JM&B Monthly Gold & Silver Report
April 2009

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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April saw jet another month of price consolidation for both gold and silver.

2. Gold

2.1 News and Fundamental Considerations

Selected News Items from the Month

London, 1st April 2009, (Reuters) – Precious metals-backed exchange-traded funds saw huge inflows in the first quarter of the year as investors sought the safety of physically backed products amid volatility in the price of other assets.

Holdings of the world's largest gold-backed ETF, New York's SPDR Gold Trust GLD climbed 44 percent or nearly 350 tonnes, while the biggest silver-backed fund, the iShares Silver Trust SLV saw inflows of 22 percent.

European ETFs also posted sharp gains. In Switzerland, holdings of Zurich Cantonal Bank's gold-backed ETF rose 37.5 percent, while investment bank Julius Baer's assets more than tripled to 1,004,575 ounces.

London-based ETF Securities said holdings of its gold-backed products including Gold Bullion Securities GBSx.L and Physical Gold PHAU.L rose 23 percent quarter-on-quarter.

"What we're seeing from investors is a lot of background interest in gold," said Daniel Wills, senior analyst at ETF Securities. "In the current environment it stands out not only as an inflation hedge but as a U.S. dollar hedge."

"People are looking for hard assets with good structural growth stories," he added.

ETF Securities said it saw the largest inflows in percentage terms into the more industrial precious metals, especially platinum. Holdings of its platinum-backed exchange-traded commodity rose 87 percent on the quarter, it said.

"Platinum has been getting a bit more of a pick-up from some of the more cyclical indicators consolidating a little bit," said Wills.

Analysts say that with the inflation outlook and uncertainty in the financial markets still supportive for gold, investment interest in the metal is likely to remain strong.

"There are continuing difficulties within the financial sector unnerving investors (and) growing fears of inflation generating by quantitative easing," said John Meyer, an analyst at investment bank Fairfax.

"Inflation is a necessary consequence of the financial mess the Western world's banks are in."

London, 6th April 2009, (City Wire) – Gold has outperformed cash ISAs, property and the FTSE since 1999 when hit a low just above $250.

Gold has averaged an annual gain of 15% since the start of 2000 but has accelerated since the collapse of Northern Rock, jumping by 81% amid increasing investor nervousness.

This compares with an annual average gain of 9.1% for Property, 4.75% for Cash ISAs and a 3.09% fall on the FTSE 100 over the same period, said Bullion Vault, which provides an online service for gold bullion investment and ownership.

'We live in a time where almost every asset class is under assault and confidence in the financial markets around the world has suffered. It is certainly not surprising that gold is again front of mind for private investors,' said Adrian Ash, head of research at Bullion Vault.

Investors have sought a store of value as the combination of increased money supply and the implications of governmental fiscal stimulus packages resurrect the spectre of inflation around the world. There is now widespread fear regarding the debasement of currencies beyond the US dollar weakness, and gold has a long and proven history as an efficient currency hedge, Ash added.

Meanwhile, Tom Elliott, global strategist at JP Morgan Asset Management points out the nominal price of gold fell to a low of $252 in 1999 from $850 in 1980.

And while it is well know that gold is attractive at times of inflation, Elliott said gold can provide a good hedge against deflation.

'In a deflationary environment, goods and services become cheaper in local currency terms. Therefore, rather than investing money in assets that are falling in value, in deflationary circumstances gold is often used as a safe haven and store of wealth,' he said.

Credit Suisse strategist Andrew Garthwaite agrees gold can be a good two way bet for investors.

He has been overweight gold for two years and believes it will benefit whichever one of his three scenarios for outcomes of the crisis materialises.

If governments take over private sector liabilities and default, he believes it would be bullish for gold as both central banks and investors would then diversify away from government bonds.

He said if governments fail to do enough and deep deflation is the result it could be bad for gold. However, he points out gold rose almost 70% in nominal terms during the acute deflation of the early 1930s.

London, 7th April 2009, (GFMS) – GFMS launched Gold Survey 2009 today, the 42nd edition of their authoritative and comprehensive annual survey of the world gold market, at events in London, Toronto and Johannesburg. The following details some of the highlights of the Gold Survey from the briefing given at the London launch by Philip Klapwijk, chairman of the independent precious metals research consultancy.

