

# JM&B Monthly Gold & Silver Report

## October 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)

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## 1. Commentary

Three closes below the 65 WMA indicate that either the bull-market in gold is over, or that a medium term correction has started which could last a long time. The fortunes of silver are tied to gold.

## 2. Gold

### 2.1 News and Fundamental Considerations

#### Selected News Items from the Month

**Kyoto, 29th September 2008, (Reuters)** – Private banks could be the next big buyers in the global gold market, helping drive prices higher as they consider restocking bullion bars that were sold off in calmer times, the top HSBC gold trader said on Monday.

Jeremy Charles, chairman of the London Bullion Market Association and global head of precious metals trade at HSBC Bank, also said he expected central banks around the world to put the brakes on their plans to sell down gold reserves as they see other assets deteriorate, lending further support to prices.

"I think the institutional investors and private banks in particular will all be reconsidering their strategy. My belief is they are likely to want to own some gold again," he told Reuters on the sidelines of the LBMA's annual conference. The current generation of private bankers de-stocked their gold holdings in the 1980s and 1990s to pursue higher-return investments in recent years, but are now seeing the wisdom of the previous generation's gold holdings, he said.

The deepening world financial crisis as the burden of toxic housing debt pushed U.S. and European banks to the brink of collapse has roiled investors globally, causing many to rethink their approaches and potentially putting a new shine on gold.

Charles also said he saw only 10 percent downside potential from the current gold price of around \$875 an ounce, with far greater potential on the upside. He declined to give a price forecast.

"The premiums around the world tell a big story to me," he said. "The recent dip in the gold price has created massive demand from the retail investors."

Premiums to buy physical bullion, normally in the range of a few dollars, surged to more than \$20 an ounce over the last few weeks -- the highest in recent memory -- amid an unprecedented spike in demand to hold gold bars or coins, he said.

The spike was caused by a combination of mounting anxiety tied to the U.S. financial crisis and relatively tame spot gold prices as financial institutions sold holdings to raise cash.

Last week, the U.S Mint said it was temporarily suspending sales of American Buffalo 24-karat gold one-ounce bullion coins because strong demand had depleted its inventory.

In mid-August, a shortage of American Eagle one-ounce gold coins due to "unprecedented" demand had also forced the U.S. Mint to temporarily suspend sales of the popular coins.

In Asia, premiums for gold bars jumped to this year's highs at \$2 an ounce to the spot London prices this month, driven by demand from jewellers and investors as well as tight supplies.

While Western retail money flowed into exchange-traded funds (ETFs), with the biggest of these reaching a record 724.94 tonnes last week, investors in places like India, the Middle East and other countries with a deep affinity to gold rushed to buy.

If private bankers and other financial investors join the spree, prices could quickly retest their mid-March record high of \$1,030.80 an ounce, analysts and traders say.

The ETFs are backed by physical gold, which gives investors exposure to the gold price without needing to take delivery. That adds to demand for the precious metal, which has attracted safe-haven investors during a year of unprecedented turbulence.

Bullion holdings of SPDR Gold Trust, the world's largest gold-backed exchange-traded fund, holds near a record at 724.63 tonnes.

**Dubai, 27th October 2008, (Gulf News)** – Dubai: A massive rush at jewellery shops has led to a shortage of gold at some outlets, prompting some shopkeepers to overcharge customers, Gulf News has learnt.

Jewellers are seeing a huge rush of buyers as gold prices are currently at a two-year low.

Shopkeepers said the rush, a combined result of the Hindu festival of Diwali and lower prices, has resulted in a shortage of gold bars. But they denied any hoarding by outlets.

"There is enough gold available in the market and sales are at their peak over the last couple of days with the market falling drastically," jewellers said across the emirate.

Gulf News received complaints from readers who encountered jewellers charging more than the market price.

A buyer who asked not to be named said: "The price of gold prompted me to visit the Gold Souq in Sharjah. However, most retailers claimed they were sold out. Outlets where gold was available were openly overcharging. They said it was in short supply. The price of 24 carat stood at Dh88.75 but they were openly charging Dh92.50. This is clearly an unfair practice."

Shubash Golati, a buyer, said: "It is a tradition to buy gold during the four-day Indian festival of Diwali. I bought 22 carat jewellery worth Dh5,000. I wanted to buy a 100 gramme gold bar but was told that it is out of stock."

#### Shortage

H.R. Bafna, financial controller from Siroya Jewellers, said a physical shortage of gold is happening worldwide.

He said: "It is matter of physical delivery. It might take a day or two to replenish the stocks. But I am sure that there is no hoarding by jewellers because the market rate has dropped. This has resulted in a tremendous rush of buyers and so the gold bars are out of stock."

In reply to buyers' complaints that gold outlets are cashing in on the limited stocks and buyer rush, Bafna said: "There is a possibility, but I can't confirm this."

