JM&B Monthly Gold & Silver Report
September 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 broke out to new highs for the current bull market in September. Although silver surged in price as well, more work remains to be done before a price breakout occurs.

2. Gold

2.1 News and Fundamental Considerations

Selected News Items from the Month

Mumbai, 1st September 2007, (Business Standard) – Despite the rupee's appreciation, gold prices have risen on expectations that the upcoming festival season would spur demand for the yellow metal.

Standard gold in Mumbai rose Rs 15 to close the day at Rs 8,905, while in New Delhi, it was up Rs 10 touching a month-high at Rs 8,870 per 10 grams. Pure gold, too, gained Rs 15 today to close in Mumbai at Rs 8,955 per 10 grams.

Gold had strong fundamental support from the steady buying by the local bullion players in the wake of high jewellery inventories and lower overseas demand.

Analysts believe that consumers bought jewellery, fearing the upsurge may continue.

Optimists believe that the buying trend will continue in the coming festive season in September (Janmasthami and Ganesh Chaturthi) as the rupee's appreciation will not affect gold prices that much in the local market as against its global movement.

Rupee appreciated up to 40.76, but soon recovered to the level of 40.98, resulting in the strengthening of gold prices in Mumbai.

The firmness in domestic gold price is largely attributed to a similar trend in London on Friday that percolated by the recovery in New York on Thursday. Gold opened at $668.00/668.60 per ounce, up from $664.70/665.50 late in New York on Thursday.

Gold opened higher in Europe on Friday on the news that gold production has been disrupted at a major mine in Papua New Guinea.

Global trend, which the domestic market follows, depicted a rise of $2.90 to $668.20 an ounce.

The October gold contract was up 0.6 per cent at Rs 8,892 per 10 grams from the previous week close. MCX gold contracts registered a turnover of Rs 6,504.60 crore. Open interest of all gold contracts was 10368 kg and total volume 73,092 kg.

The major driver of gold prices remains high consumption level in India because of high disposable income and a growing economy with a strong GDP, said an analyst.

Gross domestic product in India, the world's biggest gold buyer and South Asia's biggest economy, grew 9.3 per cent in the second quarter compared with 9.1 per cent in the previous quarter.

Industry members believe future sales could be good with prices below Rs 9,000 per 10 grams.

London, 13th September 2007, (GFMS) – GFMS released Gold Survey 2007 - Update 1 today, their latest report on the gold market. A summary of the findings of the report was given by Philip Klapwijk, Executive Chairman of GFMS, at a seminar in London organised by the precious metals consultancy.

A key feature of the Update is its forecast for all the supply and demand variables and the gold price itself. This, the consultancy feels could reach a record level for a six-month average of $690 in the second half. Klapwijk noted, "GFMS' take on investment's potential to drive gold higher was the key to our forecast that the price would finally crack $700 this year. It's maybe breached that a bit earlier than we were expecting - as you'll notice in the printed report, which went to press a week or so back when we were still well below $700, we'd envisaged the rally being more a fourth quarter affair. But I don't think it'll be a problem sustaining these elevated levels. We may not be completely out the woods as regards speculator sell-offs to raise cash or reduce leverage in our new world of sub-prime jitters, but the norm of safe-haven buying should dominate investor activity from now on".

This buy-side interest was expected to be chiefly driven by 'traditional' factors, such as an anticipated fall in the value of the US dollar, lower economic growth and therefore equity values (particularly in the United States) and the possibility of cuts in interest rates, again mainly in the US in an attempt to forestall recession. A rally was thought possible without the aid of political developments, though it was added that prices should strengthen further "particularly if Middle East tensions escalate sharply".

The Update noted that heavy liquidations by short term speculative players, particularly in the second quarter this year, were the chief factor behind the first half recording sizeable implied net disinvestment of over 200 tonnes. The consultancy feels this was very much the product of temporary overspills from non-gold issues, such as June's bond market crisis and the nature of disposals was strongly biased to profit taking or stop loss selling. GFMS report that there was scant evidence of any longer term investors losing confidence and instituting strategic shorts, a factor, which, they feel is crucial to the solidity of values moving forward.

Despite this, GFMS spelt out that the rally could only really be driven by investment, and that, having only one main support, price volatility could jump. A key reason for this stance is the slump in producer de-hedging, which the consultancy feels could drop from over 300 tonnes in the first half to under 80 in the second. Klapwijk added, "we're not seeing any real interest yet in strategic hedging. It's just that, with the hedge book a whole lot smaller than it was, you can't expect too much more of the heavy buy-backs we've seen in recent years". Mine production, however, was forecast to dip a fraction in the second half.

