JM&B Monthly Gold & Silver Report
December 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

Gold and silver spent most of December consolidating in price; any USD weakness could see both metals move up significantly in the January/February period.

2. Gold

2.1 News and Fundamental Considerations

Selected News Items from the Month

China
Shanghai, 4th December 2006, (Peoples Daily Online) – China's foreign exchange reserves have become a thorny issue for the government. Experts around the world have suggested ways in which China might address the surplus of foreign exchange reserves. However, many of these simply involve consuming the excess, which could easily lead to inflation. Any attempt to address the excess of foreign exchange reserves should incorporate a fundamental economic restructuring and an adjustment of the RMB exchange rate formation mechanism, which will be a long and slow process. In the process the government can pursue

some complementary policies to reduce its huge foreign currency reserves. The author believes that raising gold holdings should be one of government's strategic choices.

Gold has played a very important role in the international monetary system. With the Demonetization of Gold, decided at a meeting in Jamaica in 1976 after the breakdown of the Bretton Woods system, the function of gold as a currency has been weakened and its status in the international reserve system fallen. As a result, many countries and regions reduced their gold holdings. However, following the Asian financial crisis, the US' economic downturn and the depreciation of the dollar, gold once again has risen in importance. Many countries have restored or even raised their gold holdings and adjusted the proportion of gold in their reserves, seeking a better role for gold in the modern economy.

Gold has several functions. It can be a tool in a diversified investment portfolio and can spread investment risks. Gold has high liquidity, high security and low profitability. With a high liquidity, it can realize any market price freely. This is compatible with the ability of reserve assets to deal with any unexpected economic difficulties. Despite low profitability gold can have a very important hedging function. It can be combined with some asset portfolios that are high risk but also high benefit, increasing investment benefits at the same level as risks.

Gold is also important in helping prevent inflation. For emerging countries and markets, low interest rates, high oil prices and rampant fund speculation has increased the extent of inflation. To curb the bubble economy that could arise from inflation, countries usually adopt macroeconomic controls such as increasing the interest rate. Gold is another effective means of preventing inflation. History shows that gold prices increase in sync with the rise of the inflation index and often in a higher range. During deflation, the price of gold does not necessarily fall in line with the index, or by a lower margin.

In addition, holders of gold are able to meet their temporary funding needs in emergencies. During its 1998 financial crisis in 1998, Russia sold off 33 percent of its gold reserves. In 2001, to deal with a series of natural disasters that had befallen the country, it sold more of its gold holdings and invested the money into the reconstruction of Siberia. During the Asian Financial Crisis, Malaysia, South Korea and Thailand all appealed to residents to convert their gold into local government bonds or to turn the gold they had collected directly into holdings or into dollars either to pay for the debt or to reduce risks. This helped stabilize the local currencies.

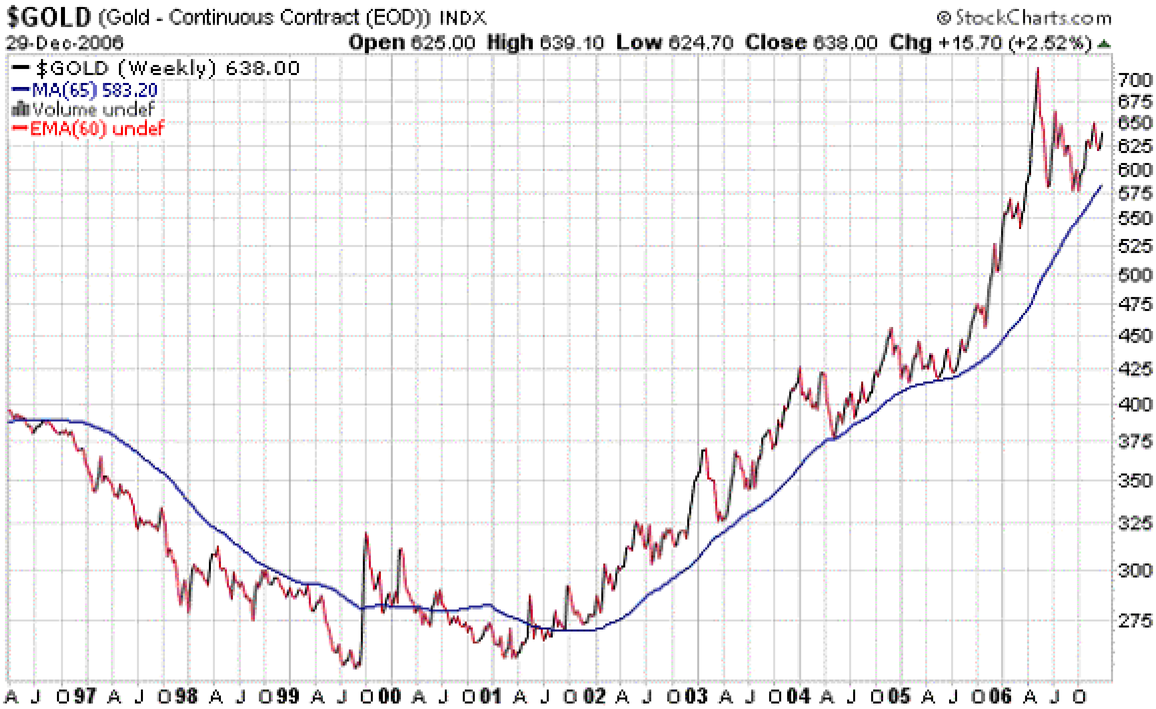
Gold assets have unique features. Gold holdings is an issue that concerns national sovereignty. Every country has autonomous control of its gold. Gold does not involve a liability, nor is it subject to any country's economic policies, including the direct impact of monetary and fiscal policies.

