

# JM&B Monthly Gold & Silver Report

## July 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](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

Both gold and silver broke out of price consolidation in July, only to fall back into their trading bands by the end of the month.

## 2. Gold

### 2.1 News and Fundamental Considerations

#### Selected News Items from the Month

**Frankfurt, 1st July 2008, (Thomson Financial)** – The European Central Bank (ECB) said it has completed gold sales amounting to 30 tonnes of gold, which increases its gold sales during the fourth year of the central banks' gold agreement that ends September 26, 2008, to 72 tons.

The ECB said it does not intend to sell more gold during the current year of the agreement.

The 2004 central banks' gold sales agreement was signed by the ECB, the 12 national central banks of the euro zone and the central banks of Switzerland and Sweden, who agreed to limit their combined gold sales to a maximum of 500 tons per year over a five-year period.

**London, 16th July 2008, (ETF Securities Ltd)** – Credit crisis results in record shattering day for Exchange Traded Commodities:

Safe haven buying results in Gold ETC inflows of \$265m

Total net inflows of \$355 million experienced across all ETCs, including agriculture, industrial metals and precious metals

Credit crisis helps Leveraged ETCs to increase by 400% in 11 weeks

ETFS Leveraged Gold (LBUL) sees \$82m inflows

Two Gold ETCs in top 4 LSE traded ETCs/ETFs, trading \$1.2 billion in June 2008

ETF Securities Limited, the global pioneer of exchange traded commodities (ETCs), saw record inflows in its Exchange Traded Commodities platform yesterday. Inflows were experienced across a variety of commodities and ETCs yesterday with precious metals, agriculture, industrial metals and Leveraged ETCs making the largest contribution to yesterday's record breaking day. Gold was the most popular ETC yesterday but even ETFS Agriculture (AIGA) bucked a recent trend by adding \$50 million. Excluding the recent acquisition of Gold Bullion Securities, ETF Securities' total assets have grown by \$1.7 billion or 30% in the past 11 weeks to \$6.6 billion, with the five physical precious metals contributing more than 50% of inflows, to reach a record \$2.7 billion.

Records for ETC inflows were shattered as investors have continued to seek uncorrelated asset classes to equities. As equities continue to show volatility due to the year long credit crisis, ETCs continue to outperform. ETCs have persisted to show that their returns are uncorrelated to equity market returns, adding to their appeal as investors shun equities while global equity markets plunge to multi-year lows and credit markets reel on concerns of mounting losses.

Safe haven buying saw ETF Securities' Precious Metals platform experience huge demand, contributing 75% of net inflows yesterday. Approximately \$265 million equivalent of inflows were experienced in gold ETCs alone. Gold ETCs recorded \$225 million of trading on the London Stock Exchange (LSE) on the same day the LSE issued a report showing that gold ETCs took two of the top four spots in terms of trading volumes in June 2008 on the LSE's ETC/ETF trading platform. Gold ETCs traded \$1.3 billion while the two physically-backed gold ETCs captured most of this volume, trading \$1.2 billion.

ETFS Short Crude Oil (SOIL), the second most traded ETC/ETF in London in June 2008 continues to break records, trading \$800 million. ETFS Short Crude Oil (SOIL) is again set to break consecutive monthly trading records in July as it has already traded \$750 million in the past 12 trading sessions on the LSE.

Leveraged ETCs are also proving popular as the credit crisis increases the cost of credit while also making credit harder to obtain. ETFS Leveraged Gold (LBUL) saw inflows of \$82 million yesterday. The daily return on Leveraged ETCs is 2x the daily % change in the underlying commodity index (excluding fees), meaning yesterdays inflows into ETFS Leveraged Gold (LBUL) was equivalent of \$164 million, making this one of the largest trades ever for an ETC. As a result of reduced liquidity in capital markets due to the credit crisis, Leveraged ETCs have been the fastest growing type of ETC over the past 11 weeks. Leveraged ETCs have grown by 400%, adding approximately \$220 million to \$270 million total assets.

ETF Securities now offers more than 120 ETCs which give investors greater choice to implement different investment strategies with the choice of physical, long, forward, leveraged and short exposure to a wide range of commodity sectors. ETCs are simple to access as they are traded in three currencies (Euros, USD and Sterling) and listed on five major European Exchanges including the London Stock Exchange, Euronext Paris, Euronext Amsterdam, Deutsche Borse and Borsa Italiana. Each Exchange has created unique ETC trading segments resulting in trading volumes exploding to \$1.2 billion last week.

Commenting on the yesterday's trading, Nik Bienkowski, Chief Operating Officer, said:

"We are not surprised with yesterday's news that commodities and more specifically gold ETCs continue to shatter records for trading volumes and inflows. ETCs have been designed to be accessible, efficient, liquid and low-cost products for investors. Our platform approach to ETCs across Europe's major Exchanges allows any investor at any time to trade commodities in the same way they can buy any equity.

