JM&B Monthly Gold & Silver Report
February 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

Both gold and silver gained in price in February. However the general correction in equity markets at the end of the month also prompted gold and silver to be sold and thus the technical picture became mixed.

2. Gold

2.1 News and Fundamental Considerations

Selected News Items from the Month

London, 1st February 2007, (Forex Rate) – Between the end of August and the end of November Russia, according to the I.M.F., increased its 'Official' holdings of gold by 9.2 tonnes, which averaged a cautious 1 tonne a week.

For them to reach the targets implied by government officials as high as President Putin wanted at 10% of reserves, they will have to increase the pace of these purchases dramatically. With oil exports roaring along with the higher oil price and Russian reserves burgeoning, a gold price rise cannot, at this stage, be expected to rise fast enough to make this figure a reality all by itself. Much heavier purchases need to be made.

But what is important is that a start has been made in buying in the market. We have always been sceptical because of the length of time it has taken Russia to start putting its money where Putin's mouth is. Let's see if they are really serious? For a Central Bank to go into the gold market to buy alongside Joe public is a daunting task if the gold price is not going to turn into a shooting star. But here is a start.

Other Central banks in the Central Bank Gold Agreement have just entered the market to BUY more coins [to refine existing stocks of currently owned gold coins is one thing, but to go into the gold market to buy good amounts of gold coins [the second instance now] is another thing. If this continues it will be extremely difficult to make us believe it is a 'housekeeping' exercise again? The much lower gold sales by the signatories of the agreement on a weekly basis shows us that the heart is leaving the gold sellers now.

Meanwhile the Russian Central Bank is thinking about broadening the mix of currencies in its gold and foreign-exchange reserves, Russian C.B. First Deputy Chairman Alexei Ulyukayev said. The Central Bank is currently authorized to keep its reserves in the $, the Euro, yen and the pound sterling. The yen's weighting is currently low because this is a low-return instrument, and managing the reserves costs money, Ulyukayev said.

"We're thinking of expanding the range of currencies," Ulyukayev said. He said a wide range of currencies was under discussion, but that it was unclear which of them would be selected and when. Perhaps they will follow the Chinese example and save the currencies of its main trading partners no matter who they are [including the currencies of the buyers of its oil]. It is of course risky to buy currencies that are too 'soft'.

The trend away from the U.S.$ is gaining momentum, before it falls?

The Changing Global Economy
We have talked here in recent issues of the shifting power to the East. We now have some facts confirming this:

- Emerging economies for the first time accounted for more than 50% of the global economy.

- Strong overall European growth after years of sluggish performance shows that despite the U.S. slowdown, the rest of the world is in significant growth mode, underscoring something of a decoupling of the world from the U.S.

Zhu Min, group executive vice president of the Bank of China, one of the country's largest banks, told the audience that China was poised for another year of strong growth. "China will have an even better year this year," Zhu said, citing last year's efforts in the second half of 2006 to re-balance the economy by slowing export-led growth and encouraging domestic consumption.

Why mention this again you may well ask? The ramifications of such a change are critical for the globe. To imagine that such a shift in power will happen without a whimper is to live in a dream world. Our concern is simply on the ramifications for gold and precious metals.

What we can say going forward is that global growth will remain strong irrespective of the performance of the States, so there will be a climate where safe investments are sought by Investors with the competence to invest in them. The uncertainty that will prove a growing feature of the future will increase Investors attention on the stateless nature of gold. The importance of the origin of national currencies will grow as the global economy evolves into its new shape, changing structures put in place at the end of the last world war.

The comfortable confidence in the U.S.$, on which so much of the globe has depended for the entire working lives of the world's executives is going to change. Companies will have to understand and measure currency and political risk far more than in the past. With the lowering of the importance of the U.S. will come the raising of China and the emerging economies places in the international money systems.

