JM&B Monthly Gold & Silver Report
January 2008

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

Contents

1.	Commentary
2.	Gold
2.1	News and Fundamental Considerations
2.2	Technical Comments
3.	Silver
3.1	News and Fundamental Considerations
3.2	Technical Comments
Appendix	More about this report

1. Commentary

Gold and silver gained significantly in price in January.

2. Gold

2.1 News and Fundamental Considerations

Selected News Items from the Month

London, 7th January 2008, (Financial Times) – There was a time when gold was money. In today's uncertain world, the yellow metal is back in fashion. Bullion prices rose to a record nominal high after the assassination of Benazir Bhutto in Pakistan added to nervousness about the world economy. Part of gold's allure is its traditional status as a safe haven. It is seen as a store of value when everything else seems risky. But the bigger drivers behind the rising spot price are a depreciating dollar and the prospect of negative US real interest rates.

A better way to think of gold may be as central bankers used to before America dropped the gold standard: not as a commodity, but as another currency. As long as the dollar stays weak, gold's bull run will last.

© Johnson Matthey & Brandenberger AG, Glattalstrasse 18, Postfach 485, 8052 Zürich, Switzerland.
Tel: +41 44 307 19 19; Fax: +41 44 307 19 20

The arguments for further gains in the gold price are compelling. It looks cheap, despite climbing from a low of about $250 a troy ounce in 1999, when central banks were selling reserves. The UK's decision back then to sell 60 per cent of its official holdings looks particularly poor judgment.

Prices have a long way to go before they approach the inflation-adjusted record touched in 1980 when Soviet tanks invaded Afghanistan. At Monday's $859, gold was trading at less than half that level. It could top $1,000 and still be at the lower end of what some analysts argue is a safe haven range.

Gold is also benefiting from diversification away from equities. Commodities have emerged as a distinct asset class, with billions of dollars poured into exchange traded funds. Physical demand for jewellery may have stalled in Asia, but consumption remains strong in the Middle East. Declining output in South Africa will help support spot prices.

But it is the relationship between the dollar and the reaction of the world's central banks to the credit squeeze that some bulls would say really makes gold an attractive bet.

The US Federal Reserve's aggressive, rate-cutting response to the credit squeeze has created a risk of a sharp rise in American inflation. That in turn creates the risk of a precipitous fall in the dollar and so makes gold more attractive as a hedge.

The world's major economies have experienced rapid money supply growth of 10 per cent plus per annum in recent years. The Fed remains the world's biggest holder of gold, yet supplies of the metal are no longer growing annually. If gold is a finite currency, its value against not just the dollar, but sterling and the euro too, should rise.

Moreover, a sharp decline in US real interest rates – financial markets expect another half percentage point cut this month – means that the low yield on gold matters less. It may have been a poor hedge against inflation in the past but the combination of rising consumer prices and economic stagnation may make it a better store of value.

Gold's rise shows investors are nervous. That is an important message for central banks contemplating interest rate cuts. The Fed must show it is not prepared to allow inflation to take off. Keynes called gold a barbarous relic. It has life left in it. But it is in the interests of business and consumers that its most bullish fans are proved wrong.

London, 17th January 2008, (GFMS) – GFMS released Gold Survey 2007 - Update 2 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 Toronto organised by the precious metals consultancy.

A key aspect of the Update is the forecast for the supply and demand variables moving forward and, based on that, the outlook for the price itself. This, the consultancy has projected to average $840 over the first half, with further increases indicated as a possibility for later in the year. Klapwijk commented, "investor appetite for gold at the moment seems undimmed and this should push gold higher over the year. Predicting the top is never easy but we always thought

the $900 barrier could easily fall quite soon and then we have to start viewing $1,000 as a clear possibility for later this year".

GFMS expect the surge in investment to be driven by those factors that fuelled the boom witnessed in the final four months of 2007, namely a weak dollar, record oil prices and their inflationary consequences, the US sub-prime crisis and its threat to GDP growth in the United States, and perhaps elsewhere, and lastly geopolitical tensions. Klapwijk continued, "it's far easier to argue that we're at the start of a period of higher inflation and lower US growth, rather than we're emerging from the worst. All that is strongly pro-gold moving forward. And we can easily see higher gold prices without fireworks in the Middle East or Pakistan, though any political drama there or elsewhere is highly likely to rally the price yet further".

