JM&B Monthly Gold & Silver Report
August 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

August proved to be a dramatic month for the precious metals markets. Buyers had the opportunity to purchase gold and silver at the lowest prices of the year (so far?). Sellers were obviously less enthralled by the prices received. The question was asked, if the bull-market was over? We doubt it, however technical signs were mixed.

2. Gold

2.1 News and Fundamental Considerations

Selected News Items from the Month

London, 10th August 2008, (GFMS) – Société Générale Gold Hedge Book Analysis Q2-2008

Key Points
Producer de-hedging remained a strong demand component in the second quarter, generating 4.06 Moz (126 t) of demand.
The global producer hedge book at end-Q2 stood at 18.81 Moz (585 t) in delta-adjusted terms.

Producers' average realised prices fell markedly compared to the change in the period average spot price, falling to $742/oz.
Accompanying the additional cuts made to hedge positions, the marked-to-market value of the global book at end quarter stood at negative $9.8 billion. The end-quarter gold price remained relatively static, falling by only $3/oz.
The second quarter saw a reversal in the trend of hedge book sensitivity: A significant retracement in the gold price would now increase the implied delta of the net options position, the opposite relationship to that of recent years

Summary and Overview
Another strong quarter of de-hedging was seen in Q2, as 4.06 Moz (126 t) was removed from the global book, leaving it standing at just 18.81 Moz (585 t) at end-June. This represents what GFMS estimate to be the lowest level since 1987, the year before the gold loans market gained prominence.

Activity in Q2 held relatively few surprises compared to the first quarter. In Q2 much of the activity which transpired had already been flagged to the market, the most prominent being AngloGold Ashanti's reported hedge book reduction of 2.71 Moz (84 t) in delta-adjusted terms. Consequently, de-hedging levels in the second quarter were broadly in line with expectations.

For another consecutive quarter fresh hedging remained limited. Boliden entered into forward sales contracts for 2010, while Wega Mining finalised its project hedging for the Inata property late in the quarter. Gross hedging levels did not however, prove significant, and there is no evidence of a change in producer attitudes towards hedging, given that the hedges emplaced in Q2 were either a result of standing company policy to hedge price risk across all metals (Boliden) or as a condition of project financing (for example Focus Minerals and Wega Mining).
Producers' realised prices contracted quarter-on-quarter, despite the cuts made to the book, largely due to a large bullion purchase by AngloGold Ashanti to effect their hedge closure, which artificially depressed the global average.

Realised prices in Q2 were $158/oz lower than those seen in Q1, a vast drop considering the fall in the period average price of only $29/oz. The marked-to-market value of the global book fell to a negative $9.8 billion, as the end-quarter gold price stagnated and the book was reduced strongly.

New Delhi / Mumbai, 19th August 2008, (Reuters) – Indian jewellers are paying gold importers more than double last month's premiums as they scramble to meet a resurgence in demand stoked by a steep fall in global prices and the approach of the Diwali festive season.

The rise in premiums suggests a jump in imports by the world's top buyer, where stocks had fallen earlier this year after dealers, bankers and jewellers slashed purchases on signs that record-high prices had crimped demand.

Premiums paid to importers have more than doubled to about $1.80 per kilogram from 80-85 cents last month, dealers said.

India imported about 30 tonnes in July, a drop of nearly 56 percent from a year earlier, and imported 24 tonnes in June, data from the Bombay Bullion Association showed. The World Gold Council said India's total gold demand fell 47 percent on the year in Jan-June to 263.5 tonnes.

"Gold imports this month will be close to 50 tonnes," said Harish Galipelli, head of research at brokerage Karvy Comtrade.

But Daman Prakash, a Chennai-based bullion dealer and member of the Tamil Nadu Bullion Forum, was more bullish. He reckons imports could surpass last August's 79 tonnes, the highest for 2007.

International gold prices tumbled by more than a fifth last week to below $800 an ounce, after hitting a four-month high of $987.75 in mid-July and a record $1,030 in March.

Local demand for the precious metal picked up after domestic prices fell below 13,000 rupees ($300) per 10 grams from a record above 13,800 rupees in mid-July. Spot gold was trading at 11,228 rupees per 10 grams on Tuesday, according to Punjab National Bank.

Analysts said wholesale dealers were unlikely to drop their prices significantly as the festival season got under way, but the high premiums were not deterring buyers.

Ranjeet Kumar Chaubey, deputy manager and dealer at state-run Punjab National Bank (PNBK.BO: Quote, Profile, Research), said the bank had three to four clients with no stock waiting for gold at different locations.