It may even get to the point where the price set for a U.S. export item is set in the ☐ and eventually in the Yuan. Can you imagine that? As currency performances become more and more volatile, a certain 'currency patriotism' could emerge in international trade. As we are already seeing the concept of a "basket of currencies" reflecting another's currency is taking hold, replacing the previously solid link to the U.S.$. It should be more common to see emerging nations pricing their own goods in their own local currencies, diversifying larger countries foreign exchange reserves remarkably.

Of course, in such a higher risk and more volatile climate, the words of the President of the German Bundesbank President, 'gold is a useful counter to the swings in the $" will echo in all the corridors of the globe's major banks. But this time the word $ will be replaced with "currencies", making the holding of gold a matter of prudence.

It is in this climate that gold and its shadow silver will grow into the future, far from a commodity or simple investment into dependable support for currencies. Further, it is in this climate that far higher than forecast prices for gold and silver will be achieved. We at "GoldForecaster" & "SilverForecaster" will be tracking these developments in depth. As the monetary facets of gold and silver grow, investment growth in the two will follow with greater and greater firepower. Eventually this aspect of gold and silver will overshadow the other aspects of demand for the metals.

Shanghai, 12th February 2007, (Reuters Life) – Golden hogs are flying off the shelves as China prepares to welcome the Year of the Pig.

Chinese consumers are thronging jewellery stores to buy gold trinkets and accessories to usher in the lunar new year, which starts on Feb. 18, in style -- and with lots of luck.

This year is considered particularly auspicious as, according to the Chinese zodiac and fortune tellers, it is a "golden pig" year that falls once every 60 years.

"Wearing a golden pig would bring me good luck and ward off evil spirits. That's the reason I'm here to buy one," said a 36-year-old customer who only gave her name as He.

These days, any jewellery with a pig on it is a bestseller.

Hong Kong jewellery stores are stocking up on gold pig statues. In Shanghai, China's financial capital, local jewellery chain Laofengxiang is already feeling the luck.

Ranging in price from a few hundred to a few thousand Yuan (10 to a few hundred U.S. dollars), jewellers expect the golden pigs to fly off their shelves throughout the year.

"Display ornaments will sell well before and after the Lunar New Year. As for the other kinds of golden pig accessories, especially those for children, they will sell well for the rest of this year," said Li Fuying, a store general manager.

The Year of the Golden Pig is also believed to be a good year for women to give birth, and gold trinkets are also popular.

"There are four or five of my friends and relatives who will give birth in the Year of the Golden Pig. So I came here to take a look and buy some. Since I am here to buy, I might as well buy more," said another customer, 43-year-old Cui.

China, a gold-loving nation, was one of a handful of countries that increased its consumption of the yellow metal in 2006, despite high prices.

New York, 22nd February 2007, (Mitsui) – Gold mining companies shrank hedge books by 1.5 million ounces in the fourth quarter, the slowest rate of dehedging since the fourth quarter of last year, a quarterly survey released Thursday said.

According to The Hedge Book, compiled by Virtual Metals and Halliburton Mineral Services for Mitsui Global Precious Metals, 43 of the 48 companies with price protection programs at the beginning of the fourth quarter reduced their hedge positions.

The biggest reduction was by Barrick Gold Corp. <ABX.TO> with 1.2 million ounces in the fourth quarter, and Barrick, the world's largest gold producer, also planned another reduction of 1.3 million ounces in the first quarter this year, the study said.

Looking ahead, dehedging is likely to pick up in the first quarter because of Barrick's reduction, but it is likely to slow to between 7 million ounces and 9 million ounces for 2007 as a whole, the study said.

"For the rest of the year, while dehedging in 2007 is not expected to be of a similar magnitude to what it was in 2006, little appetite exists for new hedging," Edel Tully, head of precious metals research at Mitsui Global Precious Metals, said in a press release.

