JM&B Monthly Gold & Silver Report
November 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

Both gold and silver displayed strong upward price movement in November. At the time of writing, both precious metals were overbought, but in bull-markets, things can stay overbought for longer than one might think.

2. Gold

2.1 News and Fundamental Considerations

Selected News Items from the Month

Washington, 3rd November 2009, (FT) – The International Monetary Fund has sold 200 metric tonnes of gold to India's central bank, making $6.7bn which it will use to shore up its long-term finances and subsidise loans to poor countries.

India's central bank is the first to buy from the IMF since the Fund put 403.3 tonnes of its stockpile up for sale in September.

The IMF made more money than it initially expected, selling the metal to the Reserve Bank of India gradually over the past two weeks at an average market price of around $1,045 an ounce.

It plans to sell the remaining 203.3 tonnes to other central banks or into the open market. “We don’t want to get ahead of ourselves, we still have another half to go. I hope we will still be lucky,” a senior IMF official said.

Most of the profits will go towards an endowment fund to close an income shortfall at the Fund, while up to $4bn will subsidise zero-interest loans to poor countries.

Dominique Strauss-Kahn, IMF managing director, said in a statement that he strongly welcomed” the sale. This transaction is an important step toward achieving the objectives of the IMF’s limited gold sales program, which are to help put the Fund’s finances on a sound long-term footing and enable us to step up much-needed concessional lending to the poorest countries,” he said.

New Delhi, 11th November 2009, (Economic Times) – India's gold imports surged by over 45 per cent in October at 48 tonnes on the back of rising demand, the country's largest state-run gold importing firm MMTC said today.

India, the world's largest gold consumer, had imported 33 tonnes in the corresponding period last year, it said.

"Gold imports rose due to a sharp rise in jewellery demand and pick up in investment," MMTC Chairman and Managing Director Sanjiv Batra told reporters here.

Consequently, MMTC purchased 15.13 tonnes from the global market last month as against 10.42 tonnes in the same period in 2008-09, he said.

However, gold imports till October this fiscal remained lower at 510 tonnes, compared with 635 tonnes in the year-ago period, he noted.

Going forward, gold imports would improve during the third quarter (October-December), he said.

Since 1991, central banks around the world have collectively reduced their gold holdings by some ten percent. However, it now appears that attitudes are changing.

London, 18th November 2009, (Market Oracle) – Gold has been hitting new highs in recent weeks, with the US Dollar weakening under loose monetary policy, reversing the gains it made in late 2008. Investors are betting that Asia's emerging economic powers will buy more of the precious metal to diversify their foreign-exchange reserves against a weakening US Dollar.

Earlier this month, the Reserve Bank of India (RBI) announced that it had purchased 200 tonnes of gold from the International Monetary Fund (IMF). This US$6.7 billion transaction was the largest purchase of gold made by a central bank in 30 years.

Several days later, the Central Bank of Sri Lanka (CBSR) announced that it had increased its gold reserves over the past five to six months by an undisclosed amount, speculated by analysts to be around five tonnes. CBSR Governor Ajith Nivard Cabraal stated that gold would be an "important anchor" for its foreign reserves, adding that "...in very volatile circumstance across the world you need to have intrinsic value created in your portfolio."

On November 16, the IMF issued a statement that it had sold two tonnes of gold to the central bank of Mauritius for US$71.7 million.

India, Sri Lanka, and Mauritius have joined China and Russia as being net accumulators of gold.

Russia Continues Increasing Gold Reserves

Russia's central bank has purchased 180 tonnes of the precious metal on the open market since June 2006. More recently, deputy chairman Alexi Ulyukayev stated that Russia's central bank may buy gold from the government's Gokhran repository.

Gokhran, which was established by Tsar Peter the Great in 1719, is the Russian state's reserve of precious metals including gold and palladium as well as gems such as diamonds. The size of Gokhran's stocks is a state secret, disclosure of which is punishable by imprisonment.

This deal would be the first major gold sale by Gokhran since the fall of the Soviet Union in 1991, which kept a veil of secrecy over its sometimes significant foreign sales of precious metals and gems. It is believed that somewhere between 20 and 50 tonnes of gold will be supplied in 2009.

China Adds to Gold Reserves from Domestic Sources

Last year China ranked as the largest producer of gold at 288 metric tonnes, equivalent to 12.2% of global output. China is also quickly gaining on India in becoming the world's largest consumer of gold.

