JM&B Monthly Gold & Silver Report
August 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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1. Commentary

Gold and silver consolidated in price in yet again in August!

2. Gold

2.1 News and Fundamental Considerations

Selected News Items from the Month

London, 3rd August 2009, (GFMS)

GFMS have produced a report on 'Official Sector Activity in Gold' on behalf of Société Générale. The highlights of the report are as follows:

Net official sector sales in the first half of 2009 are currently estimated by GFMS to have totalled 39 tonnes, down a hefty 73% year-on-year.

The majority of gold sales came from within the Central Bank Gold Agreement (CBGA), its signatories disposing of 92 tonnes in the first half.

Central banks and other official institutions in the 'rest of the world' (i.e. outside the CBGA) were overall net buyers of gold in the first half of 2009.

On a quarterly basis and looking at the global total for the official sector, there were net sales in Q1 but modest net purchases in Q2 2009.

GFMS forecast that net sales will rise moderately in the second half to around 100 tonnes. This would, however, result in an annual total for net official sector sales of only about 140 tonnes, a figure that would be the lowest calendar year total since 1994's trough of 130 tonnes.

London, 7th August 2009, (FT) - Gold bulls were given a psychological boost on Friday as European central banks announced a lower ceiling than expected for their bullion sales over the next five years, reducing their annual quota by 20 per cent to 400 tonnes.

The lower ceiling is a fresh sign that the "anti-gold" climate that was prevalent among central banks throughout the 1990s and in the early part of the current decade seems to be fading away. Bullion prices hit a 23-year low in 1999 after the Bank of England revealed it was selling a large chunk of its gold holdings.

Although other factors, such as jewellery demand, investors' buying patterns or mine production are more important for prices, the official sector activity usually has an important psychological impact on the bullion market.

In a joint statement, the European central banks said their gold sales "will be achieved through a concerted programme of sales over a period of five years, starting on 27 September 2009, immediately after the end of the previous agreement".

They went on: "Annual sales will not exceed 400 tonnes and total sales over this period will not exceed 2,000 tonnes." The new agreement will also "accommodate" the International Monetary Fund's plan to sell 403 tonnes of gold from its reserves.

Jonathan Spall, a director at Barclays Capital's commodities desk and expert on gold, says: "All in all [it is] mildly positive for gold - with the stress on mild."

John Reade, a precious metals strategist at UBS in London, agrees, saying the lower ceiling is a "small positive" for the market, noting the signatories of the Central Bank Gold Agreement "have not used the full ceiling for the past couple of years".

At the same time, the Swiss National Bank, one of the top 10 holders of the metal, said it had no plans to sell gold soon. The bank was a big seller earlier this decade and in the 1990s.

In London, spot gold surged on news of the lower ceiling to $963 a troy ounce, near a two-month high. But later it pared gains to trade at $958. Since the Lehman Brothers collapse last September, gold prices have gone up, rising almost 13 per cent in the past 12 months. Bullion hit a record high of $1,034 an ounce in March 2008.

Investors, from hedge funds and rich individuals to pension funds and retail investors, have piled into gold, buying bullion-backed exchange-traded funds, futures and even bullion coins and bars.

The market will pore over central bankers' speeches for any sign of selling, but most bullion traders struggle to say who will fill the 2,000 tonnes over the next five years. Setting aside 400 tonnes from the IMF, with Switzerland excluding itself, only the European Central Bank and Banque de France appear candidates for meaningful sales.

The Bundesbank has yet to follow other European central banks that have sold gold over the past decade, and analysts believe the German central bank is unlikely to dispose of its bullion holdings now.

