JM&B Monthly Gold & Silver Report
November 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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After making new highs for the current bull market in November, gold and silver closed at their price lows for the month, after the USD staged a mild recovery.

2. Gold

2.1 News and Fundamental Considerations

Selected News Items from the Month

Reno, Nevada, 5th November 2007, (Mineweb) – Credit Suisse suggests that, while the U.S. dollar will continue to underpin the gold price, supply and demand factors will make their presence felt to such an extent that they "could trigger a quantum upward change in the gold price, enough to sustain a new gold price/US$ equilibrium.

In a recent "Gold Note," Credit Suisse Research Analyst David Davis said, "Our studies indicate that the dynamics surrounding the gold supply and demand has begun to change inexorably towards a diminishing supply of gold and increasing investment demand, which will ultimately impact the gold price."

"Our studies indicate in the long term global gold production will begin to decline as the diminishing number of new reserves fail to compensate for dying mines," according to Davis. "The decline in global gold production will likely be accelerated, should the gold mining industry continue to incur significant year-on-year inflation rates which are not offset by similar or significantly higher gold price increases year-on-year."

When Credit Suisse strips out the secondary supply of gold, coming from central banks and producer hedging, "we find that over the last 18 years, apart from three occasions, the supply of gold has been in deficit."

Davis asserted that "central banks sales will likely wither going forward and the banks could become net buyers of gold. Producer de-hedging, which has the effect of removing the gold supply from the market, has accelerated in recent months. This transition, together with increased investment demand (ETFs), jewellery consumption and diminishing mine supply in our opinion has already begun."

"Under these circumstances, the supply-demand imbalance will begin to accelerate at an ever-increasing pace into a net deficit, which in turn, will likely put significant upward pressure on the gold price," he added.

Credit Suisse feels that its forecast decline in global production will be aggravated by cost increases, "which will impact on the marginal mines forcing premature closure." Davis explained that these high-cost gold mines "are substantially more sensitive to annual inflation rates and gold price change."

Therefore, Credit Suisse asserts that the significant cost increase will change the current supply dynamics, triggering upward pressure on the gold price.