Hu Xiaolian, China's head of the State Administration of Foreign Exchange announced in April this year that China's gold reserves had risen by 454 metric tonnes since 2003 and that the total was being reported to the IMF per the organization's rules. Although Hu did not elaborate on where China had sourced the additional bullion, her comments were interpreted as implying they came from domestic sources and likely included the refining of scrap metal.

This increase makes China the world's fifth-largest holder of gold, just ahead of Switzerland, and among the six nations plus the IMF that have reserves exceeding 1,000 metric tonnes.

When asked during a Reuters interview to comment on RBI's recent purchase, Xia Bin, the chief of China's Financial Department of the Development and Research Centre stated, "India's okay with it, why shouldn't we be? What's the use for so many dollars, whose purchasing power is weakening anyway? With so many foreign reserves in hand, I think China should buy [gold], without doubt."

Changing Attitudes

Central banks began holding massive gold sales beginning in the early 1980s. Prices collapsed from an intraday high of US$878 per ounce on January 21, 1980 to US$252 per ounce on August 25, 1999. The last significant downward pressure on gold was the official announcement made by the United Kingdom to begin selling off a significant portion of its gold reserve on May 7, 1999. That summer gold reached its lowest point in twenty years.

The UK sold approximately 395 tonnes of gold over seventeen auctions from July 1999 to March 2002, at an average price of about US$275 per ounce, raising approximately US$3.5 billion.1

Central banks then agreed to limit the quantity of gold sold through the Washington Agreement on Gold. This agreement, a sui generis among the central bankers, was signed on September 26, 1999.

"Under the agreement, the European Central Bank (ECB), the 11 national central banks of nations then participating in the new European currency, plus those of Sweden, Switzerland and the United Kingdom, agreed that gold should remain an important element of global monetary reserves and to limit their sales to no more than 400 tonnes (12.9 million oz) annually over the five years September 1999 to September 2004, being 2,000 tonnes (64.5 million oz) in all." (Washington Agreement, 1999)

Two similar versions of the agreement were signed for five-year periods on March 8, 2004 and August 19, 2009.

This year is witnessing the world's central banks as being net buyers of gold following almost two decades of selling. Gold is still widely regarded as a safe store of value both among private individuals and governments.

London, 19th November 2009, (World Gold Council) – Total identifiable gold demand for the third quarter 2009 reached 800.3 tonnes, or US$24.7 billion in dollar terms, up 15% from the second quarter, as gold's long-term store of value and wealth preservation qualities continued to attract investors and consumers. Jewellery and investment demand in non-western markets rebound from the very low levels seen in the first quarter, while industrial demand started to recover in response to an improvement in economic conditions.

However, the Q3'09 Gold Demand Trends Report, released today by the World Gold Council (WGC), shows a 34% drop on year earlier levels due to an exceptionally strong Q3'08, which saw soaring demand in response to the deepening global financial crisis and as many non-western markets responded to a dip in the gold price in that quarter. To address this, WGC compared Q3'09 against the five year Q3 demand average to 2007, which showed tonnage down just 4% on this basis. While Q3'09 exchange traded funds (ETF) and inferred investment fell slightly quarter on quarter, jewellery, industrial and retail investment demand recorded improvements, demonstrating the unique diversity of demand drivers that support the gold price.

Aram Shishmanian, CEO of World Gold Council, commented:
"This quarter's demand trends demonstrate the diverse and robust nature of the gold market which underpins the gold price. Early signs of economic recovery and improving consumer confidence have seen jewellery and industrial demand rise relative to last quarter, and the profit taking witnessed earlier in the year has markedly decreased. "The outlook for investment is positive overall with absolute levels of demand likely to remain well supported by continued economic and currency uncertainty, inflation concerns and the search for diversification. In the official sector, we expect to see a continuing trend of central banks diversifying their dollar exposure in favour of the proven store of value represented by gold."

The figures, compiled independently for WGC by GFMS Limited, show that average gold prices for the quarter were 10% higher than in Q3'08 at US$960/oz. This rise was even stronger in a number of local currencies. Jewellery demand was up 17% quarter on quarter, due in part to seasonal factors. However, the high local pricing environment resulted in a 30% drop in jewellery demand relative to year earlier levels. Identifiable investment demand overall, which includes gold exchange traded funds and bars and coins, was 227.2 tonnes, a slight increase on Q2 levels, but down 46% from the extreme highs of Q3'08.