Mumbai, 22nd February 2007, (DNA India) – With UTI Mutual Fund launching the country's second gold exchange-traded fund (ETF) and a few others waiting to roll out their own, consumers may just need to rethink whether gold is best bought in physical form. Earlier this month, Benchmark Mutual Fund had launched the first gold ETF, Gold BeES, the new fund offer (NFO) for which closes today.

ETFs are mutual funds whose units can be traded on the stock exchanges, just like the shares of companies. Through a gold ETF, an investor can own gold in the demat form, thereby eliminating the cost and risk associated with physical gold investments.

The daily net asset value (NAV) of gold ETF is decided by the price of gold. Remember that at the time of redemption, units of the gold ETF would be exchanged for cash and not physical gold.

People willing to invest in gold ETFs can enter either during the NFO period or buy units once the fund gets listed on the stock exchange.

The NFO period for UTI Gold ETF is March 1—12, 2007. While Gold BeES requires a minimum investment of Rs 10,000 during the NFO period, it is Rs 20,000 for UTI Gold ETF. An entry load would be applicable on investments made during the NFO period in both the schemes. Post-NFO, however, there would be no entry load.

Investors who take the NFO route would be allocated units based on the amount invested, less the entry load. Each unit would be equivalent to the price of 1 gram of gold on the date of allotment of units. Assume that a person decides to invest Rs 50,000 in the gold ETF during the NFO period and the price of gold on the date of allotment of units is Rs 959, like it is currently. Taking into account the entry load of 1.5% in case of Benchmark Gold BeES, the selling price of a single unit would work out to Rs 974.4 (Rs 960 + 1.5% of Rs 960). At this price the investor would be allotted 51.314 units.

In case of UTI Gold ETF, the entry load is at 2.5%. Hence, 50.813 units should be allotted. However, the scheme will round off the number of units. So, instead of 50.813 units, it will allot 50 units (equivalent to 50 grams of gold) and refund the balance amount to the investor.

The ETFs would then be listed on a stock exchange after the NFO period — the National Stock Exchange in case of Gold BeES and UTI Gold ETF. Gold BeES is scheduled for listing in mid-March, while UTI Gold ETF may list between April 1 and 8, 2007. Following the listing, any person can buy or sell units from the exchange, just like he trades in company shares. The gold ETF units are to be held in demat format and trading them would attract brokerage charges, which vary from broker to broker.

Notably, the brokerage charges would range between 0.4% and 0.6%, which is lower than the entry load charged by Gold BeES (1.5%) during the NFO period and much lower than that of UTI Gold ETF (2.5%). So, for people who wish to invest in gold ETF, should gold price continue to stay at the same level, an economically viable decision would be to buy units after the fund gets listed on the exchange rather than invest at the NFO stage. But, whether gold prices will continue to remain the same, on that your guess is as good as mine.

The other advantage is that, after the scheme lists, an investor can even buy units of gold ETF at the prevailing price rather than the Rs 10,000 in case of Gold BeES or Rs 20,000 in case of UTI Gold ETF that he has to invest during the NFO. Further, trading gold ETF units differs from trading company shares. So, securities transactions tax (STT) is not applicable. Gold ETFs also help you save wealth tax, which is levied when physical gold investments exceed Rs 15 lakh. In the case of gold ETFs, gold is held by an investor in the dematerialised form or in units and hence, no wealth tax is levied.

However, gold ETF is a non-equity scheme and would attract a dividend distribution tax (DDT). As per current norms, a DDT of 14.025% (inclusive of surcharge and education cess) of the dividend would be applicable for individuals and 22.44% for corporates or institutional investors.

