JM&B Monthly Gold & Silver Report
April 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

Gold broke upwards out of price consolidation in April and silver was close to doing so as the month ended. Both metals made new price highs in all currencies in the current bull market, except for the price measured in USD.

2. Gold

2.1 News and Fundamental Considerations

Selected News Items from the Month

London, 14th April 2010, (GFMS) – GFMS launched Gold Survey 2010 today, the 43rd edition of their authoritative and comprehensive annual survey of the world gold market, at events in London, Toronto and Johannesburg. The following details some of the highlights of the Gold Survey from the briefing given at the London launch by Philip Klapwijk, chairman of the independent precious metals research consultancy.

The report leads with a simple statement - investment demand in 2009 exploded to surpass jewellery fabrication for the first time since 1980. Klapwijk commented, "the more than doubling of investment in value terms to almost $60 billion was partly due to familiar forces such as the dollar falling. However, it was powerful new drivers - we could cite here fears over quantitative easing, perhaps even more so counter-party risk as long standing financial institutions collapsed - that got interest really moving". The report feels it was very much this surge in investment that rallied the gold price to an all time high over $1,200 in early December.

The survey highlights the complexity of overall investment, with certain areas such as physical retail investment or the ETFs booming early in the year, while the more speculator focused Comex futures market saw most of its gains in the closing months of 2009. And not all areas saw buoyancy as GFMS estimate that non-western bar hoarding more than halved last year. The consultancy is quick to stress that there was more to gold in 2009 than investment. The market for instance had to cope with the collapse in jewellery consumption to a 21-year low or almost half the volumes achieved at their peak in 1997 due to the combination of the onset of a global recession in conjunction with still elevated prices. At the same time, scrap supply continued to surge on the back of profit taking at elevated prices and distress selling in the face of economic trauma. According to GFMS' figures, this left scrap at record volumes last year, making up almost 40% of total supply. GFMS feel the interplay of all these forces was at the most dramatic in the first quarter of the year as it was then that investment was at its strongest yet it was in the fourth that prices achieved record levels. Klapwijk added, "you really do need to look at the physical market to get the complete picture. Then when in the first quarter you see scrap rocketing past not only jewellery demand but also mine production, you can understand why the rally failed in the run-up to $1,000.

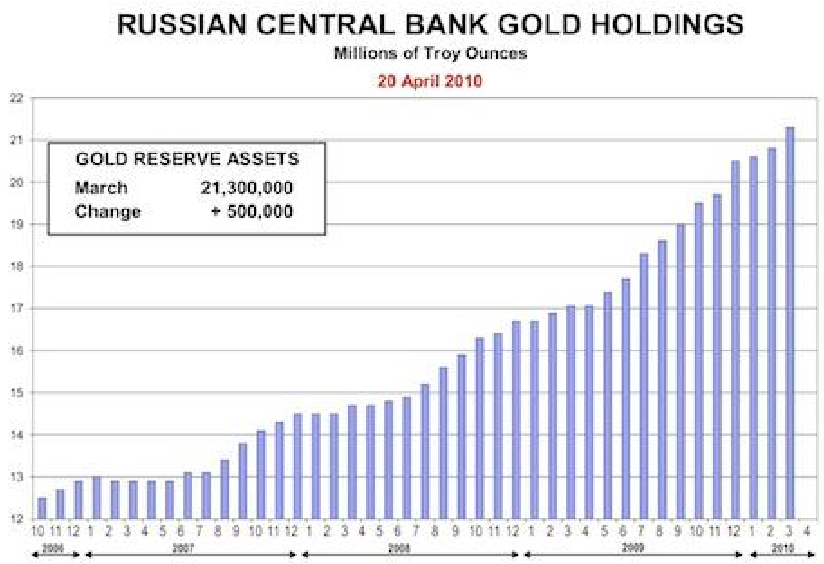
Fast forward to the fourth quarter, when the fundamentals aren't looking so shaky, and investment has an easier job of getting prices over $1,200". Other areas that the report highlights as integral to prices' move higher include the official sector, where net sales fell by over 80% - a development attributed in the main to far lower sales by the European central banks. The report also attaches importance to India's purchase of 200 tonnes of IMF gold, with Klapwijk noting, "the buying may have been off-market but it gave a big boost to the market as investors interpreted it as a sign that there had been a sea change in central banks' attitudes to gold". Investors also responded bullishly to news in September that meant a faster than expected unwinding of the producer hedge book.

