

# JM&B Monthly Gold & Silver Report

## May 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](http://www.platinum.matthey.com/publications/price_reports.html)

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## 1. Commentary

A significant price rally for both gold and silver took place in May.

## 2. Gold

### 2.1 News and Fundamental Considerations

#### Selected News Items from the Month

**Mumbai, 4th May 2009, (Reuters)** – India imported about 30 tonnes of gold in April, up 25 percent from the same month last year, helped by a drop in prices and festival demand, the head of a trade body said on Monday.

"Prices were a bit lower, so there was buying," said Suresh Hundia, president of the Bombay Bullion Association. "If prices fall below 14,000 rupees (\$282) per 10 grams, buying will increase this month."

Prices were at 14,314 rupees per 10 grams at 0950 GMT on Monday, down from an all-time high of 16,040 rupees on Feb. 20.

Hundia revised upwards March imports to 0.8 tonnes from nil reported earlier and for February to 1.3 tonnes from 0.8 tonnes.

Imports in 2008 had fallen sharply to 396 tonnes from 759 tonnes the previous year, data from the trade body showed, mainly due to high prices.

**Venezuela, 5th May 2009, (Bloomberg)** – Venezuela more than doubled the amount of gold that local producers must offer to the central bank in a bid to increase its reserves of the metal and reduce reliance on supporting them with US Dollars.

The Finance Ministry said today that 70% of gold produced in Venezuela must be sold domestically, and 60% must be offered first to the central bank, in a resolution published in the Official Gazette. The remaining 30% can be exported. Previously, 20% had to be offered to the central bank.

The resolution affects Vancouver-based Rusoro Mining, said Andre Agapov, the company's CEO. Rusoro will still have the right to sell its gold elsewhere should the central bank refuse to purchase it, he said today in a telephone interview.

"It's a political decision," he said. "Why ship it from Brazil when you could buy it from local producers?"

Agapov said that his company always sells to local buyers because the central bank hasn't ever exercised its right to purchase 20% of Rusoro's production. Buyers of the company's output pay in local currency, he said.

Rusoro plans to increase production to between 250,000 and 270,000 ounces by next year, as it brings two new mines into production in the first quarter. The company is reviewing investing in more deposits and mines in the South American country, which would be developed through joint ventures with the government, Agapov said.

Rusoro aims to produce between 175,000 ounces and 195,000 ounces of gold in Venezuela this year, he said.

Gold futures for June delivery jumped US\$14, or 1.6%, to US\$902.20 an ounce on the Comex division of the New York Mercantile Exchange. That's the biggest gain for a most-active contract since 23 April. The price fell 2.8% last week, the most since the first week in April.

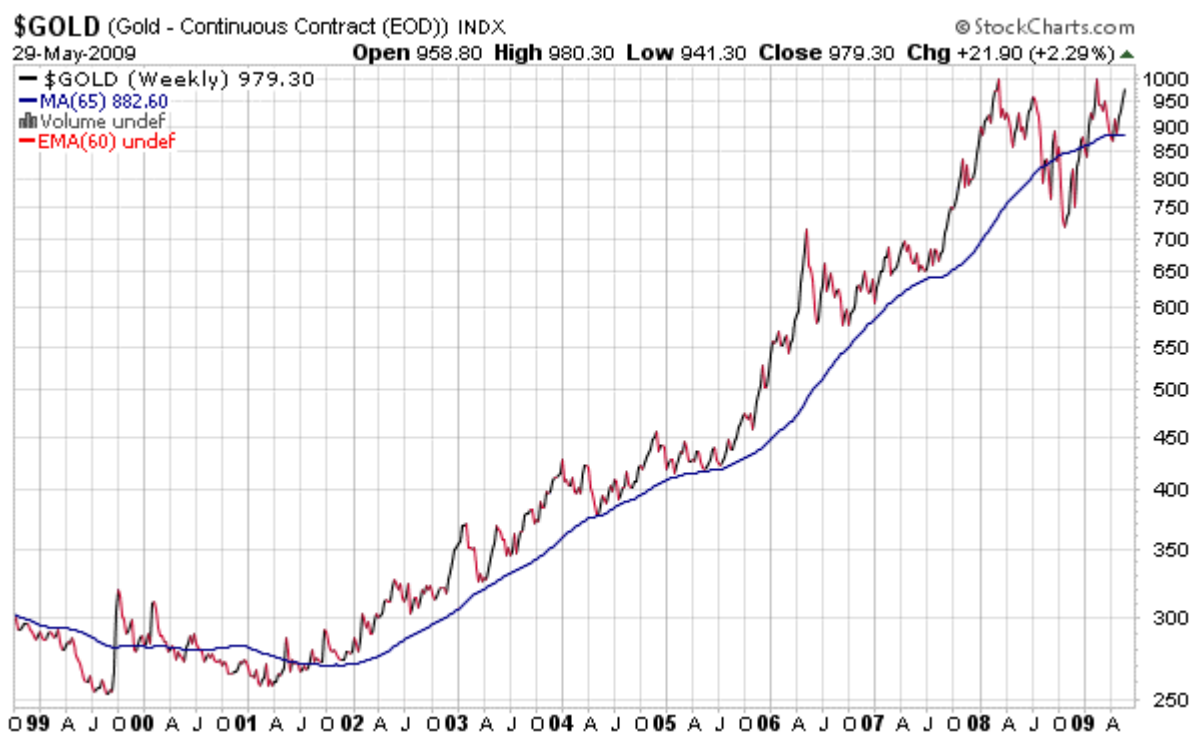
The Venezuelan resolution may be a first step in a regional trend to rebuild government gold reserves on expectations that the US Dollar will weaken, said Philip Gotthelf, President of Equidex Brokerage Group in the US.

