JM&B Monthly Gold & Silver Report
September 2008

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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

Both gold and silver dived again in price in September. By the end of the month gold had staged a strong recovery.

2. Gold

2.1 News and Fundamental Considerations

Selected News Items from the Month

Mumbai, 2nd September 2008, (Reuters) – Indian gold prices fell sharply on Tuesday tracking weakness in crude oil and overseas markets, attracting more buyers ahead of peak festival season, dealers said.

"There is huge demand among retail customers ahead of Diwali and Dussera, but we are still facing some supply problem," said Ashok Gupta of Delhi-based Ganpati Traders.

The October contract on MCX fell more than 100 rupees per 10 grams, while in the spot market it lost more than 250 rupees.

Oil plunged almost $3 a barrel on Tuesday, to its lowest since mid-April, extending the previous day's rout on initial signs that a weakened Hurricane Gustav spared major Gulf oil facilities.

Gold generally moves in tandem with crude oil as the latter signals inflation, while the metal negates it.

India's gold imports in August jumped 45 percent from a year ago, the first annual rise this year, as lower prices and upcoming festivals drove demand in the world's leading consumer, a trade body chief said on Tuesday.

Demand was good in early August, but people went slow when prices moved near 12,000 rupees at the end of last month, said a dealer with a large private bank.

However, it has again revived in the last two days due to a recent fall in prices, he said.

London, 17th September 2008, (Bloomberg) – Gold surged the most in nine years as investors sought the safety of precious metals on concern that the credit crisis will deepen, leading more financial institutions to fail. Silver soared the most since 1979.

Equities tumbled after the Federal Reserve took over the biggest U.S. insurer. The cost of borrowing dollars for three months jumped the most since 1999 as banks hoarded cash. Central banks in the Phillipines and Venezuela said they may buy gold. In March, the metal reached a record as the government steered JPMorgan Chase & Co. to buy Bear Stearns Cos.

``People are worried about money being safe in a bank,'' said Ron Goodis, the futures trading director at Equidex Brokerage Inc. in Closter, New Jersey. ``With paper assets in question, gold represents the textbook storehouse of value.''

Gold futures for December delivery gained $70, or 9 percent, to $850.50 an ounce on the Comex division of the New York Mercantile Exchange. The dollar increase was a record for a most-active contract, and the percentage gain was the biggest since Sept. 28, 1999. The metal reached the all-time high $1,033.90 on March 17.

Silver futures for December delivery rose $1.158, or 11 percent, to $11.675 an ounce, the biggest gain since Dec. 31, 1979.

Gold is up 1.5 percent this year, while silver still is down 22 percent.

Gold for immediate delivery surged $84.67, or 11 percent, to $864.42 at 4:42 p.m. New York time. Spot silver was up 15 percent to $12.

The dollar fell 1.2 percent against a weighted basket of the euro, yen and four other major currencies.

Financial `Catastrophe'

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``When you're perhaps facing a catastrophe in the U.S. financial market, investors are thinking: `Screw it. I'm jumping back into the old faithful,''' said Joel Crane, a metals strategist at Deutsche Bank AG in New York. ``Gold's relative value is cheap compared with the dollar.''

About $2.8 trillion of market value was erased from global stocks this week as Lehman Brothers Holdings Inc. filed for bankruptcy, Bank of America Corp. purchased Merrill Lynch & Co. for $50 billion, and the U.S. government took control of American International Group Inc. in an $85 billion takeover to prevent the biggest financial collapse ever.

Russia halted stock trading for a second day and poured $44 billion into its three biggest banks in a bid to halt the worst financial crisis in a decade.

``You're sorting out, by process of elimination, that gold is the asset you'd rather own,'' said Greg Orrell, who manages the OCM Mutual Fund at Orrell Capital Management Inc. in Livermore, California. ``It's the currency you'd prefer.''

Rates Plunge

U.S. Treasury three-month bill rates dropped to the lowest since at least 1954. Investors pushed the rate as low as 0.0304 percent.

``It's not even worth it to keep money in the bank,'' said John Licata, the chief investment strategist at Blue Phoenix Inc. in New York. ``Gold is going to be the beneficiary of a global move toward a safe haven.''

Reserve Primary Fund, the oldest U.S. money-market fund, yesterday became the first in 14 years to expose investors to losses after writing off $785 million of debt issued by Lehman.