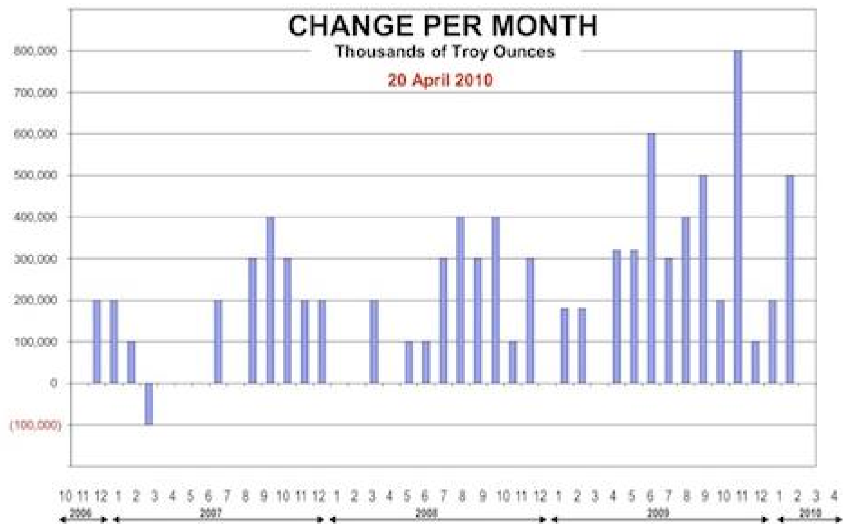
GFMS, however, feel that 2009 marked the 'last hurrah' for de-hedging as the still fairly high level achieved of over 250 tonnes cannot be remotely replicated with the outstanding book at end-2009 down to less than 240 tonnes. Mine production cannot explain price strength in 2009 as GFMS estimate this rose notably to the second highest figure ever and that further growth is likely in 2010.

With mine output growing and de-hedging likely to be negligible, this might begin to imply that GFMS were becoming somewhat bearish as regards the gold price but Klapwijk commented, "we've actually raised our short term downside for the price as we can't see a good reason for investors to dump gold, and the fundamentals, if still pretty weak, are improving". Looking ahead, further price gains were thought likely as the investment case was still perceived as strong, with for example all the major currencies now being questioned by investors, in large measure due to high and rising levels of government indebtedness, and longer-term inflation threats still a growing issue for some. However, GFMS caution that, with no immediate reason for fresh investment to flood in, the rally might take a while to materialise and their upside target had been lowered as the likelihood recedes that we shall see the financial conditions necessary to produce dramatically higher prices. Importantly, Klapwijk added, "we're certainly in the end-game now, although that could still take a year or more to play out. But after that, it's difficult to see how we can avoid a hefty drop in prices if we want to boost jewellery and trim scrap to bring the overall market back into equilibrium".

USA, 14th April 2010, (Ed Steer - Casey Research) – As the headline to my column states, Russia's Central Bank purchased 500,000 ounces of gold in March... bringing their total gold stash to 21.3 million ounces. Without doubt, all this gold would have been purchased from Russia's own mine production.

The really interesting part about their central bank's purchases in the first quarter of 2010 is that they are off to their biggest [reported] first quarter gold purchases in history. In Q1/07, their net purchases were zero. In Q1/08 they purchased 200,000 ounces and in Q1/09 Russia's central bank purchased 360,000 ounces. But in Q1/10 they bought a monstrous 800,000 ounces. March 2010 purchase of 500,000 ounces is tied for the third-highest gold purchase for any one month ever! If they keep this up, heaven only knows how many ounces they'll have in their vaults by the end of this year. The graph below tells all and I thank Richard Nachbar and Susan McCarthy for providing it.