A counter salesman at the Joy Alukkas outlet in Bur Dubai said for the last couple of days there have been no fluctuations in gold prices.

He said: "From a customer's point of view this is an excellent time to buy."

He too denied any hoarding taking place. "If the demand for gold is high it is but obvious that some stocks will run out. Some retailers take advantage of this."

**Mumbai, 28th October 2008, (Business Standard)** – Gold sales jumped over 50 per cent on Sunday due to the overwhelming response from buyers on the auspicious occasion of Dhanteras.

Dhanteras, a day in the Hindu calendar which ushers in the festival of lights, celebrated with the purchase of precious metals as a form of good luck.

An estimate said the gold sales in the country on Sunday was 90 tonnes as compared to 60 tonnes on the same festival day last year.

"Although we are yet to collate data of the total sales in the country, the preliminary response indicates healthy sales during Dhanteras," said Ajay Mitra, managing director - Indian sub-continent, World Gold Council (WGC).

Emphasising the boost in sales, Mitra said the HDFC Bank set a record this year while the recently introduced gold sales through India Post surged 9 times to 9 kg from the average daily sale of 1 kg. Mitra estimates that gold imports in the current quarter (October-December) will double to 108 tonnes as against 54 tonnes in the comparable quarter last year.

He attributed the spurt in sales to the financial market meltdown and extensive promotional efforts.

"Gold has offered double digit (11-12 per cent) returns in the current decade when all other asset classes are turning into red," said Ashok Minawala, chairman of All India Gems & Jewellery Trade Federation.

The huge customers' turnout changed the entire perspective towards global economic crisis and for a moment, customers forgot high volatility across all commodities in the recent past, Minawala added.

Prithviraj Kothari, director of Riddhi Siddhi Bullion, however, said the current lower prices was an added advantage to sales on the day.

Buyers were attracted mainly because of range-bound prices of the yellow metal in the last three days, said Bhargav Vaidya, a bullion analyst with B N Vaidya & Associates.

After hitting the high of Rs 14,105 per 10 gm on October 10, gold slumped to Rs 12,030 on Dhanteras.

"Customers' turnout was beyond expectations. The demand of gold coins and biscuits was double than the supply. We managed to supply only half of customers' demand. Orders to deliver the rest have been placed for Tuesday, the day of Diwali," said Vipul Soni of Vipul Jewellers in Virar, a western suburb of Mumbai.

Gold falls by Rs 200 on eve of Diwali

Following selling by stockists sparked by a weakening trend in the global market, gold prices fell by Rs 200 to Rs 12,010 per 10 gm in the national capital on the eve of Diwali festival on Monday.

Standard gold and ornaments lost Rs 200 each at Rs 12,010 and Rs 11,860 per 10 gm, respectively, while sovereign was down by Rs 50 to Rs 10,450 per piece of eight gm. Silver ready fell by Rs 500 to Rs 16,400 a kg and weekly-based delivery by Rs 470 to Rs 16,280 a kg.

## 2.2 Technical Comments

### Long Term Technical Comments

Three closes below the 65 WMA indicate that either the bull-market in gold is over, or that a medium term correction has started which could last a long time.



To give readers an idea what a medium term correction could look like, here are some data from the last bull-market in the seventies:

Jan 1971	37.88	USD/oz
Dec 1974	183.72	USD/oz
Aug 1976	109.78	USD/oz
Jun 1978	183.76	USD/oz
Sep 1980	674.84	USD/oz

If the bull-market is not over, we don't think it will take four years before we see prices above 1000 USD/oz once again.

### Daily/Weekly Technical Comments

London afternoon fix in USD/oz:

Open	High	Low	Close
1 <sup>st</sup> October	8 <sup>th</sup> October	24 <sup>th</sup> October	31 <sup>st</sup> October
880.0	903.5	712.5	730.8

London afternoon fix in €/oz:

Open	High	Low	Close
1 <sup>st</sup> October	10 <sup>th</sup> October	24 <sup>th</sup> October	31 <sup>st</sup> October
628.5	663.4	560.8	574.4



Gold fell almost continuously during October.

### 3. Silver

#### 3.1 News and Fundamental Considerations

#### 3.2 Technical Comments

##### Long Term Technical Comments

As with gold, the technical damage done to the silver price indicates either the end of the bull-market, or that a longer-term correction has commenced:



##### Daily/Weekly Technical Comments

London fix in USD/oz:

Open	High	Low	Close
1 <sup>st</sup> October	1 <sup>st</sup> October	24 <sup>th</sup> October	31 <sup>st</sup> October
12.28	12.28	8.880	928.0

London fix in €/oz:

Open	High	Low	Close
1 <sup>st</sup> October	2 <sup>nd</sup> October	24 <sup>th</sup> October	31 <sup>st</sup> October
867.5	882.2	705.6	728.7



As with gold, silver fell almost continuously in October.

John Fineron, 3<sup>rd</sup> November 2008



## 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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