JM&B Monthly Gold & Silver Report
June 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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Gold had another strong month in June as silver struggled higher in price.

2. Gold

2.1 News and Fundamental Considerations

Selected News Items from the Month

London, 2nd June 2010, (FT) – Sales of the one-ounce American Eagle gold coin surged to the highest for 11 years in May, according to the US Mint, totalling 190,000 coins in an indication of the scramble among investors for physical gold.

Other mints round the world have also reported exceptionally strong demand for gold coins and small bars, as worries over the debt crisis in Europe drive investors to seek diversification into the yellow metal.

Although consumption of coins and small bars makes up a relatively small part of overall gold demand, it is seen as an important leading indicator of investor sentiment.

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The Rand refinery in South Africa, which produces the world's most popular gold coin, the krugerrand, last week increased production by 50 per cent to keep up with demand.

The Austrian Mint sold 238,000 ounces of its Vienna Philharmonic coin last month, six times the volume in May 2009.

The Royal Canadian Mint, which usually sells 5,000-25,000 ounces of its Maple Leaf coins at a time, last month received a single order for 120,000 ounces.

Total sales for the month were "in the order of magnitude of five tonnes" (180,000 ounces), said David Madge, director of sales. "We've seen a dramatic increase in demand from Europe," he said.

Other gold investments also witnessed a spike in interest: exchange-traded funds increased their gold holdings by 4.8m ounces in May, the second strongest month on record.

That helped push the gold price to a nominal all-time high of $1,248.95 a troy ounce earlier in the month. On Wednesday it was trading just short of that level at about $1,220.

The US Mint sold 190,000 one-ounce American Eagle coins in May – nearly three times sales a year earlier, and the highest since January 1999, when gold was trading at less than a quarter of its current price.

Meanwhile, the Rand refinery sold about 65,000 ounces in May and expects to sell 90,000 ounces in June, according to Deborah Thomson, treasurer.

Mr Kramer said that dealers were experiencing delays of up to a month in receiving Krugerrands: "I'm getting no Krugerrands until July."

Although demand has stabilised following a spike in mid-May with agreement over the international €750bn Euro zone rescue package, many expect it to remain strong. "I would hazard a guess that June will be stronger than May," said Mr Madge of the Canadian Mint.

Ms Thomson of the Rand refinery said she expected demand to remain at current levels until the end of July.

Many analysts believe the gold price could set another record in the coming weeks. Edely Tully, precious metals analyst at UBS, said: "Gold now is on a much steadier upwards movement. It doesn't have the frenzied mood that it had a couple of weeks ago."

She added that sales of scrap gold – which played a role in cooling prices when they peaked in mid-May – remain muted, suggesting higher prices may be in store.

South Africa, 3rd June 2010, (Miningmx) – In an all too familiar announcement in recent years, the South African Chamber of Mines reported the country's first quarter gold production fell 15% quarter-on-quarter, extending the downward slide in output.

South Africa has fallen quickly from the top of the perch as the world's largest gold producer. It is now behind China, the United States and Australia. Its mines are becoming deeper and more expensive to mine and grades, which is the measurement of the amount of gold in each tonne of ore hauled to the surface for treatment, is dropping.

The latest gold output data shows no signs of arresting the fall in production.

South Africa produced 43,927.8kg of gold in the first three months of 2010, which is 15% less than the December quarter and 12.4% down on the same period a year ago.

"Gold mining companies lost an average of about 18 days of production during the quarter as the impact of the latter part of the Christmas holidays affected production," the chamber said in a statement.

The first quarter of the year is traditionally a weak quarter because of the slow start up after the year-end holidays.

South African gold miners also have to contend with safety-related stoppages of shafts when there are fatal accidents underground. Gold companies are on concerted drives to improve safety to minimise these shut downs.

Gold Fields CEO Nick Holland told Miningmx in an interview this was a critical year for the South African gold sector. Productivity has to be improved to avoid the closure of marginal shafts and job losses. Companies are grappling with steeply rising input costs, particularly on electricity, which is a big expense on mines.

Gold Fields wants to introduce a six-day working week, with every second Saturday being a compulsory working shift.

Harmony has shut down seven shafts because the ore bodies have run out or they're just not making money.