The report does caution, however, that a short to medium term correction is possible, chiefly as a result of the speed of the recent price rise and the huge fund overhang on Comex. Should a retreat occur, it was thought a slide back to the low $800s might occur, partly as physical buyers are not expected to rush back in the face of such price volatility at elevated levels. Klapwijk noted, "this temporary fall back explains why our forecast average for the first half at $840 could seem a bit low in light of current levels. But that's still up almost 30% year-on-year and, with this period of consolidation out the way and the funds in a position to expand their net long again, that's when we should see the convincing drive towards $1,000".

High prices and volatility were the two chief reasons that the consultancy expects fabrication to slump by almost a fifth in the first half this year. Less marked gains for local prices due to dollar weakness and continued robust GDP growth in many emerging economies were expected to partially mitigate the impact of the expected gold rally. Such factors explain why GFMS see the 'jewellery floor' (the level deemed fair and sustainable at which physical buyers return) as having moved up to the low $800s, a result, which the consultancy feels to be "remarkable". However, doubt was cast on the solidity of prices moving forward, given the huge volumes investors would have to pick up to keep the market in balance as jewellery demand slips well under mine production.

The report also outlines how there is little else on the demand side to push prices higher. Producer de-hedging, for example, is expected to contract sharply in the first half to levels roughly a third of those a year prior and, given the GFMS estimate of the hedge book now being under 1,000 tonnes, the scope for support from this area is becoming limited. Few signs, were at least said to have been seen, of any desire by producers to undertake any major fresh hedging.

GFMS believe that investment should still be in a position to easily drive prices higher with poor demand elsewhere thanks to a relatively limited supply reaction. Mine production, for example, is forecast to increase, but by only a few percent. In contrast, official sector sales are expected to slip and that result is chiefly driven by changes to sales by signatories to the Central Bank Gold Agreement - gross purchases outside this group are thought likely to remain modest. Klapwijk added, "we're not expecting any of the major US dollar holders to appear on the buy-side in a major way any time soon. But any whiff they were about to would no doubt be interpreted as strongly bullish".

The only major supply response that GFMS expect is for scrap, though even with the consultancy's forecast 15% rise, first half 2008 volumes would remain well under the first half

© Johnson Matthey & Brandenberger AG, Glattalstrasse 18, Postfach 485, 8052 Zürich, Switzerland.
Tel: +41 44 307 19 19; Fax: +41 44 307 19 20

2006 record, illustrating just how much near-market supply has already appeared and how high price expectations have already risen.

Supply Highlights

- Mine production in 2007 fell by just over 1%, partly through delays to development and expansion projects. Losses centred on South Africa, Peru and the United States, while gains focused on Indonesia and, in particular, China whose increase knocked South Africa off the top spot to become the world's largest producer. Output in the first half of 2008 is forecast to grow by just over 2%.
- Global cash costs rose a dramatic 24% year-on-year for January-September and hit a record level just over $400/oz in the third quarter. The rise was driven by such factors as US dollar weakness, higher royalty payments and mine development work.
- Net official sector sales in 2007 rose by a third to 488 tonnes. The rise was driven by sales from signatories to the Central Bank Gold Agreement (CBGA) returning to 'normal' levels after the low levels seen in 2006. Those outside the CBGA saw modest net purchases in 2007. First half 2008 sales are forecast to contract slightly to just over 200 tonnes.
- Old scrap supply contracted by almost a fifth to just under 900 tonnes, chiefly as much of the loosely held supplies in price sensitive countries had been shaken out in 2006 and there was little repeat of the heavy trade inventory clear-out seen in the western world the year prior. Scrap in the first half of 2008 is projected to increase by around 15% to safely over 500 tonnes.

