JM&B Monthly Gold & Silver Report
September 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 broke out of a multi-month correction in September and silver followed gold upwards in price!

2. Gold

2.1 News and Fundamental Considerations

Selected News Items from the Month

London, 3rd September 2009, (Mineweb) – We are indebted again to Paul Mylchreest's Thunder Road Report for news that will bring big smiles to gold and silver investors everywhere. Apparently China is pushing the idea of buying gold and silver for investment purposes to the general population in the way that Western television sells soap powder. If 1.3 billion Chinese citizens start buying gold and silver, even in tiny quantities, imagine what that will do to the market!

The report notes that China's Central Television, the main state-owned television company, has run a news programme letting the public know how easy it is to buy precious metals as an investment. On silver investment the announcer is quoted as saying " China has introduced its first ever investment opportunity for silver bullion. The bars are available in 500g, 1kg, 2kg and 5kg with a purity of 99.9%. Figures show that gold was fifty times more expensive than silver in 2007, but now that figure has reached over seventy times. Analysts say that silver has been undervalued in recent years. They add that the metal is the right investment for individual investors and could be a good way to cash in."

What appears to have happened in China is a total relaxation of strictures on holding precious metals by the individual with the government pushing gold and silver as an investment option, seemingly at every opportunity. This is a far cry from the situation only a few years ago where the distribution of gold and silver was strictly controlled. Now, the Thunder Road Report notes that every bank will sell gold and silver bullion bars in four different sizes to individuals and gold related investments are said to be soaring in popularity.

Around a year ago, Leyshon Resources managing director, Paul Atherley, in an investor presentation in London - and no doubt delivered elsewhere in the world too - commented that some employees at the company's gold mining project in northern China would, on pay day, go to the local bank and buy a small gold bar as an investment and wealth protector. To an extent we put this down at the time to mining company hype - but this seems to be exactly the same phenomenon noted by Thunder Road. The Chinese are being converted from being the lowest per capita gold consumers in the world to a nation of small precious metals investors. Now, by next year, Chinese consumption of gold is likely to exceed that of India, which has been for years the world's biggest gold market. And one suspects that the potential for gold purchasing by individuals is only in its earliest stages. As more and more Chinese move into the cities and individual wealth grows, this trend is only likely to accelerate.

Paul ends the piece on Chinese gold and silver potential with the following comment: "Simply put, the Chinese government is trying to trigger a national gold craze...and it's working. The Chinese public now has gold trading platforms on steroids.... ...Also, for the first time in history, Chinese investors can even trade gold abroad (in London) with the swipe of a 'Lucky Gold' card. I can't even get Bank of America to open a foreign currency account."

This may be an overstatement of the case from a precious metals bull - or it may not! Certainly if China is indeed pushing the public to buy gold then there may well be a hidden agenda here. It's unlikely they are doing it and will suddenly pull the rug out from under millions of investors. A cynic (or a raging gold bull) would suggest that this will precede a move to switch a good proportion of the country's reserves into gold which would have a huge effect on the global gold price and could prove disastrous for the dollar. Maybe it's not in China's interests to drive the dollar down too much until it has managed to divest itself of the huge dollar overhang (see the article on Chinese Sovereign Wealth Funds we published yesterday - Chinese sovereign wealth fund dumping dollars for strategic investments like gold). The country may well already be, of course, surreptitiously building its gold reserves without reporting the build-up.

If the Chinese are indeed beginning to buy gold and silver as the quoted report suggests then this has to be a strong signal that prices are going to rise, and perhaps rise dramatically, in the relatively near future. We await comment from other China watchers for confirmation of the gold and silver buying spree, but with global gold production at best flat and probably in decline, even a small increase in Chinese buying could have a substantial impact on gold and silver prices.

