

# JM&B Monthly Gold & Silver Report

## May 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](http://www.platinum.matthey.com/publications/price_reports.html)

### Contents

- 1. Commentary
- 2. Gold
  - 2.1 News and Fundamental Considerations
  - 2.2 Technical Comments
- 3. Silver
  - 3.1 News and Fundamental Considerations
  - 3.2 Technical Comments
- Appendix More about this report

## 1. Commentary

Gold ended May on a strong note, silver however appeared to be weaker.

## 2. Gold

### 2.1 News and Fundamental Considerations

#### Selected News Items from the Month

**Dubai, 5th May 2010, (Emirates Business)** – Commercial banks are buying gold to meet the demand of clients who want their deposits saved in gold, commodity dealers said.

With the currencies in the GCC pegged to the volatile US dollar, local banks have all the more reasons to buy gold, local gold dealers emphasised.

On the other hand, senior Dubai-based bankers affirmed they have been considering meeting the demands of their customers to back the deposits with gold.

The dealers, however, declined to name the banks they have been supplying gold to.

Michael Mesaric, CEO of Valcambi Sa, one of the largest gold refiners in the world, said last year the company supplied 150 tonnes of gold to banks in Switzerland. He said the commercial banks in GCC are buying gold, as well.

"Everyone is buying gold. Customers are demanding that their deposits be kept in gold," Mesaric told Emirates Business on the sidelines of the '7th Dubai City of Gold Conference'.

A Dubai-based banker said that banks have been open to the idea of buying gold. "We may not disclose our holdings in gold, but then the bullion is an important proposition for us. Especially with regards to holding the confidence of customers," he said.

The director of investment banking of one of the prominent banks in Dubai said that his bank "will definitely look into buying gold".

Besides, there are reports of at least two banks in region – one in the UAE and the other in Saudi Arabia – launching a gold-backed fund for investors. Seid Suleman, President of Miraj, a Canada-based firm had earlier told this newspaper that he was holding talks with banks to launch funds. "It will be basically about managing gold-backed individual portfolios," he said.

The trend contrasts with the central bank holdings of gold in the GCC. Repeated reports from the World Gold Council (WGC) have pointed out that the central banks in the region –other than Saudi Arabia and Qatar – do not have holdings in gold. The proportion of gold is quite small in the official central banks holdings of even these two countries.

Apparently besides banks, there are other institutions that have seen an increase in gold volumes. The net long positions at Comex have increased six-fold since 2006 from about 50,000 contracts in October 2006 to about 275,000 contracts in October 2009. The amount of gold under bullion backed exchange traded funds has risen from 500 tonnes at end-2006 to 2,250 tonnes at end-2009. Also there are reports of SWFs been invested into gold ETFs.

**London, 14th May 2010 (FT)** - The telephone has not stopped ringing at the Rand refinery in South Africa this week. Panicking German dealers and banks have been desperate to get their hands on krugerrands, the world's most popular gold coin. "We have some extraordinary sales to German customers," says Deborah Thomson, the Rand treasurer. The refinery, which usually sells 2,000 coins to each customer at a time, says that last week it received an order from one German bank for 30,000 coins. Another bank requested 15,000 coins.

Frank Ziegler, head of precious metals at BayernLB, one of Germany's largest wholesale suppliers of gold, says: "People are buying krugerrands like crazy." The frenzy pushed gold prices to a nominal high of \$1,248.95 a troy ounce on Friday while the euro price surged through USD1,000 an ounce for the first time. Adjusted for inflation, however, gold prices are still a long way from their all-time high above \$2,300 an ounce in 1980.

Although coins account for a small part of the market, they are one of the best indicators of investor sentiment towards the precious metal. And right now gold is in massive demand from investors who see it as the ultimate haven at a time of market turmoil and as one of the best hedges against a possible resurgence of inflation.

Other important factors are supporting prices: institutional investors are pouring billions into bullion-backed exchange traded funds; central banks have reversed 20 years of selling gold; some, including the Chinese central bank, are buying it; and mine gold supply growth has stagnated.