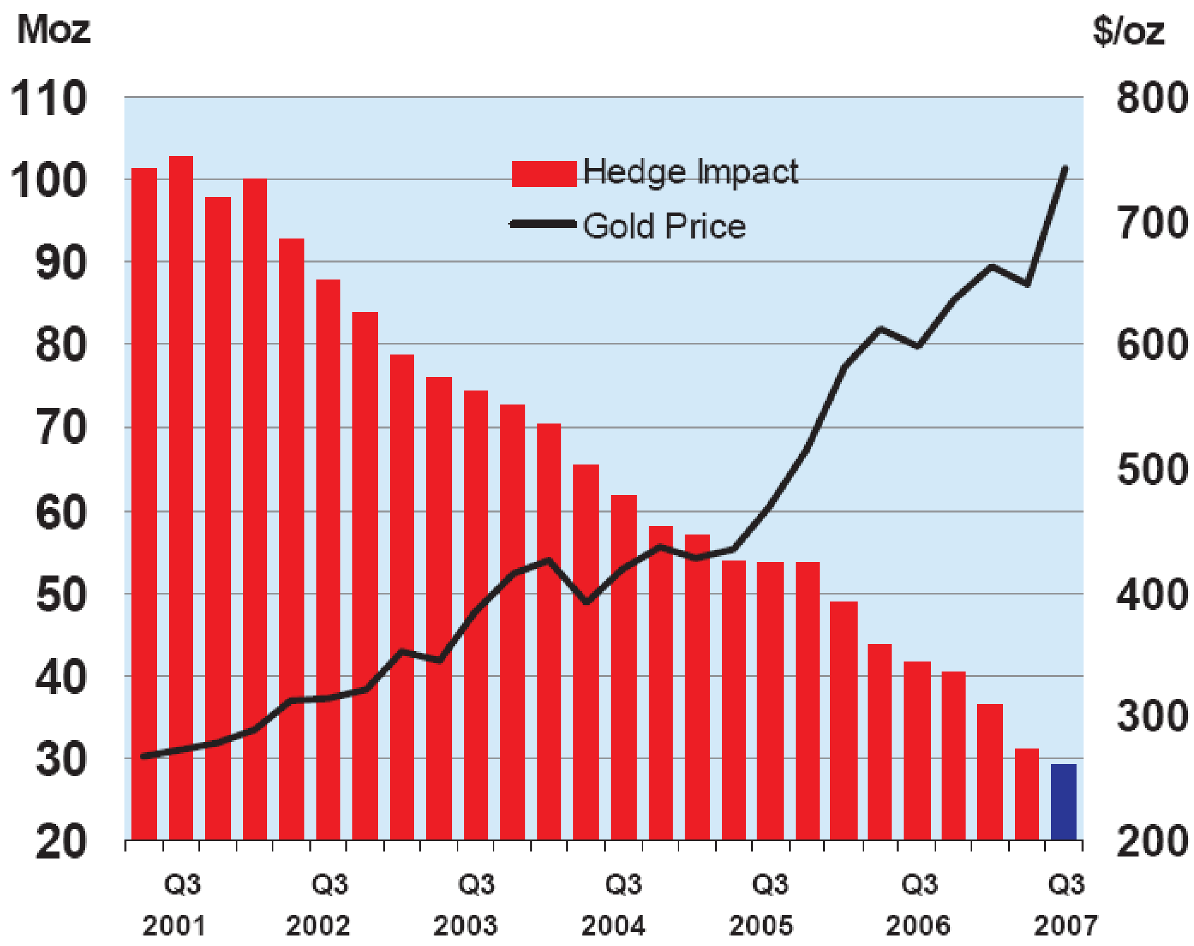
London, 6th November 2007, (Bloomberg) – ETF Securities Ltd., a London-based provider of contracts tracking commodity prices, said assets grew almost eightfold this year because of rising investor demand for natural resources.

Investments climbed to more than $2 billion from about $250 million at the end of 2006, it said in an e-mailed statement today.

The company offers more than 50 securities called exchange- traded commodities, or ETCs, that track prices of energy, metals and agriculture contracts, indexes and groups of raw materials. ETCs enable investors to bet on price changes without having to trade futures contracts or take delivery of commodities.

Gold ETCs were the fastest-growing contracts, with investments gaining 13-fold in the past four months, ETF Securities said. The precious metal rose to $811.20 an ounce yesterday, the highest since January 1980.

London, 8th November 2007, (Mitsui) – Q3 07 Hedge Impact Declines 2.1 Moz to 29.1 Moz



Gold dehedging continued to fall in Q3 07, with 2.1 Moz being removed from the Hedge Impact of the global book. This was the 22nd quarterly decline and takes hedging on that measure to 29.1 Moz.

On the committed ounces measure hedging saw a larger decline, of 4.1 Moz, a near identical fall to those seen in Q1 07 and Q2 07. The explanation for the divergence in the two measures is due to options - the Hedge Impact of net calls sold rose despite the committed total falling, and the amount of puts – which aren't counted as commitments - rose.

Of the 112 companies covered in the survey, 48 had a price protection programme in place at the beginning of Q3 07. Of these, 38 reduced their hedges, six made no change, and four increased their positions. In addition three previously unhedged company, Pan Australian Resources, Allied Gold and Norton Goldfields, began hedging programmes.

The largest reduction in hedging was by Newcrest Mining, who cut their position by 2.5 Moz as they began a programme to close out their entire 4.2 Moz hedge. The next largest dehedger was Barrick Gold who made a 1.5 Moz reduction by converting fixed rate forward contracts into floating rate contracts.

Looking ahead, an analysis of known and expected dehedging suggests Q4 07 is likely to see a reduction of 2.0 Moz in dehedging, taking our full year 2007 forecast to just over 13.0 Moz. However there is some uncertainty over what the two largest dehedgers, AngloGold Ashanti and Barrick, will do in current and future quarters.

