JM&B Monthly Gold & Silver Report
January 2007

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

Solid upward price movement for gold and silver in January could see both metals attempting to achieve the highs of 2006 going forward. The month saw lots of interesting and important news for the gold market.

2. Gold

2.1 News and Fundamental Considerations

Selected News Items from the Month

London, 3rd January 2007, (Daily Telegraph)

Gold roars after ECB member bank buys

Buying bullion: central banks seek alternatives to the dollar

Gold punched ahead in New Year trading on dollar weakness and the revelation that a member of the European Central Bank system had begun buying bullion, the first such purchase in years.

The ECB's family of 12 banks have been major sellers of gold since the euro launch in 1999, helping to drive prices down to a 20-year low at the start of the decade. Constant ECB sales have acted as a cap on rallies.

Any indication that Europe's big guns are at last switching to the buy side – even if tentatively – could have a profound effect on investor psychology at a time when central banks worldwide want alternatives to dollar reserves.

The ECB said one of its member banks bought gold in the week ending December 22, 2006, but did not identify the amount or country. The news helped lift gold $4.10 to over $640 an ounce.

Euro-banks have bought gold before – in July, for instance – but past purchases involved coins bought from Greek citizens under a scheme run by the Greek national bank and did not signal any change in strategy.

The latest purchase refers to bullion reserves, suggesting one of the euro-zone banks may have broken ranks, countering the pattern of sales by the Banque de France, and the Dutch, Spanish and others.

Analysts said the Bank of Italy was a possible candidate. Rome has not sold any gold so far, and stunned investors by switching 20pc of its reserves into sterling in 2005, a move that reaped fat rewards as the pound surged to 14-year highs against the dollar.

Under an international agreement, a group of 15 European banks are limited to sales of 500 tonnes a year. They fell far short of their quota last year for the first time.

An ECB spokesman said member banks had bought gold "once or twice" since the euro launch in 1999, calling the latest purchase an end of year "technical" adjustment. Nikos Kavalis, an analyst at GFMS, said it was too early to tell if the purchase was significant. "We would be cautious about this. These banks have a duty to uphold monetary stability: they're not hedge funds," he said.

Ahmedabad, 9th January 2007, (Times of India) – Gujarat's bullion market, which had lost its shine due to poor off-take of gold, is regaining its glitter as demand for the yellow metal has doubled in the past four days with the gold price dipping over six per cent in the past week.

Fresh investment demand coupled with renewed buying interest among jewellers has brought gold back to the centre stage in the spot market.

Gold sales have increased from 250 kg a day to 500 kg a day in the Gujarat market following the crash in prices in the global markets.

"As the gold prices continue to dip, overall demand for the gold has increased by 100 per cent in the past few days. Our daily sales of gold have increased from 25 kg to 50 kg a day," said Monal Thakkar of Amraplai Industries, a leading bullion firm.

For the past seven days, the per ounce price of gold has come down from $645 to $609 as the dollar has regained lost ground following an increase in US job creation in December 2006. The gold price in the domestic markets too has come down from Rs 9,300 to Rs 8,950 per ten gram.

"The spurt in the gold demand is mainly due to lower prices. Fresh demand is coming from investors and jewellers. Majority of the jewellers are increasing their inventories as they feel that the price below Rs 9,000 is a reasonably good level," said Girish Choksi, past president, Ahmedabad Bullion Association.

Though there is a fresh round of buying in the markets, bullion analysts feel that gold is expected to lose further ground following the expectation that the US Federal Reserve may increase interest rates," Anagram Comtrade vice-president Anupam Kaushik said.

Kaushik said that during 2007, gold has the potential to rise to $750 but it could touch $560 on the downside.

Mumbai, 12th January 2007, (Economic Times of India) – Traditional household investment in gold will soon have a new option with the much awaited Gold Exchange Traded Funds (GETFs) expected to be launched within a month.

“The Gold Exchange Traded Funds hopefully should be launched within a month,” the Association of Mutual Funds in India (AMFI) chairman A P Kurian said.