Not all the factors are positive. India, the world's largest gold buyer and traditionally the best barometer of gold demand, is signalling that the rally could be near a peak. Ahead of the Akshaya Tritiya festival this weekend, when Hindus traditionally buy gold and gold jewellery for good luck, Mumbai dealers say customers are in short supply.

Price makes a big difference," says Rajendra Gurjar, who runs a shop on Mumbai's wealthy Colaba Causeway. "We won't see many people coming in while prices are at these levels." Instead, Indians are buying cheaper silver.

Without the support of the traditional backbone of the gold market, some analysts believe bullion prices will soon fall.

But there is no indication that Germans are ready to stop buying. Panicked by the possible inflationary implications of this week's  $\square$ 750bn bail-out, they have been snapping up gold coins and small bars at a faster rate than in the aftermath of the Lehman Brothers bankruptcy.

The European Central Bank says its government bond purchases will be "sterilised" by operations to remove inflation risks. But Martin Siegel, manager of Westgold, a dealer of gold in Frankfurt, says people "are not as dumb as economists. They believe there is going to be inflation and are buying gold to protect themselves."

German investors are notoriously wary about inflation. While few are old enough to remember the hyperinflation that wrecked Germany during the Weimar Republic in the 1920s, the episode remains etched into the national psyche: archive film from the period has been running on the news in recent days.

The appetite for coins has been so intense that shortages are developing. "In the European market there is a shortage of krugerrands," says Mr Ziegler. As a result, the premium paid for krugerrands in the secondary market has risen from about 2 per cent to 6-8 per cent.

The interest has not been confined to coins and bars. ETFs, which hold physical gold and issue shares to investors, have also seen large inflows.

The world's largest, the SPDR Gold Trust, has increased its holdings by 50.5 tonnes in the past two weeks, more than in the first four months of the year.

Other funds have also been building their positions. Gijsbert Groenewegen, at Silver Arrow Capital, a New York-based precious metals hedge fund, says investors have been flooding into his fund "in swarms" in the past week.

Analysts and traders believe gold could rise even higher in the short term.

Philip Klapwijk, executive chairman of GFMS, the precious metals consultancy, believes that the current upward trend "could run a bit". Edel Tully, precious metals analyst at UBS, forecasts the gold price will hit \$1,300 an ounce in the next month.

One bullish factor is the lack of physical gold, or scrap, being sold, despite the high prices. In Asia, where the gold market is especially sensitive to price, a surge in prices usually leads people to sell their old gold for scrap, boosting supply.

But that is not really happening yet. Afshin Nabavi, head of trading and physical sales at MKS Finance, a gold refining and trading company in Geneva, says: "Sales of scrap have picked up but not that much."

**Dubai, 19th May 2010 (Emirates Business)** More than 720kg of gold, worth \$30 million (Dh110m), changed hands at key gold retailers across the Gulf on the Indian festival Akshaya Tritiya on May 16, according to the World Gold Council.

Volumes have increased 11 per cent compared to the same Akshaya Tritiya in 2009. Excluding the increase in gold price, the revenues witnessed an increase of 12 per cent compared to last year's festival.

Akshaya Tritiya is one of the most important gold buying occasions in the region and one of the most auspicious Indian festivals. Buying gold on this day is an ancient tradition and it is believed that any venture or investment initiated on this day will continue to grow and bring prosperity.

Gold retailers in the Gulf saw the best day of sales so far this year on the back of the festival. The strong demand further demonstrates the enduring value of gold and its significant cultural role, said the release.