Gold & Other Official Reserves

	Country	Gold in Tonnes	Gold in US$ bn[1]	Other Reserves in US$ bn	Gold as % of Total Reserves	Data as of end-
1	United States	8,134	255.1	70.7	78.3%	May
2	Germany	3,413	107.0	44.7	70.5%	May
3	Italy	2,452	76.9	36.8	67.6%	May
4	France	2,448	76.8	28.6	72.9%	May
5	China	1,054	33.1	2,093.1	1.6%	May
6	Switzerland	1,040	29.5	49.9	37.2%	April
7	Japan	765	24.0	1,000.0	2.3%	May
8	Netherlands	612	19.2	11.8	61.9%	May
9	Russia	540	17.0	387.3	4.2%	May
10	Taiwan	424	12.5	300.1	4.0%	March
11	Portugal	383	12.0	1.1	91.6%	May
12	India	358	10.2	242.7	4.0%	April
13	Venezuela	356	10.5	17.6	37.4%	March
14	United Kingdom	310	9.7	46.0	17.5%	May
15	Lebanon	287	8.5	22.2	27.5%	Mar
16	Spain	282	8.8	12.6	41.1%	May
17	Austria	280	8.8	12.6	41.0%	May
18	Belgium	228	7.1	9.9	41.9%	May
19	Algeria	174	4.9	141.6	3.4%	April
20	Philippines	155	4.9	34.7	12.3%	May
21	Libya	144	4.2	94.3	4.3%	March
22	Saudi Arabia	143	4.5	29.7	13.1%	May
23	Sweden	131	4.1	25.3	14.0%	May
24	Singapore	127	4.0	171.5	2.3%	May
25	South Africa	125	3.9	31.9	10.9%	May
26	Turkey	116	3.6	68.0	5.1%	May
27	Greece	112	3.5	0.4	90.1%	May
28	Romania	104	3.3	37.8	7.9%	May
29	Poland	103	3.0	58.2	5.0%	Mar
30	Thailand	84	2.6	118.9	2.2%	May

1 Market valuation based on end-month gold prices respectively
Source: IMF and central bank websites

Banca d'Italia has not sold either, but now the Italian government is pressing it to pay a special capital tax over the increase in the value of the central bank's gold holdings. Banca d'Italia opposes the measure and Jean-Claude Trichet, ECB president, this week stepped up his opposition to the tax plan. "We have an unambiguously negative opinion," he said in Frankfurt. The ECB argues the measure would undermine the principle of central bank independence.

Without sales from Germany and Italy, most analysts and traders believe the 400-tonnes quota will not be fulfilled in any year. Indeed, the CBGA signatories have not satisfied their annual 500-tonnes current quota in the past two years.

GFMS, the London-based precious metals consultancy, estimates that central banks' gold net selling - including banks outside the CBGA - fell in the first half to 39 tonnes, down 73 per cent from the same period last year, and it forecasts that it will total 140 tonnes this year, the lowest since the trough of 130 tonnes in 1994. The consultancy says the "anti-gold" climate seems to

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have ended. China shocked the bullion market earlier this year when it announced a significant increase in its gold reserves, from 600 tonnes in 2003 to 1,054 tonnes.

"Although the official sector remains a net seller overall, sentiment has shifted to one considering the metal to remain an important reserve asset," GFMS argues.

Mumbai, 20th August 2009, (Commodity Online) – Gold is becoming a major investment avenue for Indian investors. Despite high local prices, dollar volatility and fall in general demand for jewellery, retail investment demand for gold has taken a sharp upswing of 515.8 per cent to 109 tonnes in the second quarter (April-June) of calendar 2009 from 17.7 tonnes in the first quarter.

Retail investment demand in India — the leading bullion market in the world — returned to positive levels from the dishoarding seen during the first quarter, but was nevertheless weak in comparison to year-earlier totals. Demand for bars and coins at 21.0 tonnes was less than half the 48.1 tonnes recorded in Q2'08.

Experts said despite the recent near record rupee prices, investor appetite and consumer affinity for gold remains healthy. While the most recent quarter-on quarter improvement was in large part a seasonal improvement, experts expect a healthy rebound in activity. A stronger economic outlook than many regions, and the forthcoming festival season suggest that demand for gold will continue to build on recent trends.

However, total gold offtake was down 38 per cent on Q2'08, with jewellery, the largest component of demand, falling 31 per cent.

