JM&B Monthly Gold & Silver Report
July 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

Contents

1. Commentary

Gold and silver consolidated further in price in July, with a moderate upward bias.

2. Gold

2.1 News and Fundamental Considerations

Selected News Items from the Month

Zurich, 16th July 2009, (20 Minuten Online) – In a note entitled No more space for Gold Bars, Swiss news website 20 Minuten Online reports that Swiss banks are running out of secure storage space for gold bullion held by investors and institutions. Fears of hyperinflation, the economic downturn and the success of gold index funds (ETFs), which are supported by physical gold, has led to a run on precious metals investment - and in gold in particular, and in the necessary secure storage space in which to hold it..

One Swiss bank, earlier this year, reported that it was having to relocate some of its stored silver bullion to another site to make room for gold. The Zurich Kantonal bank put this down to the success of its gold ETF.

The website reports another Swiss investment banker despairing "We have the need to store more gold for our clients but are finding it difficult to find secure storage facilities". Gold storage makes high demands on security which is what is making the gold holding task more difficult. Few banks will divulge exactly where their gold is stored for security reasons.

Another banker reported that his bank still had space but that it is beginning to run out.

Some of the problems are being handled by improving the storage systems in existing space. As one banker commented "A 12.5 kilo gold bar only occupies about the same amount of space as a tetrapak of milk".

While the big U.S. based ETF, the SPDR Gold Trust has recently seen a relatively small decline in its gold holdings with some investors seeking better returns in the markets, the ever-cautious Swiss seem to be seeing continuing growth in locally managed ETFs. A recent report noted that Swiss Bank, Julius Baer, for example, was still seeing a 3.3% growth in its gold ETF in the current week. And even though the Swiss Central Bank has been selling gold via the Central Bank Gold Agreement, it still holds 38% of its foreign exchange reserves in the yellow metal.

London, 24th July 2009, (Bloomberg) – China may overtake India to become the world's top gold consumer this year, the World Gold Council said, as the nation became the first of the major economies to rebound from the global recession.

Jewellery demand in China expanded in the first quarter while dropping in India, Marcus Grubb, a managing director at the London-based council, said today at a conference in Hong Kong. Chinese gold demand will keep rising, he said.

China's economy grew 7.9 percent in the second quarter after a 4 trillion yuan ($586 billion) stimulus package spurred record lending and consumption. India's gold purchases slumped 54 percent in the six months ended June after a decline in the rupee pushed up the cost of owning bullion, cooling demand from housewives and jewellers, the Bombay Bullion Association said.

“There is a possibility that China might overtake India as the world's largest gold consumer this year,” Hou Huimin, deputy head of the China Gold Association, said by phone from Beijing today. “India's gold consumption is reportedly dropping this year due to the financial crisis.”

Total demand from India in the first quarter fell 83 percent to 17.7 metric tons, from 107.2 tons a year earlier, according to figures from the World Gold Council. Purchases in China rose 1.8 percent to 105.2 tons from 103.3 tons. Total Chinese demand for gold was six times that of India in the first quarter, the council said in May.

“China's consumption is growing and this year's will surely be more than last year's,” Hou said.

China consumed nearly 400 metric tons of gold last year, while demand in India was more than 650 tons, according to council data, which cited statistics from GFMS Ltd. Global demand rose 3.8 percent to 3,658.6 tons, or $101.8 billion, the council said Feb. 18.

Bullion prices have gained 7.6 percent this year as the global recession spurred demand for safe haven assets. Gold for immediate delivery was little changed at $949.65 an ounce at 5:39 p.m. in Hong Kong.

China, the world's biggest gold producer, has increased reserves by 76 percent to 1,054 tons since 2003 and has the world's fifth-biggest holdings by country, Hu Xiaolian, head of the State Administration of Foreign Exchange, said in April.

Growing demand in China won't necessarily boost imports of the metal as rising production may be able to satisfy additional consumption, said the World Gold Council's Grubb. China's production of gold has risen at rate of 7 percent to 8 percent annually over the past five to six years, he said.

"It depends if the demand is rising faster than production," Grubb said in an interview. "At the moment, they are roughly in balance." China will seek to boost gold output to 290 tons this year from 282 tons in 2008, the Ministry of Industry and Information Technology said on March 20.

Gold imports by India in the six months ended June 30 plunged to 63.8 tons from 139 tons a year earlier, the Bombay Bullion Association said July 13. Imports may fall further after the government doubled the import duty this month, it said.

"India's gold demand as reflected in imports have fallen drastically in the first six months," Harmesh Arora, vice president of the Indian association said today in a phone interview from Mumbai. "There are still no signs of demand picking up as global prices are moving higher," said Arora, who also believes China could overtake India in gold consumption.

Still, India meets most of its demand from imports, some of which are brought in through unofficial channels and are not represented in official data, said Mukul Sonawale, partner of Mumbai-based Narrondass Manordass Co. and a past president of the Bombay Bullion Association.

"China can emerge as the world's biggest consumer only on paper," he said. "The official figures of imports will be quite deceiving as they don't capture all the imports. With India doubling the import duty on gold, the unofficial channel is bound to increase."