Anglo Gold Ashanti is practically putting its South African mines into intensive care in a process designed to cut costs and boost productivity to ensure they cope with escalating costs

London, 11th June 2010, (GFMS) – Global Hedge Book Key Points:

The rate of net producer de-hedging slowed in the first quarter of 2010, with only 0.78 Moz (24 t) removed from the global hedge book. Nevertheless, this represented a 10% cut to the delta-adjusted global hedge book, which stood at 6.75 Moz (210 t) at end-March.

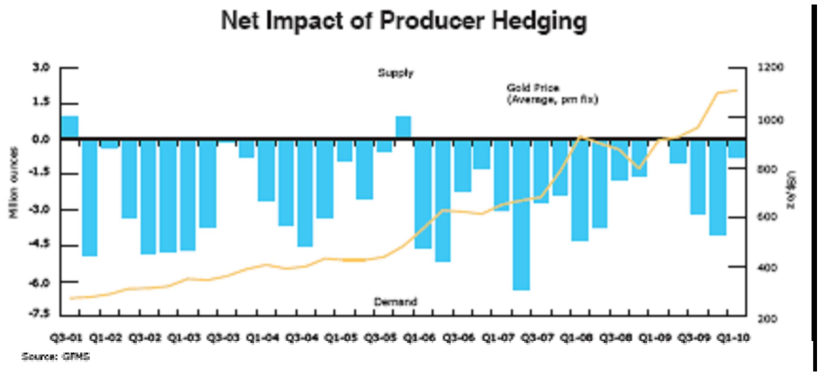
Kinross Gold Corporation was the largest de-hedger.

Adamus Resources made the only notable hedge, amounting to 0.29 Moz (9 t) of forward sales to fund the Nzema gold project in Ghana.

The marked-to-market liability of the producer book improved slightly to total negative $2.99 billion in the first quarter.

Producers' weighted average realised prices decreased by 1% quarter-on-quarter, to $1,044/oz.

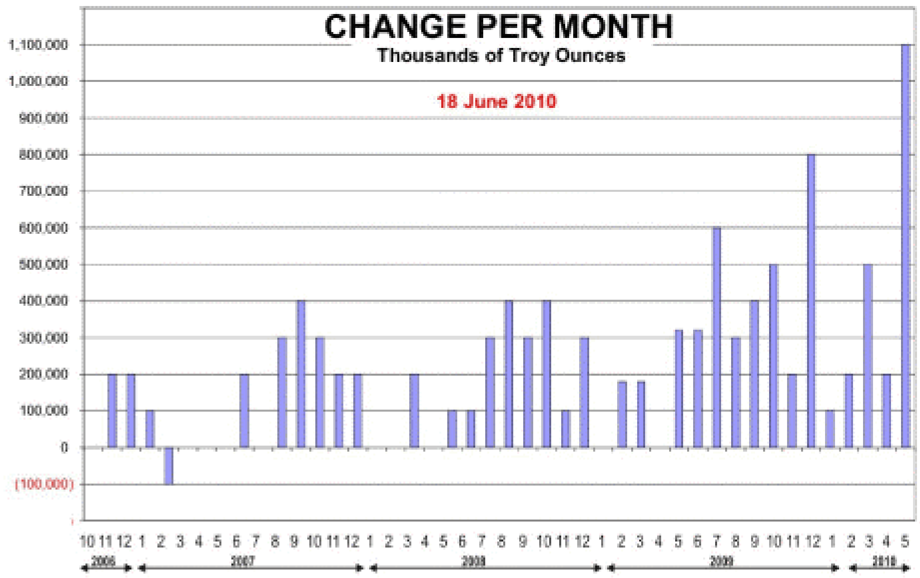
Looking forward, we continue to expect producer de-hedging to amount to around 3.00 Moz (93 t) in 2010.



More here:

http://www.gfms.co.uk/Market%20Commentary/SG%20GFMS%20Global%20Hedge%20Book%20Analysis%20Q1%2010.pdf

Williamsville, 20th June 2010, (Coin Expert) – Key Points Russia's Central Bank reported purchasing 1.1 million ounces of gold in May. This is a staggering 31.21 tonnes. The chart below is from Richard Nachbar at http://www.coinexpert.com/:



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 June	28th June	4th June	30th June
1228	1261	1204	1244

London afternoon fix in €/oz:

Open	High	Low	Close
1st June	28th June	3rd June	30th June
1003	1024	992	1013

June was a strong month for gold, nonetheless price resistance came in at around1255 USD/oz.