The retail investment category, which includes demand in the form of bars and coins, again grew on a sequential basis, up 11%, although it was 31% lower than the third quarter of 2008. Flows into gold ETFs remained strong in absolute terms at 41.4 tonnes, although were again significantly lower than the relatively high figures recorded in Q3'08. Inferred investment, which covers the less visible part of gold demand, experienced another quarter of net inflows. This inflow, of 30.7 tonnes was, however, significantly lower than in the previous two quarters.

Industrial demand recorded its second consecutive quarter of improvement, with quarter on quarter demand up 6%. Despite significantly lower tonnage demand compared to year earlier levels, there were some positive signs of an up-tick in end use demand, particularly within the electronics sector, which accounts for around 70% of industrial off-take.

Demand in most regions was lower year-on-year, the exception once again being Greater China, which recorded positive growth of 10% in tonnage over Q3'08, itself a very strong quarter. Mainland China, supported by 8.9% year on year GDP growth, saw a 12% increase in consumer demand for gold compared to year earlier levels, reaching a record high of 120.2 tonnes. Jewellery demand rose 8% to 93.5 tonnes with strong growth in the 24 carat market as consumers sought out gold's wealth preservation characteristics. Q3 retail investment demand in mainland China reached a record level of 26.8 tonnes. This represented a rise of 30% above Q3 08 levels.

In India, third quarter demand continued to improve from the exceptional lows witnessed earlier in the year, with jewellery demand up 27% quarter on quarter, although this partly reflected a seasonal improvement. Jewellery demand, of 111.6 tonnes, was down 42% on year earlier levels, while net retail investment demand of 26.0 tonnes was 67% lower. Absolute levels of demand remained relatively weak on a historical basis.

Total demand for gold in the Middle East region was significantly lower during the quarter when compared to year earlier levels - this is, again, distorted by the exceptionally strong quarter recorded in Q3'08. Jewellery demand, of 69.0 tonnes, was down 34% on year earlier levels, while net retail investment demand of 6.4 tonnes was 11% lower. However, retail investment and jewellery demand were both above the levels seen in the second quarter of this year.

In the US, total gold off-take in the third quarter was 17% below the levels of Q3'08, equivalent to a fall of 9% in $US value terms. Jewellery demand weakness continued to prevail and while the US economy has shown tentative signs of a recovery, a high degree of uncertainty remains and is muting any improvement in discretionary spending. Investment flows remained extremely buoyant by historical standards during the quarter at 17.8 tonnes.

Total supply of gold contracted slightly in the third quarter at 833.0 tonnes, 8% lower than the second quarter and 5% below year earlier levels. Mine production showed a firm improvement during the quarter, reaching 670.0 tonnes. The key factors weighing on supply were an increase in producer dehedging and a negative contribution from the official sector, in addition to lower levels of scrap than previous quarters.

The full Third Quarter 2009 Gold Demand Trends report can be viewed at:

http://www.research.gold.org/supply_demand/

Moscow, 23rd November 2009, (Reuters) – Russia's central bank gold stocks rose by 0.5 million ounces (15.6 tonnes) or by 2.6 percent in October to 19.5 billion ounces (606.5 tonnes), data on the bank's web site www.cbr.ru showed.

Russia's central bank has said it aims to increase gold's share in its reserves this year to keep its investments diverse. The metal is also seen as a safe-haven at times of financial market turbulence and economic crisis -- a status which has helped send the price of gold XAU= to record highs this year.

The web site said the total value of gold in the bank's stocks rose to $20.4 billion at Nov. 1 from $18.8 billion a month earlier. Gold made up 4.7 percent of Russia's total gold and foreign exchange reserves -- the world's third largest -- which stood at $434.43 billion at the start of November.

A source in the Russian state precious and metals repository Gokhran said the gold did not come from its stocks.

The central bank was not immediately available for comment.

Russia's Finance Minister Alexei Kudrin said last week Gokhran, subordinated to the ministry, will sell 30 tonnes of gold to the central bank this year.

The central bank had been steadily building its gold stocks this year from 16.7 million ounces on Jan. 1, 2009.

The largest monthly increase this year -- of 0.6 million ounces -- took place in July, when stocks rose to 18.3 million ounces from 17.6 million.

In September Russia's gold stocks were the world's ninth-largest.

The central bank's reserves include gold, foreign currency and Special Drawing Rights (SDRs), an international reserve asset that is essentially a currency of the International Monetary Fund, and some other assets.