New York, 18th September 2009, (IMF) – The Executive Board of the International Monetary Fund (IMF) today approved gold sales in a volume strictly limited to 403.3 metric tons, with these sales to be conducted under modalities that safeguard against disruption of the gold market. This decision is a central element of the new income model for the IMF that was endorsed by the Executive Board in April 2008 and will also increase the Fund's resources for lending to low-income countries under a strategy endorsed by the Board in July 2009 (see Press Releases No. 08/74 and No. 09/268). The new income model builds on the January 2007 recommendations of the Committee of Eminent Persons to Study the Sustainable Long-Term Financing of the IMF that was chaired by Andrew Crockett (see Press Release No. 07/18).

"I am delighted that the Executive Board has given its overwhelming backing to a strictly limited sale of Fund gold to put the financing of the IMF on a sound long-term footing, and enable us to step up much-needed concessional lending to the poorest countries," Managing Director Mr. Dominique Strauss-Kahn stated. "These sales will be conducted in a responsible and transparent manner that avoids disruption of the gold market. Most importantly, the sales are strictly limited to 403.3 metric tons, which is one-eighth of the Fund's total holdings, so the IMF will continue to hold a relatively large amount of its assets in gold."

The new income model is designed to provide the Fund with more diverse income sources that are better aligned with the variety of functions performed by the Fund, with a central component being the funding of an endowment with the profits from these limited gold sales. Resources linked to the gold sales will also be used indirectly to increase the Fund's capacity to provide concessional loans to low-income countries (see Press Release No. 09/268).

In accordance with the priority of avoiding disruption of the gold market, the Executive Board adopted modalities for the gold sales consistent with guidelines it had earlier established (see Factsheet on Gold in the IMF and Gold Sales—Frequently Asked Questions). First, the Fund would stand ready to sell gold directly to central banks or other official sector holders if there were to be interest from such holders. Such transactions would redistribute official gold holdings without changing total official holdings. Under the Fund's Articles of Agreement, all gold sales must be conducted at market prices, including direct sales to official holders.

Second, the gold sales could be conducted on-market in a phased manner over time, following the approach adopted successfully by the central banks participating in the Central Bank Gold Agreement. Participants in the recently renewed agreement announced ceilings on sales of 400 tons annually, and 2,000 tons in total during the five years starting on 27 September 2009, and noted that the Fund's sales can be accommodated under these ceilings. Hence, on-market gold sales by the Fund will not add to the announced volume of official sales.

As one of the elements of transparency, the Fund will inform markets before any on-market sales commence. In addition, the Fund will report regularly to the public on the progress with the gold sales.

Beijing, 21st September 2009, (Reuters) – China is considering buying gold being offered for sale by the International Monetary Fund, Market News International said on Monday, citing two unnamed government sources, but the report could not immediately be confirmed.

"China will consider buying if the price is right and the return is relatively high," MNI quoted one of the government sources as saying.

Gold, which had dipped just below $1,000 an ounce, rebounded to $1,003.45 after the report.

That would put the market value of the 403.3 tonnes on offer from the IMF at close to $13 billion.

"There was a small reaction to the news that China may discuss its gold plans at the G20, it recovered a little, but overall the market isn't overly concerned, not yet anyway," a Europe-based trader said.

China, the world's biggest producer and buyer of gold, revealed earlier this year that it had lifted its own stocks of gold to 1,054 tonnes from 400 tonnes when it last reported its holdings in 2003.

The IMF formally endorsed a plan on Friday to sell 403.3 tonnes of gold, one eighth of its holdings, to central banks or in the gold market.

Two Chinese central bank officials not directly involved in the issue told Reuters China should consider buying the gold being put up for sale by the IMF, but only at a big discount.

The officials, neither of whom had direct knowledge of the gold strategy, said they were expressing personal opinions.

"China only has about 1,000 tonnes of gold reserves and the investments in other assets are performing not very well," said one official, who declined to be named.

"I think we should build up more gold with foreign reserves, but when to buy is the key. It's a good idea if China can buy the gold from IMF at prices well below market level."