As per reports, three mutual funds — Benchmark Mutual Fund, UTI Mutual Fund and Kotak Mutual Funds — have already filed offer documents for gold funds with the market regulator.

“Some of these funds will be launched positively before the end of this financial year,” he said.

Through Gold Exchange Traded Funds, people can invest in gold in small amounts over a period of time. As and when they want to sell, they can either get gold or simply sell the units, he said.

A minimum of one gram gold can be bought or sold through the schemes, enabling even the poor to buy the precious metal and plan their future needs, like buying wedding jewelleries.

Toronto, 18th January 2007, (GFMS) – Gold Survey 2006 - Update 2

The outlook for the price is a key element to Update 2 and this, the consultancy believes should track higher over the coming months. As Walker noted, “we should be seeing prices getting in the $670s in the first half, although it is less certain we will see the recent high of $725 surpassed. That could still occur, maybe further into the year or possibly in 2008, especially if the situation in the Middle East deteriorates significantly, driving oil prices higher.” GFMS therefore believe it is investment that would be the prime driver of any such rally. Walker commented, “we’re fully expecting investor buying to come back in force, mainly in response to actual and potential dollar weakness. A slowdown in the US economy and disappointing returns in conventional assets, such as equities, should also lift gold.”

Update 2 also sees little threat from stop loss selling or profit taking, with the main supply and demand fundamentals providing the gold market with a firm underside. Looking firstly at jewellery demand, the consultancy noted that this proved very weak in the first half of 2006, chiefly as a result of the second quarter price spike, but came back fairly confidently in the second half as pent up offtake responded well to lower volatility, with buyers emerging on any price dip.

A similar performance was expected this year, with Walker adding, “we’ve just seen the market hold above the $600 level, even though we saw the dollar:euro strengthen to $1.29, and physical buyers no doubt explain a big part of this resilience.” The consultancy ascribe this robustness to such factors as the buoyancy of economic growth in countries like India or China.
The other two significant price supports concern official sector sales and old scrap. Looking first at the central banks, GFMS estimate that their sales halved in 2006 and are likely to remain subdued in 2007, on both occasions due to signatories to theCentral Bank Gold Agreement (CBGA) significantly underselling their quota and to occasional purchases outside of Europe (though the latter do not as yet include any expectations of purchases by the dollar-rich East Asians).

Turning to old scrap and GFMS estimate this to have risen by around a fifth in 2006, mainly in the first half and largely in response to the price, but this is expected to fall by around one-fifth year-on-year in the first half of 2007. By way of explanation Walker commented, “you would need a price well into the high $600s to see any sizeable pick up in scrap. Much of the loosely held jewellery was shaken out during the April/May price spike last year and people have come to see $600-$650 as quite ordinary levels.”

The only two negatives for the price noted in Update 2 concerned mine output and producer de-hedging. There was some price support from mine production in 2006, which came in lower than forecast with a 2% fall, but GFMS expect to see a modest rise in 2007, largely as new projects come on stream or ramp up to full capacity. De-hedging was thought to have been an important factor behind initial price strength last year, as the Barrick buy-back lifted the first half 2006 total to almost 300 tonnes, but overall de-hedging is expected to return to a more normal rate of under 200 tonnes a year in 2007, unless fresh corporate activity brings about another shock. The report notes, though, that there is little evidence of interest in non-project hedging, despite the widening contango.

Statistical Highlights:
Supply
Mine production in 2006 fell by 2% to 2,467 tonnes, a fi gure slightly lower than once expected. Marked losses were seen for the three largest producers (South Africa, Australia and the United States) and Indonesia. In contrast, gains were achieved in China and many countries in Latin America and Africa. First half 2007 output is forecast to show modest year-on-year growth. Weighted average cash costs rose in all major regions for the nine months to September, with the global figure up 13% year-on-year. This was primarily caused by higher input costs in such areas as diesel fuel, steel, cement and mining reagents.
Net official sector sales in 2006 are estimated to have halved to 330 tonnes. The decline was driven by lower sales from signatories to the second CBGA coupled by countries outside the Agreement featuring as modest net purchasers. Net sales in the first half of this year should fall year-on-year as CBGA sales remain subdued and small scale extra-European purchases continue.
Scrap supply last year rose by a fifth, with much of the growth occurring in the first half and largely in response to the gold rally. The Middle East and then Europe saw the largest gains, while in sharp contrast Indian scrap actually fell.

