

# JM&B Monthly Gold & Silver Report

## June 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

Gold and Silver spent most of June correcting in price, though gold appeared to be stabilising towards the end of the month.

## 2. Gold

### 2.1 News and Fundamental Considerations

#### Selected News Items from the Month

**London, 10th June 2009, (GFMS)** – Société Générale released its Gold Hedge Book Analysis for Q1-2009:

Key Points Global Hedge Book

Net producer de-hedging slowed markedly in the first quarter, to just 0.11 Moz (3 t). This represented the lowest level of net de-hedging seen since the third quarter of 2003.

The global producer hedge book at end - Q1 stood at 15.68 Moz (488 t) in delta-adjusted terms. The quarter was characterised by a lower level of gross de-hedging, countered by two hedges for project finance purposes.

The marked-to-market liability of the producer book remained broadly stable at negative \$5.8 billion.

Producers' realised prices in Q4 averaged \$897/oz, representing a \$114, or 15%, increase from the fourth quarter for the subset of producers studied.

De-hedging for the remainder of 2009 is still expected to be limited compared to 2008.

#### Summary and Overview

Although we had expected a marked slowdown in the rate of de-hedging moving into 2009, we had not anticipated a return to near neutrality for the quarter. Producer de-hedging was recorded at a limited 0.11 Moz (3 t), at less than 1% the most neutral result since the third quarter of 2003. This minor cut left the global producer hedge book at end-March, in delta-adjusted terms, at 15.68 Moz (488 t). In nominal terms the global book fell from 19.73 Moz (614 t) to 19.22 Moz (598 t), with the net reduction attributable to cuts made to the options portion of the book.

In contrast to recent quarters, very little active de-hedging took place during the first quarter of 2009; the most significant buy-back undertaken by AngloGold Ashanti, which restructured its hedge portfolio further, accounting for a 0.36 Moz (11 t) reduction. The majority of other cuts came from the normal expiry or delivery into contracts. This low level of de-hedging was largely counteracted by hedges tied to two project finance agreements finalised during the quarter, by Catalpa Resources and Apollo Gold. Due to the much higher period average spot price, which increased by 14% to \$908/oz, producers' realised prices increased by 15% to \$897/oz. It should be noted that Australian dollar and South African rand denominated gold prices reached both daily and quarterly average records during the first three months of the year, with many gold producers consequently having enjoyed especially buoyant cash margins. Despite an increase in the end-quarter gold price, used to value producers' hedge contracts, the value of the global book marked-to market remained largely unchanged, at negative \$5.8 billion, due to the interplay between fresh project hedges put in place at much higher prices than the number of older hedges which were removed from the book, which generally carried much higher discounts to spot. Looking ahead, we reiterate our expectation of a much reduced level of de-hedging for the full-year 2009, given the absence of a marked change in management and investor attitude to hedging.

**Berlin, 17th June 2009, (Times Online)** – Germany has devised the ultimate in credit crunch vending machines: Gold to Go.

After inserting your euros in the slot there is a familiar whirring noise as if the machine is readying itself to spit out a can of lemonade or a bar of chocolate. Instead there is a satisfying clunk as a prettily wrapped bar of the world's favourite precious metal thuds into the dispenser.

"It's better value than the bank," Romy Erhardt of TG-Gold-Super-Markt told The Times, "And it's very convenient — no waiting time — you just put in your cash and a minute later you are an investor in gold."

The prototype gold-dispenser has been installed in Frankfurt airport and today there was a queue of passengers mulling over whether to buy one gramme, 5 grammes or ten grammes of gold.

The one-gramme bar was available for  $\square 30$  (£25). Other options — rather like a high-end coffee machine it has five selections — included a Maple Leaf Five Canadian dollar coin and a Kangaroo Fifteen Australian dollar coin. Both represent about one tenth of an ounce of gold and the price on today was hovering around  $\square 80$ .

"The price is updated every 15 minutes," Ms Erhardt explained. "The vending machine is linked to the computer which we use for our online gold outlet."

The margins are lower than those offered by banks but fluctuate at about 20 per cent higher than market prices. That is the price of being able to pick up your gold before boarding an aircraft and having it packaged in a metal case labelled "My Golden Treasure".

A less sophisticated version of this Gold to Go machine was installed in Frankfurt's main railway station last month and has been doing well. The company hopes to put 500 of the machines throughout Germany, Switzerland and Austria.

They are riding on the crest of a wave of investor interest in gold as the market price edges up towards \$1,000 for a troy ounce.

Online gold dealers — who offer a discreet armoured-car delivery for large purchases — are reporting boom times. The World Gold Council said that individual purchases started to rise dramatically in the last quarter of 2008 and have broken all records in the first quarter of this year.

Above all, small individual investors — nervous about the future of the dollar and other currencies — are buying and selling the metal. In the US, the gold equivalent of Tupperware parties, have caught on and the idea has spread to Britain.

The Michigan based company My Gold Party — a housewife acts as a company agent and invites her friends to her home to have their gold rings and bracelets professionally valued — has been taken up by 28 US states.

The online company Cash4gold.com meanwhile is reporting 25,000 transactions a month. And Exboyfriendjewelry.com — whose testimonials are full of stories about the cathartic effect of selling jewellery given by former husbands and lovers — is thriving.