Although demand failed to match the exceptional levels seen in previous quarters when the economic and financial crisis was at its peak, demand nevertheless remained very robust throughout the quarter. Investment demand witnessed a strong quarter. This indicates a growing recognition of gold as an important and independent asset.

Global retail investment, which includes demand for physical gold in the form of bars and coins, had another healthy quarter. Net retail investment was up 23 per cent relative to the previous quarter and 12 per cent on the levels of Q2'08 as investors, specifically those in western countries, continued to seek out gold for its unique wealth preservation qualities.

London, 27th August 2009, (GFMS) - Société Générale produced their Global Gold Hedge Book Analysis for Q2 2009 on behalf of GFMS, key points were:

- Net producer de-hedging remained limited in the second quarter, with just 0.98 Moz (31 t) removed from the global book.

- This left the global producer hedge book, at end-Q2, at 14.73 Moz (458 t) in delta-adjusted terms.

- Only a handful of companies, made above schedule reductions to positions, notably AngloGold Ashanti, Lihir Gold and North Queensland Metals.

- The marked-to-market liability of the producer book contracted marginally to negative $5.3 billion at end-Q2.

- Producers' realised prices increased by 3% in Q2, averaging $908.43 for the set of hedged producers studied, relative to the period average of 922.18.

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

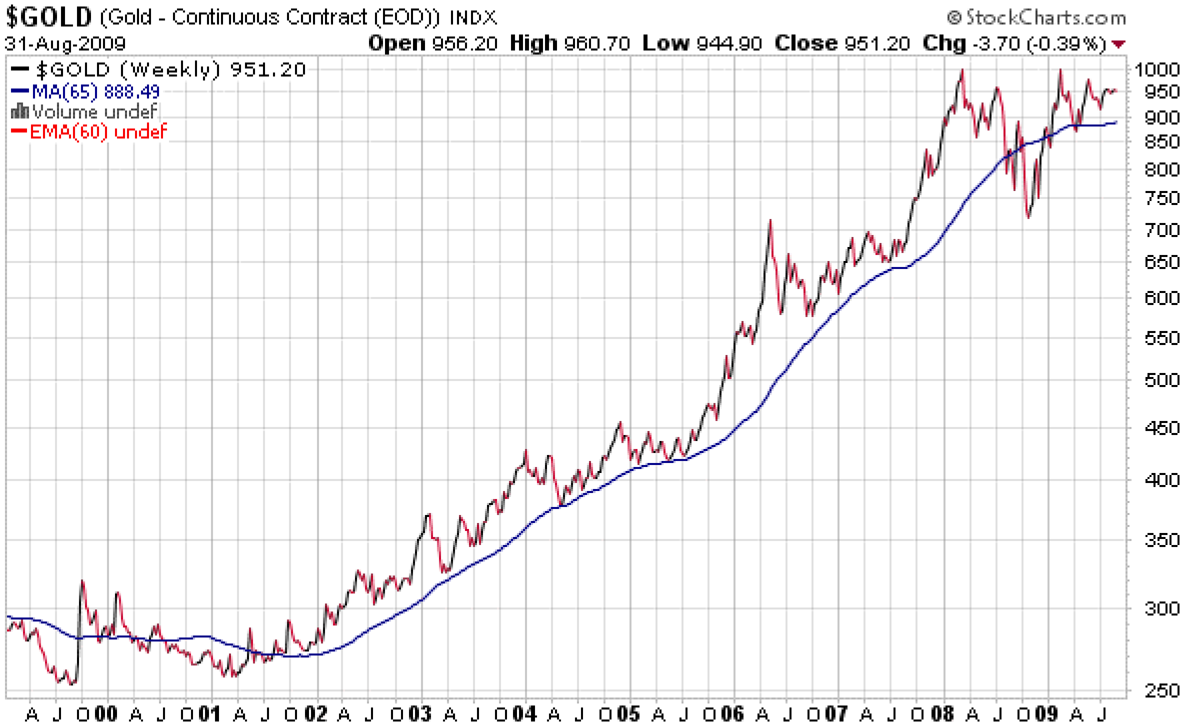
More here:

http://www.gfms.co.uk/Market%20Commentary/Global%20Hedge%20Book%20Analysis%20Q209.pdf

