

JM&B Monthly Gold & Silver Report

October 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

After a weak start, gold and silver spent most of October rising in price. Technical indicators are signalling, that the price corrections in both metals, which started in spring, have probably come to end and we should expect higher prices going forward.

2. Gold

2.1 News and Fundamental Considerations

Selected News Items from the Month

Central Banks

London, 5th October 2006, (Reuters) – Barclays Capital said on Thursday it believed Europe's central banks sold the full 500 tonnes of gold in the second year of an agreement that regulates bullion sales.

Costanza Jacazio, precious metals analyst at Barclays, said at a commodity outlook briefing that the sales had not figured in the weekly financial statement issued by the European Central Bank due to the way the central bank reports them.

She said the statement excluded forward sales that Barclays believed to have happened in September but were not showing up yet.

Other analysts have said sales fell short of the quota during the year that ended on September 26. European central banks have agreed to cap gold sales at 500 tonnes a year to avoid destabilising the market. Jacazio said she did not expect to see a clarifying statement from either the ECB or individual central banks on this issue. The fact that the banks might have met their full quota would possibly support prices in the short term, she added. "The fall in gold prices (in September) was relatively small given the amount of selling we have seen through the month," she said.

Frankfurt, 5th October 2006, (Dow Jones) – Germany's Bundesbank doesn't intend to sell gold reserves during the next 12 months except some sales for coinage, it said Thursday.

According to the European Central Bank's Gold Sales Agreement, the Bundesbank can sell up to 120 metric tons of gold a year until 2009. The third year of the agreement started Sept. 27. Since the beginning of the agreement the Bundesbank has refused to sell larger amounts of its gold reserves.

Germany's gold reserves amount to 3,400 tons. While Bundesbank profits are transferred to the federal budget, it's the responsibility of the bank to administer its assets.

"Apart from sales to mint coins the Bundesbank won't sell gold in the third year of the European agreement," a Bundesbank spokesman said.

But the bank is in contact with other central banks in order to transfer its third-year option to them, Bundesbank President Axel Weber said on the sidelines of the European Central Bank's Governing Council meeting in Paris.

"I don't think that we will conclude the talks in the next two weeks," he said.

India

Mumbai, 22nd October 2006, (Financial Express) – Importers bought more than double the quantity of gold ahead of this year's peak festival season compared to the lead-up to Diwali in 2005 as a fall in prices attracted buyers, a top industry official said on Monday.

Suresh Hundia, President of the Bombay Bullion Association, estimated that in the month ahead of October 21, the date of the Diwali festival, imports of gold rose 123 per cent to 156 tonnes from 70 tonnes in the month before Diwali last year. In 2005, Diwali fell on Nov. 1.

International gold prices have traded in a rough range of \$560 to \$600 an ounce range so far this month, compared to a rough range of \$460 to \$480 an ounce in October last year.

While the gold price is markedly higher this year, buyers have been attracted by a sharp fall in gold from over \$700 an ounce earlier in 2006. In 2005, prices rose ahead of the festival season.

China

Beijing, 30th October 2006, (Bloomberg) – Chinese foreign exchange reserves of \$700-billion (U.S.) are "enough," and the country should spend excess holdings abroad, says Xia Bin, director of the financial research department of the State Council, or cabinet.

The nation should also buy gold at an opportune time, Mr. Xia said yesterday at a seminar in Beijing. The proportion of gold in its reserves "is too low," he said.

Gold makes up 1.3 per cent of China's foreign exchange holdings, according to the World Gold Council. That compares with 1.8 per cent in Japan and 25.8 per cent for the European Central Bank, according to the Gold Council.

"There are only benefits if China uses the excess reserves overseas, such as buying goods in the U.S. or Japan, as long as Chinese economic growth is stable," Mr. Xia said. "It would be a waste not to use them."

China's second largest ever trade surplus last month helped send the reserves to \$988-billion at the end of September, a record for a single country.

China's trade surplus and rising investment are boosting foreign-exchange reserves and money supply, which in turn is spurring bank lending. The United States claims Chinese exports have caused the widening of the two nation's trade gap.

The U.S. trade deficit with China reached a high of \$22-billion in August, exceeding the previous record of \$20.5-billion in October 2005.