A key feature of the report is the prospect for the gold price in the coming months and this, the consultancy believes could easily re-attain the $1,000 mark and may well push up towards and perhaps even through the $1,100 barrier. As Klapwijk commented, “the price may have pulled back a fair bit from the February highs but that was largely just the market’s reaction to jewellery demand crumbling and scrap booming. It’s far from game over for investors and it will be that crowd which sets the price alight”.

The report singles out the fiscal and monetary policies currently being enacted, especially by the US administration, as the root cause of gold’s potential, through their ability to generate inflationary pressures. GFMS also expect central banks to be reluctant to raise interest rates whilst the prospects for economic growth are shaky and that the solidity of the US dollar has to be called into question, chiefly as a result of doubts over others’ desire or ability to continue financing an explosion in US government debt.
Strength in investment will certainly be needed to overcome weakness in the fundamentals, with Klapwijk adding, “so far this year, we’ve seen times when major fabricating countries like Turkey have been exporting bullion because jewellery demand had collapsed and scrap was so strong. There’s no way that’s sustainable even in the medium term and I’d argue that’s the main reason the rally this year failed in the $980s”.

The consultancy, however, cautioned that it may well not be a straight-line rally as a summer lull or the need for inflationary pressures to build could mean sub-$900 prices in the short term. The Gold Survey details a similar complex path last year as heavy net investment and record prices highs in the first quarter, on the back of surging oil prices, a weak dollar and financial turmoil such as the collapse of Bear Stearns, was followed by periods of heavy selling through into the fourth quarter. Much of this was ascribed to the general sell off in commodities as economic growth foundered, a turnaround in the dollar and, towards the end of this phase, funds being obliged to sell in order to cover losses elsewhere, to meet margin calls and so forth. In the final four months, GFMS noted a ground swell in investment in physical gold, reflecting distrust in financial institutions, especially after the collapse of Lehman Brothers, and a more general desire for wealth preservation, with this buying centred on western Europe and North America.

This desire for investment in physical form was illustrated in the 40% rise in official coin minting - the only area of fabrication to register an increase in 2008 according to Gold Survey 2009. In contrast, jewellery demand fell by just over 10% in response to high and volatile prices and the slowdown in economic growth. The year was far from uniform, however, with Klapwijk adding, “jewellery demand came back in force in the late summer as prices sank through the $800 mark, and even more so as we headed for $700. And if that buying hadn’t appeared, we could have easily seen far lower prices than was the case”.

Demand in other quarters was seen as mixed. Electronics offtake, for example, withered as the economic crisis developed and de-hedging by producers fell sharply in the second half, after a surprisingly buoyant first half. Klapwijk noted, “it’s a concern for the stability of prices that we’re entering a period in which for the first time in many years de-hedging will be running at trivial levels, although that’s only a function of the much reduced hedge book. We’re still seeing very limited interest in strategic hedging”.

Actual mine production was reported to have continued its declining trend, with notable losses seen in South Africa and Indonesia. The scale of the drop came as something of a surprise but of far greater importance to the price was the surge in scrap to a record high. Much was driven by high prices in the developing world, especially the Middle East and in particular Turkey, although distress selling as a product of the economic crisis featured as a reason behind high levels of recycling in the industrialised world. A good part of the overall increase in scrap, however, was neutralised by the marked drop in net official sector sales. This was said to be chiefly the result of low levels of selling by the Central Bank Gold Agreement countries, although net buying by countries outside this grouping also featured, particularly in the fourth quarter.

Supply Highlights

Global mine production fell by a moderate 3% in 2008 to the lowest level since 1996. The largest drop last year was seen in Indonesia, whilst much of the remaining losses were concentrated in South Africa and Australia. In contrast, gold production in the CIS (primarily in Russia) and Latin America (chiefly concentrated in Peru and Mexico) saw gains. China maintained its position as the leading gold producing country, while the United States moved into second place.

Annual average global total cash costs in US dollar terms increased sharply by almost 20% year-on-year, as operations worldwide faced surging input costs. Australian operations posted the sharpest annual total cash cost increases for the second consecutive year.

Net official sector sales plummeted by 49% year-on-year in 2008 to just 246 tonnes. The decline was the result of lower CBGA disposals and modest net purchases outside the group. Driven by low lease rates and, above all, growing concern over counterparty risk, central banks continued to exit from the lending market.

Global scrap supply surged by 27% to over 1,200 tonnes in 2008 fuelled by rising gold prices and the economic downturn. Although growth in recycling was concentrated in the Middle East and East Asia, similar trends were also apparent in western markets.

