JM&B Monthly Gold & Silver Report
March 2010

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 consolidated in price in March with silver showing a strong upward bias.

2. Gold

2.1 News and Fundamental Considerations

Selected News Items from the Month

New York, 2nd March 2010, (FIN Alternatives) – Gold may be a "bubble," according to George Soros, but it's been a profitable one for his Soros Fund Management. And not one that the hedge fund thinks will be bursting any time soon.

Soros more than doubled its bet on the precious metal in the fourth quarter, according to a regulatory filing. The $25 billion hedge fund boosted its investment in the SPDR Gold Trust by 152% over the last three months of the year, making it's the fourth-biggest investor in the exchange-traded fund.

Though the price of gold is down about 9% this year, it rose 21% during the fourth quarter, while Soros was buying up more than 2.4 million shares of the SPDR gold fund.

In January at the World Economic Forum at Davos, Soros called gold “the ultimate asset bubble.”

But Soros is not alone in thinking gold has farther to rise before its inevitable fall. Barclays, Goldman Sachs and HSBC all predict the metal will rise at least another 10% this year.

London, 18th March 2010, (Bloomberg) – Central banks added the most gold to their reserves since 1964 last year amid the longest rally in bullion prices in at least nine decades, data compiled by the World Gold Council show.

Combined holdings rose 425.4 metric tons to 30,116.9 tons, an increase worth $13.3 billion at last year’s average price, according to the data. India, Russia and China said last year they added to reserves. The expansion was the first since 1988, the data from the London-based council show.

Central banks, holding about 18 percent of all gold ever mined, are expanding their holdings for the first time in a generation as investors in exchange-traded funds amass bullion as an alternative to currencies. Holdings in the SPDR Gold Trust, the biggest ETF backed by the metal, are at 1,115.5 tons, more than the holdings of Switzerland.

“There’s clearly been a renaissance of gold in central bankers’ minds,” said Nick Moore, an analyst at Royal Bank of Scotland Group Plc in London. “It’s not just been central banks taking on gold, but a general shift for physical gold in the investment sector.”

Official reserves of central banks and governments may expand by another 187 to 218 tons this year, CPM Group forecast last month. The council’s data also includes the holdings of the International Monetary Fund, European Central Bank and other international and regional bodies.

Gold climbed 24 percent last year, reaching a record $1,226.56 an ounce in December. World holdings rose 527 tons in 1964 and climbed 832.7 tons the year before that, according to the London-based industry group.

‘At the Edge’

“Gold is quietly, at the edge, becoming the world’s second reservable currency, supplanting the euro and rivalling the dollar,” Dennis Gartman, a Suffolk, Virginia-based economist and hedge-fund manager, said in his Gartman Letter today. “The trend shall continue months, if not years, into the future.”

Gold is up 2.7 percent this year and traded at $1,126 an ounce at 11:29 a.m. in London. The U.S. Dollar Index, a six- currency gauge of the greenback’s value, is up 2.7 percent this year after slipping 4.2 percent in 2009. Bullion typically moves inversely to the U.S. currency.

Higher prices for gold, especially in euros and sterling, may deter countries from adding further to reserves, RBS’s Moore said. Bullion climbed to a record 838.43 euros on March 5, Bloomberg data show.

“Central banks might feel somewhat embarrassed to be buying gold at records” in some currencies, Moore said. “When you have an asset trading at an all-time high, the temptation is not to purchase more.”

London, 24th March 2010, (Telegraph) – Gordon Brown has been ordered to release information before the general election about his controversial decision to sell Britain's gold reserves.

Gordon Brown pushed ahead with the sale of Britain's gold despite serious misgivings at the Bank of England, it is believed. The decision to sell the gold – taken by Mr Brown when he was Chancellor – is regarded as one of the Treasury's worst financial mistakes and has cost taxpayers almost £7 billion. Mr Brown and the Treasury have repeatedly refused to disclose information about the gold sale amid allegations that warnings were ignored.

Following a series of freedom of information requests from The Daily Telegraph over the past four years, the Information Commissioner has ordered the Treasury to release some details. The Treasury must publish the information demanded within 35 calendar days – by the end of April.

The sale is expected to be become a major election issue, casting light on Mr Brown's decisions while at the Treasury.

Last night, George Osborne, the shadow chancellor, demanded that the information was published immediately. "Gordon Brown's decision to sell off our gold reserves at the bottom of the market cost the British taxpayer billions of pounds," he said. "It was one of the worst economic judgements ever made by a chancellor.

"The British public have a right to know what happened and why so much of their money was lost. The documents should be published immediately."

Between 1999 and 2002, Mr Brown ordered the sale of almost 400 tons of the gold reserves when the price was at a 20-year low. Since then, the price has more than quadrupled, meaning the decision cost taxpayers an estimated £7 billion, according to Mike Warburton of the accountants Grant Thornton.

It is understood that Mr Brown pushed ahead with the sale despite serious misgivings at the Bank of England. It is not thought that senior Bank experts were even consulted about the decision, which was driven through by a small group of senior Treasury aides close to Mr Brown.

The Treasury has been officially censured by the Information Commissioner over its attempts to block the release of information about the gold sales.

The Information Commissioner's decision itself is set to become the subject of criticism. The commissioner has taken four years to rule on the release of the documents, despite intense political and public interest in the sales. Officials have missed a series of their own deadlines to order the information's release, which will now prevent a proper parliamentary analysis of the disclosures.