London, 29th July 2009, (Reuters) – Official sector gold sales under the Central Bank Gold Agreement (CBGA) have totalled only 140 tonnes so far in the pact's final year, well short of the maximum 500 tonnes allowed, the World Gold Council said.

France and Sweden are the two principal remaining sellers, the WGC said in an emailed statement on Wednesday, although the possibility exists for a further sale by the European Central Bank.

The 15 signatories of the pact, which also include the central banks of Spain, Germany and Italy, agreed in 2004 to limit gold sales to the market to 500 tonnes in any one year.

"With 140 tonnes of sales, according to our numbers, it looks like we have had over 100 tonnes less than was sold over the same period of last year," said Barclays Capital analyst Suki Cooper.

"Given the current pace, it is likely this is going to be the lowest annual sales-per-quota year since the start of the very first agreement."

The first CBGA was signed in 1999, and limited sales to 400 tonnes per year to avoid flooding the market with bullion and consequently destabilising the gold price.

However, with bullion an increasingly attractive portfolio diversifier for central banks after a period of instability in the currency markets, fewer are selling gold, while talk emerged earlier this year of Asian banks considering new purchases.

Given the low and declining level of sales this year, some analysts have suggested a third agreement will be unnecessary when the current pact expires on Sept 26.

However, others say a third CBGA will be needed to encompass planned sales of more than 400 tonnes of gold by the International Monetary Fund.

European Central Bank governing council member Nout Wellink told Reuters in April his bank planned to renew the pact.

"We feel there probably will be another agreement, but it is likely to take a different, looser form," Cooper said.

Washington, 29th July 2009, (Reuters) – The planned sale of 403 tonnes of IMF gold will take place within a new European central bank gold pact currently being negotiated, a senior International Monetary Fund official said Wednesday.

The IMF has provisionally agreed to sell the gold to raise resources for increased lending to poor countries.

A deciding vote by the fund's 186 member countries is expected before IMF meetings in Istanbul in October, and requires the support of 85 percent of the membership.

"We have committed as part of our new income model to have that gold sale, if done on the markets, to be done through the central bank sales mechanism," said Reza Moghadam, director of the IMF's Strategy, Policy and Review Department.

Moghadam told a conference call the sales would probably occur "all the time" within the central bank agreement and could take two to three years before sales are completed.

He said he hoped negotiations on the new Central Bank Gold Sales Agreement will also be finalized by October. The current 5-year agreement expires in September.

European central banks have agreed to regulate gold sales under the terms of two successive Central Bank Gold Sales Agreements, or CBGA, starting in 1999. The agreements were a key part in supporting an eight-year market rally, with prices for the precious metal at one point topping $1,000 an ounce mark.

Spot gold was last at $928.20 on Wednesday. While the IMF is not currently a signatory of the pact, selling its gold within the CBGA would avoid disruptions to the gold market.

Under the terms of the existing CBGA, in force since 2004, signatories can sell a maximum of 500 tonnes of gold per year -- although sales have fallen well short of the quota in recent years.

Analysts have also speculated that China ma be interested in buying some or all of the IMF gold, after Beijing revealed in April it had secretly raised its gold reserves since 2003, confirming years of speculation it had been buying.

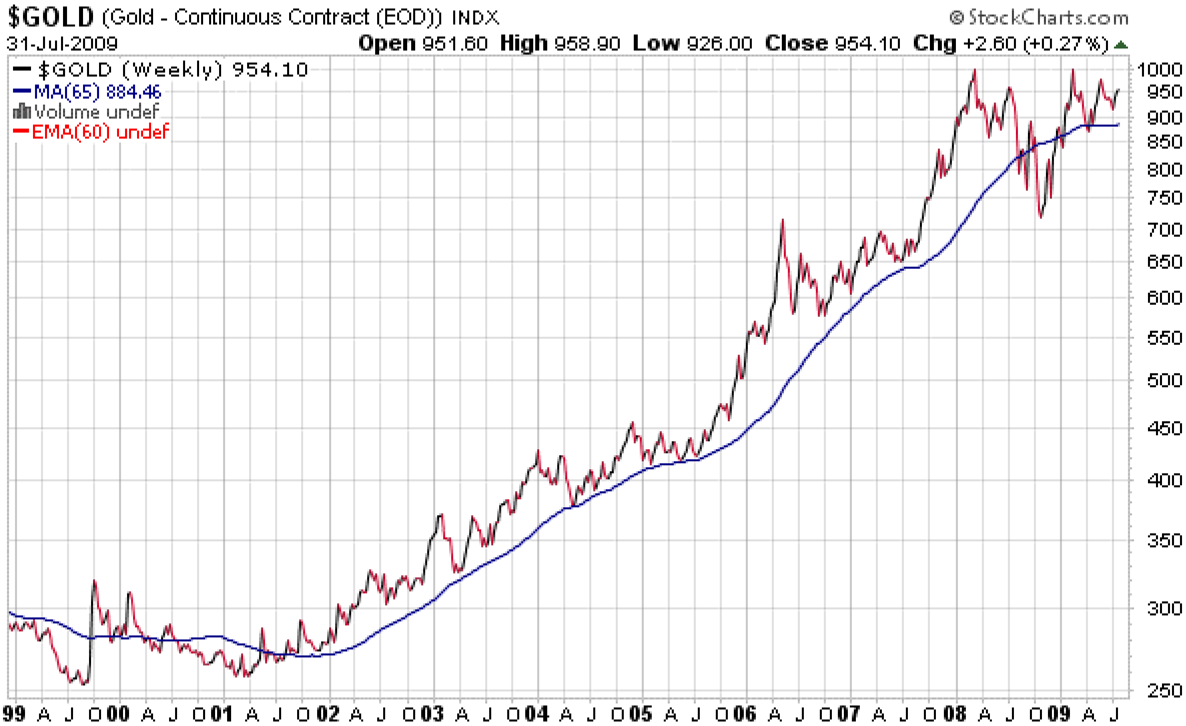
The IMF said on Wednesday it would use some of the proceeds from the sale of its gold to increase lending to poor countries by up to $17 billion through 2014.