Demand

Jewellery fabrication slumped by over 400 tonnes in 2006, chiefly in response to higher and more volatile prices, with much of the decline taking place in the first half. In terms excluding scrap, the fall last year was more severe, with the first half down more than 40%. Losses were greatest for the price sensitive regions of India and the Middle East, though substantial losses were also recorded in Italy and East Asia excluding China. This sector is only forecast to show a slight retreat in the first half of 2007. Other fabrication grew by over 10% in 2006, chiefly through higher coin and electronics demand.

Net producer de-hedging last year proved far stronger than anticipated at a provisional total of just over 400 tonnes (or more than four times volumes in 2005). This surge was largely due to the buy-back of Placer Dome's hedge position by Barrick following its acquisition of the former. De-hedging this year is expected to return to a more 'normal' run rate of slightly under 200 tonnes.

Implied net investment fell by around a quarter in 2006, not so much due to a fall in investor interest but to the emergence of two-way activity in the market. There was a notable shift in business from the exchanges to the over-the-counter markets. As regards the other types of investment, bar hoarding eased to just under 230 tonnes, mainly through a slump in Japan outweighing gains in India and Vietnam, while official coin sales saw growth of 15%. This put World Investment (the sum of the implied figure, bar hoarding and coins) last year at just over 680 tonnes, or down 16%. The chief development forecast for World Investment in the first half of 2007 is a surge (versus the second half of 2006) in implied net investment.

New Orleans, 22nd January 2007, (PRNewswire) – After months of inquiries and a hotly debated, in-depth position paper by its economic research unit, Blanchard and Company has learned that the International Monetary Fund has adopted a landmark accounting change to the way Central Banks account for their gold loans, giving this sector of the commodities market more transparency than it has ever had, the precious metals market leader announced today.

"This is a huge step forward for the precious metals market and a major victory for the gold market investor," said Blanchard Chairman and CEO Donald W. Doyle, Jr. "Not since the Washington Agreement on gold in 1999 and the legalization of gold ownership for Chinese citizens in 2004 has there been such an important event in the advancement of the gold market."

Blanchard and Company has long stated that the IMF's accounting guidelines have allowed Central Banks and bullion banks to inaccurately account for their gold loans, and the newly adopted accounting change means that Central Banks will no longer include the amount of gold they have loaned and sold into the market as part of their reserve total assets, Doyle said.

"Transparency has always been a central issue in the gold market for investors and analysts alike, but this decision by the IMF will greatly redress that issue as these accounting changes are implemented," Doyle said. "It also only adds more credence to our analysis that the precious metals markets are now poised to make long-term, steady price growth."

On December 14, 2006, Blanchard published "Gold Market Lending" on its website at http://www.blanchardgold.com/beru, and the industry buzzed for days. The paper, written by Blanchard's Director of Economic Research, Neal Ryan, provides exhaustive research analysis of how Central Bank transactions could affect the gold market if loan information was made in an accurate and timely fashion. While some misconstrued the information as research on market manipulation, the paper is instead specific to one issue -- IMF gold accounting procedures for Central Banks as being the most important component of gold market transparency.