Demand Highlights

Total fabrication fell by 7% to 2,850 tonnes last year, its lowest level since 1988. The bulk of the loss was attributable to the jewellery sector, with its slump in the first half, followed by a slight recovery in the third quarter and near stability in the fourth. In terms excluding scrap, jewellery's decline in 2008 was yet steeper at almost 20%, with the first half loss ramping up to over a third. The principal reasons for this were high and volatile gold prices, together with the downturn in the global economy. The Indian market was the worst affected in terms of volumes while US jewellery consumption fell by nearly one-third last year to its lowest level in GFMS' 20-year series. The only bright spot was seen in China where investment-related demand contributed to a notable rise in jewellery offtake. The largest drop for other fabrication occurred in electronics, a result of the economic downturn leading to depressed orders and supply chain de-stocking.

Implied net investment last year soared by nearly 76%, with a significant amount of support arising from record inflows into gold ETFs during the year. Overall, 2008 as a whole saw wide fluctuations in investment activity accompanied by an eventual divergence between 'paper' products and gold's physical investment markets. Official coin minting hit a two-decade high, climbing by over 40% on the back of stellar demand in North America and Europe. Bar hoarding took off by an impressive 62%, driven mainly by healthy demand in East Asia and to a lesser extent the Middle East.

Producer de-hedging remained at an elevated level in 2008, generating almost 360 tonnes of physical demand. This was concentrated in the first half of the year, with producers actively seeking uncapped exposure to the gold price. This left the outstanding global producer hedge book at a year end level of below 500 tonnes in delta-adjusted terms.

Beijing, 24th April 2009, (Bloomberg) – China boosted its gold reserves by 76 percent since 2003 and has the world's fifth-biggest holding by country, said Hu Xiaolian, head of the State Administration of Foreign Exchange.

The nation increased its reserves by 454 tons to 1,054 tons through domestic purchases and refining scrap metal, Hu said in an interview with the Xinhua News Agency today. The amount is more than Switzerland's 1,040 tons, World Gold Council data show, and is worth $31 billion at current prices.

China has the world's largest foreign exchange reserves at $1.95 trillion as of March 31, according to state administration data. The holdings have climbed about six-fold in the past six years as the country had record trade surpluses and inflows of foreign investment. Gold prices have almost tripled to more than $900 an ounce from $337.

“Chinese foreign-exchange reserves have absolutely exploded in the past few years,” said Jan Lambregts, head of Asia research at Rabobank International in Hong Kong. “We shouldn’t be surprised that they’re adding a lot of all asset classes. I don’t think they’re shifting away from U.S. dollars into gold.”

Gold climbed to a record $1,032.70 an ounce on March 17 last year and traded 0.9 percent higher today at $912.08 an ounce at 3:18 p.m. local time in Singapore.

Debt Holdings

Chinese Premier Wen Jiabao has expressed concern the dollar will weaken, eroding the value of China’s holdings of Treasuries, as the U.S. borrows unprecedented amounts to spend its way out of recession. China is the biggest overseas owner of U.S. government debt, holding notes totaling $744 billion at the end of February, according to U.S. data.

Jesse Wang, executive vice president of China Investment Corp., has said the nation’s $200 billion sovereign wealth fund may invest in “undervalued” commodities. Zhang Guobao, head of the National Energy Administration, said China should invest more in commodities instead of hoarding the dollar, Xinhua reported on March 7.

China, the world’s biggest gold producer, has increased its holdings before, Hu said in the interview carried on the administration Web Site. They rose from 394 tons to 500 tons in 2001 and to 600 tons in 2003, it said. China has told the International Monetary Fund of the recent changes and the new amount will be reflected in the central bank’s balance sheet and statistical reports, it said.

‘Support Prices’

“This shows a change in attitude in Asian central banks,” said Si Kannan, associate vice president at Mumbai-based Kotak Commodity Services Ltd. “While the IMF is selling gold, Asian central banks are diversifying into gold. That’s a good thing, in times of dollar uncertainty and the global volatility in the forex market,” he said by phone from Mumbai today.

China’s gradual increase in gold reserves and increasing jewellery demand from China and India “will support gold prices,” Kannan said.

The IMF said April 3 there had been no talks about selling more gold than the 403.3 tons proposed a year ago. Leaders from the Group of 20 said the day before that revenue from previously proposed gold sales would be used to help the world’s poorest countries. The IMF board approved a proposal in April 2008 to sell 403.3 tons of bullion as part of a plan to close the Washington-based lender’s annual deficit.

