JM&B Monthly Gold & Silver Report
May 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

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1. Commentary

Although the initial downtrend lines were broken by gold and silver in May, the price correction continued.

2. Gold

2.1 News and Fundamental Considerations

Selected News Items from the Month

London, 20th May 2008, (World Gold Council) – With financial markets still reeling from the global credit squeeze, and growing inflationary pressures dollar demand for gold reached US $20.9bn in the first quarter of 2008, a 20% increase over the same period in 2007 and more than double the level of four years earlier. However, tonnage demand for gold at 701 tonnes was down 16% on the same period last year and represents the lowest quarterly figure for five years, according to Gold Demand Trends, which is released today by World Gold Council (WGC).

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This fall was caused primarily by the sharp rise and unusually high volatility in the gold price, which briefly touched record levels above $1,000/oz in mid-March. The data, compiled independently for WGC by GFMS Ltd, show that the impact of these factors hit home particularly hard in the “physical buying” markets of gold jewellery and coins and bars. Jewellery demand declined 21% year-on-year to 445.4 tonnes, the lowest quarterly level since the early 1990s. Net retail investment demand dropped by 35% to 72.7 tonnes in Q1. There was a stark contrast in the gold exchange traded fund (ETF) market, however, where a combination of continuing instability in the equities markets, ongoing fears over the dollar and rising inflation, and increased understanding of gold’s investment attributes helped spur demand. Demand for gold ETFs was up 100% on Q1 2007 at 73 tonnes for the quarter - representing $2.2 billion in dollar terms.

Positive news also came from two of the world’s biggest emerging economies with overall demand for gold in China and Russia up 15% and 9% respectively on the same period last year, driven by increasing consumer wealth and ease of access to attractive jewellery and retail investment products. India, the largest market for gold and also the most price-sensitive, continued to suffer from the impact of high and volatile prices. Jewellery and investment demand, at 71 tonnes and 31 tonnes respectively, were both half the levels of Q1 2007. Against a worsening economic background for consumers in the US market, overall demand for gold fell 15% to 48 tonnes.

Industrial and dental demand declined by 5% on year earlier levels to 110.3 tonnes, primarily in response to the deteriorating US economy, and a slowing in demand for consumer electronics. In value terms, demand was equivalent to $3.2bn, a rise of 35%. James Burton, CEO of World Gold Council, said: “The first quarter of 2008 started as the previous year finished with high and volatile prices. This has created tough trading conditions for large parts of the gold market, but I am pleased to see how well gold has fought for, and won, share of consumers’ discretionary spending. “Early indications are that jewellery demand is likely to remain muted during the second quarter, although there has been positive news from the Indian Akshaya Thritiya festival and the Indian and Middle East wedding seasons, which are expected to generate additional purchasing. “Investment demand in the first few weeks of the second quarter has been mixed with retail investors in traditional bars and coins encouraged by the pullback in price, while ETFs have witnessed an outflow. However, I am confident that the general investment environment remains positive.”

The supply of gold was 6% higher in Q1 2008 than a year earlier, primarily driven by increased scrap supply which in turn was a reaction to the rising gold price. Mine output remained constrained, little changed from Q1 2007 levels at 593 tonnes, while net official sector (central banks) sales were 8% higher than in Q1 2007. As usual the main sellers were Central Bank Gold Agreement (CBGA) signatories.