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3. Silver

3.1 News and Fundamental Considerations

New York, 27th May 2010, (Silver Institute) – Strong investor demand and a recovery in industrial demand during the course of the year were key factors in a strong performance for silver prices in 2009, according to World Silver Survey 2010, released here today by the Silver Institute. The white metal's price has continued to make gains as Europe now battles a sovereign debt crisis that threatens to undermine a still fragile global economy.

While the global recession caused fabrication demand to fall sharply in the early months of 2009, a rebound began in the latter half of the year, which has continued into 2010. Flat supply is expected in 2010, says the report's authors, and solid gains in fabrication demand are anticipated, which should buoy prices this year.

Silver Price and Investment

Silver posted an average price of $14.67 in 2009, the second highest average since the high reached in 1980. Strong gains in investment and a recovery in demand later in the year, were the prime reasons for the 53 percent intra-year rise.

Much of 2009's strength in investment can be attributed to soaring demand for silver exchange traded funds (ETFs) as well as physical retail investment. This occurred on the heels of 2008's previous record ETF inflow of 265.3 million ounces (Moz) of silver. Total ETF holdings rose by 132.5 Moz over the course of 2009, ending the year at an impressive 397.8 Moz as new funds entered the marketplace from Australia and the United States.

In 2009, coins and medals fabrication rose by an impressive 21 percent to post a new record of 78.7 Moz, driven by a jump in retail demand, principally in the United States, although western European demand was also stronger in 2009. In the United States, the increase in its bullion coin sales was also accompanied by a surge in bar demand. Of note, demand for the U.S. Silver Eagle bullion coin reached record highs in 2009, with over 28 million Eagles sold. To put last year's performance into context, over the 1986-2008 period, U.S. Eagle minting averaged 7.7 Moz per year.

Silver Demand

The bulk of the 11.9 percent decrease in 2009's total fabrication demand was primarily driven by the global financial crises, reflected mostly in a sharp drop in industrial offtake, to its lowest level since 2003. Total fabrication demand totaled 729.8 Moz and industrial demand posted 352.2 Moz in consumption.

Significant inventory cuts in the industrial supply pipeline, combined with a protracted decline in end-user orders, for example from a far weaker automotive industry, were the primary reason for lower industrial demand last year. While demand was noticeably weaker in the first quarter of 2009, it gradually improved as the year progressed. Overall, the losses were concentrated in East Asia, North America and Europe.

World Silver Supply and Demand (million ounces)
(totals may not add due to rounding)

Supply	2008	2009
Mine Production	684.7	709.6
Net Government Sales	27.6	13.7
Old Silver Scrap	176	165.7
Producer Hedging	-	-
Implied Net Disinvestment	-	-
Total Supply	**888.3**	**889.0**

Demand	2008	2009
Fabrication		
Industrial Applications	443.4	352.2
Photography	104.9	82.9
Jewellery	158.3	156.6
Silverware	56.9	59.5
Coins & Medals	65.2	78.7
Total Fabrication	**828.6**	**729.8**
Producer De-hedging	11.6	22.3
Implied Net Investment	48.2	136.9
Total Demand	**888.3**	**889.0**

Implied net silver investment increased by a staggering 184 percent to 136.9 Moz last year, recording its highest level in the past 20 years. While overall jewelry demand dipped slightly by only 1.1 percent in 2009 to 156.6 Moz, India and China posted increases in jewellery demand last year, offsetting losses in most other markets. Silverware demand reversed the trend of the last decade rising by a respectable 4.6 percent to 59.5 Moz, largely due to a surge in Indian fabrication.

Photographic demand was not immune to the global recession, as consumers took fewer pictures, with the continued inroads made by digital photography pushing silver photographic demand down to 82.9 Moz. Producer de-hedging of silver contracts rose substantially in 2009 to 22.3 Moz as several large silver hedge books were wound up.

Mine Supply and Costs, Above-Ground Stocks, Scrap Supply and Government Sales

Silver mine production rose by 4 percent to 709.6 Moz in 2009. Gains came both from primary silver mines and as a by-product of gold mining. Regionally, the strongest growth stemmed from Latin America, where silver output increased by 8 percent, with the most visible gains recorded in Argentina and Bolivia. Peru was the world’s largest silver producing country in 2009, followed by Mexico, China, Australia and Bolivia. All of these countries saw increases last year except for Australia, where output from the lead/zinc sector declined markedly. Global primary silver supply recorded a 7 percent increase to account for 30 percent of total mine production in 2009.

