JM&B Monthly Gold & Silver Report
August 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

Contents

1. Commentary

Both gold and silver had strong months in August and looked poised to testing previous highs at the end of the month.

2. Gold

2.1 News and Fundamental Considerations

Selected News Items from the Month

China, 4th August 2010, (Shanghai Daily) – China said yesterday it will further open its gold market and improve tax policies for investment in the precious metal.

The People's Bank of China yesterday issued an industry guide to further develop its gold market. China is the fifth-largest holder of gold in the world.

China will allow more commercial banks to import and export the metal, the central bank said yesterday.

China will improve foreign exchange policies of the gold markets and further open the market to overseas players.

Overseas banks including HSBC and Standard Chartered are members of the Shanghai Gold Exchange.

The central bank has asked the Shanghai Gold Exchange, Shanghai Futures Exchange and commercial banks to engage more actively to develop a national gold market.

China is steadily opening up its gold market, including setting up a bourse allowing individual to trade bullion and encouraging banks to offer gold investment products.

The Shanghai Gold Exchange, China's sole bourse for gold and platinum, was set up in 2002, indicating the free trading of gold. Previously, the central bank set quotas.

China holds 1,054 tons of gold reserves, following the United States, Germany, France and Italy. China's gold reserves account for less than 2 percent of its foreign exchange reserve.

The World Gold Council said earlier that China's consumer gold demand is set to double in tonnage over the next decade as the economy rises.

In 2009, total consumer demand for gold in China grew 7 percent to 461.9 tons, worth more than US$14 billion, equal to 11 percent of global gold demand.

Over the past five years, consumer demand for gold has risen at an average rate of 13 percent annually in China.

Zurich, 13th August 2010, (Bloomberg) – Switzerland’s central bank swung to a loss in the first half as the euro’s decline eroded the value of its currency reserves.

The loss of 2.78 billion Swiss francs ($2.65 billion) reported by the Zurich-based Swiss National Bank today compares with a profit of 5.25 billion francs a year earlier. Exchange- rate-related losses, mainly from the euro’s slump, amounted to 14.3 billion francs. This was partly offset by a valuation gain of 6.85 billion francs on gold holdings.

The SNB tripled euro reserves in the year through June as it dumped the franc in markets to stem its gains, ward off deflation and protect an export-led recovery. While the SNB in June ended its intervention policy, currency holdings of about 220 billion francs are making it vulnerable to foreign-exchange moves. The franc has gained about 10 percent against the euro this year.

“The loss isn’t a real problem for the SNB as it is a non- profit organization,” said Fabian Heller, an economist at Credit Suisse Group AG in Zurich. “Despite the results on the foreign-currency holdings, they would resume the interventions, if needed.”

Currency Losses

The franc’s gain against the euro this year pushed it to a record 1.3074 on July 1. It weakened today and was at 1.3529 per euro as of 10:45 a.m. in Zurich from 1.3471 yesterday.

The exchange-rate losses were partly countered by interest and dividend income as well as price increases and capital gains on foreign-currency assets of 3.1 billion francs, resulting in a loss on foreign-currency positions of about 11.3 billion francs.

The SNB said its stabilization fund, which is managing former assets of UBS AG, contributed a profit of 1.3 billion francs in the six-month period. The overall risk on the fund, which includes the SNB's loan to the facility, decreased to $19.2 billion, the central bank said.

The loss published today compares with the SNB's July 21 estimate for a first-half shortfall of 4 billion francs. That estimate didn't include the stabilization fund, which the central bank said at the time would make a "significant positive contribution."

The SNB is a joint-stock company in which public shareholders including Swiss cantons and cantonal banks have a controlling stake. Private individuals, hold the remainder.

London, 26th August 2010, (World Gold Council) – The WGC released its 25 page report on gold demand trends for Q2 2010.

Outlook

- We recently published the latest issue of Gold Demand Trends for Q2 2010, which suggests demand for gold for the rest of 2010 will be underpinned by the following market forces:

- India and China will continue to provide the main thrust of overall growth in demand, particularly for gold jewellery, for the remainder of 2010.

- Retail investment will continue to be a substantial source of gold demand in Europe.