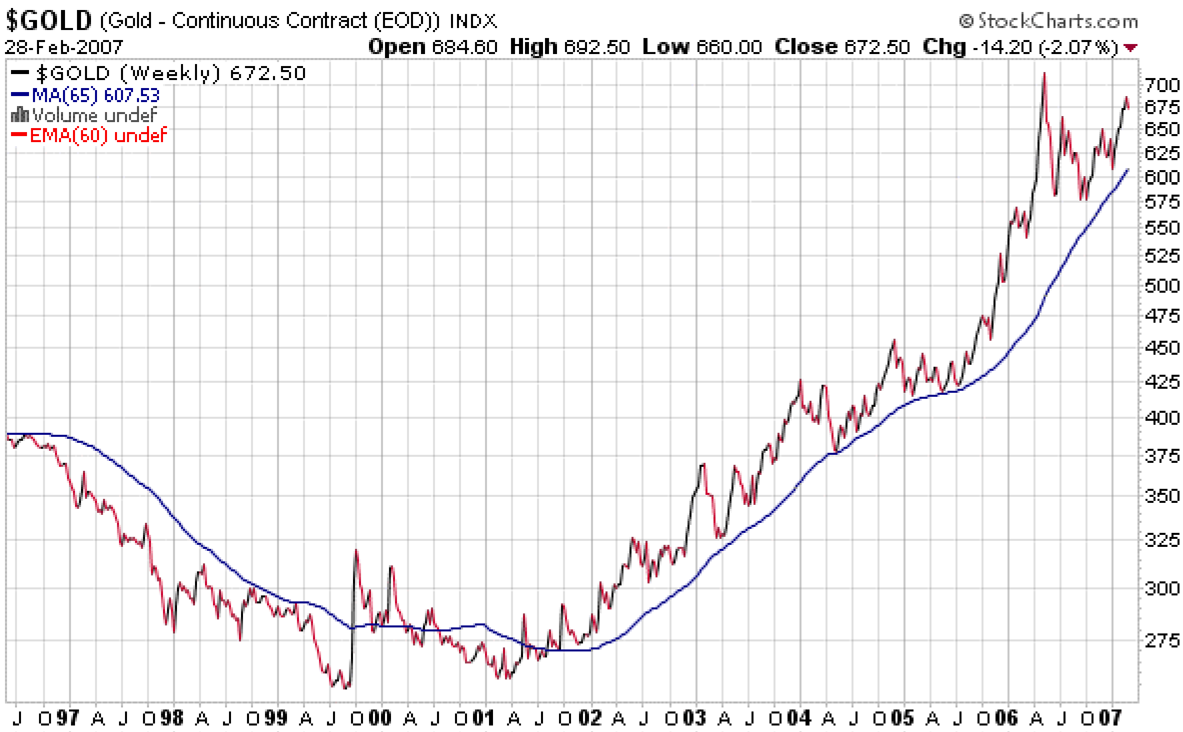
In spite of the edge that gold ETFs have over physical gold, however, the fairer sex would be hard to convince. “If you invest in jewellery I can at least wear it. But with gold ETFs, you don’t expect me to hang the mutual fund papers as necklace,” women would debate. Most fail to understand that gold ETFs help you avoid a handsome amount spent as jewellery making charges too.

In addition, the resale value of gold jewellery would never be equal to its weight as silver and copper form a percentage of the jewellery.

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
1st February	26th February	2nd February	28th February
660.2	685.8	645.7	664.2

London afternoon fix in €/oz:

Open	High	Low	Close
1st February	26th February	2nd February	28th February
506.5	520.6	497.8	502.7

Gold moved up slowly in price in February, however the general correction in equity markets at the end of the month also prompted gold to be sold and thus the technical picture became short-term negative.

