

# JM&B Monthly Gold & Silver Report

## July 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)

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## 1. Commentary

Both gold and silver had a poor month in July, falling in price for most of the month.

## 2. Gold

### 2.1 News and Fundamental Considerations

#### Selected News Items from the Month

**London, 7th July 2010, (FT)** – Gold prices dropped to a six-week low on Wednesday as traders puzzled over the news that the Bank for International Settlements had received 346 tonnes of gold in “swap operations”.

But prices rebounded in the afternoon as Asian consumers of the metal saw the correction as a long-awaited buying opportunity.

According to a note in its latest annual report, in the financial year to March 31 the BIS took 346 tonnes of gold in exchange for foreign currency in gold swap operations – an action that surprised markets and left traders bemused about what the motives behind the swap might be.

As the report circulated the gold market, the price of the yellow metal dropped to its lowest since May with some investors afraid that the gold mentioned in the BIS report might somehow find its way on to the market, depressing prices.

Tom Kendall, precious metals analyst at Credit Suisse, said: "There were probably some hedge funds out there who thought somehow this was bearish because the gold could potentially be liquidated by the BIS into the market."

But he added: "Even if that were possible under the terms of the swap, I cannot conceive of a situation where it might happen."

In its annual report – which was released last week – the BIS said that, under the swap operations, it exchanged currencies for physical gold.

But it noted: "The Bank [for International Settlements] has an obligation to return the gold at the end of the contract."

Spot gold dropped to an intraday low of \$1,185.05 a troy ounce early in the day before recovering to \$1,198.55 by midday in New York, up 0.5 per cent.

Traders said buying by gold consumers in Asia had supported prices. Traditionally the backbone of gold demand, jewellery buying in countries such as India has been muted in recent months as gold hit successive nominal all-time highs – the most recent at \$1,264.90 in June.

However, the Asian market picked up on Wednesday as prices fell.

Edel Tully, precious metals strategist at UBS in London, said: "From the lows we've seen today, gold has recovered impressively. Physical buying has been quite visible, particularly from Asia."

But she added that physical demand had increased from very low levels and would have to show a more marked rebound for gold to move significantly higher.

Buying from investors has also been relatively quiet in recent weeks, contributing to the yellow metal's loss of momentum.

Gold holdings at the largest gold exchange-traded fund, the SPDR Gold Trust in New York, have fallen from a record 1,320.4 tonnes last week to 1,316.5 on Tuesday.

Nonetheless, GFMS, the precious metals consultancy, reiterated its forecast for gold to touch \$1,300 an ounce before the end of the year, adding that physical demand should prevent prices falling below \$1,150.

**South Africa, 12th July 2010, (FT)** – They are selling like hotcakes. Gold bars have been moving off the shelves in India's financial capital, Mumbai, more than the trusty, old gold coins or jewellery. Commonly referred to as gold biscuits in the Mumbai market, gold bar buying in main consumer India appears to have resurfaced after a gap of nearly two month. As gold continues to break through the upside, Indian investors are investing in gold bars, for security reasons.

“Customer preferences are changing,” notes Hareelalbai Zaveri, a Mumbai-based bullion dealer. “Earlier, customers would buy gold jewellery since they were considered the best investment option. Nowadays, customers are keen to buy gold biscuits, since they are easy to hoard. The customer is also assured of best value for money. Gold jewellery is no longer an investment option.”

Dealers are also stocking up for a second round of religious festivals starting in August, when demand for bullion picks up. Though jewellery is the most common gift during religious events and weddings in India, gold bars appear to be having a field day, for now.

The rush to buy gold is also ensuring that precious metal prices continue to trade firm on the Asian bourses. Reports indicate that steady physical demand has led to supply tightness, pushing up premiums for gold bars in the bullion trading centres of Singapore and Hong Kong. Dealers maintain that there are good purchases from consumers in China, Thailand and Indonesia.

“We expect some bounce back in the prices of precious metals on the back of some bargain hunting, after a sharp fall in last week's trading session,” adds Zaveri.

Analysts believe that fresh money has been pumped into gold-based instruments by large institutional investors who have increased their portfolio allocation towards gold, as a means to lower risk in their portfolios.

Premiums for gold bars also seemed to edge up slightly after bullion prices shed their lofty positions. In Singapore, premiums for gold bars edged up to 70 US cents to the spot London prices, with dealers struggling to cope with inquires from consumers in Southeast Asia.

The recent lower gold prices attracted steady purchases from jewellers in Thailand and Indonesia as well as buying from bargain hunters in Hong Kong. “The physical demand is still very high. My orders go to up to next Friday at premiums of 80 cents,” a dealer in Singapore told a newswire agency. The dealer has been selling gold bars to top consumers in India.