The official said he had no idea if the sale would be on the agenda for the G20 summit.

"I personally think China should buy the IMF gold. It will help China to diversify its reserve assets," the second official said.

"For the purpose of reserve safety, it is also good to increase the proportion of gold by a suitable amount," officials say.

The estimated $13 billion cost of the is small beer for the Chinese exchequer, with foreign exchange reserves of more than $2 trillion.

If it decided to buy the gold, China would be likely to seek a discount for the bulk purchase, since a market sale would put heavy pressure on the price.

The IMF has said it will try to sell the gold, one-eighth of its holdings, to central banks.

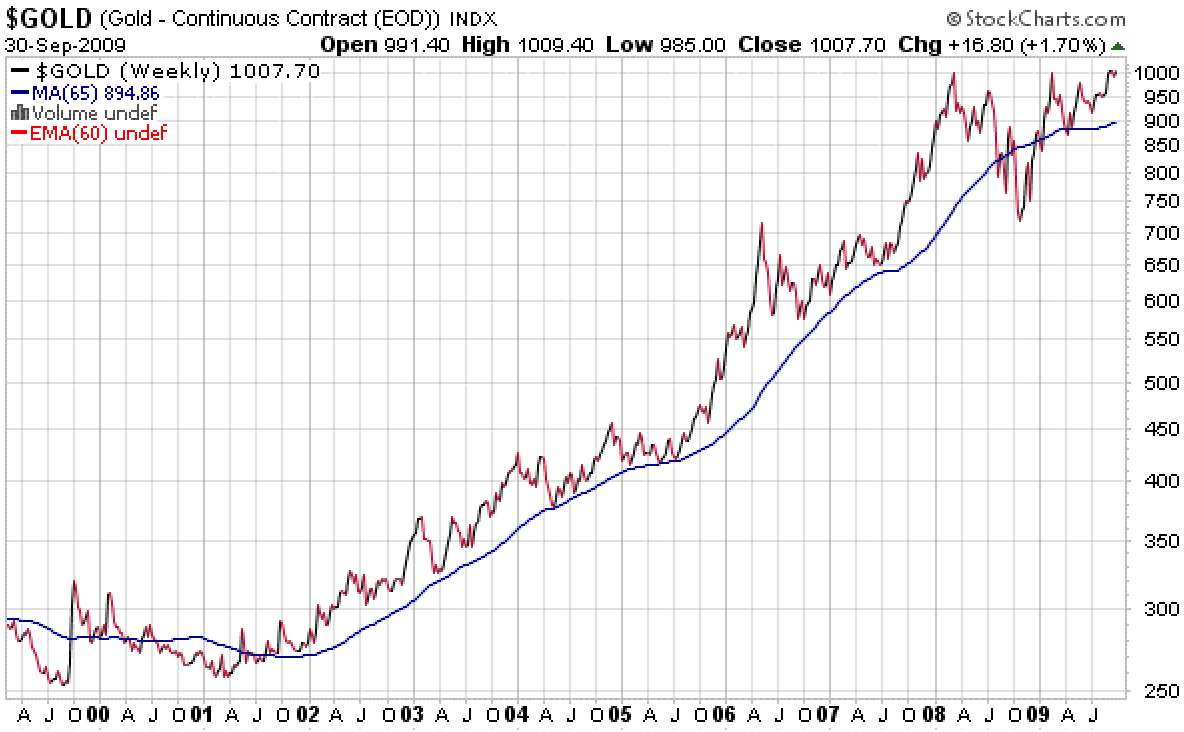
If there are no takers, it could sell to the market, which saw world gold demand of 3,880 tonnes last year, according to World Gold Council figures.

The huge increase in reserves that China announced earlier this year had had little impact on the market because the gold was accumulated over a long period and mainly through direct purchases from Chinese producers.