China's Central Bank says that China has 600 tons of gold holdings, equal to about 19.29 million ounces. This figure has not changed since December 2002. China's gold reserves account for only 1.3 percent of its total foreign exchange reserves, far lower than the 3 percent that is standard in other countries. With the rapid growth of foreign exchange reserves, which now exceed US$1 trillion, the ratio of gold in China's foreign exchange reserves is even lower. In the long term, China should raise its gold holdings. The price of gold has rebounded since April 2001 and a record high was set in May 2006 ¨C US$725 per ounce. Currently, an ounce of gold sells for approximately US$625. The price of gold has fluctuated but overall it remains high. If China adopts a long-term strategic approach, accurately predict the market price of gold and purchase gold in a timely and reasonable manner, it can preserve and increase the value of gold, improve the reserve structure, and create a solid foundation for the internationalization of the RMB in the future.

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
1st December	1st December	18th December	28th December
648.8	648.8	614.0	632.0

On 29th December 2005 gold was fixed at 513.0 USD/oz and therefore gained 119 USD/oz in 2006 or 23.2%.

London afternoon fix in €/oz:

Open	High	Low	Close
1st December	1st December	20th December	28th December
487.0	487.0	469.0	480.8

On 29th December 2005 gold was fixed at 433.5 €/oz and therefore gained 47.3 €/oz in 2006 or 10.9%.

After correcting to it's 200 DMA, gold spent the rest of December consolidating in price.

3. Silver

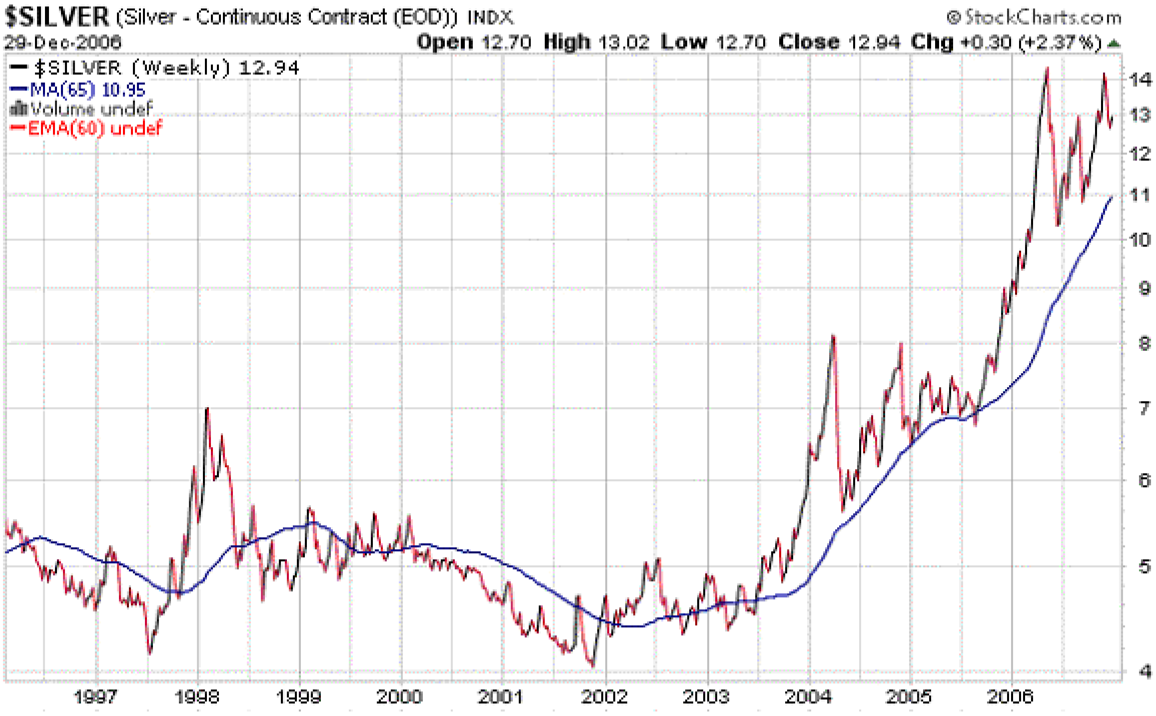
3.1 News and Fundamental Considerations

Nothing to report in December.

3.2 Technical Comments

Long Term Technical Comments

The long-term trend for silver is still up, however like gold, silver has now been consolidating in price for more than six months:



Daily/Weekly Technical Comments

London fix in USD/oz:

Open	High	Low	Close
1st December	4th December	19th December	29th December
13.85	14.05	12.46	12.90

On 30th December 2005 silver was fixed at 8.830 USD/oz and therefore gained 4.07 USD/oz in 2006 or 46.1%

London fix in €/oz:

Open	High	Low	Close
1st December	4th December	19th December	29th December
10.46	10.55	9.464	9.788

On 30th December 2005 silver was fixed at 7.462 €/oz and therefore gained 2.323 €/oz in 2006 or 31.1%.

Silvers short-term upward price trend ended at the start of December, after which consolidation set in once again.

John Fineron 3rd January 2007

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Appendix: More about this report

Purpose of the Report
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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.

Special Legal Notice/Disclaimer concerning this report

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