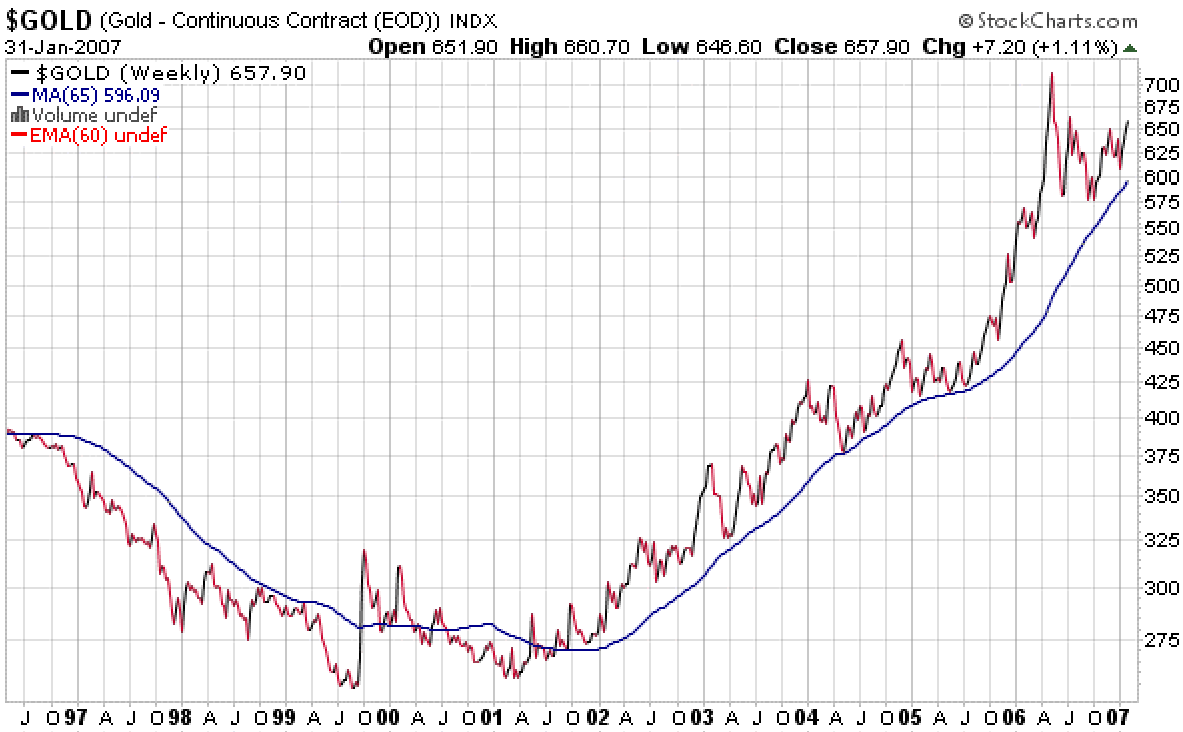
"This is a wonderful development for the gold market because of the additional transparency that is created by the changes in IMF accounting regulations," Ryan said. "This is an issue that changes the entire landscape of the gold market for the betterment of all participants involved, because there is now data available that had never previously been published. A transparent market is a healthy market, and the gold market just got a lot healthier."

Ryan says it will take the IMF some time to institute the new accounting procedures, but the outlook for the gold market is a rosy one moving forward.

2.2 Technical Comments

Long Term Technical Comments

The long-term price trend for gold remains up:



Daily/Weekly Technical Comments

London afternoon fix in USD/oz:

Open	High	Low	Close
2nd January	25th January	10th January	31st January
639.8	651.8	608.4	650.5

London afternoon fix in €/oz:

Open	High	Low	Close
2nd January	25th January	8th January	31st January
482.0	502.4	468.0	501.2

After solid gains during the month, at the end of January, gold appeared to be breaking out to test the highs of 2006 in due course.

3. Silver

3.1 News and Fundamental Considerations

Some very interesting silver news items can be found here:

www.silverinstitute.org/news/4q06.pdf

3.2 Technical Comments

Long Term Technical Comments

No change in the long-term trend for silver:

Daily/Weekly Technical Comments

London fix in USD/oz:

Open	High	Low	Close
2nd January	25th January	8th January	31st January
13.01	13.38	12.21	13.36

London fix in €/oz:

Open	High	Low	Close
2nd January	31st January	8th January	31st January
9.841	10.33	9.385	10.33

After a solid upward price movement in January, silver may be attempting a test of 2006 highs.

John Fineron, 1st February 2007

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.

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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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