- Over the longer-term, demand for gold in China is expected to grow considerably. A report recently published by The People's Bank of China and five other organisations to foster the development of the domestic gold market will add impetus to the growth in gold ownership among Chinese consumers.

- Electronics demand is likely to return to higher historic levels after the sector exhibited further signs of recovery, especially in the US and Japan.

Key demand statistics

- Total gold demand in Q2 2010 rose by 36% to 1,050 tonnes, largely reflecting strong gold investment demand compared to the second quarter of 2009. In US$ value terms, demand increased 77% to $40.4 billion.

- Investment demand was the strongest performing segment during the second quarter, posting a rise of 118% to 534.4 tonnes compared with 245.4 tonnes in Q2 2009.

- The largest contribution to this rise came from the ETF segment of investment demand, which grew by 414% to 291.3 tonnes, the second highest quarter on record.

- Physical gold bar demand, which largely covers the non-western markets, rose 29% from Q2 2009 to 96.3 tonnes.

- Global jewellery demand remained robust in Q2 2010. In the face of surging price levels, consumption totalled 408.7 tonnes during the second quarter of 2010, just 5% below year-earlier levels.

- Gold jewellery demand in India, the largest jewellery market, was little changed from year-earlier levels, down just 2% at 123.0 tonnes. In local currency terms, this translates to a 20% increase in the value of demand to Rp216 billion.

- China saw demand for gold jewellery increase by 5% to 75.4 tonnes. While growth in demand in tonnage terms was hindered by extreme weather conditions, the growth in the local currency value measure of demand was 35% to RMB 19.8 billion.

- With the return of demand for consumer electronics, industrial demand grew by 14% to 107.2 tonnes, compared to Q2 2009.

More here:

http://www.research.gold.org/supply_demand/

Seoul, 26th August 2010, (Bloomberg) – The Bank of Korea, which has shunned adding gold to foreign-exchange reserves, is "under pressure" to consider purchases as the global economy worsens and the price advances, Shinhan BNP Paribas Asset Management Co. said.

"Given that central banks in India, Russia and China have bought gold for defense, the Bank of Korea can't help but feel under pressure to consider purchases for diversification," said Oh Kyu Chan, Seoul-based head of the overseas fund of funds team at Shinhan BNP, which operates Korea's biggest gold fund. Kang Sung Kyung, a senior official at the bank's reserve-management department, had no comment today on plans for gold purchases.

Gold is trading close to a record as signs the global recovery is sputtering prompt investors to seek to preserve their wealth. Gold "offers little value" and "isn't the trend," Lee Eung Baek said last year when he was head of the bank's reserve-management unit. The Bank of Korea's holdings rank 56th worldwide, according to the World Gold Council.

"The global economy is taking a turn for the worse," Oh said yesterday in an interview. "The declining values of the dollar and the euro, coupled with an economic downturn, mean the Bank of Korea should find other alternatives to invest. There are not many options," Oh said, without forecasting gold prices.

Immediate-delivery gold traded today at $1,239.70 an ounce at 12:04 p.m. in Seoul compared with June's all-time high of $1,265.30, and $1,158.10 on Dec. 7, when the Bank of Korea's Lee made his comments. The metal has surged 13 percent this year and is on course for a 10th annual gain.

Foreign-Exchange Reserves

South Korea's foreign-exchange reserves -- the world's sixth-largest after China, Japan, Russia, Taiwan and India -- rose to a record $286 billion in July. The Asian nation holds 14.4 metric tons of gold, equivalent to about 0.03 percent of total reserves, according to figures from the Bank of Korea.

The World Gold Council, a producer-funded lobby group, estimates that as of June 2010, South Korea's gold holdings were the smallest in percentage terms of any of the top 100 holders apart from Hong Kong's and Canada's.

Goldman Sachs Group Inc. forecast earlier this month that gold may climb to $1,300 an ounce within six months on renewed investor interest. The metal advanced this week after U.S. housing data reinforced speculation that the world's largest economy may face a double-dip recession.

Russian Holdings

Bank Rossii, Russia's central bank, said on Aug. 20 that it added 500,000 ounces last month, increasing its stockpile to 23.3 million ounces. That followed last year's purchases by India, Mauritius and Sri Lanka. China, the world's biggest gold producer, said on Aug. 3 it will relax bullion-trading rules.