``That's systemically scary,'' said Frank McGhee, the head dealer of Integrated Brokerage Services LLC in Chicago. ``Unless you put gold in your backyard, you have to trust your money to an institution.''

Gold's gains accelerated after prices topped $800, analysts said.

``There are going to be more banks that will fail,'' said Matt Zeman, a metals trader at LaSalle Futures Group Inc. in Chicago. ``This is the time when people want to buy gold.''

London-based researcher GFMS Ltd. said gold may rise to $950 by the end of the year as central banks and mining companies hold back sales and investors buy the metal as a haven against falling equities.

Mortgage Meltdown

Since the second quarter of 2007, banks worldwide have posted $517.7 billion in losses and write-downs related to investments in sub-prime mortgages. The Fed has also engineered $200 billion in takeovers for Fannie Mae and Freddie Mac, the biggest providers of financing for U.S. homes.

The world's central banks, already the biggest holders of gold, may look to the metal as an alternative reserve asset to the dollar, said Dennis Gartman, an economist and the editor of the

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Gartman Letter in Suffolk, Virginia. Until today, Gartman had been bearish in his outlook for gold.

Venezuela said today it may buy 15 metric tons of gold a year to develop investment products, including coins. At a conference in London, Maria Ramona Gertrudes Santiago, the managing director of the treasury at the Phillipines Central Bank, called gold a ``perfect hedge.''

Sales of gold by European central banks may total 365 metric tons in the year through Sept. 26, below the cap of 500 tons, the World Gold Council said yesterday. That would mark the lowest amount since the banks agreed to sell the metal in 1999.

London, 17th September 2008, (GFMS) – GFMS released Gold Survey 2008 - Update 1 today, their latest report on the gold market. Philip Klapwijk, Executive Chairman of GFMS, gave a summary of the findings of the report at a seminar in London organised by the precious metals consultancy. The fact that strength should return for the gold price after its hefty sell off since July was a key theme to the presentation. For example, GFMS believe that the recent dollar recovery is an ill-founded temporary phenomenon. They cite such factors as rising US unemployment, possible slips in confidence in the US government's creditworthiness and the realisation that there may well be little, if any, narrowing this year of the US-Eurozone interest rate spread as drivers that could readily undermine the dollar. Klapwijk also commented, "I'd be far from surprised if we see a further bank failure or two in the next few months. Add that to an unwinding of dollar gains and you should see gold back over $900, and maybe $950". However, the consultancy feels it has become unlikely that the record high, mid-March's $1,011.25, is going to be broken this year. Klapwijk added, "there was an element of 'the perfect storm' to the first quarter. Not only did we see the slashing of US interest rates but there was also the surge in oil prices, falling equity markets and massive write-offs by the banks - not forgetting Bear Stearns' collapse either. And it's difficult to see all that coming together in quite the same way in the next few months".

The developments mentioned above form the backbone of GFMS' explanation of why the price posted such strong investor led gains earlier this year. Other factors considered important to the pick up in investor interest included the general rise in commodity prices, the broadening of the investor base, inflation concerns and the perception of a likely loosening of many countries' monetary policies. In turn, the periodic liquidations seen after the March high, the consultancy feels were attributable, not just to the end to dollar weakness and its subsequent recovery, but also to a need to remove some 'froth' from an overbought market, the retreat in the oil price and signs that the US economy might not be the first or most likely to suffer from a full blown recession.

While investor activity might be the prime determinant of price behaviour, the report also highlights how the fundamentals shaped the market so far this year and how they could do so moving forward. The heavy fall in central bank selling in the first half, for example, was seen as another supportive factor and one helping explain why the price did not continue falling after the initial bout of investor selling. Klapwijk added, "we're expecting central bank selling to fall yet further in the second half. That should not only provide direct support but also reassure longer-term investors. Don't forget, it's largely just the short term players that have bailed out to-date".
Supply in general was deemed supportive. Scrap, for example, whilst growing, failed to get close to the record set in the first half of 2006 as a result of some people holding off from selling as they expected prices to trend higher and with much of the loosely held stocks having already

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emerged on to the market. The latter also helps explain why the consultancy feel that one would have to see prices sustained at over $950, if not $1,000, for a noticeable pick up in scrap to occur. As for mine production, this was reported to have fallen in the f rst half, somewhat unexpectedly, as a result of such developments as power shortages in South Africa, lower grades in Australia and unscheduled shutdowns in the United States.