The soaring gold price, up $94.70/oz during the quarter, has seen the the mark-to-market (MTM) valuation of the global hedge book worsened to a negative $10.7bn at end Q3 07, against a negative $9.3bn at end Q2 07. However the closure of some of the hedging with the worst mark-to-market valuations and the addition of new hedging at higher strike prices has improved the gold price at which the MTM would break even to $369/oz, from $338/oz in Q2 07.

London, 12th November 2007, (Bullion Vault) – What looks to be persistently high gold sales by the signatories of the Central Bank Gold Agreement in Sept. '07 – the first month of the fourth year of their five-year agreement – it's worth contemplating what lies ahead for central bank gold sales from here.

In the week ending 26th October 2007, the decrease of □126 million in gold and gold receivables reported by the European Central Bank reflected sales of gold by two Eurosystem central banks – consistent with the Central Bank Gold Agreement of 27th September 2004 – of 7.25 tonnes approximately.

It would seem that the Swiss are the larger of the two sellers, with either the French or the European Central Bank as the other seller. If the past is indicative of the present, the Swiss will continue selling at this pace until they have completed their pre-announced sale of 250 tonnes in the first quarter of next year.

Each week of these high sales gives us more certainty on that. Indeed, data compiled here at Gold Forecaster [1] paints a dramatic picture of central bank gold sales going forward into the New Year.

The tonnage remaining for sale is now down to just over 650 tonnes all told, and we have two more years of sales still remaining; More announcements can be made, but we only expect unplanned sales from Spain to the extent of 100 tonnes; We know that the remaining Swiss sales are around 6 to 8 tonnes per week, with only around 100 tonnes remaining. So we guesstimate around 17 weeks or less before these sales are exhausted. If the Spanish repeat their past performance of the 2006-2007 CBGA year, their sales will be out of the way by May 2008, leaving 550 tonnes for the duration of the agreement. Portugal did not sell gold last year so may not sell any more, taking 100 tonnes out of this 550 tonnes leaving 450 tonnes for the duration.

The balance of the announced sellers, have set a pattern of steady sales spread over the years. With present demand failing to dent the rise of the Gold Price [2], it seems likely that such a drop in sales will add impetus to future Gold Price [3] rises.

The second dramatic factor we've uncovered is that in the final quarter of the last CBGA year (Sept. 2006 to Sept. 2007) Russia began its long awaited purchases of gold for its reserves.

As we forecast, these took the form of buying local gold-mining production before it hit the open market. President Putin made it clear to the Russian Central Bank that he wanted gold reserves up to 10% of reserves, but he had not been obeyed to date. The start of these gold purchases, signals that this policy may have begun.

If so, Russian production at just over 200 tonnes to 250 tonnes per year will be the initial target of the buying. This is important because at a time when new gold supplies to the market are set to fall after next year, such buying can be taken off the above sales. So whether it is 88 tonnes or the entire 200 tonnes and more that Russia says it needs, central bank gold sales would net out – overall – at between 0 amd 200 tonnes in the next two years.

There are now great pressures on central banks to stop selling gold and to follow the example of Russia. The prospect of currency crises is growing by the day, spreading fear of the value that currencies will have going forward. In the past such pressures have forced central banks to turn to Buying Gold [4].

As the latest example of such pressures, just take a look at Hong Kong. With the US Dollar waning fast, and currency pressures mounting across the globe, investors have never needed safe-havens for their wealth more than today.

At the front safe havens sit Gold Bullion Investment [5] and silver. Many feel that the pressure may be short-term, but we believe it is systemic and growing worse by the day. As the haemorrhaging of US Dollar's value continues, smaller central banks are fighting to stop their currencies from rising – so as to protect the competitiveness of their own currencies.

If this pressure persists these banks will be forced to take more regulatory measures, such as imposing controls on inflows. The latest reported incident of these is in Hong Kong.