"My clients are ready to pay any premium," Chaubey said.

The premium in the southern city of Chennai has almost quadrupled to 40 rupees per gram from 10 to 12 rupees normally.

"Some jewellers are even willing to pay a premium of up to $2 a kilogram," said a bullion dealer at a leading Indian bank who did not want to be identified. "But we don't have the stocks."

The delivery time for gold jewellery has gone up to a week in many regional markets from just one day last month, and analysts and dealers expect supply to remain tight this week at least and beyond if world prices fall further.

Prakash in Chennai said due to falling demand earlier in the year, refiners had geared down production and were not able to ramp it up rapidly.

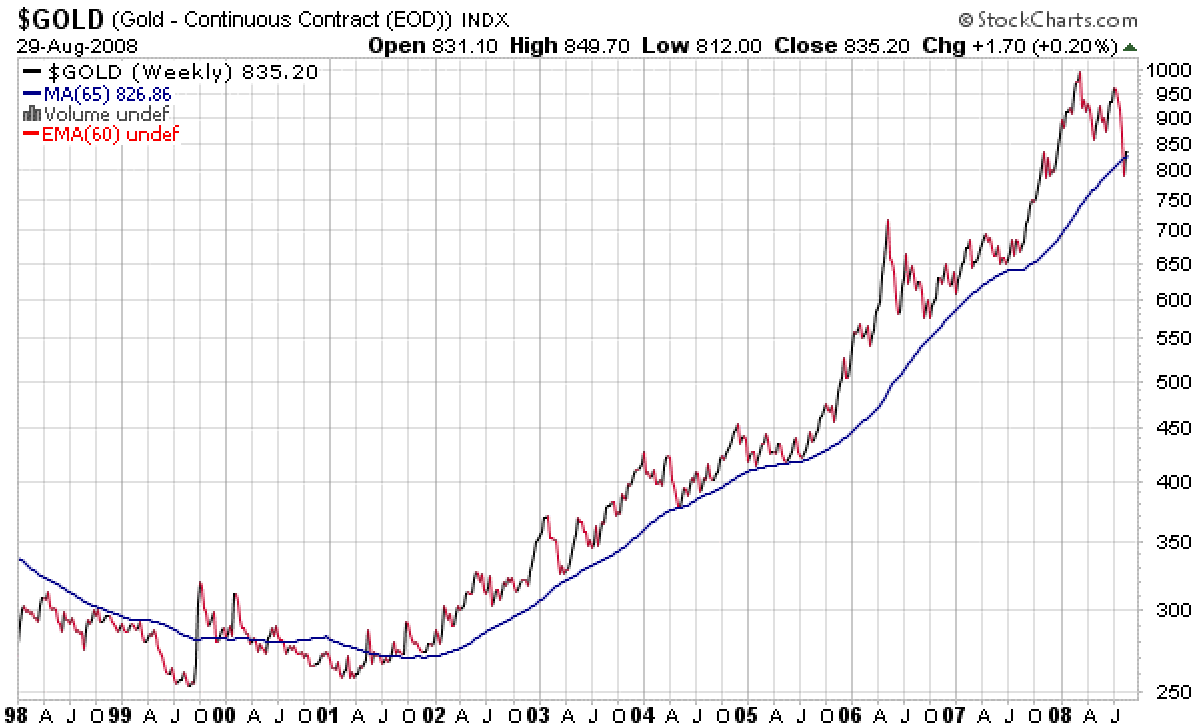
"Banks are not in a position to source materials from refiners immediately, which entails a delay of five to six days," he said.

Krishna Kumar Nathani, managing director of consultancy Indiabullion.com, agreed: "There is no ready delivery of gold available, for love or money." ($1=43.5 rupees) (Editing by Charlotte Cooper and Ben Tan)

2.2 Technical Comments

Long Term Technical Comments

The 65 WMA has supported price corrections in gold since 2002. Normally three closes above or below a trend line signal a trend change. Gold only had one close below this important support; therefore technical analysis suggests the bull market in gold is still intact:



Daily/Weekly Technical Comments

London afternoon fix in USD/oz:

Open	High	Low	Close
1st August	1st August	15th August	29th August
912.5	912.5	786.5	833.0

London afternoon fix in €/oz:

Open	High	Low	Close
1st August	1st August	19th August	29th August
586.0	586.0	537.5	566.4

Gold became oversold by mid-August and is now bouncing off support. We would not be surprised to see significant resistance at the 900 USD/oz level, should this move continue.