Primary silver mine cash costs remained relatively stable year-on-year, rising by less than 1 percent to $5.23/oz.

Net silver supply from above-ground stocks dropped by 86 percent to 20.2 Moz in 2009, driven mostly by the surge in net investment, higher de-hedging, lower government sales and a drop in scrap supply. With respect to scrap supply, 2009 saw a 6 percent decrease over 2008’s figure

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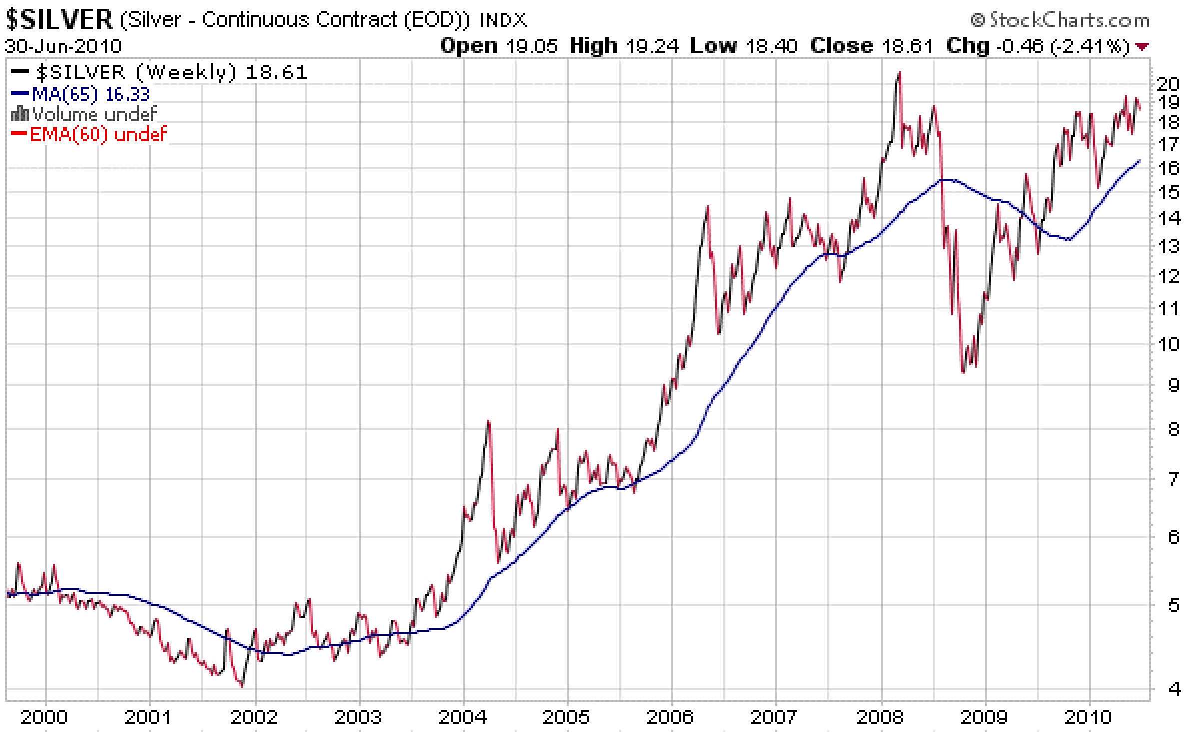
to a 13-year low of 165.7 Moz. This represented the third consecutive year of losses in the scrap category.

Government stocks of silver are estimated to have fallen by 13.7 Moz over the course of last year, to reach their lowest levels in more than a decade. Russia again accounted for the bulk of government sales, with China and India essentially absent from the market in 2009. Regarding China, GFMS states that after years of heavy sales, its silver stocks have been reduced significantly.

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 June	21st June	7th June	30th June
18.30	19.37	17.36	18.74

London fix in €/oz:

Open	High	Low	Close
1st June	21st June	7th June	30th June
15.06	15.63	14.49	15.25

Silver struggled to rise in price in June, but as the weekly chart shows, the trend was still up at the time of writing.

John Fineron, 1st July 2010.

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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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