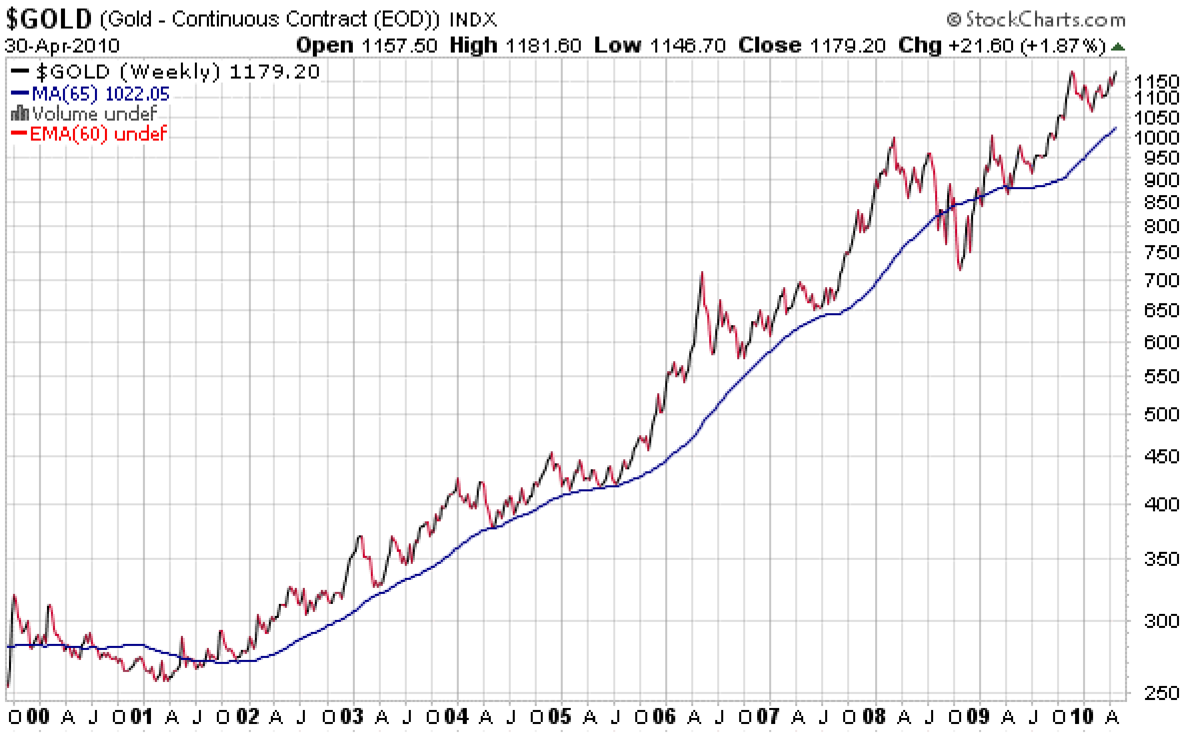




2.2 Technical Comments

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 April	30th April	1st April	30th April
1124	1179	1124	1179

London afternoon fix in €/oz:

Open	High	Low	Close
1st April	30th April	1st April	30th April
832.7	887.4	832.7	887.4

Gold broke upwards through horizontal price resistance in April.

3. Silver

3.1 News and Fundamental Considerations

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 April	30th April	19th April	30th April
17.69	18.62	17.50	18.62

London fix in €/oz:

Open	High	Low	Close
1st April	30th April	19th April	30th April
13.11	13.98	13.03	13.98

Silver appeared to be in the process of attacking the next price resistance at 18.75 USD/oz at the time of writing.

John Fineron, 3rd May 2010.

Tel: +41 44 307 19 19; Fax: +41 44 307 19 20

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.

Special Legal Notice/Disclaimer concerning this report

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Tel: +41 44 307 19 19; Fax: +41 44 307 19 20