3. Silver

3.1 News and Fundamental Considerations

Washington D.C., 30th July 2008, (Silver Institute) – Yesterday, the iShares Silver Trust exchange-traded fund (ETF) achieved a major milestone, as over 200 million ounces of physical silver are currently held by the trust. Launched in April of 2006, this investment vehicle--trading on the American Stock Exchange under the symbol "SLV"--has proven in just over two years to be one the most successful commodity ETFs on the market. The ETF is managed by Barclays Global Investors (BGI), and the total assets in the trust were $3,514,052,696 as of yesterday.

This exciting investment tool has made investing in silver more convenient because a grantor trust holds the metal on behalf of the investor, thus giving the investor exposure to the market without the necessity of taking physical delivery and thereby having no storage, insurance or assaying costs.

The Silver Institute served as an advisor to BGI during the ETF registration process and continues to provide BGI materials relevant to the global silver market. Michael DiRienzo, Executive Director of the Silver Institute, stated, "Silver's strong price performance over the past three and one-half years has brought renewed investor interest to the white metal, and this is certainly reflected in the success of the iShares Silver Trust product."

3.2 Technical Comments

Long Term Technical Comments

Silver fell below support and put in a new low for the year. Technically, this is bad news for the silver bulls. Is the bull-market over? We think it is too early to say and will reserve judgement for several months. After all, the bull-market has been with us for several years, so what is the point of jumping to conclusions?

Daily/Weekly Technical Comments

London fix in USD/oz:

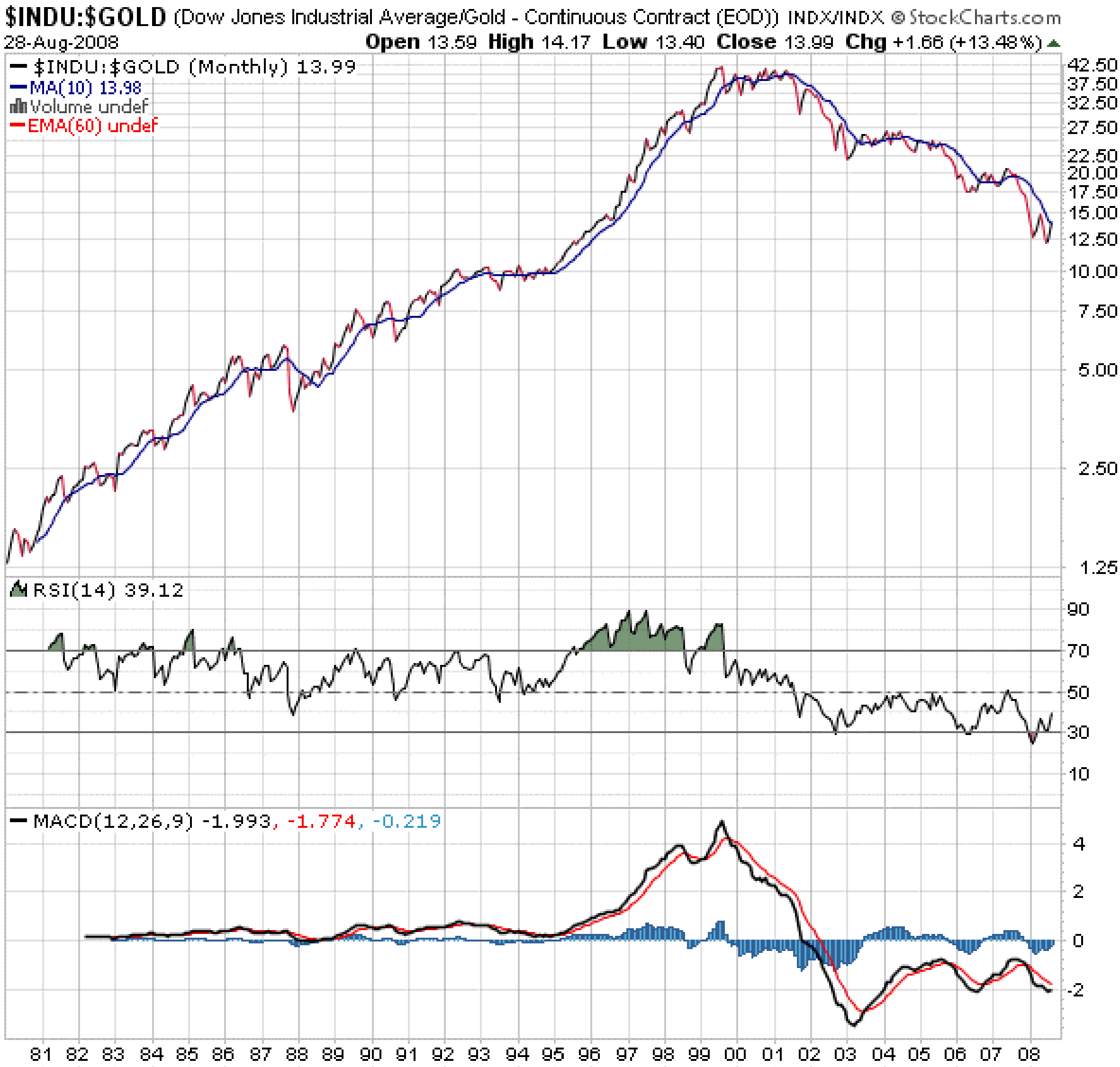
Open	High	Low	Close
1st August	1st August	15th August	29th August
17.59	17.59	12.82	13.76