The euro has weakened 12 percent against the dollar this year amid Europe's budget-deficit crisis. Ireland's long-term sovereign credit rating was cut one step to AA- by Standard & Poor's this week on concern that the cost to the government of supporting the country's banks is rising.

"Investors will continue to prefer safe assets in the second half," Oh said. "The charm of gold and gold-mining shares will increase as a means to protect wealth as growth slows in Europe, the housing woes in the U.S. deepen and uncertainties in the financial markets grow bigger."

Data this week showed sales of existing U.S. homes fell by a record last month, while purchases of new dwellings slumped to the slowest pace since data began in 1963. The U.S. and Europe are in the "same boat" when facing the risk of a double-dip recession, European Union Economic and Monetary Affairs Commissioner Olli Rehn has said.

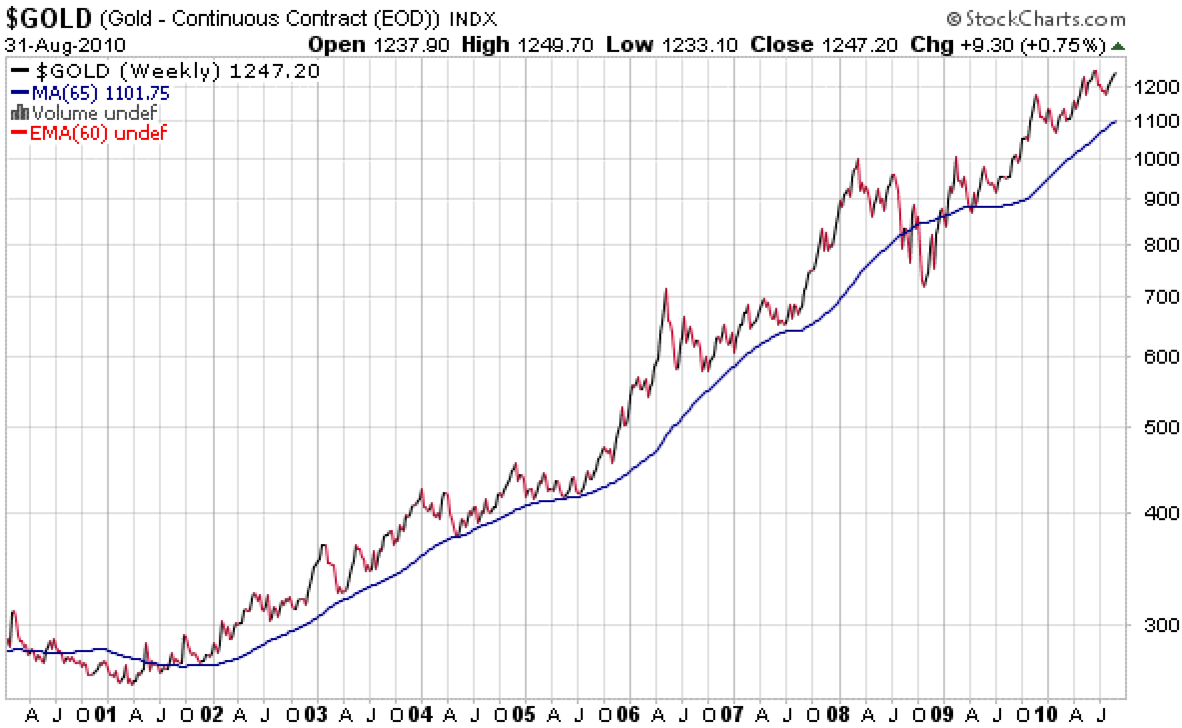
Lee, the former head of Bank of Korea's reserve-management department, said in December: "We follow the big trend. Gold isn't the trend." Lee also asked: "Out of more than 200 nations, how many countries have bought bullion?"