2.2 Technical Comments

Long Term Technical Comments

Solid upward price movement for gold:

Daily/Weekly Technical Comments

London afternoon fix in USD/oz:

Open	High	Low	Close
2nd November	26th November	3rd November	30th November
1062	1183	1061	1176

London afternoon fix in €/oz:

Open	High	Low	Close
2nd November	26th November	2nd November	30th November
716.8	787.2	716.8	782.3

Although gold remained overbought throughout most of November, a price correction had not set in with certainty at the time of writing.

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3. Silver

3.1 News and Fundamental Considerations

London, 19th November 2009, (GFMS) – GFMS' Interim Silver Market Review

"Silver forecast to surpass the $20 level in the short term basis a continued surge in investment. A recovery in fabrication demand should support prices in 2010 even as investor interest eventually moderates."

Fabrication demand – projected to fall by almost 11% this year, as a slide in industrial uses and ongoing losses in photography are only partly compensated by robust growth in coins and a modest rise in jewellery & silverware fabrication.

Supply – a small increase in mine production in 2009 will be offset by lower supply from scrap and government sales.

Investment – has surged this year and is expected to drive silver prices higher, with the $20 level likely to be breached in the short term. Conditions should eventually
become less supportive of investment demand during the course of next year.

Prices – the annual average in 2009 is currently expected by GFMS to record $14.78, marginally down year-on-year. GFMS' Base Case scenario is for the annual average price in 2010 to fall slightly from this year's level.

This evening at the annual New York Silver Dinner organised by The Silver Institute, GFMS presented its interim silver market review. This review included GFMS' provisional supply and demand forecasts for 2009 and the consultancy's expectations for silver supply, demand and the price in 2010. The key points from the interim silver market review are as follows:

Supply
Total supply to the market is forecast to be again virtually unchanged year-on-year in 2009. Marginal growth in mine production is being offset by lower supply from scrap and government sales.

Mine production is forecast to rise moderately, by some 12 Moz (385 t) or almost 2% this year. Supply from primary silver producers is forecast to increase, notably from Pirquitas, San Bartolomé and Manantial Espejo. Strong growth is expected from the gold sector, and Mexico in particular, including Couer d'Alene's Palmarejo, Minefinders' Dolores and Goldcorp's Peñasquito oxide phase and Agnico-Eagle's Pinos Altos. Elsewhere, Russian production will receive a boost from a full year of production at Kinross' Kupol.

Scrap supply is expected to fall by almost 4% this year, due to an ongoing reduction in the amount of silver recovered from photographic waste, the main source of recycled metal.
Government sales have dropped sharply in 2009. Russian state disposals appear to have again accounted for the bulk of government sales.

Demand

Fabrication demand is forecast to have fallen steeply from 2008's level, with expectations currently for a drop of around 11% year-on-year. A fair recovery is forecast for 2010.

Industrial demand has fallen heavily in 2009 year-to-date, due to the severity of the economic downturn, which affected electrical and electronics demand particularly badly in the first quarter. GFMS are currently forecasting a full year decline for industrial demand of around 20%. In 2010, however, a rebound in offtake is expected, given an improvement in global GDP and industrial production growth and stock replenishment.

Jewellery & Silverware fabrication, on a combined basis, is forecast to rise by nearly 2% in 2009. Silver has benefited in several important jewellery markets from substitution at gold's expense. However, the weak economy and high silver prices have also restrained growth in demand. Moreover, some of the rise in fabrication reflects an increase in trade stocks in India, where surging local prices have constrained final demand from consumers.

Photographic use of silver is expected to drop by close to 16% in 2009 as demand continues to be affected by the switch to digital technology. Silver use in the cinematic industry has also been hard hit, as a lack of financing has led to a drop in the number of films produced.

Coin minting has risen strongly this year, with a full year gain forecast for 2009 of some 19%.

Producer hedging looks set to remain firmly on the demand side this year, but de-hedging is considerably less than the elevated level recorded, for instance, back in 2007.

Investment

Investment demand has risen considerably in 2009 and, including coins, is currently projected to exceed a net 207 Moz (6,440 t) this year.

The early part of 2009 was dominated by demand for physical metal and ETFs, as investors sought refuge in silver when fears over counterparty risk and the financial system remained rampant.

Following a 'summer lull', since September there has been a robust expansion in investors' long positions in all investment arenas. Silver has benefited from gold's strength, US dollar weakness, some investors' rising concerns at the potential for higher inflation in future and the general growth in investors' interest in commodities in a very low interest rate environment.