"Commodities have been shown to have low correlation to equities. They have also outperformed other asset classes when equity markets have been stressed. As a result, independent studies show that commodities can benefit a diversified portfolio even in the best of times. However there is no doubt that ETCs have benefited from the current financial situation affecting global equity markets. "The demand for Leveraged ETCs also shows that the current credit crisis is making capital more expensive. Leveraged ETCs provide investors double the daily exposure for less than 1% management fee. Comparing this to deposit rates of over 7% in some cases, Leveraged ETCs are a cost effective way to gain exposure to commodities. As a result, we experienced inflows of \$82 million into our ETFS Leveraged Gold (LBUL) ETC yesterday."

## 2.2 Technical Comments

### Long Term Technical Comments

The correction in gold continued in July, albeit at a higher level than the previous few months:



### Daily/Weekly Technical Comments

London afternoon fix in USD/oz:

Open	High	Low	Close
1 <sup>st</sup> July	15 <sup>th</sup> July	30 <sup>th</sup> July	31 <sup>st</sup> July
937.5	986.0	897.5	918.0

London afternoon fix in €/oz:

Open	High	Low	Close
1 <sup>st</sup> July	15 <sup>th</sup> July	30 <sup>th</sup> July	31 <sup>st</sup> July
595.6	616.3	577.3	586.9



The first attack of overhead resistance failed in July, but we would not be surprised to see another attack after a possible test of the 200 DMA around 890 USD/oz.

### 3. Silver

#### 3.1 News and Fundamental Considerations

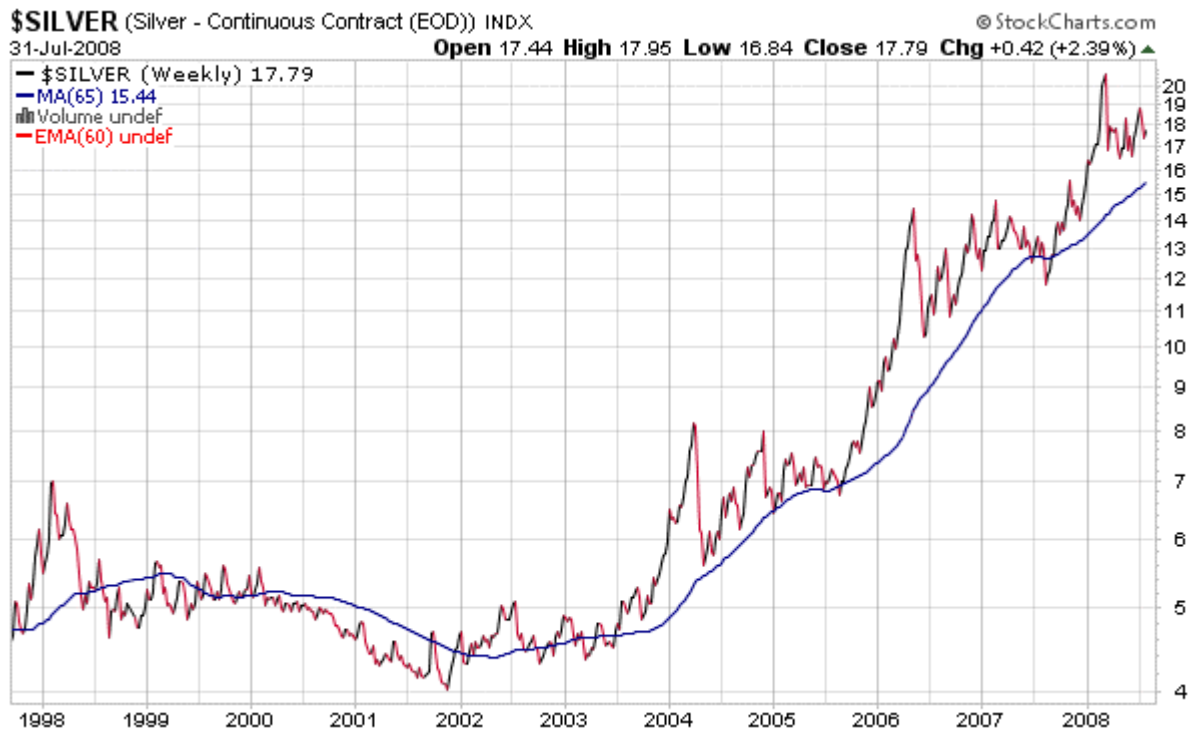
Second quarter 2008 News from the Silver Institute:

No silver news this month.

## 3.2 Technical Comments

### Long Term Technical Comments

Same comment as for gold:



### Daily/Weekly Technical Comments

London fix in USD/oz:

Open	High	Low	Close
1 <sup>st</sup> July	15 <sup>th</sup> July	30 <sup>th</sup> July	31 <sup>st</sup> July
17.56	19.30	17.12	17.48

London fix in €/oz:

Open	High	Low	Close
1 <sup>st</sup> July	15 <sup>th</sup> July	30 <sup>th</sup> July	31 <sup>st</sup> July
11.10	12.06	10.98	11.20



For silver, the same technical picture as gold.

John Fineron, 1<sup>st</sup> August 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](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.