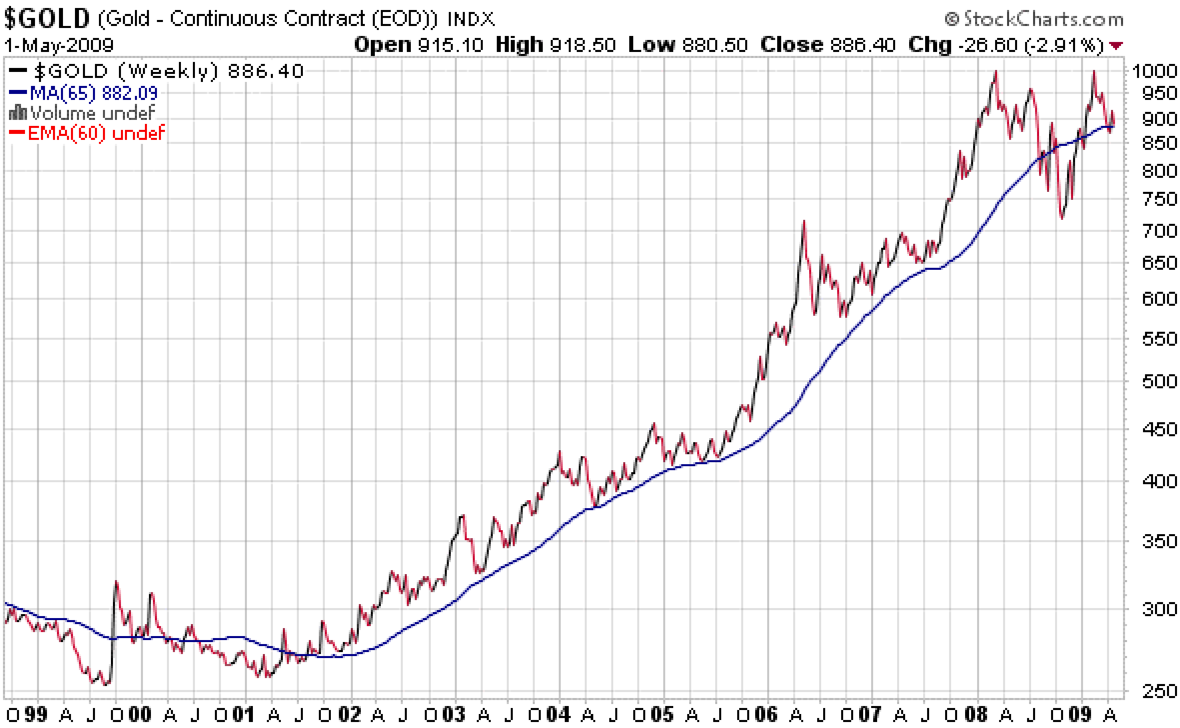
“My opinion has always been that China should increase its gold holdings,” Hou Huimin, vice chairman of the China Gold Association, said by phone from Beijing today. “China should strive to play a more proactive role in the global financial market by adding more gold.”

The U.S. has the world’s biggest gold holdings at 8,134 tons, followed by Germany with 3,413 tons, World Gold Council data show. France has 2,487 tons and Italy 2,452 tons, while the IMF has 3,217 tons, according to the council.

2.2 Technical Comments

Long Term Technical Comments

Once again, another month of price consolidation for gold in April:



Daily/Weekly Technical Comments

London afternoon fix in USD/oz:

Open	High	Low	Close
1st April	1st April	6th April	30th April
924.5	924.5	870.3	883.3

London afternoon fix in €/oz:

Open	High	Low	Close
1st April	1st April	6th April	30th April
697.3	697.3	646.9	668.2

The downward sloping blue line, capped gold prices again in April.

3. Silver

3.1 News and Fundamental Considerations

3.2 Technical Comments

Long Term Technical Comments

As in March, silver could still not break above the 65 WMA in April:

Daily/Weekly Technical Comments

London fix in USD/oz:

Open	High	Low	Close
1st April	1st April	17th April	30th April
12.98	12.98	11.98	12.63

London fix in €/oz:

Open	High	Low	Close
1st April	1st April	17th April	30th April
9.789	9.789	9.167	9.510

Same comment as for gold!

John Fineron, 4th May 2009

Tel: +41 44 307 19 19; Fax: +41 44 307 19 20

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

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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