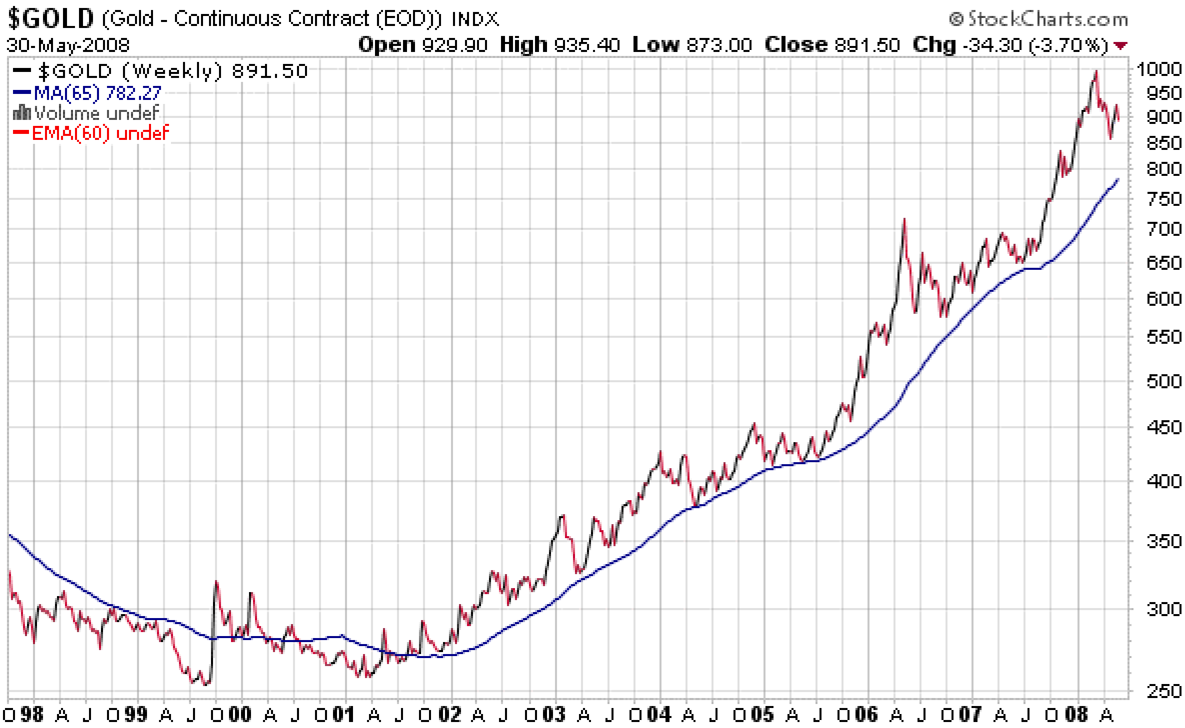
Gold Demand Trends figures are compiled independently for World Gold Council by GFMS Limited. The full Q1 2008 report can be viewed at:

http://www.research.gold.org/gold_demand_trends/

2.2 Technical Comments

Long Term Technical Comments

The correction in gold continued in May:



Daily/Weekly Technical Comments

London afternoon fix in USD/oz:

Open	High	Low	Close
1st May	23rd May	1st May	30th May
853.0	927.5	853.0	885.8

London afternoon fix in €/oz:

Open	High	Low	Close
1st May	23rd May	1st May	30th May
551.8	588.2	551.8	570.6

Gold broke above the strong downtrend line in May and moved into what could be a sideways trading range.

3. Silver

3.1 News and Fundamental Considerations

New York, 7th May 2008, (Silver Institute) – The annual silver price, led by continued strong investor and industrial applications demand, averaged an impressive US$13.38 in 2007. This resulted in a 16 percent price increase over 2006, and on a percentage basis was stronger than that enjoyed by gold, platinum and palladium last year. Simultaneously, industrial demand for silver saw a sixth consecutive year of growth despite the higher silver price, according to World Silver Survey 2008, released here today by the Silver Institute and GFMS Limited, the authors of the report.

Silver Price and Investment

When looking at the 2007 silver price, the white metal posted a very solid performance to averages not seen since 1980. A key development in silver's recent fortune has been the pronounced shift in investor behavior, witnessed by the continued presence of investors on the demand side of the equation since 2004. Much of the surge in investment demand can be attributed to the successful launch of the Barclays Global Investors iShares Silver Trust Exchange Traded Fund (ETF), which was introduced in 2006 and to date holds over 180 million ounces (Moz) of silver. This year investors have driven silver to fresh highs, with the metal's price in March 2008 exceeding the $20 level over several days.