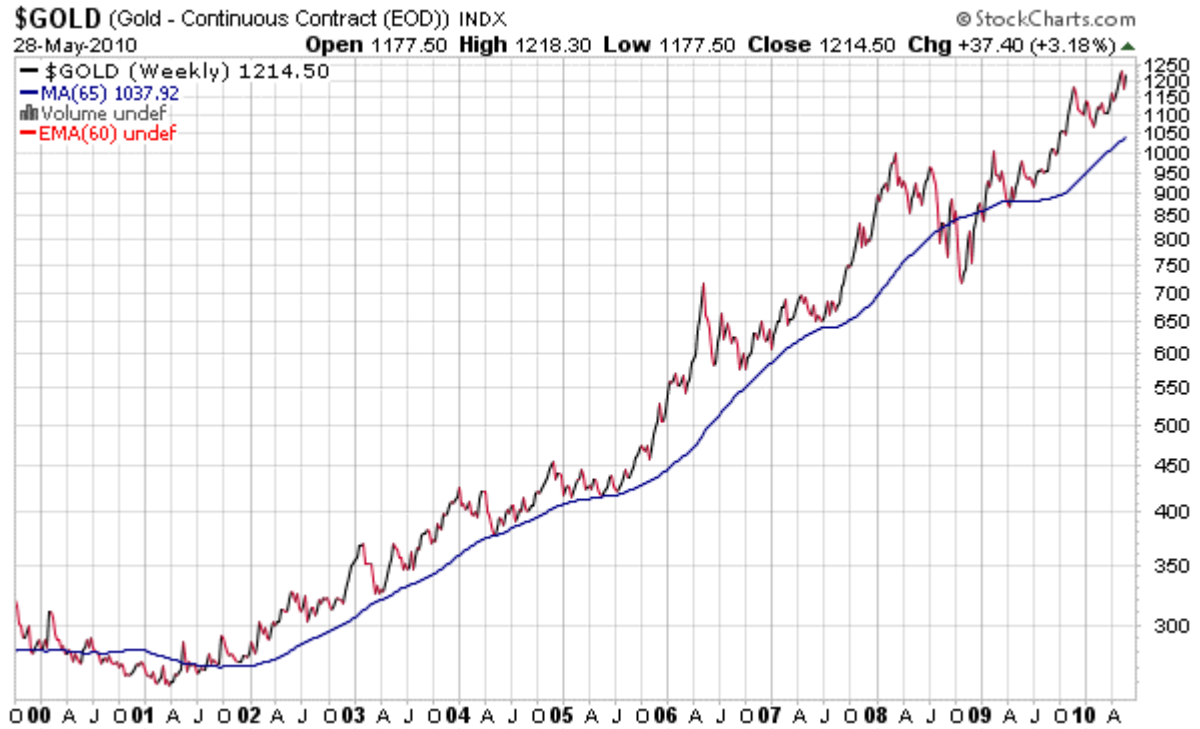
Tomy Joseph, General Manager of Joyalukkas, said: "With such a large NRI community, cultural festivals such as Akshaya Tritiya are an important date in our calendars. The response has been very positive and we are expecting a similar response to other festivals."

"Our sales have doubled over the previous year," said Sanjay Jethwani, Partner of Meena Jewellers. "One customer alone spent more than Dh200,000. The boost in demand demonstrates a strong appetite for gold jewellery."

## 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
4 <sup>th</sup> May	12 <sup>th</sup> / 13 <sup>th</sup> May	5 <sup>th</sup> May	28 <sup>th</sup> May
1185	1238	1165	1208

London afternoon fix in €/oz:

Open	High	Low	Close
4 <sup>th</sup> May	17 <sup>th</sup> May	5 <sup>th</sup> May	28 <sup>th</sup> May
907.3	998.9	906.5	976.2



After surging towards 1250 USD/oz, gold spent the rest of May consolidating. At the end of the month, technically, gold appeared to be in a good position for a move higher.

### 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
4 <sup>th</sup> May	14 <sup>th</sup> May	5 <sup>th</sup> May	28 <sup>th</sup> May
18.71	19.64	17.63	18.53

London fix in €/oz:

Open	High	Low	Close
4 <sup>th</sup> May	14 <sup>th</sup> May	5 <sup>th</sup> May	28 <sup>th</sup> May
14.25	15.74	13.63	14.93



Silver effectively went nowhere in May. Although the weekly price trend is still up, the daily chart may be indicating a topping formation. Experience has shown that sudden significant downward price movements in stock markets, have also led to sudden significant downward price movements in the industrial precious metals in the past – i.e. silver, palladium & platinum.

John Fineron, 1<sup>st</sup> June 2010.



## 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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