JM&B Monthly Gold & Silver Report
April 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

Although gold performed better than silver in April, both metals ended the month on a weak note, in short-term downtrends.

2. Gold

2.1 News and Fundamental Considerations

Selected News Items from the Month

London, 4th April 2007, (GFMS) – GFMS launched Gold Survey 2007 today, an edition that marks the 40th anniversary of their authoritative annual survey of the world gold market, at events in London, Toronto and Johannesburg. The following details some of the highlights of the Gold Survey from the briefing given at the London launch by Philip Klapwijk, chairman of the independent precious metals research consultancy.

The potential for gold to post fresh highs in 2007 and 2008 was a key theme brought out in the commentary surrounding the launch. Klapwijk noted, “it’s looking pretty certain that the record in terms of the annual average, $614.50 back in 1980, is going to fall this year. I’d also be far from surprised if this year we saw the market moving above the 2006 high of $725. Quite whether we'd then get close to the all time high of $850 is more doubtful, but I'd certainly expect the upward price trend to continue on into 2008".

GFMS see this upside potential as being firmly in the hands of investors. This year's Gold Survey actually recorded a fall for 2006 in implied net investment, the consultancy's proxy for western investment, but as Klapwijk added, "investment may have dipped a little on 2005's levels but that's just a reflection of the swing from a mainly buy side market to one with both an active buy and sell side. And the vast bulk of the selling we saw last year was just profit taking or stop loss selling in the wake of the May spike. We're not really seeing any evidence of investors starting to shun the metal for the long term".

The Survey states how the rationale for investor confidence in the medium and long term prospects for gold during 2006 and moving forward was little changed on the previous year. The chief explanations of this that GFMS highlighted were actual and potential dollar weakness, a possibly sharp slowdown in the US economy and the damage this would inflict on conventional asset returns, the threat of higher inflation and an escalation of geopolitical tensions, most obviously as regards US action against Iran. The consultancy also cautioned against the risk of ignoring the 'weight of money' argument, pointing out that one measure of institutional investment to date, the value of the combined non-commercial position in 13 commodities, had at end-2006 reached 'only' $138 billion or far less than the market capitalisation of some blue-chip equities.

That investment could drive the price higher last year and has the potential to do so this year GFMS believe was partly due to the low level of net official sector sales. Klapwijk added, "we lost around 350 tonnes of supply from official selling last year and not only did that impact the market directly but also the implied shift in central bankers' stance on gold was good for investor confidence. And looking at 2007, we'd expect to see the CBGA [Central Bank Gold Agreement] countries undershooting quota and for the rest of the world to remain small net purchasers. All this can happen without any of the larger dollar holders, like China, emerging as substantial buyers - something we don't see happening imminently".

The consultancy also highlights the importance of producer de-hedging last year as this quadrupled to over 370 tonnes and GFMS expect this to be maintained at elevated levels this year. Klapwijk noted, "we're probably going to see a slightly lower level of support from de-hedging in 2007 but that's almost entirely due to exceptional corporate restructurings in early 2006. There's no sign as yet of producers losing their nerve over the price and starting to put in place significant strategic hedges".

One of the main areas of weakness last year was jewellery fabrication and its converse, old scrap, with the former contracting sharply and the latter growing strongly. However, growing acceptance of higher prices and lower volatility in the second half of 2006 actually enabled jewellery demand to rebound strongly on first half levels. GFMS therefore see this as providing a higher 'floor' for the price, with jewellery related buying being expected to step in as and when investment and the price look a little soft. The suddenness of the rally last year was also thought to have precipitated a marked shake out of tired trade stocks, something not thought likely to be repeated this year. In fact, GFMS foresee a rise in scrap as unlikely until prices are well over the $700 mark.

A brief mention should perhaps be made of the main element of supply, mine production. The Survey noted a fall in 2006 to a 10-year low but this did little to ignite the price as this only mid-sized change was well telegraphed and the market was generally aware of the likelihood of a recovery in 2007 back to levels not dissimilar to 2005.

Supply Highlights

Global mine production last year fell by 3% to a ten-year low. On a regional basis, losses were greatest in Asia, despite gains in China, whilst notable falls were also recorded in North America, Africa and Oceania. Latin America was the sole area to see any growth of note, though new mines in Africa meant that, if we exclude South Africa, the continent actually saw a modest gain.

Global cash costs in US dollar terms rose by $45/oz in 2006, due mainly to inflated energy, consumables and labour charges.

Net official sector sales more than halved in 2006 to their lowest level since 1997. This was the result of both a fall in CBGA sales (which in the 2005/06 Agreement year were more than 100 tonnes under quota) and a swing by other countries to small-scale net purchases.

Central bank lending fell yet further in 2006, by not far off 400 tonnes, due mainly again to low leasing rates.

Scrap surged by around a quarter to record levels just over 1,100 tonnes. The traditionally price sensitive countries saw the bulk of the gains (though India was unusual in that its scrap slipped) but volumes in the industrialised world also grew strongly.