"Venezuela has decided to take a lead in rebuilding government gold reserves," Gotthelf said today in a telephone interview. "If we see this as a catalyst for other emerging economies we will probably see the value of gold rise."

## 2.2 Technical Comments

### Long Term Technical Comments

Gold looked set for a test of the bull market price highs at the end of May:



### Daily/Weekly Technical Comments

London afternoon fix in USD/oz:

Open	High	Low	Close
1 <sup>st</sup> May	29 <sup>th</sup> May	1 <sup>st</sup> May	29 <sup>th</sup> May
884.5	975.5	884.5	975.5

London afternoon fix in €/oz:

Open	High	Low	Close
1 <sup>st</sup> May	29 <sup>th</sup> May	1 <sup>st</sup> May	29 <sup>th</sup> May
666.5	691.1	666.5	691.1



The downward sloping blue line was broken at the start of May and this led to a significant price rally, resulting in an overbought situation at months end.

## 3. Silver

### 3.1 News and Fundamental Considerations

**New York, 13th May 2009, (GFMS)** – The World Silver Survey 2009 was released by GFMS in New York. A presentation containing key points can be found here:

<http://www.silverinstitute.org/images/pdfs/GFMSWSSPrent09.pdf>

The Silver Institute issued the following press release:

Robust investor demand and solid industrial offtake drove silver's price 12 percent over the prior year's average to US\$14.99 oz in 2008, leading to the seventh consecutive annual rise in value for the white metal. The 2008 average silver price, bested only once before in the metal's history, once again showcased silver's dual role as both an investment and industrial metal, according to World Silver Survey 2009, released here today by the Silver Institute and GFMS Limited, the authors of the report.

#### Silver Price and Investment

During the first half of 2008, investors drove the silver price up above the US\$20/oz mark (a high of US\$20.92 oz was recorded in March) against a backdrop of generally firm fabrication demand. The second half of 2008 was a different story as the economic outlook deteriorated rapidly, and silver, as well as other metal prices, slumped. However, silver's price in the first third of 2009 recovered a good part of the lost ground.

In 2008, a record inflow of over 93.1 Moz into the three main silver ETFs was instrumental in the high price average, as investors propelled silver to multi-decade highs, in not only daily price terms but also in the annual average.

Last year, coins and medals fabrication jumped by an astonishing 63 percent to a record of 64.9 Moz. The main reason for this was a surge in investment-related purchases of bullion coins, both in the United States and Europe. Notably, fabrication of the U.S. Silver Eagle bullion coin achieved a record 19.6 Moz last year, approximately double the 2007 figure, and would have been higher if the U.S. Mint had sufficient blanks to produce coins to meet demand. In 2009, physical silver investment demand has continued to increase, as the U.S. Mint has already achieved a nearly 70 percent year-on-year rise in the first quarter.

#### Silver Demand

Total global silver fabrication slipped a modest 0.9 percent in 2008 to 832.6 Moz. Even though industrial demand dipped slightly by 1.4 percent to 447.2 Moz, the 2008 performance was the second only to 2007, with most of the loss occurring in the 4th quarter of 2008. Jewelry fabrication dropped by 3.2 percent to 158.3 Moz in 2008, the product of weaker off-take in Italy and Thailand. Growth in this sector was most pronounced in India, China and Russia. Silverware demand fell by 2 percent in 2008 to 57.3 Moz, as losses in western markets were partially offset by gains in India, which witnessed a 7 percent rise, as well as Russia, which also enjoyed growth in consumption last year.

## World Silver Supply and Demand (million ounces)

(totals may not add due to rounding)

Supply	2007	2008
Mine Production	664.2	680.9
Net Government Sales	42.3	30.9
Old Silver Scrap	181.9	176.6
Producer Hedging	-	-
Implied Net Disinvestment	-	-
<b>Total Supply</b>	<b>888.4</b>	<b>888.4</b>

Demand	2007	2008
Fabrication		
Industrial Applications	453.5	447.2
Photography	124.8	104.8
Jewellery	163.5	158.3
Silverware	58.8	57.3
Coins & Medals	39.7	64.9
<b>Total Fabrication</b>	<b>840.3</b>	<b>832.6</b>
Producer De-hedging	23.5	5.6
Implied Net Investment	24.7	50.2
<b>Total Demand</b>	<b>888.4</b>	<b>888.4</b>

Photographic demand continued its decline, falling by 16 percent in 2008 to 104.8 Moz, a fall chiefly attributed to the continued growth in digital products.