London fix in €/oz:

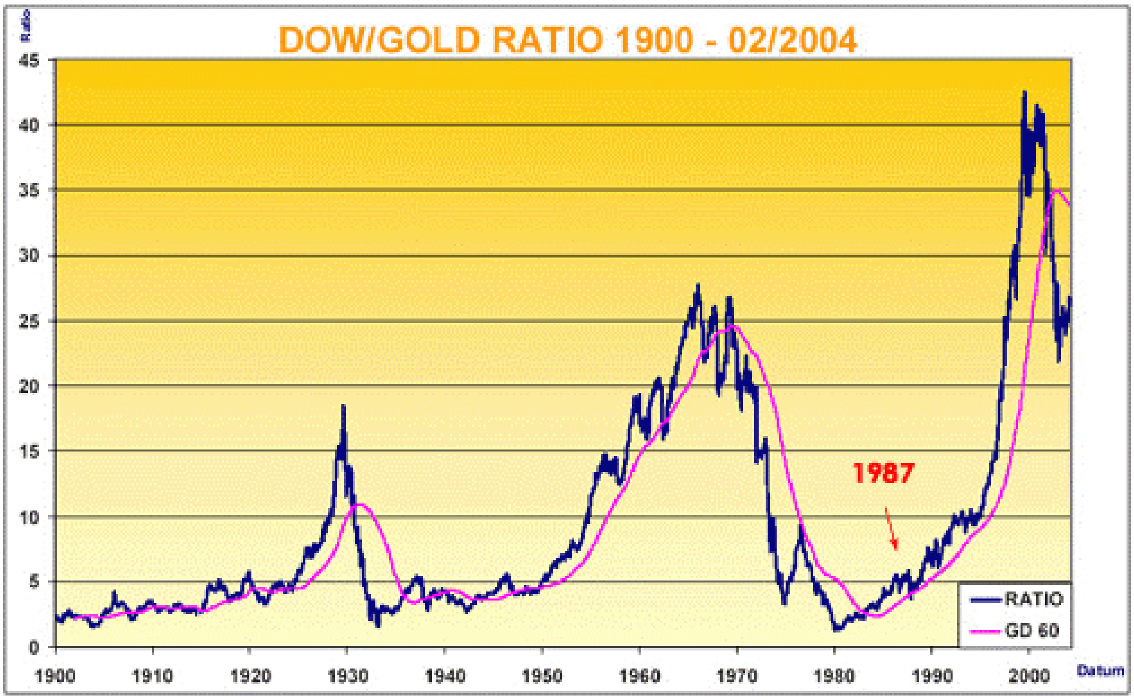
Open	High	Low	Close
1st August	1st August	15th August	29th August
11.30	11.30	8.712	9.346

Silver suffered a waterfall decline in price in August and was only bouncing weakly at the end of the month.

The following graph represents the Dow Jones Industrial Average divided by the price of gold in USD/Oz. During the bull market for stocks, stocks appreciated in value compared to gold. This situation lasted up to the year 2000. After this, gold appreciated in price relative to stocks.



During the last 100 years a similar situation occurred twice. Each time the down-cycle reversed upwards at a value of around 2. Today this ratio is at 14, indicating, on the basis of the last two cycles that the current down-cycle is probably not complete.



John Fineron, 1st September 2008

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Appendix: More about this report

Purpose of the Report
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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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