Demand Highlights

Jewellery fabrication in 2006 fell by 16% (though its call on the bullion market, as expressed in offtake excluding scrap, dropped by over 20%). The first and second halves of the year, however, were markedly different, with the former suffering a near 30% slump (year-on-year) and the latter just managing a rise. Some of the greatest losses were seen in the Middle East and East Asia, though, largely thanks to robust GDP growth, China even saw slight growth while India's decline was comparatively muted. Heavy western trade de-stocking was key to the sharp fabrication losses in Italy and slump in US imports. Other fabrication grew by just over 10% last year, with strong gains seen in electronics, official coins and imitation coins and only small losses in dental.

Last year saw a slip of almost 20% in implied net investment to a little under 400 tonnes. This decline was a reflection of the swing from a buy side dominated 2005 to a more two-way market, with activity on both the buy and sell sides. This change was largely a function of the stop loss selling and heavy profit taking emerging after the May high, as suggested by the disinvestment apparent on the main commodity exchanges. Other institutional and high net worth arenas such as the OTC market, in contrast, saw increased levels of interest. More retail focused areas of investment tended to remain quiet in 2006. Last year saw a 14% decline in (non-western) bar hoarding though this seemingly mid-sized change masks the major gains seen in India and Vietnam and the heavy losses in Japan.

Producer de-hedging in 2006 more than quadrupled to just over 370 tonnes. This scale of the increase was somewhat unexpected as corporate activity impacted strongly on the first half (and whose volumes were almost three times those of the second half). At year-end, the combined producer hedge book stood at levels last recorded in 1994.

Allahabad, India, 22nd April 2007, (Reuters) – Gold, it's the ultimate luxury gift and nowhere more so than in India where brides are draped in gold from dowries laden with jewellery.

With around ten million brides getting married every year in India, many festooned with gold, it's no wonder that India is the world's largest consumer of gold.

India accounts for 20 percent of annual global demand for gold, devouring 800 tonnes of the metal annually, mostly as jewellery.

Ruchi Midha, a typical middle-class Indian bride, received four gold necklaces, eight bangles, six pairs of earrings and five rings -- all made from 22 carat gold -- from her parents, relatives and friends for her wedding.

That's roughly standard for middle-class brides in India where gold -- known as "Stridhan," or woman's wealth -- is seen as financial security for brides.

"Gold is deeply entangled and interwoven with the Indian culture and no custom is complete without gold jewellery, be it marriages or any other ceremony," said Neeraj Mehrotra, a partner in Manmohandas Jewellers, a leading Allahabad jewellery store.

Gold prices hit a 26-year high of $730 an ounce last year and surged 60 percent in two years. But its glitter has shown no signs of fading in India, the world's second-most populous country.

It's seen as a portable form of wealth in a country where stocks and bonds are sometimes viewed with suspicion despite an economic boom that is bringing affluence to many Indians.

As the Indian economy steams ahead by more than eight percent annually in the past four years, an ever-increasing stream of money is going into gold purchases.

"India looks poised to remain the world's foremost gold consumer for many years to come. Its dynamic population growth and strong cultural and religious affinity to gold will continue to underpin structural demand," said Natalie Dempster, investment research manager at London-based World Gold Council.

Expensive dowries

Over generations, Indian households have accumulated an estimated 15,000 tonnes of gold worth $320 billion -- 40 times the amount of gold held by the country's central bank and nearly double the amount held by the U.S. central bank.

Marriages are costly affairs in India, where many families spend more than two years income on the wedding of a single daughter.

"Gold is considered an investment for life, so Indian women continue buying it, to be given away to their daughters or grand-daughters," said Rashmi Sanyal, a journalist in New Delhi.

Jewellery shops are packed with people who come to buy gold for weddings, which take place on auspicious days in the Hindu calendar. Demand jumps during the festive season from August to November when Diwali, the festival of lights, is held.

A symbol of wealth and prosperity in the Hindu religion, gold is considered so pure that Hindus never wear gold on their feet. Only silver is used for this purpose.

Sweets wrapped in gold foil are eaten at festivals. Gold is also used in traditional medicines and some silk dresses have embroidery with gold threads.

India, the world's largest exporter of cut and polished diamonds, is also fast emerging as a leading exporter of gold jewellery. Worth $3.86 billion a year, the jeweller is exported to the United States, the United Arab Emirates and Britain.

Most Indian jewellery is hand-made and contains 22-carat gold, with manufacturing costs accounting for 5-15 percent, against 30-60 percent in Europe, where 9-to-18-carat gold is popular.

Portable Wealth
Despite grinding poverty, rural Indians account for two-thirds of annual gold purchases as they prefer to put their money in gold due to poor banking services in villages and towns.

Gold is important for people hit by floods that kill hundreds and displace millions in India every year, as it means villagers faced with the dangers of flooding can carry their wealth with them in the form of gold jewellery which can be easily sold.

"Rural India becoming more sophisticated and realizing that gold is not always a great instrument is a far distant dream," said an analyst at IL&FS Investmart.

Dhirendra Mishra of the north Indian village of Thata said there were only two banks among about 20 villages in his area.

"Some people get scared of long bank queues and prefer to convert a part of their surplus income into gold," he said.

