JM&B Monthly Gold & Silver Report
August 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

Gold was undoubtedly the stronger metal in August. Silver broke below it's long-term price trend, but this may not necessarily be the end of the bull-market.

2. Gold

2.1 News and Fundamental Considerations

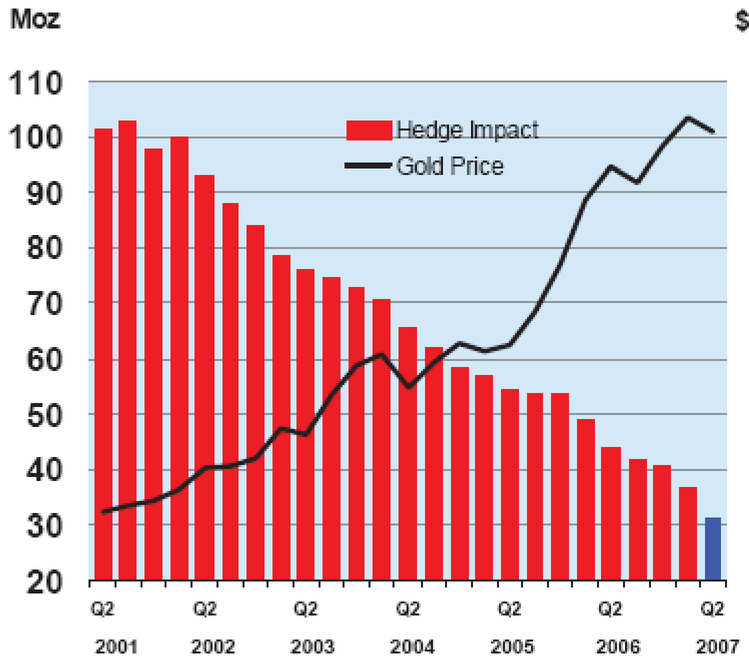
Selected News Items from the Month

London, 14th August 2007, (Mitsui Precious Metals) –

Summary of the Hedge Book Q2 07

Gold dehedging quickened its pace in Q2 07, with a remarkable 5.4 Moz being removed from the Hedge of the global book, taking that measure to 31.2 Moz.

This was the largest quarterly dehedge in terms of ounces since 7.1 Moz was recorded five years previously in Q2 02. Then, however, the global hedge book was 100 Moz, thus in percentage terms this quarter's reduction, 15% was the largest ever quarterly decline.



In terms of committed ounces the decline was a slightly smaller 4.4 Moz, taking that measure of hedging to 34.4 Moz. The 41 companies who reduced their hedge commitments did so by a gross total of 5.1 Moz, while the six companies who added to their hedge commitments put on a gross 0.7 Moz. See p.6

The largest reduction was by Newmont Mining, who cut their position by 2.0 Moz, whilst Lihir reduced its position by 1.4 Moz. Three other companies made reductions of over 0.1 Moz (AngloGold Ashanti saw a 0.8 Moz decline in the Hedge Impact of its book, but in terms of committed ounces its position actually saw a small increase). In total eleven companies closed out their entire hedge books. Four companies increased their position, with the largest increase being realised by Western Goldfields, who added 0.43 Moz of flat forwards as part of a $105m loan facility. See p.6, p. 9-10.

On top of the delivery schedule, hedge buybacks are likely to more than offset new hedging; therefore our full year 2007 forecast is for dehedging to be between 11-13 Moz. It should be noted, however, that even the higher end of this forecast means a sharp H2 2007 slowdown compared with H1 2007. See p.4-5.

The sharp reduction in hedging and the fall in the end-quarter gold price of $15/oz to $648/oz has dramatically improved the mark-to-market value of the global book. It now stands at a negative $9.5bn, $1.5bn better than at the end of Q1 07. See p.6.

London, 15th August 2007, (World Gold Council) – Dollar demand for gold in the jewellery, retail investment and industrial sectors all reached new heights in the second quarter of 2007. Global demand for gold jewellery showed the strongest surge, reaching a record $14.5 billion, 37% higher than Q2 2006, with particular strength across the key gold markets of Greater China, India, the Middle East and Turkey.

A return to more normal levels of gold price volatility, growing acceptance by consumers of a price that averaged 6% above the same period a year ago, and strong economic performances in the key consuming regions all helped gold to set records in the second quarter, according to Gold Demand Trends, released today by the World Gold Council (WGC).

In tonnage terms India, the world's largest gold market, achieved all-time records in both jewellery and retail investment. Turkey achieved second-quarter records for both categories while Russia recorded its highest ever level of jewellery demand. The figures, compiled independently for WGC by GFMS Ltd, showed that identifiable gold demand made a further substantial recovery in Q2 2007 from the impact of the volatile prices experienced in 2006, rising 19% in tonnage terms on Q2 2006 to 922 tonnes, and reaching $19.8 billion, a 27% increase, in value terms year-on-year.

