept. 8, the biggest drop in two months. The ECB said this was due to sales by two central banks, but did not name them.

Separately, the Bank of Portugal announced that it had sold 20 tonnes of gold "in recent months", taking its total for the current year of the agreement to 45 tonnes.

But Hitzfeld said it was difficult to fulfil the quota while Germany and Switzerland were passing on their sales options to other central banks.

Gold, which was trading around \$580 an ounce on Wednesday, had risen 25 percent a year for the last five years, boosting its attractiveness as an asset.

"The rise in price is a major factor" in explaining why central banks want to hold onto their gold, he said.

"One of the most important arguments (against holding gold) is that gold has no yield, but when the price doubles in three years you cannot say that it has no benefit."

However, Turner noted this was also an argument to sell and take the profits, and said he did not think the decline in gold holdings as a share of total central bank reserves would change.

Figures published by the Bank for International Settlements this week show gold made up just over 10 percent of reserves in early 2006, from 60 percent in 1980.

"Central banks are very heavily weighted in gold, especially since the price rise a lot of them have 30 or 40 or 50 percent of their reserves in gold, on any allocation that would be too high a weighting," he said.

Moscow, 21st September 2006, (RBC) – The Bank of Russia intends to increase the volume of gold metals in Russia's gold and foreign currency reserves, the Bank's First Deputy Chairman Alexei Ulyukayev told the State Duma budget committee today. The share of gold in the country's gold and foreign currency reserves is 3 percent at present. If the volume of gold metals increases, still its share will not raise, he noted.

The prices of gold and other precious metals have been rising lately but the market is correcting at present, Ulyukayev stressed. The gold price is now \$550 per ounce, which is \$80-90 lower than the record price. The metal prices are highly volatile at the moment, but the Central Bank has not imposed any limits on gold acquisition, he said.

Russia's gold reserves exceed 380 tonnes.

India

Bombay, 2nd September 2006, (PTI) – India, world's largest importer gold with over 800 tonnes of imports, is set to become a global hub for the precious metal.

"The government is taking and will continue to take all possible measures aimed at making India the gold hub of the world," Company Affairs Minister P C Gupta told a global gold summit organised by Assocham.

Till last year, India did not figure as a major trading centre of gold and silver in the international market despite being the world's largest importer and exporter of value added jewellery items, he said.

With commencement of future trading in gold, the scenario appears to be changing, Gupta said adding India thus is no longer be looked as a price taker or price seeker of the gold.

As per estimates of World Gold Council, the annual Indian demand for the precious metal in recent years has been over 800 tonnes, most of which is used for fabrication, he said adding, "we, therefore, have the potential of becoming a price-setter in the international market."

On the policy front he said, as a part of special focus on jewellery in our foreign trade policy, the government has already allowed import of gold of 18 carat and above, freely under the replenishment scheme.

The government has also permitted duty free import of commercial samples up to Rs 1 lakh (Rs 100,000) and duty free re-import for rejected jewellery equivalent to 2 per cent of Free on Board (FOB) value of export, he said.

2.2 Technical Comments

Long Term Technical Comments

The long-term trend for gold remains up:



Daily/Weekly Technical Comments

London afternoon fix in USD/oz:

Open	High	Low	Close
1 st September	5 th September	15 th September	29 th September
621.1	637.8	573.6	599.3

London afternoon fix in €/oz:

Open	High	Low	Close
1 st September	5 th September	15 th September	29 th September
486.7	497.7	453.7	473.2



After failing to scale resistance at around 640 USD/oz at the start of September, gold fell back to its 200 DMA.

3. Silver

3.1 News and Fundamental Considerations

New York, 29th September 2006, (iShares Silver Trust) – On September 27, 2006 the iShares Silver Trust [AMEX: SLV] filed a S-1 to register 15,222,727 shares at a proposed maximum offering price of \$110.00 per share for a maximum net offering proceeds of \$1,674,449,970. As of 09/28/2006, iShares Silver Trust showed 104,323,655 ounces of silver in the trust or 3,244.8 tonnes. This represented 10,450,000 shares. Thus the registration of the S-1 this week will effectively increase the amount of shares and silver by just under 150%

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
1 st September	5 th September	15 th September	29 th September
12.75	13.15	10.70	11.55

London fix in €/oz:

Open	High	Low	Close
1 st September	5 th September	15 th September	29 th September
9.949	10.25	8.436	9.116



Silver could not maintain upward price momentum at the start of September and fell back to price support around its 200 DMA, where buyers were waiting.

John Fineron 2nd October 2006

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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