Hong Kong's de-facto central bank stepped in four times last week to defend the Hong Kong Dollar's peg to the US Dollar, injecting about HK$6.2 billion (some US$800 million) into the red-hot market, selling the local Dollar to buy the ailing greenback. As the US Dollar weakens, so this intervention will continue.

Under Hong Kong's currency board system, the HK Dollar is pegged at 7.80 to the US Dollar, but it is allowed to trade between 7.75 and 7.85. When the Hong Kong Dollar reaches the limits of its trading band, the monetary authorities can be expected to intervene. But with the cut in US interest rates adding more upward pressure, Honk Kong will react by releasing more local currency, so importing inflation and allowing more "hot money" into their own local system.

Short-term investments can leave as quickly as they arrive, contracting the money supply when they leave and leaving instability and eventual loss of control over the money supply behind them should such action reach extremes. Inflow Capital Controls are another way of coping with this problem...or perhaps a strong revaluation of the currency plus a departure from the US Dollar peg.

The HK Dollar has been rising against the US Dollar as investors pour money into the soaring Hong Kong stock market. The HKD hovered near 7.75 to the USD all morning last Wednesday, before the Hong Kong Monetary Authority began buying greenbacks to keep the local currency within the trading range. Last week's moves follow two interventions by the HK Monetary Authority last week, its first such actions in more than two years, causing speculation that Hong Kong might widen the peg, or drop it all together.

The Hong Kong government is "totally committed" to the linked exchange rate mechanism. This is usually a prelude to actions to fully control the situation along the line we mention here. We can only conclude that the tumbling US Dollar is encouraging dramatic and sustained intervention from smaller central banks in the currency market.

In their reserves, there will probably be no new announcements of central bank gold sales. Rather, those banks Buying Gold [6] could soon overtake those still left selling it.

Mumbai, 20th November 2007, (Reuters) – India's gold imports in the current year are likely to be higher than in 2006 and could even rise to a record 800 tonnes as high sales in the first half and good demand for retail bullion may make up for poor sales during Diwali, a research house and a trade body said late on Monday.

"Thousand tonnes looks less likely, but it still looks like it is going to be a record level," said Philip Klapwijk, executive chairman of GFMS Ltd, referring to trade forecasts earlier in the year.

Prices at sub-9,000 rupees per 10 gram levels in the middle of the year sparked off high sales of bullion leading to bullish forecasts for imports.

But prices resumed an uptrend, rising above 10,700 rupees during the peak of the festivals in November, dampening sales.

"Early data that has come in shows imports in October were around 40 tonnes, so we could have already crossed last year's level," said Ajay Mitra, managing director of World Gold Council in India.