The Germans are particularly interested, partly because of the collective memory of the currency collapse after two world wars.

Some high street jewellers even buy dental gold to be melted down. "German investors have always preferred to hold a lot of personal wealth in gold, for historical reasons," said Thomas Geissler, head of the Stuttgart-based TG-Gold-Super-Markt.

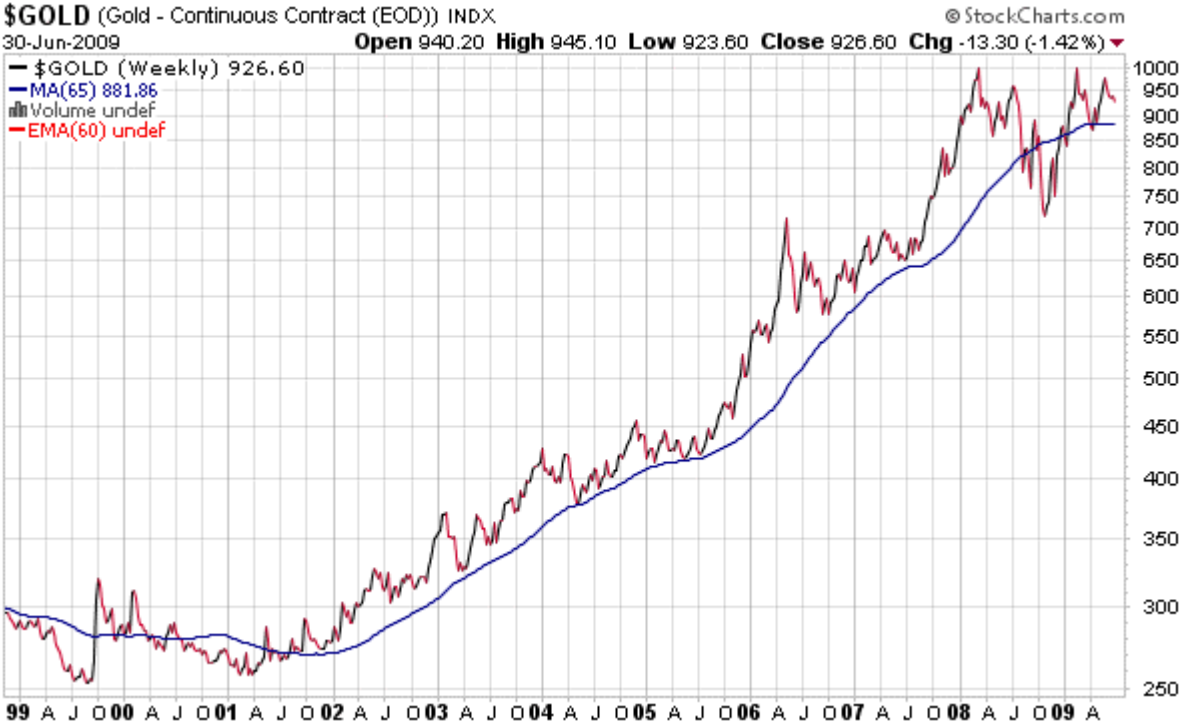
There is a German fascination with gold that goes even deeper than anxiety about failing currencies. One of Germany's best loved fairy tales, a classic bedtime story, features a donkey that excretes gold coins every time that one shouts the magic word "Bricklebrit!"

To make sure that no one tries a similar trick with the Frankfurt gold vending machine, the company has positioned it near high-resolution closed circuit television cameras and given it an armour-plated casing.

## 2.2 Technical Comments

### Long Term Technical Comments

On the long-term chart, gold appears to be forming the right shoulder of a huge inverted head and shoulders formation, which may be indicative of significantly higher prices later this year:



### Daily/Weekly Technical Comments

London afternoon fix in USD/oz:

Open	High	Low	Close
1 <sup>st</sup> June	1 <sup>st</sup> June	22 <sup>nd</sup> June	30 <sup>th</sup> June
981.8	981.8	919.3	934.5

London afternoon fix in €/oz:

Open	High	Low	Close
1 <sup>st</sup> June	1 <sup>st</sup> June	22 <sup>nd</sup> June	30 <sup>th</sup> June
690.9	690.9	664.1	664.9



The overbought situation at the end of May was corrected in June.

### 3. Silver

#### 3.1 News and Fundamental Considerations

No news this month.

#### 3.2 Technical Comments

##### Long Term Technical Comments

Silver returned to the 65WMA in June:



##### Daily/Weekly Technical Comments

London fix in USD/oz:

Open	High	Low	Close
1 <sup>st</sup> June	3 <sup>rd</sup> June	23 <sup>rd</sup> June	30 <sup>th</sup> June
15.86	15.97	13.77	13.94

London fix in €/oz:

Open	High	Low	Close
1 <sup>st</sup> June	3 <sup>rd</sup> June	24 June	30 <sup>th</sup> June
11.15	11.21	9.861	9.869



Silver performed even more poorly than gold in June, with RSI and MACD falling to areas from which previous price rallies have begun.

John Fineron, 1<sup>st</sup> July 2009

## 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](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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