Fabrication Demand

Total global silver fabrication grew 1 percent in 2007 to 843.7 Moz. Most notably, industrial applications, a key constituent of the overall demand complex, posted an impressive 7 percent gain to 455.3 Moz, recording the sixth consecutive year of growth in this category. In fact, in the period since the technology related slump in 2001, industrial applications have added an impressive 120.1 Moz to silver demand. A key factor behind the increase last year was the more than 6 percent rise in the electrical and electronics sector, which broke the 200 Moz mark for the first time. India, China and the United States accounted for 70 percent of the world rise in all industrial uses, while Germany, Italy and France also posted gains. Total industrial demand reached 54 percent of total global silver fabrication demand in 2007.

World Silver Supply and Demand (million ounces)
(Totals may not add due to rounding)

Supply	2006	2007
Mine Production	647.4	670.6
Net Government Sales	78.2	42.3
Old Silver Scrap	188.0	181.6
Producer Hedging	-	-
Implied Net Disinvestment	-	-
Total Supply	913.7	894.5

Demand	2006	2007
Fabrication		
Industrial Applications	424.8	455.3
Photography	144.0	128.3
Jewellery	166.3	163.4
Silverware	61.2	58.8
Coins & Medals	39.8	37.8
Total Fabrication	836.0	843.7
Producer De-hedging	6.8	25.0
Implied Net Investment	70.8	25.8
Total Demand	913.7	894.5

Jewellery fabrication coped well with high and volatile silver prices, slipping by only 2 percent in 2007, the product of weaker offtake in Europe and the Indian Sub-Continent, which offset growth in East Asia, where Chinese jewellery fabrication grew by a noteworthy 13 percent in

2007. Silverware demand fell by a modest 4 percent in 2007 to 58.8 Moz, as losses in India, Europe and Mexico were partially countered by gains for Russia and China.

Photographic demand continued to decrease, falling by 11 percent in 2007 to 128.3 Moz. The bulk of the decline was accounted for by lower consumer demand for colour film, this sector being most affected by further inroads from digital photography.

Mine Supply and Costs, Above-Ground Stocks, Scrap Supply and Government Sales
Global silver mine production rose by 4 percent in 2007, with particularly solid gains from Chile, China and Mexico. Total silver mine production reached 670.6 Moz last year. Peru was the world's biggest silver mining country in 2007, followed in the rankings by Mexico, China, Chile and Australia. Last year, silver generated at primary mines drove global totals higher, increasing by 11 percent to account for 30 percent of all silver mined. Cash costs at primary silver mines rose to a weighted average of US$1.52 per ounce, driven by a combination of labour, consumables and energy cost rises.

The net supply of silver from above-ground stocks dropped by 8 percent in 2007 to 173.1 Moz. The decline was mainly the product of lower net government sales and rising producer de-hedging, although scrap supply was also trimmed. De-hedging reduced the overall producer hedge position by a sizable 30 percent last year, the global book declining by 25.0 Moz. Despite higher silver prices, scrap volumes fell in 2007 by 3 percent, to 181.6 Moz, the result of falling Indian recycling with the rest of the world virtually flat on a net basis.

Net government sales took a steep downturn in 2007, plummeting by 46 percent to 42.3 Moz. The decline was the result of two major sellers in 2006, namely China and India, being essentially absent in 2007. In contrast, Russian government sales, which comprised the bulk of net sales in 2006, rose, partly offsetting the others' declines.

3.2 Technical Comments

Long Term Technical Comments

Silver's price correction also continued in May:

Daily/Weekly Technical Comments

London fix in USD/oz:

Open	High	Low	Close
1st May	27th May	2nd May	30th May
16.64	18.14	16.19	16.85

London fix in €/oz:

Open	High	Low	Close
1st May	27th May	2nd May	30th May
10.71	11.51	10.47	10.86

As with gold, silver broke above the strong downtrend line in May and moved into what also could be a sideways trading range.

John Fineron, 1st June 2008

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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