The IMF holds 103.4 million ounces (3,217 tonnes) of gold, which had a market value of about $12 billion as of March 31.

2.2 Technical Comments

Long Term Technical Comments

From a timing perspective, a price break higher, from the head and shoulders consolidation is overdue:



Daily/Weekly Technical Comments

London afternoon fix in USD/oz:

Open	High	Low	Close
1st July	27th July	13th July	31st July
938.3	955.0	908.5	939.0

London afternoon fix in €/oz:

Open	High	Low	Close
1st July	20th July	13th July	31st July
663.5	670.0	652.5	664.6

Further price consolidation for gold in July.

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3. Silver

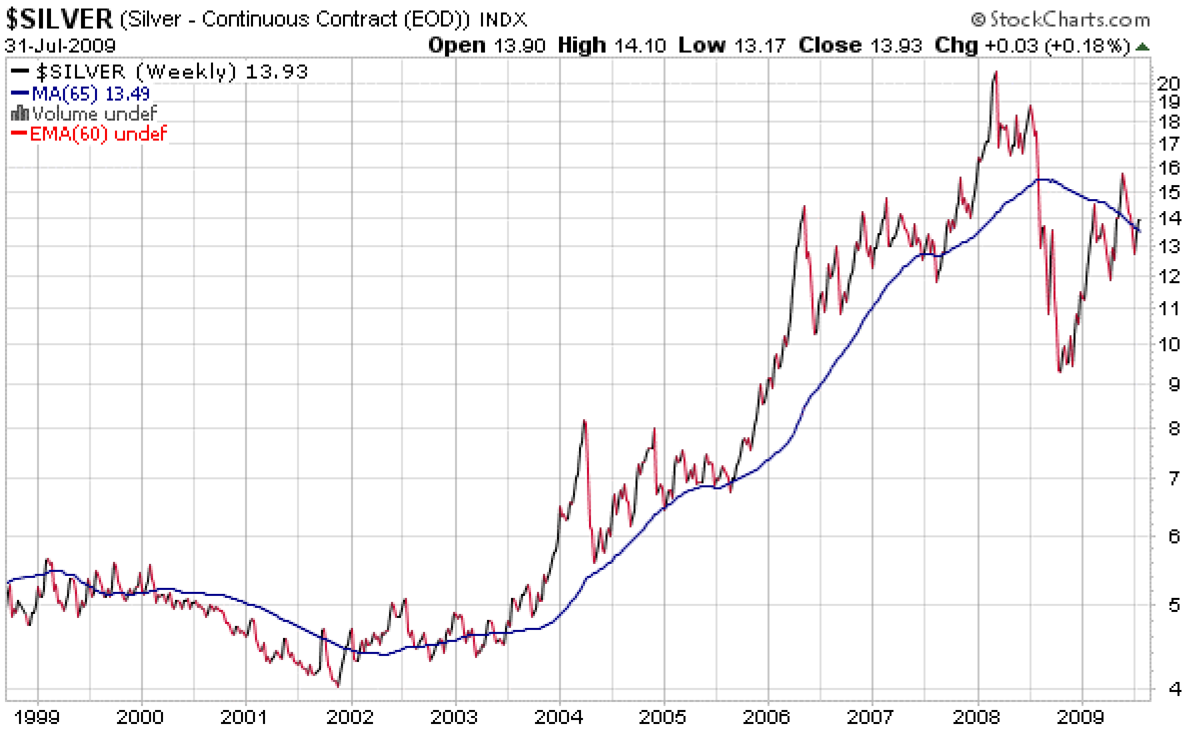
3.1 News and Fundamental Considerations

No news this month.

3.2 Technical Comments

Long Term Technical Comments

Silver also consolidated in price in July:



Daily/Weekly Technical Comments

London fix in USD/oz:

Open	High	Low	Close
1st July	27th July	13th July	31st July
13.65	14.06	12.47	13.63

London fix in €/oz:

Open	High	Low	Close
1st July	27th July	13th July	31st July
9.705	9.842	8.920	9.643

Silver ended July in a technically strong position.

John Fineron, 3rd August 2009

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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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