Another factor that GFMS believe will restrain the rally is the level of central bank selling, which is forecast to more than double in the second half. Klapwijk noted, "we'll probably see CBGA selling nudge towards the 500 tonne mark in this Agreement year and we'd expect sales moving forward to run at a fairly sustained level, and that's higher than we, and many others, were thinking would happen a few months back. But I think much of this increase got factored into the price a while ago, maybe when we had news from the likes of the Swiss on higher sales".

Fabrication demand was also forecast to rise in the second half but this was not expected to actively support any rally due to its price sensitive nature though it should provide good bedrock support to prices. The buoyant response of jewellery offtake in the first half, after all, was cited as a key reason as to why those investor sell-offs that did occur were normally well contained, with forays sub-$650 typically brief. While much was chiefly just a response to more stable gold prices, strong GDP growth in Asia was also seen as important and, with this region still expected to keep growing nicely even in the event of a US or western economic slowdown, this underpinning to the gold price was viewed as likely to continue in the coming months.

The inverse to fabrication was also seen for supply from scrap, with this falling by over 170 tonnes in the first half. Much was again due to lower price volatility. Interestingly, GFMS do not expect much undermining of the rally from this source as it is believed that the price would have to move substantially higher for scrap to rise as much of the loosely held near market supplies have already emerged, with, for example, the bulk of tired, slow selling western retail jewellery stocks having been melted down last year.

Supply Highlights

- First half mine production grew by 3% to 1,201 tonnes. The largest increases came from Asia, with Indonesian output growing by over 80% and Chinese production gaining nearly 20 tonnes. In contrast, Peruvian output fell back by 24 tonnes, while the South African figure was some 7% lower. Full year 2007 production is forecast to remain higher, despite a small dip in the second half.
- Global cash costs rose by just over 20% year-on-year in the first half of 2007 to an average of US $371/oz. Australia recorded the largest increase, though this was partly just the result of currency effects, while South Africa saw a modest increase of only 7%.
- Net official sector sales in the first six months of 2007 grew a modest 4% year-on-year. The gain was slight as a rise of nearly a quarter in sales by signatories to the Central Bank Gold Agreement (CBGA) was largely offset by the slump in net sales outside the group. Second half sales are forecast to more than double year-on-year to around 280 tonnes, largely through higher CBGA sales.
- Scrap supply fell by 28% year-on-year in the first half to just over 450 tonnes. The largest falls were recorded in the Middle East, largely as a result of comparative price stability, while the decline for India was relatively modest at 'only' 17%.
- Largely driven by widespread liquidations in the second quarter (chiefly by short-term speculative players), the first half of 2007 saw a dramatic swing to implied net disinvestment of just over 210 tonnes from the net investment of nearly 280 tonnes in the first half last year. Net investment, however, is forecast to return for the second half of 2007, mainly in the fourth quarter.

Demand Highlights

- Largely as a result of a drop in price volatility, jewellery fabrication grew by a robust 240 tonnes or 23% year-on-year and, in terms excluding scrap, the increase was yet greater at 46%. India accounted for more than 70% of the rise in jewellery demand, while East Asia and the Middle East also saw sizeable gains. The second half could also see a further increase though that will depend strongly on the scale and timing of any gold price rally. Other fabrication rose by 7% in the first half, chiefly due to higher Indian medal & imitation coin offtake. Electronics and other industrial & decorative fabrication also grew, while dental demand fell.
- Producer de-hedging in the first half surged to record levels just over 300 tonnes (in delta-adjusted terms), leaving producers' outstanding positions, as at end-June, at their lowest level since 1995. Second half de-hedging is expected to fall to a far more subdued level of around 80 tonnes.
- Bar hoarding grew by almost 80% year-on-year in the first half to over 150 tonnes, largely due to gains in India and then Vietnam, while official coin demand declined by 11%. This left World Investment - the sum of bar hoarding, official coins and the implied (dis)investment figure - at just 10 tonnes, its lowest level since the second half of 2000.

London, 17th September 2007, (FT) – The Bank of Spain, the largest seller of gold this year under the central banks' gold agreement, plans no more significant sales of the precious metal in a move that is likely to fuel further the recent surge in prices.

People familiar with the pact said Spain's central bank had already achieved the bulk of its planned bullion disposals.

Analysts said the end of Spanish sales could reduce next year's central bank gold sales and improve sentiment in the bullion market just as the gold price is approaching a 26-year high.

The gold price rose on Monday to a fresh 16-month high of $719.65 a troy ounce, underpinned by the weakness of the dollar ahead of Tuesday's Federal Reserve rate-setting meeting.

The metal is within a whisker of the 26-year high of $730 an ounce it hit in May 2006. However, it is still about $130 below its all-time high of $850 reached in early 1980.