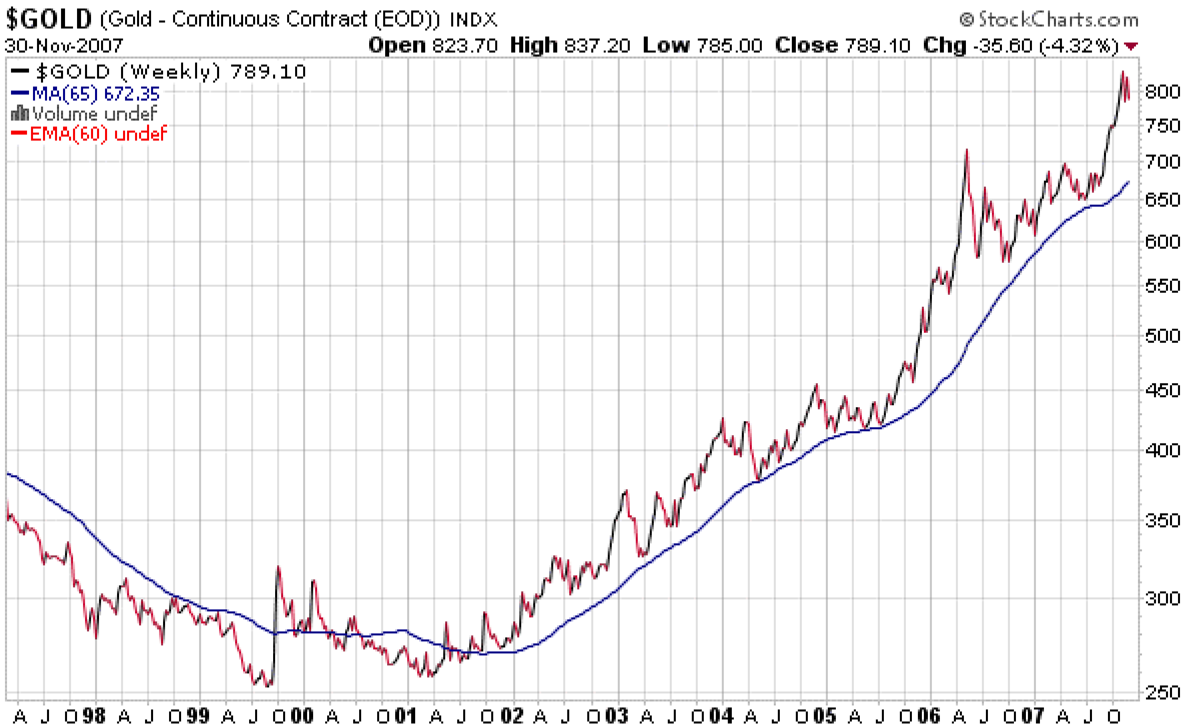
According to WGC's latest data, imports in January to September were at 689.7 tonnes, up from 491.8 tonnes in the same period last year. In 2006, India imported 721.9 tonnes of gold.

The country's highest ever imports recorded by WGC was 774.4 tonnes in 1998.

2.2 Technical Comments

Long Term Technical Comments

After making a new price high for the current bull market in November, gold closed the month essentially unchanged in price.



Daily/Weekly Technical Comments

London afternoon fix in USD/oz:

Open	High	Low	Close
1st November	8th November	30th November	30th November
790.3	841.1	783.5	783.5

London afternoon fix in €/oz:

Open	High	Low	Close
1st November	8th November	30th November	30th November
548.0	572.5	531.2	531.2

Gold has seen a reasonable correction of the price move from 680 USD/oz to 840 USD/oz and although technically, still in a short-term downtrend at the time of writing, could easily turn back up in price, should any USD weakness emerge.

3. Silver

3.1 News and Fundamental Considerations

New York, 8th November 2007, (GFMS) – In a speech to the Silver Institute Wednesday in New York City, GFMS Chairman Philip Klapwijk said that investment demand for silver "has rebounded very strongly" in the fourth quarter.

He forecast that overall, investors' silver stocks will increase "quite substantially" in 2007.

Nevertheless, Klapwijk said silver investment demand is more speculative, and viewed more as a commodity and less of an investment than gold, which enjoys more of a monetary status.

However, he added the silver ETF "has been a pretty good investment for private investors; so good that the ETF may have taken investment dollars from silver bullion and coins.

While GFMS forecasts that investment demand will be strongly positive, net investment demand still is weaker than that during 2006. Although ETF holdings increased 23 million ounces from January through October of this year, net long silver positions on the COMEX declined during the same period to a low average of 246 million ounces, according to Klapwijk.

GFMS believes that there will be more reliance on investment demand over the next year to sustain the price of silver or make it higher. A price range of $13.20 to $16.50/oz has been forecast by the consultancy. Klapwijk forecast that prices will remain volatile.

Although investors have driven silver prices higher this year, the trend has been underpinned by fabrication demand. However, GFMS believes that the outlook for industrial demand is "looking negative in 2008 due to the potential impact of global slowdown." In fact, Klapwijk forecast a significant decline in fabrication demand next year.

Meanwhile, GFMS said government sales of silver have been almost halved this year with nothing coming out of China, while India's government sales have ended. Klapwijk said the one remaining big silver selling country is Russia.