Most bank managers in Indian villages are still happy to take gold as a pledge for agricultural loans.

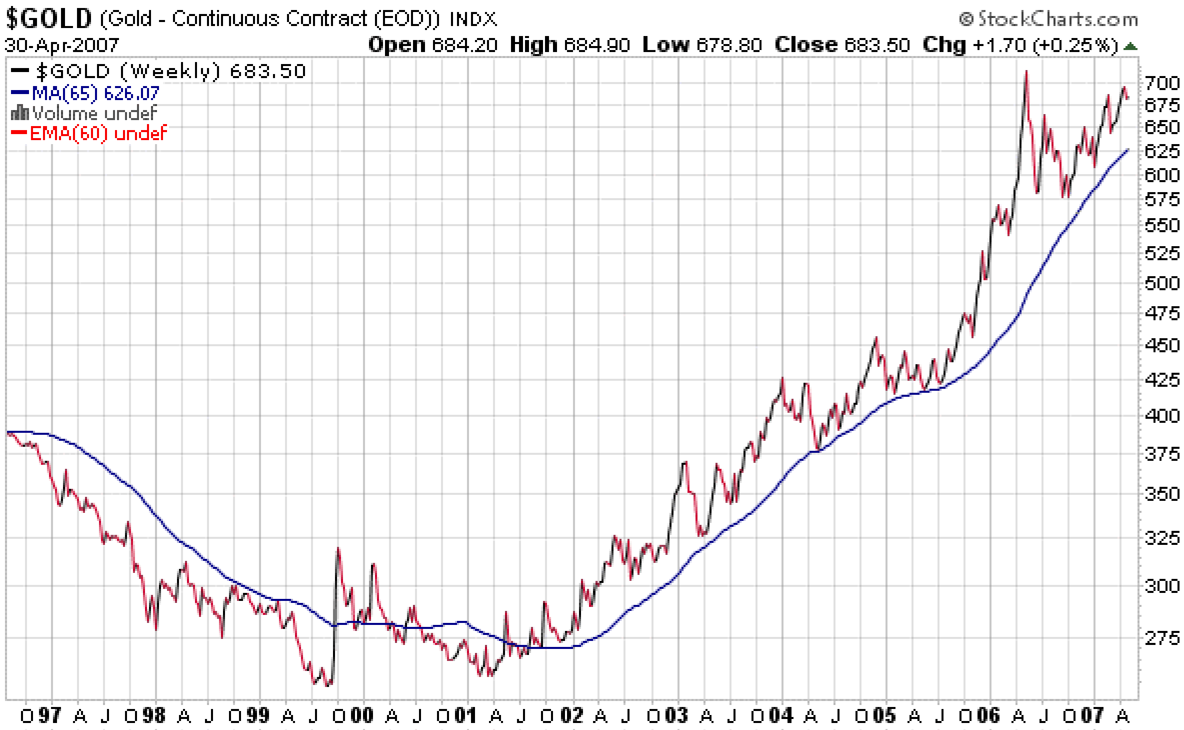
"For generations, Indians have a perception that one's worth is either measured by the amount of gold or the amount of land he has," said Azmat Siddiqui of a high-end jewellery store chain.

"Every household in India has some gold. It's a traditional form of investment. It is in the genes," he said.

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 April	20th April	2nd April	30th April
658.3	691.4	658.3	677.0

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London afternoon fix in €/oz:

Open	High	Low	Close
2nd April	20th April	2nd April	30th April
492.0	508.6	492.0	496.3

By the end of April gold had lost half of it's monthly price gain in USD and most of it's gains in EUR. Technically, gold ended the month on a weak note, looking to test the 50 or 200 DMA.

3. Silver

3.1 News and Fundamental Considerations

Zurich, Switzerland, 16th April 2007, (Bloomberg) – Zuercher Kantonalbank, the biggest of Switzerland's 24 government-controlled cantonal lenders, will launch exchange-traded funds (ETFs) for three precious metals, including platinum, after it launched a gold ETF early last year.

The bank plans to list the new ETFs, based on **silver**, platinum and palladium, on the SWX Swiss Exchange and trading is scheduled to start on May 10, the bank said in a press release on April 13. The new investment products are designed for wealthy private clients and institutional investors, it said.

Prices of platinum, used in auto catalysts and jewelery, reached a record $1,402.50 on Nov. 21 on talk of a new exchange- traded fund. Gold ETFs already trade in countries including Australia, Britain, South Africa, the U.S., Singapore and India. The so-called ETFs purchase and store metal, allowing investors to trade assets without owning them.

``It's the first that I'm aware of'' for platinum, said Mark Bedford, director of precious metals marketing at Johnson Matthey Plc in Royston, U.K.

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 April	16th April	3rd April	30th April
13.34	14.09	13.28	13.50

London fix in €/oz:

Open	High	Low	Close
2nd April	16th April	3rd April	30th April
9.985	10.39	9.94	9.91

Silver spent most of April going nowhere and looked technically weak at the end of the month, looking to test it's 200 DMA.

John Fineron, 2nd May 2007

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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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