Shinhan BNPP Gold Equity Investment Trust, set up in 2007, yielded a return of 11.5 percent this year after a 22.2 percent gain in 2009, according to Oh. The fund, backed by assets of 20.3 billion won ($17 million), places 70 percent of the money in mining shares such as those of Barrick Gold Corp. and Newmont Mining Corp. and invests the rest in physical gold, he 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
2nd August	31st August	3rd August	31st August
1189	1246	1168	1246

London afternoon fix in €/oz:

Open	High	Low	Close
2nd August	31st August	3rd August	31st August
904.6	979.1	900.3	979.1

Gold moved up in price in August and looked set to test it's all time high at the end of the month.

3. Silver

3.1 News and Fundamental Considerations

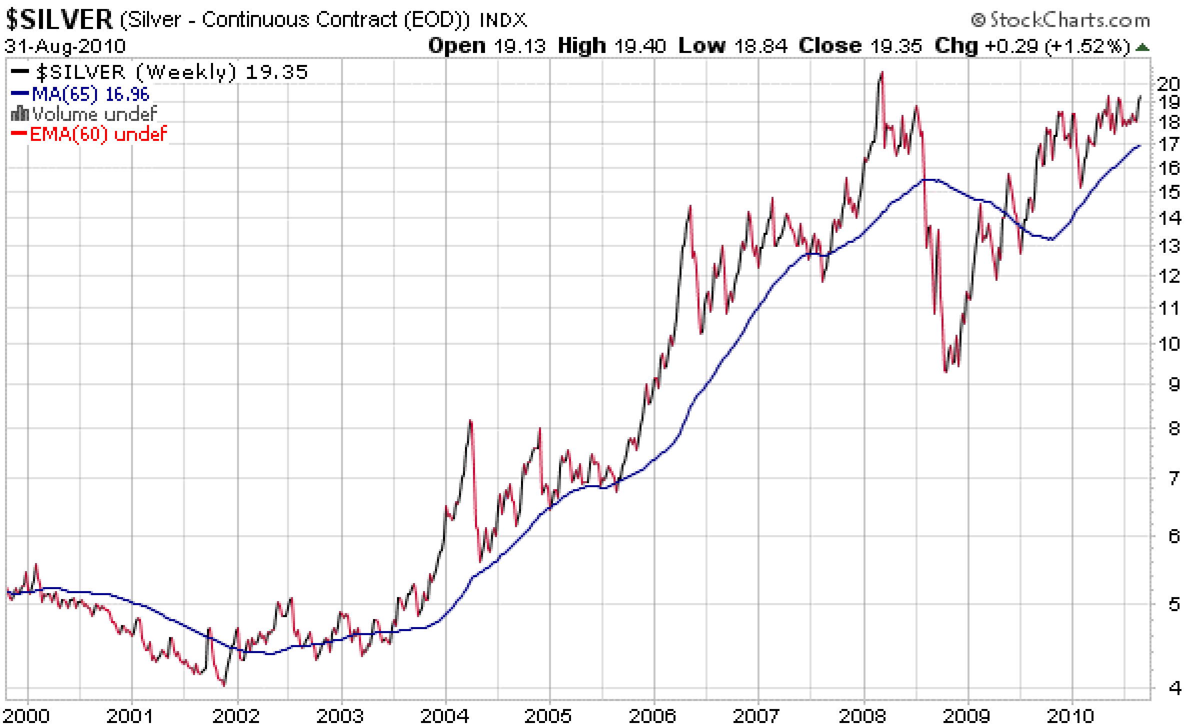
From the Silver Institute, 2nd quarter news:

http://www.silverinstitute.org/images/pdfs/2q2010.pdf

3.2 Technical Comments

Long Term Technical Comments

Silver looked set to test its highs for the current bull market at the end of August:



Daily/Weekly Technical Comments

London fix in USD/oz:

Open	High	Low	Close
2nd August	26th August	12th August	31st August
18.11	19.11	17.92	18.87

London fix in €/oz:

Open	High	Low	Close
2nd August	26th August	10th August	31st August
13.90	15.04	13.74	14.87

Silver broke through overhead resistance in August.

John Fineron, 1st September 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

This document is supplied in PDF format. To view, you may need to download the free Adobe Acrobat Reader:

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

This report represents the views of Johnson Matthey & Brandenberger AG, which may be materially different from those of Johnson Matthey plc and other group companies.