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:

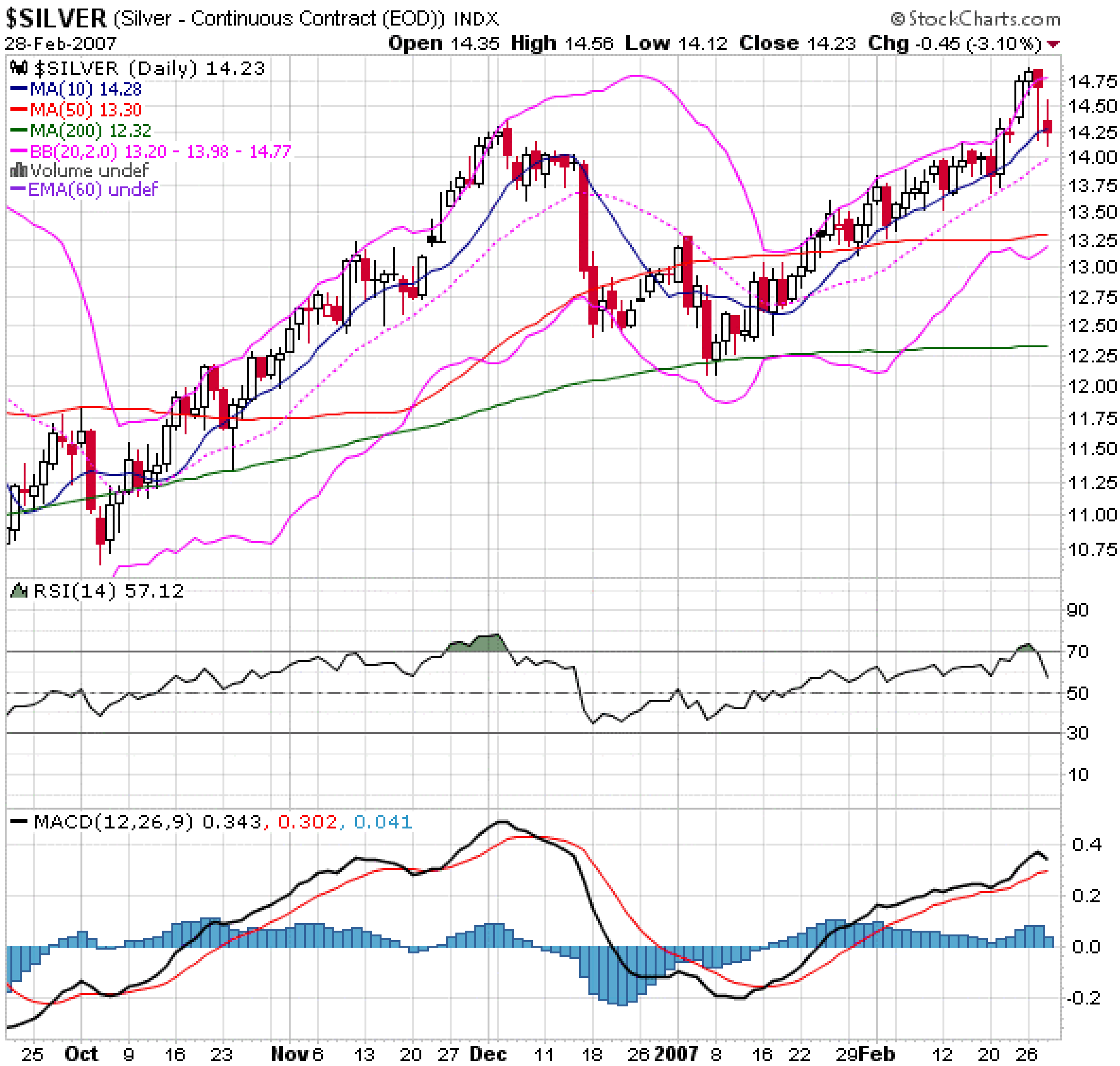
Daily/Weekly Technical Comments

London fix in USD/oz:

Open	High	Low	Close
1st February	26th February	5th February	28th February
13.58	14.58	13.29	14.31

London fix in €/oz:

Open	High	Low	Close
1st February	26th February	5th February	28th February
10.43	11.08	10.27	10.84



Another month of solid price gains for silver in February ended with silver also getting caught up in the general financial turbulence and thereby turning the technical picture to short-term neutral going forward.

John Fineron, 1st March 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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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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