Producer activity was also thought important on the demand side as de-hedging remained at elevated levels, higher than envisaged at the start of the year, despite the massive cut over earlier years in the producer hedge book. Nonetheless, the report does caution that, moving forward, the market could "sorely miss" the support from de-hedging, as it is forecast far lower in the second half of the year. The last main area of demand, jewellery fabrication, was reported as having fallen heavily in the first half, chiefly in response to high and volatile prices. However, the third quarter was said to have seen a rebound, with Klapwijk adding, "as soon as prices got down to around the $800 level, offtake in price sensitive countries like India and Turkey came back very strongly. And that helps explain why we've had a few days of the gold price going sideways even when the dollar was still climbing. Of course, it's difficult to be that optimistic for jewellery looking ahead given a possible price rally at the time of a global economic slowdown".

Supply Highlights

- Mine production fell by over 70 tonnes year-on-year in the fi rst half. Much was attributable to output more than halving in Indonesia, although many of the majors, such as South Africa, Australia, the United States and Canada, also posted heavy losses. In contrast, growth for world number one, China, continued, if more slowly than recently, and new projects raised output in Russia.

- Producer cash costs rose 20% in the first half, as a result of such factors as higher labour charges and energy costs.

- First half net official sector sales fell by just over a quarter. This was chiefly due to lower sales by countries in the Central Bank Gold Agreement - mainly higher Swiss releases not offsetting the disappearance of Spain as a seller. Net sales by banks outside the Agreement reached just seven tonnes. Central bank lending again fell due to low leasing rates and counterparty risk concerns.

- Higher gold prices fed through to a surge in scrap in the first half of 25%. The largest gain was in the Middle East, while sizeable increases were also seen in East Asia and India. The world total, however, was still down on the record set in the first half of 2006.

Demand Highlights

- Jewellery demand in the first half slumped by almost a quarter (and in terms excluding scrap by more than a third). The key driver was the price, both its record highs and volatility, as suggested by the fact that India accounted for over 60% of the gross decline. Most other regions also saw hefty losses, with price again the chief driver although worsening economic prospects were also important. This was particularly significant for the slump in US jewellery consumption, a change which also hit fabrication in Italy and the East Asian exporters. China's robust economy meant it bucked the trend and saw demand growth, as did Russia and Egypt. The 12% drop for other fabrication in the first half was mainly due to the slump

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for medals & imitation coins, although allits remaining components (electronics, official coins, dentistry and decorative) also fell.

- There was a marked swing to a fi rst half implied net investment figure of over 200 tonnes from implied disinvestment of nearly 180 tonnes last year, despite the dramatic liquidation that occurred in the second half of March. In contrast, bar hoarding fell by around 10%, chiefly as price damage in India and intensified Japanese dishoarding outweighed gains in Vietnam and China. Nonetheless, World Investment (the sum of the implied figure, coin demand and bar hoarding) in the first half was up nine-fold year-on-year, thanks to the hefty swing for implied investment.

- Net producer de-hedging in the first half remained strong, and far higher than expected, at over 250 tonnes. Most activity was down to the two companies with the largest hedge books, AngloGold Ashanti and Barrick Gold. The first half saw a surprisingly low level of fresh hedging given the highly advantageous prices as investors/producers retained a staunch anti-hedging sentiment.

2.2 Technical Comments

Long Term Technical Comments

We still have not seen three consecutive closes below the 65 WMA; therefore technical analysis suggests the bull market in gold is still intact:

Daily/Weekly Technical Comments

London afternoon fix in USD/oz:

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Open	High	Low	Close
1st September	29th September	11th September	30th September
822.2	905.0	740.8	884.5

London afternoon fix in €/oz:

Open	High	Low	Close
1st September	29th September	12th September	30th September
562.8	627.8	531.5	624.0

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Gold dived again in price in September, recovering to the 900 USD/oz resistance level by the end of the month.

3. Silver

3.1 News and Fundamental Considerations

3.2 Technical Comments

Long Term Technical Comments

Silver staged a modest recovery from it's two-year low in September:

Daily/Weekly Technical Comments

London fix in USD/oz:

Open	High	Low	Close
1st September	1st September	11th September	30th September
13.58	13.58	10.66	12.96

London fix in €/oz:

Open	High	Low	Close
1st September	1st September	15th September	30th September
9.292	9.292	7.639	9.044

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Like gold, silver dived in price in September, only to stage a weak recovery by the end of the month.

John Fineron, 1st October 2008

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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

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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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