James Burton, CEO of the World Gold Council, said: "We are pleased to report a very strong second quarter with demand for gold reaching unprecedented levels in a number of markets. A reduction in price volatility in 2007 has resulted in increased consumer confidence and, coupled with greater industry marketing activity, led to record levels of gold jewellery purchases globally in dollar terms. I am pleased to note that the dollar value of gold demand has more than doubled in just four years. "Several countries stand out. The figures from India this quarter are particularly pleasing and we will continue to encourage India's ongoing love affair with gold." At 317 tonnes, India's total demand for gold in Q2 2007 was equivalent to half the global mine output for the quarter. More stable gold prices, a booming economy and the increasingly successful Akshaya Thritiya festival in April all contributed to a strong second quarter despite prices being in the mid-$600s/oz.

Strong economic growth, reduced price volatility and the auspicious Year of the Golden Pig saw China's gold demand increase 32% in tonnage terms from year-earlier levels to 76 tonnes. In the Middle East, strong economies and stable prices influenced demand for gold which rose 20% in tonnage terms to 97.5 tonnes compared with the same quarter in 2006. Turkey enjoyed second-quarter records for both jewellery, at 52.2 tonnes, and net retail consumption, at 20.5 tonnes, an increase of 14% and 5% respectively on the previous year. In Russia, where jewellery demand has grown steadily over recent years, consumption increased by 27% to 20.3 tonnes compared with Q2 last year.

Globally, net retail investment rose by 51% in tonnage terms to 132.9 tonnes, and 60% in dollar terms to $2.9 billion, compared to Q2 2006. Total identifiable investment fell just 4.8% in tonnage terms to 130.4 tonnes and was 1% higher in dollar terms at $2.8 billion compared with Q2 2006.

Running counter to the generally stronger trend, investment in Exchange Traded Funds and similar products was negative over the quarter, with small net redemptions of 2.6 tonnes. The redemptions were confined to the market leader streetTRACKS Gold Shares (ticker symbol GLD), and coincided with a much steeper decline in speculative long positions on the Comex division of the New York Mercantile Exchange. While the two vehicles are not directly comparable, GLD effectively followed the trend in the broader gold market, suggesting that investors and traders are increasingly accepting the ETF as simply another component of that market. Renewed creations in GLD since the end of the period under review, have carried assets to a new peak over 500 tonnes.

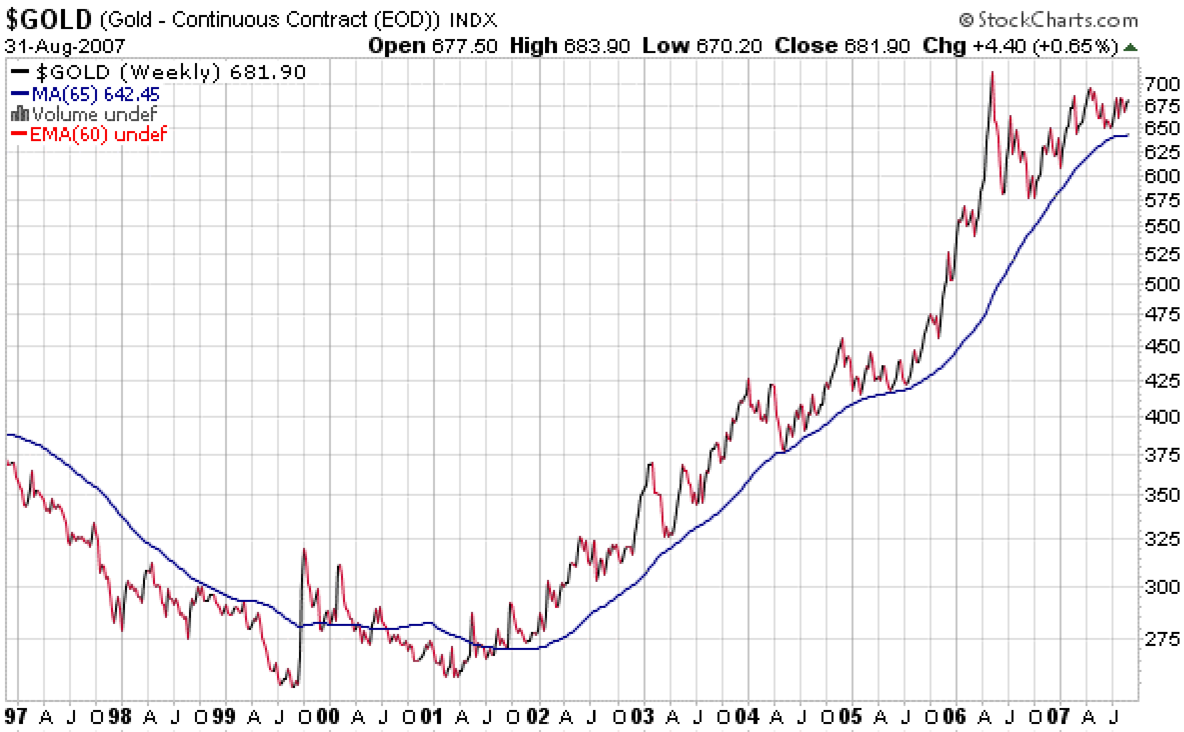
Global industrial demand saw a further steady increase over year-earlier levels of 2% in tonnage terms to 116.5 tonnes; this was equivalent to a 9% increase in value terms to $2.5 billion, a new quarterly record. Electronics demand, which grew strongly in 2006, also recorded a further 2% increase in tonnage compared to Q2 2006. Gold supply remained constrained in Q2. Stable prices reduced the supply of scrap, and this served to offset increased central bank selling.