Large gold sales by the Bank of Spain, and lately by the Swiss National Bank, have undermined gold sentiment, analysts said. But the weakness of the US dollar and strong physical demand from India, the Middle East and China was pushing up prices.

David Holmes, of Dresdner Kleinwort in London, said that as well as speculative investors, the market was witnessing the resurgence of medium and long-term investors interested in structured gold products.

Spain has been the largest seller of gold under the current year of the central bank pact which runs to the end of September, according to data from the World Gold Council.

Spain sold about 149 tonnes, or 37 per cent of the total 399 tonnes sold by central banks in industrialised countries. The French central bank was the second largest seller with 99.2 tonnes.

The Spanish central bank declined to comment on gold sales.

The central banks' gold pact, which runs until 2009, allows them to sell up to 500 tonnes of gold every year.

While developed countries have reduced their gold reserves, some developing countries have been modest buyers.

Hussein Allidina, of Morgan Stanley in New York, said official gold demand was coming mainly from oil exporting nations such as Russia, Kazakhstan and Qatar, as well as South Africa and Argentina.

"However, there is potential for this modest level of purchasing to increase should countries like China move to diversify enormous US dollar denominated reserves," he said.

2.2 Technical Comments

Long Term Technical Comments

Gold broke out of a consolidation pattern in September, which had lasted almost 1 ½ years. The arrows indicate what happened to the gold price, the last time that it broke out of price consolidation:

Daily/Weekly Technical Comments

London afternoon fix in USD/oz:

Open	High	Low	Close
3rd September	28th September	3rd September	28th September
672.0	743.0	672.0	743.0

London afternoon fix in €/oz:

Open	High	Low	Close
3rd September	28th September	3rd September	28th September
493.2	523.0	493.2	523.0

Gold moved up significantly in price in September. At the end of the month momentum appeared to be slowing, but a technical sell-signal had not been given.

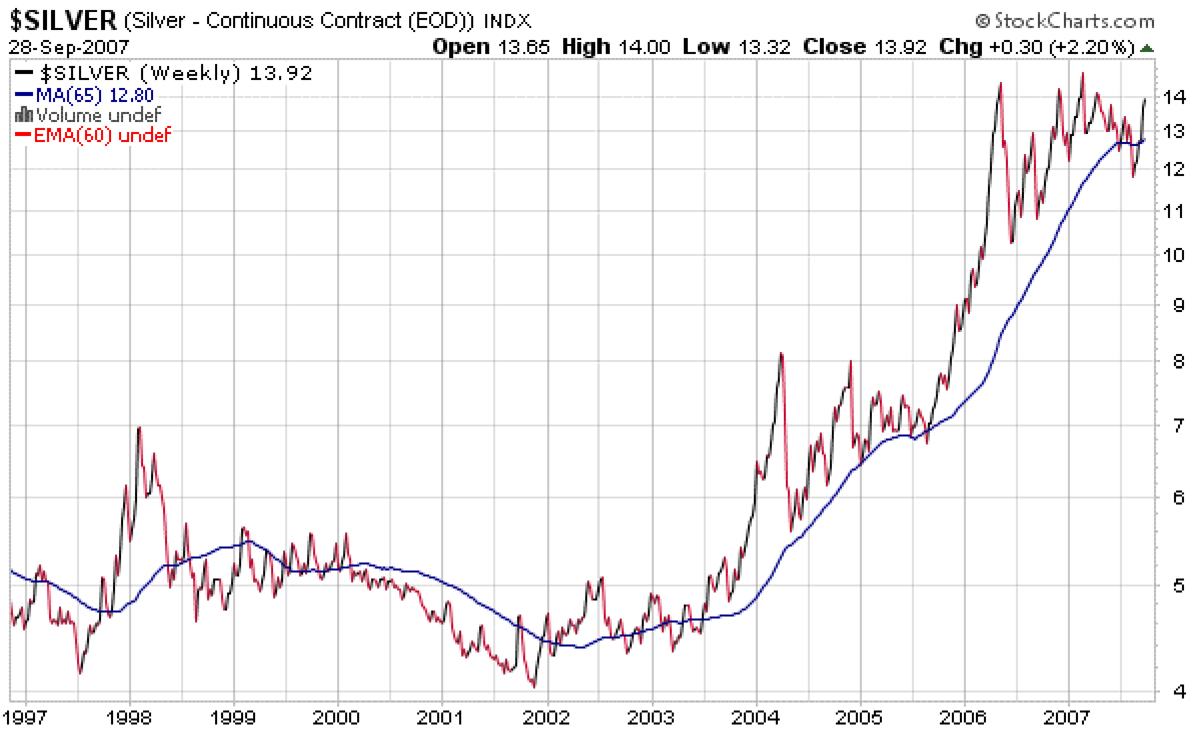
3. Silver

3.1 News and Fundamental Considerations

3.2 Technical Comments

Long Term Technical Comments

Although silver moved up significantly in price in September, technically it is still consolidating as long as it stays below 14.40 USD/oz in price:



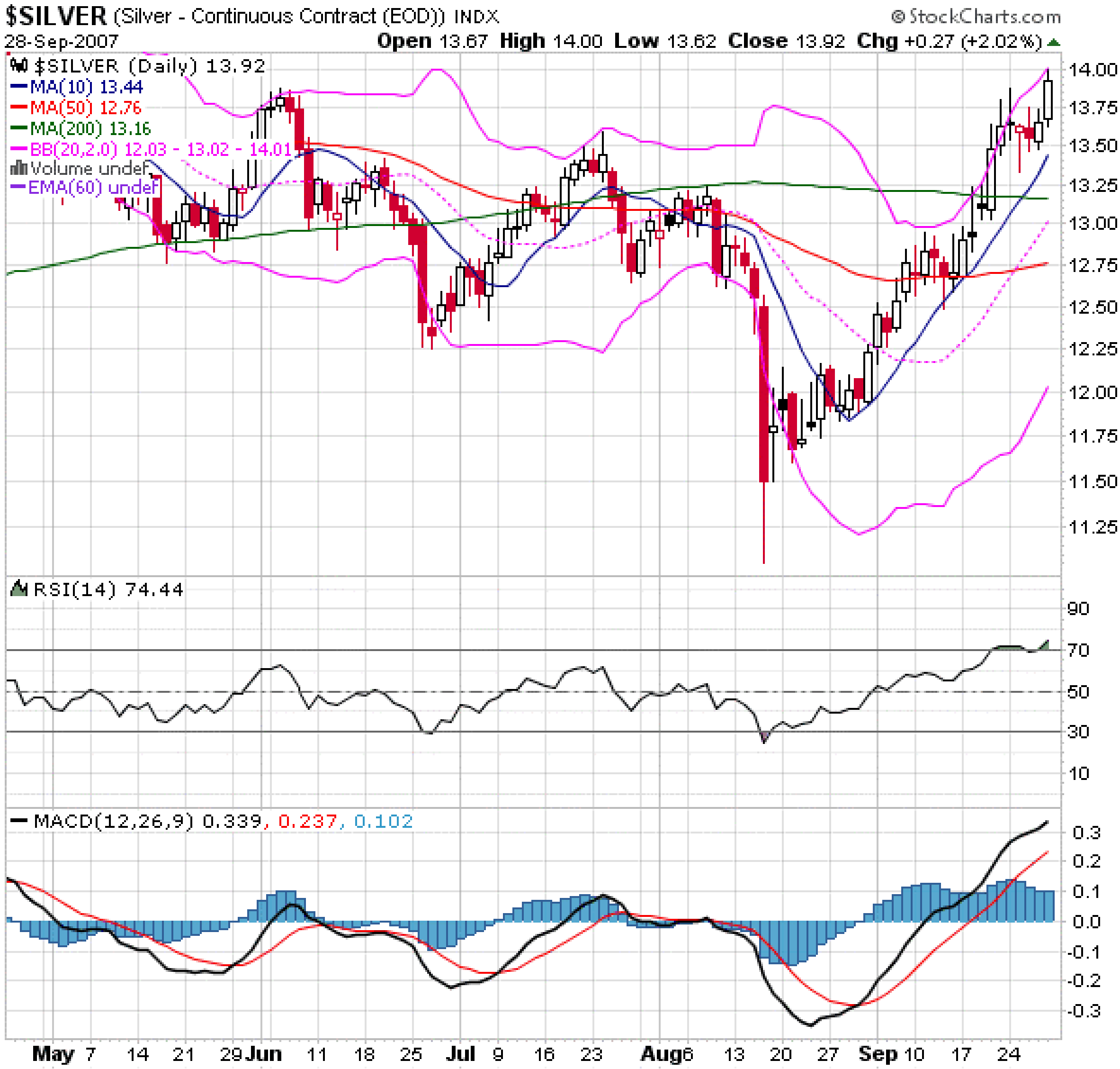
Daily/Weekly Technical Comments

London fix in USD/oz:

Open	High	Low	Close
3rd September	28th September	4th September	28th September
12.10	13.65	12.095	13.65

London fix in €/oz:

Open	High	Low	Close
3rd September	28th September	3rd September	28th September
8.874	9.623	8.874	9.623



The buy-signal in August, proved to be correct for silver and as the chart below shows, silver was the stronger metal. Indeed we may be entering a period when silver tends to outperform gold from a price point of view:

John Fineron, 1st Oktober 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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