Mine production is forecast to increase by 23 million ounces (3.6%) this year with growth being driven by higher silver production from La Coipa in Chile, initial output from San Cristobal in Bolivia, a rebound at Cannington in Australia and higher production in Mexico. The outlook for next year is a 7% increase in international mine production, mostly coming from a full year's output in San Cristobal, initial production at Coeur d'Alene's San Bartolome silver mine in Bolivia, and start-ups at Goldcorp's Penasquito project and the Delores project, both in Mexico.

New Delhi, 23rd November 2007, (Reuters) – Indian demand for silver is likely to rise as consumers build stocks to meet growing industrial usage, and surging gold prices are expected to boost the metal's price in the new year.

Analysts said the international price of silver could rise by up to 40 percent to $20 an ounce by the middle of 2008, from $14.50 an ounce.

"There is a long way to go on silver. It has to do a lot of catching up with gold," said Gnanasekhar Thiagarajan, director of Commtrendz Risk Management.

Since January, silver has risen only 3.5 percent, compared with a 20 percent rise in gold prices during the same period, though the two precious metals usually rise in tandem.

"I expect total silver demand will increase by 8.5 percent in 2007," said N Prasad, a Chennai-based bullion analyst. "Industrial suppliers and hedgers are likely to buy more of the metal as the prices are expected to rise."

India's total annual silver consumption is estimated at 3,000 tonnes, but this is likely to go up to about 3,400 tonnes in 2007.

Jewellery accounts for about 20 to 30 percent of India's silver demand, while industry uses most of the rest.

Prasad said growing use of the metal in electronic goods such as LCD screens and mobile phones in India, combined with little growth in global mining output, would mean that more users may invest in the metal now before prices hit peaks.

Global silver mine production in 2006 grew marginally in 2006 to 646.1 million ounces.

GROWING USAGE

Industrial demand accounted for 47 percent, silverware 27 percent and photographic fabrication 16 percent, according to the Silver Institute's World Survey.

Thiagarajan said industrial usage of silver is going to rise further as the metal is used as an eco-friendly substitute for lead in many applications in developed markets.

The anticipated demand is likely to spur investment buying worldwide including in India, the world's largest gold market, but the lack of a paper savings instrument or an Exchange-Traded Fund may curb its attractiveness.

Indian investors were eyeing the precious metal for investments, but a question mark over purity in buying from jewellers and difficulty in storing large purchases were limiting its potential.

Still, branded suppliers see a rise in demand.

"Our Saanchi silverware has become very popular," said Ashwini Kapoor, deputy general manager of the state-run MMTC, one of the largest bullion importers in the country. "We had brisk sales during the festival season."

He added that April to October sales had risen by at least 30 percent.

India's festival season runs from end-August to November, when sales of gold jewellery, coins and medallions peak. Silverware, coins and bars are also bought, more so on certain auspicious days.

"In India, we are yet to see a silver ETF, but I think we will see one soon," said Anindya Banerjee, an analyst with Mumbai-based InvestsmartIndia.

Traders said one of India's largest private companies was gearing up to launch a silver ETF. Four firms have launched Gold ETFs in the last seven months.

"Tomorrow, if we have a silver ETF in India, then the investment demand will come," said Ashok Mittal, vice-president and country head for commodity brokerage Karvy.

Traders said speculators are also likely to drive up trading of silver contracts in the local commodity exchanges in the next two to three months.

They said prices of silver contracts could rise to 22,000 rupees ($556.5) per kg by February, from about 19,000 rupees.

3.2 Technical Comments

Long Term Technical Comments

Although silver broke out of consolidation in November, as the month progressed, silver prices came back down to test the breakout price at the end of the month.

Daily/Weekly Technical Comments

London fix in USD/oz:

Open	High	Low	Close
1st November	7th November	30th November	30th November
14.36	15.82	14.23	14.23

London fix in €/oz:

Open	High	Low	Close
1st November	7th November	30th November	30th November
9.955	10.78	9.640	9.640

Although silver exceeded price resistance at the start of November, a correction ensued, which by the end of the month was still in progress.

John Fineron, 3rd December 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.

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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