2.2 Technical Comments

Long Term Technical Comments

A price mover higher, would be the normal resolution of the technical pattern shown below:



Daily/Weekly Technical Comments

London afternoon fix in USD/oz:

Open	High	Low	Close
3rd August	6th August	17th August	28th August
959.8	964.0	932.8	955.5

London afternoon fix in €/oz:

Open	High	Low	Close
3rd August	6th August	26th August	28th August
667.0	671.5	661.0	665.3

As in July, gold could still not break out of price consolidation in August.

3. Silver

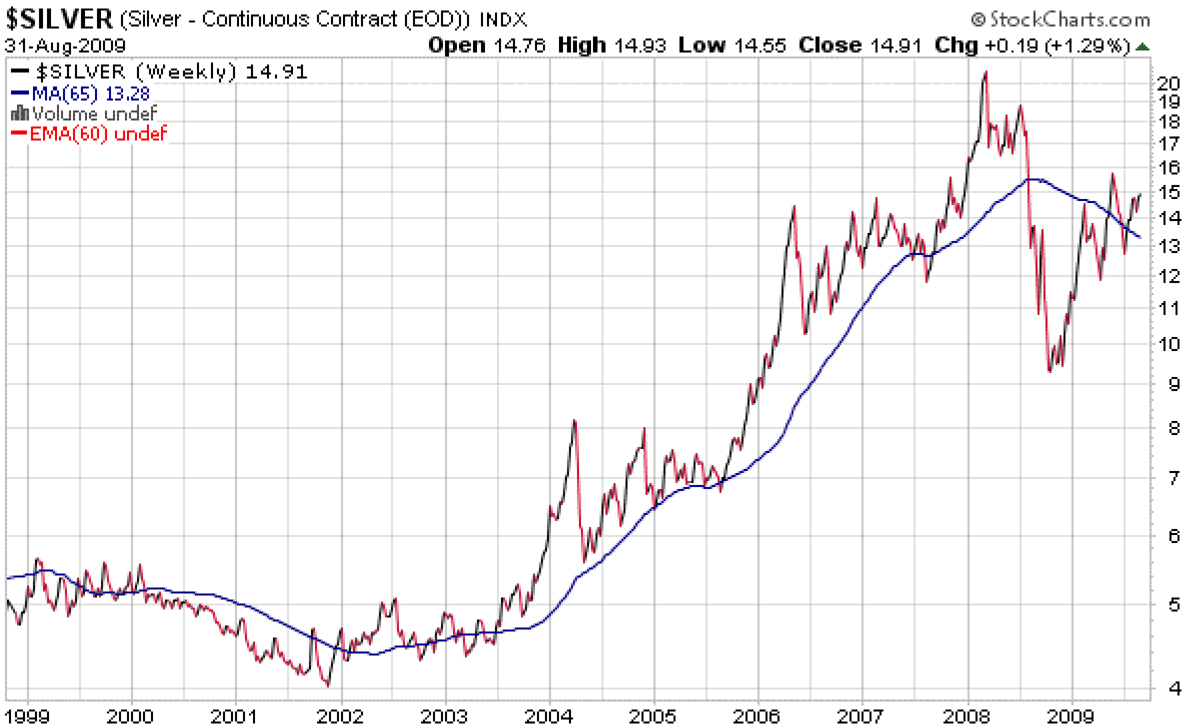
3.1 News and Fundamental Considerations

No news this month.

3.2 Technical Comments

Long Term Technical Comments

Like gold silver could not break higher in price in August:



Daily/Weekly Technical Comments

London fix in USD/oz:

Open	High	Low	Close
3rd August	13th August	19th August	28th August
14.29	15.07	13.59	14.54

London fix in €/oz:

Open	High	Low	Close
3rd August	13th August	19th August	28th August
10.00	10.56	9.621	10.12

August was essentially a sideways month for silver.

John Fineron, 1st September 2009.

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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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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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