2.2 Technical Comments

Long Term Technical Comments

No change in the long-term price trend for gold which remains up:



Daily/Weekly Technical Comments

London afternoon fix in USD/oz:

Open	High	Low	Close
2 nd October	30 th October	6 th October	31 st October
600.6	608.5	560.8	603.8

London afternoon fix in €/oz:

Open	High	Low	Close
2 nd October	30 th October	6 th October	31 st October
471.5	478.5	445.3	473.5



After a poor start to the month, gold essentially moved higher in price and moved above the important 200 DMA. At this juncture, gold is by no means overbought and further price gains are likely.

3. Silver

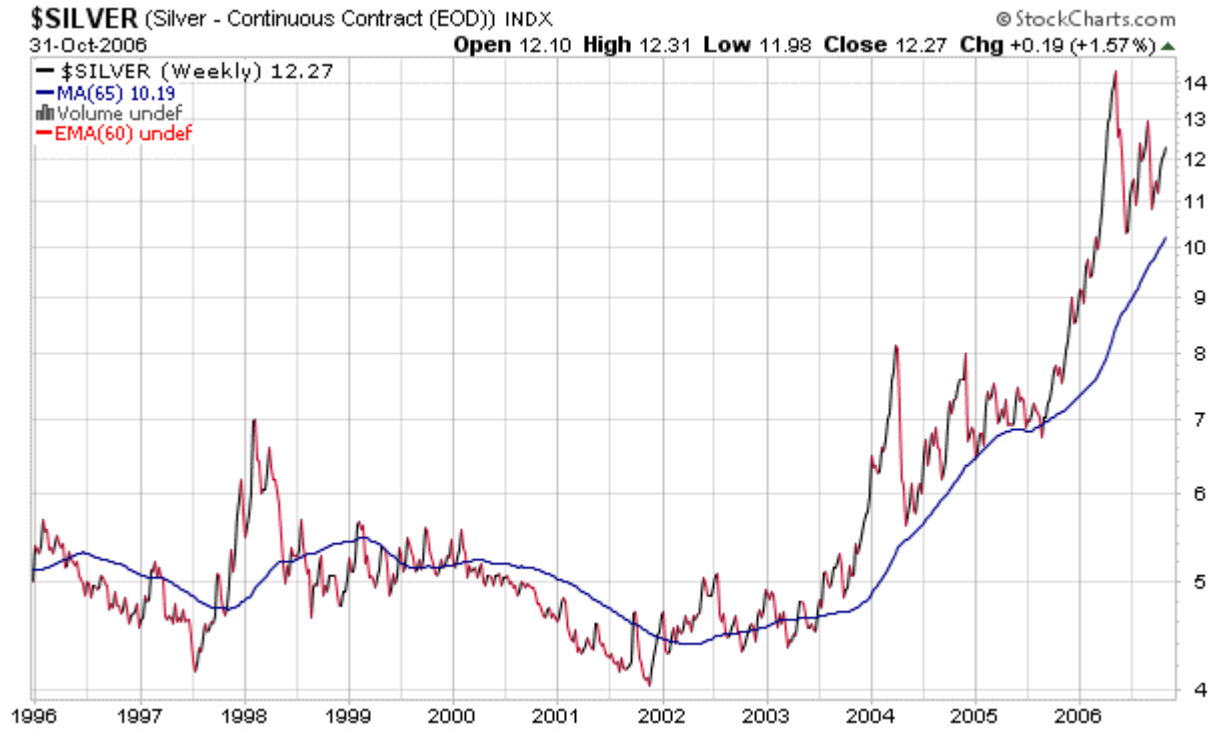
3.1 News and Fundamental Considerations

Nothing to report in October.

3.2 Technical Comments

Long Term Technical Comments

The long-term technical picture for silver still remains positive:



Daily/Weekly Technical Comments

London fix in USD/oz:

Open	High	Low	Close
2 nd October	30 th October	4 th October	31 st October
11.58	12.13	10.83	12.08

London fix in €/oz:

Open	High	Low	Close
2 nd October	30 th October	4 th October	31 st October
9.122	9.529	8.544	9.512



Silver spent most of October above it's 200 DMA. The current price uptrend appears far from exhausted and looks set to continue.

John Fineron 2nd November 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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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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