Gold Demand Trends figures are compiled independently for World Gold Council by GFMS

2.2 Technical Comments

Long Term Technical Comments

Technically, gold behaved very well during the financial market weakness in August. The long-term price trend for gold remains up:



Daily/Weekly Technical Comments

London afternoon fix in USD/oz:

Open	High	Low	Close
1st August	8th August	17th/21st August	31st August
665.8	675.5	657.5	672.0

London afternoon fix in €/oz:

Open	High	Low	Close
1st August	15th August	24th August	31st August
486.1	495.1	484.2	492.6

At the end of August, gold was on a buy-signal, possibly looking to test key-resistance at 690-695 USD/oz

3. Silver

3.1 News and Fundamental Considerations

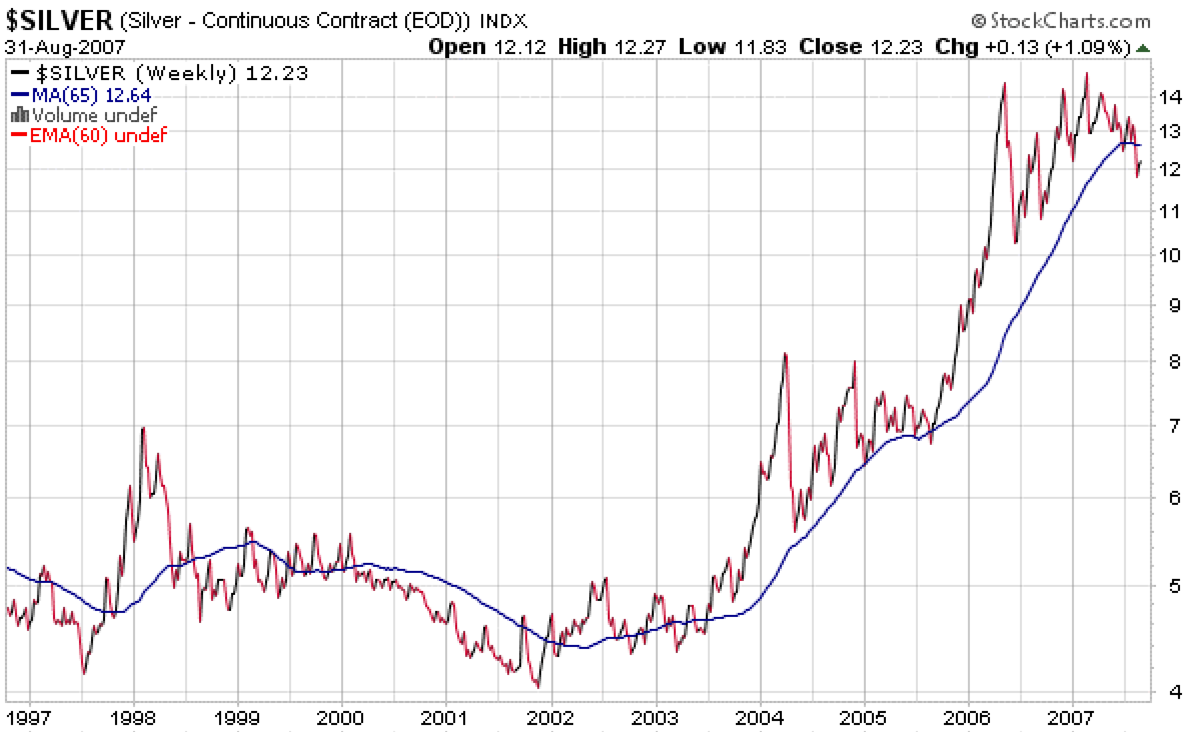
See:

www.silverinstitute.org/news/2q07.pdf

3.2 Technical Comments

Long Term Technical Comments

The long-term price trend for silver was broken and turned down in August. Whilst this may not be the end of the bull-market in silver, it does technically at least point to a possible continuation of the price consolidation seen over the last 16 months:



Daily/Weekly Technical Comments

London fix in USD/oz:

Open	High	Low	Close
1st August	6th August	21st August	31st August
12.77	13.10	11.67	11.95

London fix in €/oz:

Open	High	Low	Close
1st August	6th August	24 August	31st August
9.352	9.493	859.9	8.745

Interestingly, the long-term breakdown in the silver price in August was actually followed by a buy-signal on the daily chart!

John Fineron, 3rd September 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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