With Indian investors keen to take possession of their gold holdings, rather than just owning shares in a mining company or a gold-related fund, traders in the futures market insist that many are increasingly opting to take delivery of the metal, rather than simply buying and selling contracts for paper profits.

What appears to be aiding consumer interest in gold biscuit is that several bullion shops are allowing investors to buy coins and gold bars in easy instalments, by engaging them in schemes and ensuring that they participate in programs that allow them to gradually accumulate gold.

Gold accumulation schemes offered by jewellers are an easy investment opportunity and several well-known jewellers are offering schemes that are similar to recurring deposit schemes offered by banks.

The idea is simple - save small amounts for different tenures. At the end of the term, one can buy gold jewellery worth the accumulated amount. Targeted mainly at women buyers, loans for gold are designed to suit the growing middle class segment in the country. As a consequence, a noticeable pick-up in gold bar sales has been registered.

## 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
1 <sup>st</sup> July	1 <sup>st</sup> July	28 <sup>th</sup> July	30 <sup>th</sup> July
1234	1234	1157	1169

London afternoon fix in €/oz:

Open	High	Low	Close
1 <sup>st</sup> July	1 <sup>st</sup> July	30 <sup>th</sup> July	30 <sup>th</sup> July
993	993	897.9	897.9



Gold spent July travelling south, the sell-off appeared to be bottoming towards month's end.

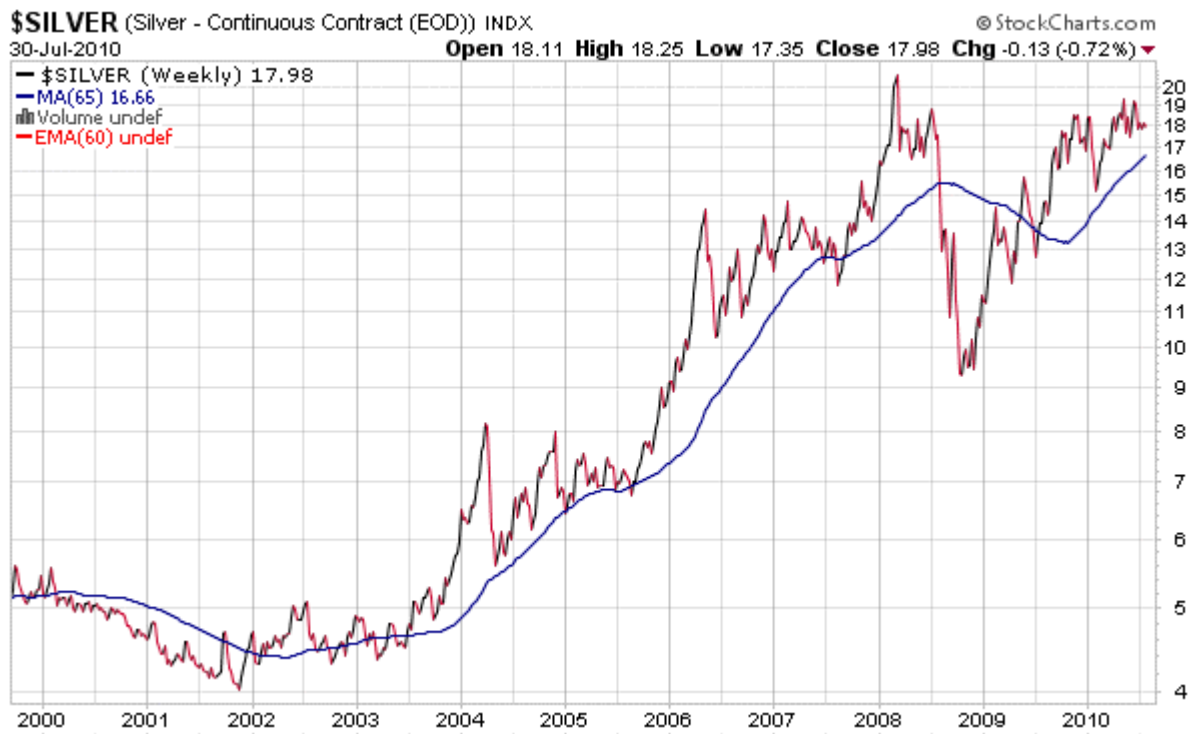
### 3. Silver

#### 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
1 <sup>st</sup> July	1 <sup>st</sup> July	20 <sup>th</sup> July	30 <sup>th</sup> July
18.65	18.65	17.55	17.66

London fix in €/oz:

Open	High	Low	Close
1 <sup>st</sup> July	1 <sup>st</sup> July	29 <sup>th</sup> July	30 <sup>th</sup> July
15.12	15.12	13.46	13.58



Like gold, silver had a poor month in July, but appeared to find price support at 17.50 towards the end of the month.

John Fineron, 6<sup>th</sup> August 2010.

## 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](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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