It can also be disclosed that the commissioner has held a series of private meetings with the Treasury and has agreed for much of the paperwork to remain hidden from the public. The

Treasury was allowed to review the decision notice when it was in draft form – and may have been permitted to make numerous changes.

In the official notice, the Information Commissioner makes it clear that only a "limited" release of information has been ordered.

Ed Balls, who is now the Schools Secretary, Ed Miliband, now the Climate Change Secretary, and Baroness Vadera, another former minister, were all close aides to the chancellor during the relevant period.

If the information is not released by the end of April, the Treasury will be in "contempt of court" and will face legal action. A spokesman said last night that the Treasury was not preparing to appeal against the ruling.

How auctions cost taxpayer £7bn

The price of gold has quadrupled since Gordon Brown sold more than half of Britain's reserves.
The Treasury pre-announced its plans to sell 395 tons of the 715 tons held by the Bank of England, which caused prices to fall.

The bullion was sold in 17 auctions between 1999 and 2002, with dealers paying between $256 and $296 an ounce. Since then, the price has increased rapidly. Yesterday, it stood at $1,100 an ounce.
The taxpayer lost an estimated £7 billion, twice the amount lost when Britain left the Exchange Rate Mechanism in 1992.

The proceeds from the sales were invested in dollars, euros and yen. In recent years, most other countries have begun buying gold again in large quantities.

New York, 28th March 2010, (DJ Newswires) – China's gold jewellery and investment demand could double in the next decade at the same time the country's mining output declines, according to a World Gold Council report.

"Our analysis shows that if gold demand were to continue to increase so markedly, domestic supply would be unable to keep pace," said Eily Ong, investment research manager at the WGC and author of the report. "Whatever the outcome, China's outlook will almost certainly have implications for the global market."

China is the second-largest buyer of gold in the world behind India, with consumption of $14 billion, in 2009, the WGC report said. This could rise to $29 billion, at end-of-2009 prices, within the next decade.

This increase can be expected as China's middle class keeps growing, said Juan Carlos Artigas, another investment research manager for the Gold Council. Roughly 80% of the Chinese gold demand is for jewellery, and China was the only country to post an increase in jewellery demand last year, when consumption dipped in other nations amid high gold prices and global economic weakness.

Furthermore, China's gold market is not yet "as mature" as in other countries since deregulation allowing gold to be bought freely did not occur until 2001, Artigas said. "Therefore, it has potential to grow," Artigas said.

China's per-capital annual purchases of gold jewellery are 0.26 grams, low compared to other gold-buying nations, Artigas said. If this were to eventually increase to the same rates as in other regions such as India, Hong Kong or Saudi Arabia, jewelry-related purchases could increase by anywhere from 100 metric tons to a few thousand. Indian per-capita consumption is 0.34 grams per year.

Gold investment in China has grown in line with gross domestic product and the population since deregulation, and this trend is expected to continue, the WGC said.

"Basically, China will be consuming more than it's producing, therefore demanding more gold from global sources," Artigas said.

In fact, the country's 2009 mine output of around 314 metric tons did not match the jewellery and investment demand of 423, the WGC report said.

Meanwhile, the country's supply is likely to decline in the future unless the country attracts "significant" capital investment for further exploration, the WGC said.

China increased gold mining output by 84% in the last decade and is currently considered the world's largest producer. However, China also has only 4% of the known global reserves, according to the U.S. Geological Survey.

"This suggests China would exhaust its known gold reserves in about six years if they were mining at the same rate as they are mining now," Artigas said. The global average is 10 to 15 years, he said.

Meanwhile, there would seem to be potential for China's central bank to add to its gold reserves, the Gold Council said. At 1,054 metric tons, China's official holdings are more than all but four central banks and the International Monetary Fund. However, Chinese central-bank gold holdings amount to just 1.6% of the country's total $2.4 trillion in reserves, which is a low percentage by international standards, the WGC said.

If the country simply returned to 2.2%, as in late 2002, this would mean incremental demand of 500 tons at current prices, Artigas said. "Even if they only increase [total holdings] by 10%, that is still an additional 100 tons of offtake," Artigas said.

2.2 Technical Comments

Long Term Technical Comments

No change in the long-term trend:

Daily/Weekly Technical Comments

London afternoon fix in USD/oz:

Open	High	Low	Close
1st March	3rd March	24th March	31st March
1114	1137	1091	1116

London afternoon fix in €/oz:

Open	High	Low	Close
1st March	5th March	22nd March	31st March
824.3	836.5	810.7	825.1

Gold essentially moved sideways in March.

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3. Silver

3.1 News and Fundamental Considerations

Silver News from the Silver Institute:

http://www.silverinstitute.org/images/pdfs/4q09.pdf

3.2 Technical Comments

Long Term Technical Comments

Still no upward break of the inverted head and shoulders formation:

Daily/Weekly Technical Comments

London fix in USD/oz:

Open	High	Low	Close
1st March	17th March	24th March	31st March
16.50	17.54	16.68	17.50

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London fix in €/oz:

Open	High	Low	Close
1st March	31st March	11th March	31st March
12.18	12.99	12.39	12.99

Silver displayed a firm upward trend in March, finishing the month on a high note at resistance coming in at 17.50 USD/oz.

John Fineron, 1st April 2010.

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Appendix: More about this report

Purpose of the Report
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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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