Overall, the January-October period saw a 100 Moz (3,110 t) rise in ETF holdings coupled with an increase of 171 Moz (5,306 t) in the 'investor' net long position in Comex futures. Investors' bullion stocks have increased substantially this year on a net basis.

Prices

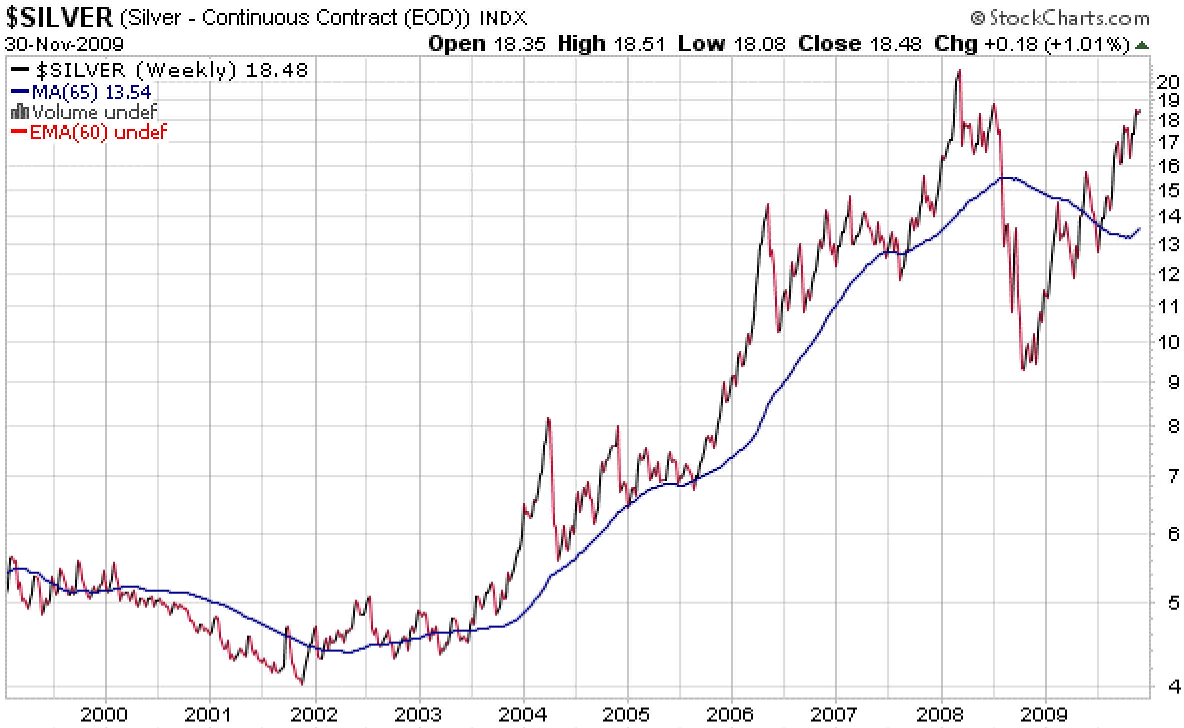
For the first ten months of 2009, the silver price, basis the London fixing, averaged $14.06, down 12% year-on-year for the January-October period but up 50% on an intra-year basis.
Investment demand remains the main driver of the price and, in GFMS' view, this has raised silver to well above the equilibrium level that would likely prevail in the absence of such investment.

Silver's supply/demand fundamentals (excluding investment) should become more supportive in 2010, largely due to a recovery in fabrication demand. Taken in isolation this will be positive for the price. Nevertheless, a shrinking "surplus" between supply from mine production and scrap and fabrication demand means that less metal will have to be absorbed by investors, who GFMS forecast under their Base Case scenario may be somewhat less motivated next year to purchase silver as the economy gradually recovers, short term interest rates rise and the US dollar stabilises.

3.2 Technical Comments

Long Term Technical Comments

As with gold, solid upward price movement for silver in November:



Daily/Weekly Technical Comments

London fix in USD/oz:

Open	High	Low	Close
2nd November	25th November	3rd November	30th November
16.58	18.63	16.35	18.14

London fix in €/oz:

Open	High	Low	Close
2nd November	23rd November	3rd November	30th November
11.21	12.53	11.16	12.07

Silver appeared to be topping out at the end of November, but this had not been confirmed by MACD at the time of writing.

John Fineron, 1st December 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

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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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