Implied net investment more than doubled to 50.2 Moz, largely due to record inflows into the ETFs and a surge in Indian investment.

### Mine Supply and Costs, Above-Ground Stocks, Scrap Supply and Government Sales

Global silver mine production grew by 2.5 percent in 2008, driven by strength in the gold and lead/zinc by-product sectors to 680.9 Moz, representing the sixth year of consecutive growth and 77 percent of total supply last year (see the Summary Table above). Of note, Bolivia's output more than doubled over 2007's performance, and Russia experienced a 24 percent gain in mine supply last year. Peru was again the world's biggest silver mining country in 2008, followed in the rankings by Mexico, China, Australia and Chile. Last year, silver generated at primary mines posted a 1 percent decline to account for 28 percent of total mine production. Cash costs at primary silver mines rose to US\$4.53 per ounce in 2008, due to inflationary input cost pressures and diminishing base metal by-product credits.

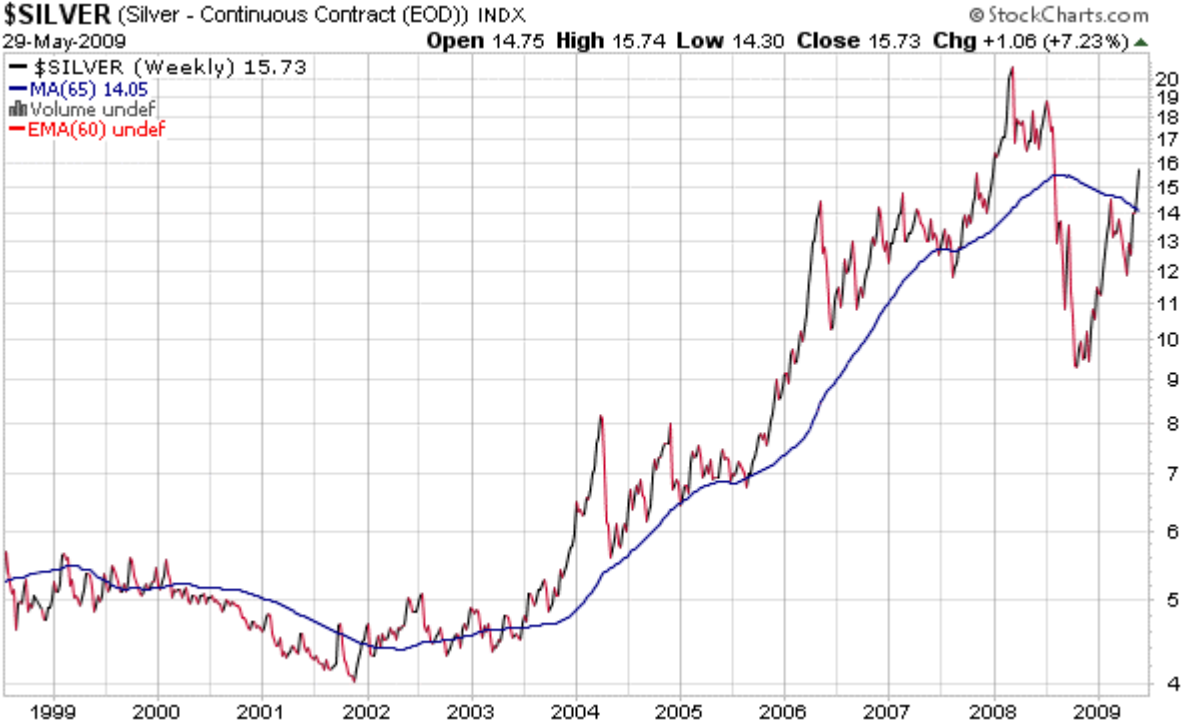
The net supply of silver from aboveground stocks dropped by a robust 14 percent in 2008 to 151.7 Moz. The decline was mainly due to lower net government sales and a drop in scrap supply. Scrap volumes fell to an 11 year low of 176.6 Moz. De-hedging reduced the overall producer hedge position by 5.6 Moz last year.

A further decline in Russian disposals, as well as the absence of any sales from China and India, resulted in a 27 percent fall in government sales in 2008 to 30.9 Moz.

### 3.2 Technical Comments

#### Long Term Technical Comments

Silver got back above the 65WMA in May:



#### Daily/Weekly Technical Comments

London fix in USD/oz:

Open	High	Low	Close
1 <sup>st</sup> May	29 <sup>th</sup> May	1 <sup>st</sup> May	29 <sup>th</sup> May
12.15	15.52	12.15	15.52

London fix in €/oz:

Open	High	Low	Close
1 <sup>st</sup> May	29 <sup>th</sup> May	1 <sup>st</sup> May	29 <sup>th</sup> May
915.3	11.00	915.3	11.00



Same comment as for gold!

John Fineron, 8<sup>th</sup> June 2009



## Appendix: More about this report

### Purpose of the Report

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[http://www.platinum.matthey.com/publications/price\\_reports.html](http://www.platinum.matthey.com/publications/price_reports.html)

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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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