Demand Highlights

- Jewellery fabrication in 2007 grew by 5% though, in terms excluding scrap, it rose 11%. This occurred despite the gold rally, as gains in the more stable first half outweighed second half losses when yet higher prices and volatility took their toll, with these swings largely driven by India. Elsewhere, China and Turkey saw strong growth, Italy near stability but US consumption fell heavily. Price damage in first half 2008 is forecast to slash demand by around a fifth to almost 1,000 tonnes.
- Other fabrication in 2007 rose by 2%, thanks to gains for medals and electronics, whereas in first half 2008 it is expected to see a decline of over 10%. Producer de-hedging in 2007 rose by a provisional 14% to within a whisker of the 2004 record of 422 tonnes, with the bulk of activity taking place in the first half. Initial expectations for levels in the first half of 2008 are a fall to just under 100 tonnes.
- For the full year 2007, implied net investment stood at a perhaps surprisingly restrained level of only just over 100 tonnes. However, this masks a major swing from disinvestment of around 200 tonnes in the first half to investment of around 300 tonnes in the second as a result of such factors as a weak dollar, energy price gains and the US sub-prime crisis. In first half 2008, implied investment is forecast to grow yet further to well over 400 tonnes. Bar hoarding rose by a modest 3% last year, despite major price-led second half losses, while official coin fabrication fell by 3%. World Investment (the sum of bar hoarding, coin demand and the implied figure) totalled 465 tonnes last year, which represented a drop of just over 40%.

2.2 Technical Comments

Long Term Technical Comments

Gold made a new all-time price high in USD/oz in January.

Daily/Weekly Technical Comments

London afternoon fix in USD/oz:

Open	High	Low	Close
2nd January	29th January	2nd January	31st January
846.8	924.5	846.8	923.3

London afternoon fix in €/oz:

Open	High	Low	Close
2nd January	29th January	2nd January	31st January
576.5	626.0	576.5	621.9

© Johnson Matthey & Brandenberger AG, Glattalstrasse 18, Postfach 485, 8052 Zürich, Switzerland.
Tel: +41 44 307 19 19; Fax: +41 44 307 19 20

The breakout of price consolidation at the end of December yielded significantly higher gold prices in January. At the time of writing, although gold was overbought on the daily, weekly and monthly charts, the trend remained up and a price correction/consolidation was not in sight.

© Johnson Matthey & Brandenberger AG, Glattalstrasse 18, Postfach 485, 8052 Zürich, Switzerland.
Tel: +41 44 307 19 19; Fax: +41 44 307 19 20

3. Silver

3.1 News and Fundamental Considerations

3.2 Technical Comments

Long Term Technical Comments

No change in the long-term price trend for silver.