2.2 Technical Comments

Long Term Technical Comments

After gold's price breakout in September, the next technical target lies between 1200 and 1300 USD/oz:



Daily/Weekly Technical Comments

London afternoon fix in USD/oz:

Open	High	Low	Close
1st September	17th September	1st September	30th September
955.0	1018	955.0	995.8

London afternoon fix in €/oz:

Open	High	Low	Close
1st September	17th September	1st September	30th September
666.7	691.1	666.7	682.6

Gold's mid-month correction proved to be mild and is either pausing or coming to an end at the time of writing.

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3. Silver

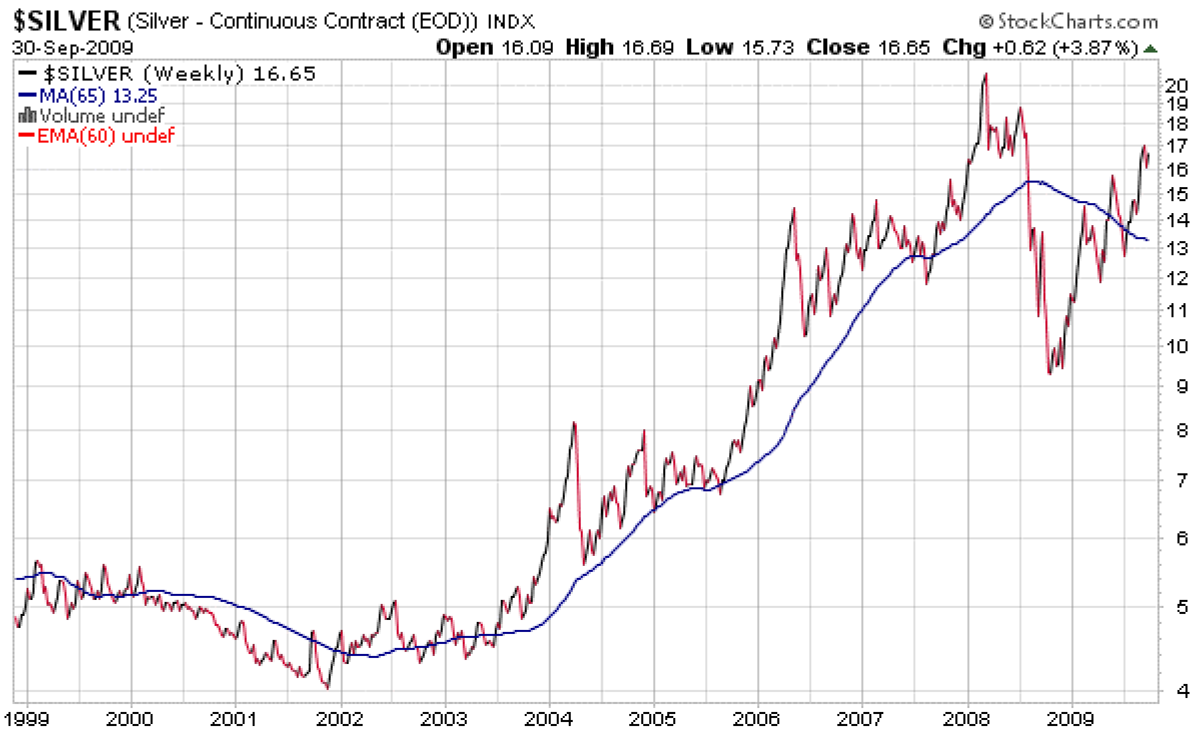
3.1 News and Fundamental Considerations

No news this month.

3.2 Technical Comments

Long Term Technical Comments

Like gold, silver also broke higher in price in September:



Daily/Weekly Technical Comments

London fix in USD/oz:

Open	High	Low	Close
1st September	17th September	1st September	30th September
14.74	17.38	14.74	16.45

London fix in €/oz:

Open	High	Low	Close
1st September	17th September	1st September	30th September
10.31	11.80	10.31	11.22

At the end of September the price trend for silver may be starting to turn up.

John Fineron, 1st October 2009.

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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