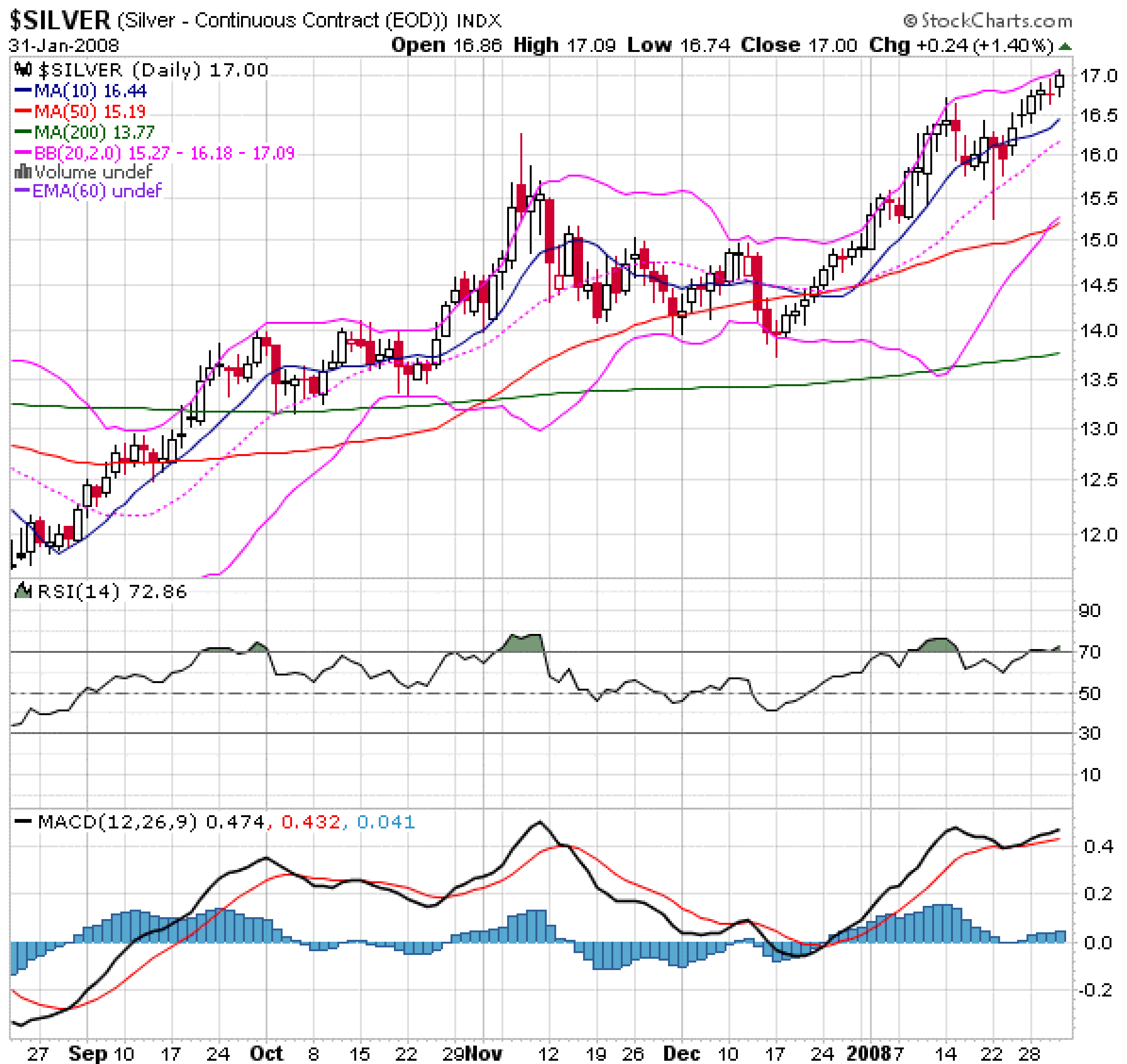
Daily/Weekly Technical Comments

London fix in USD/oz:

Open	High	Low	Close
2nd January	30th January	2nd January	31st January
14.93	16.76	14.93	16.74

London fix in €/oz:

Open	High	Low	Close
2nd January	29th January	2nd January	31st January
10.16	11.33	10.16	11.26



In January silver broke out of a price consolidation pattern, which goes back to spring 2006. This is significant and could indicate a forthcoming move into a significantly higher price range within the next few months

John Fineron, 1st February 2008

© Johnson Matthey & Brandenberger AG, Glattalstrasse 18, Postfach 485, 8052 Zürich, Switzerland.
Tel: +41 44 307 19 19; Fax: +41 44 307 19 20

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

This document is supplied in PDF format. To view, you may need to download the free Adobe Acrobat Reader:

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.

Special Legal Notice/Disclaimer concerning this report

This report represents the views of Johnson Matthey & Brandenberger AG, which may be materially different from those of Johnson Matthey plc and other group companies.

General Legal Notice/Disclaimer

Information and images contained within the web pages published by Johnson Matthey & Brandenberger AG ("JM&B") are copyright and the property of JM&B.

JM&B authorises you to copy documents or pages published by JM&B on this Web site for your non-commercial use only. Copies may be made for others for their personal information only. Any such copy shall retain all copyrights and other proprietary notices, and any disclaimer contained thereon.

None of the content of these pages may be incorporated into, reproduced on, or stored in any other Web site, electronic retrieval system, or in any other publication, whether in hard copy or electronic form. You may not, without our permission, 'mirror' this information on your own server, or modify or re-use text or graphics on this system or another system.

Certain links on this Web site lead to resources located on servers maintained by third parties over whom JM&B has no control. JM&B accepts no responsibility for the information contained on such servers.

The information, text, graphics and links contained in these pages are provided for information purposes only. JM&B does not warrant the accuracy, or completeness of the information, text, links, and other items contained on this server or any other server.

JM&B accepts no responsibility for loss, which may arise from reliance on information contained in this site.

No warranty of any kind, either expressed or implied, is made as to the information contained in these pages, including, but not limited to any implied warranty of merchantability, fitness for a particular purpose or non-infringement of third party intellectual property of or by JM&B products. Some jurisdictions do not allow the exclusion of implied warranties, so the above exclusion may not apply to you.

JM&B may make changes to the information contained in these pages, or to the products described in them, at any time without notice, however JM&B makes no commitment to update the information given in these pages.