JM&B Monthly Gold & Silver Report
September 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

Once again, both gold and silver had a strong month and moved into over-bought territory on the daily charts.

2. Gold

2.1 News and Fundamental Considerations

Selected News Items from the Month

Kuala Lumpur, 4th September 2010, (AFP) – Malaysians are embracing gold dinars which were introduced last month by the northern state of Kelantan to promote usage of Islamic currency as an alternative to paper money, an official said Saturday.

The gold coins and silver dirhams were introduced in early August by the Islamic opposition party PAS which rules Kelantan state to coincide with the start of the Muslim holy fasting month of Ramadan.

Umar Ibrahim Vadillo, chief executive officer with Kelantan Golden Trade, said the first batch of gold and silver coins worth two million ringgit (625,000 dollars) had been sold out in less than a month.

"There is enormous response in Malaysia. Their reaction is unbelievable," he told reporters.

"In Kelantan, businesses including garage owners and taxi drivers are using the gold and silver coins."

Civil servants in Kelantan are paid up to 25 percent of their salary in dinars and dirhams if they wish.

Umar said three more Malaysian states controlled by the opposition -- Selangor, Kedah and Penang -- had indicated interest in minting similar coins.

"By the end of the year, we anticipate sales of the dinars and dirhams to hit 60 to 70 million ringgit," he said.

According to Islamic law, the dinar coin is 4.25 grams of gold, while the dirham is 3.0 grams of pure silver.

A gold coin is equivalent to about 582 ringgit (183 dollars) while the silver coin is worth around 13 ringgit but their values fluctuate according to market prices.

The coins were intended to be used as an alternative to the Malaysian ringgit and sen but are not legal tender.

"Of course it is not legal tender," Umar said. "The gold dinar is a commodity. The use of it is on a voluntary basis."

"The government of Kelantan has not received any petition from the government of Malaysia (against the usage)."

"The people in Kelantan have spoken loud and clear that they like the gold and silver coins," Umar said.

Former prime minister Abdullah Ahmad Badawi, whose administration promoted a moderate form of Islam that emphasised economic and scientific development, shot down the proposal to use the traditional Islamic currencies.

But his predecessor, Mahathir Mohamad, was an advocate of the dinar system and urged Muslim countries to use it as a trade instrument.

London, 14th September 2010, (GFMS) – GFMS released Gold Survey 2010 - Update 1 today, their latest report on the gold market, at a launch in London. The following details some of the highlights of the report from the briefing given at the launch by Philip Klapwijk, chairman of the independent metals research consultancy.

The report devotes much space to the critical area of investment demand, as the consultancy sees this as the prime driver of the gold price's rally during the first half of the year to record highs. Klapwijk noted here, "gold certainly lived up to its reputation as a safe haven in troubled times. Just look at the explosion in investor interest that followed the sovereign debt crisis unfurling in Europe. And it came as little surprise that we saw this interest strongest in arenas with a clear physical link, such as the ETFs, or in regions with memories of currency shock, such as German-speaking Europe".

Other factors cited in explaining investor interest included a shaky outlook for the industrialised world's economies, the maintenanceof low interest rates and the still feared threat of future inflation. One traditional driver of gold strength, US dollar weakness, proved conspicuously contrary as that currency also benefited from a flight to quality and so frequently strengthened in tandem with gold.

Update 1 also highlights the critical importance of GFMS' unique coverage of all aspects of the gold market; despite all this bullish talk of buoyant investment demand, it was, in totality, considerably lower than in the first half of 2009, when financial markets were still reeling in the aftermath of the Lehman collapse. The consultancy feel that the ability of the gold price to manage record highs this year was to a large extent due to the firmer footing of falling scrap and recovering jewellery demand. Klapwijk added, "it's hard to see how price gains can be truly sustainable when major fabricators like India and Turkey are net exporters of bullion, the position we were in early last year. However, fast forward to 2010, when Indian offtake jumped by around 170 tonnes, and you can immediately see how investment had a far firmer base to build on".

Another factor that GFMS see as significant to the rally was the shift in the official sector to net purchasing in the first half, a development chiefly attributable to the collapse in selling by signatories to the Central Bank Gold Agreement. Klapwijk noted, "the material contribution from central banks' net buying of around 90 tonnes in the first half was itself useful. But arguably of more importance was the broader shift in sentiment - investors for instance could be more confident of solid price gains, knowing central banks were in a sense on their side".

A key element of the Update and the presentation is GFMS' views on where the gold market might be heading and, on that score, the consultancy remains relatively bullish, with Klapwijk adding, "I think we could easily see gold spike comfortably above $1,300 before the year's out. We'll probably get a fair bit of profit taking as we head into the New Year but I wouldn't take that as a sign that the party's over - further gains in 2011 are far from out of the question".

GFMS feel that key to ongoing price strength are the extraordinary monetary and fiscal policies being enacted by the industrialised world's governments in the face of sluggish economic growth, the spectre of a double-dip recession and already uncomfortably high unemployment. Such developments were seen undermining the value of equities or other conventional assets, ensuring the maintenance of low interest rates and stoking potential future inflation. Klapwijk also added, "the US has so far managed to sidestep the sovereign debt crisis. But that could change in the future and that would undermine the dollar and boost gold".

Gold's fundamentals were also seen as being unlikely to hinder any rally as robust emerging market GDP growth meant jewellery demand would probably only fall appreciably and scrap rise if prices were to rally substantially. Furthermore, the interplay of these two and the price were seen providing a good floor to the market. This, plus further small scale gains in electronics demand, were seen as sufficient to broadly counter negatives such as the absence of substantial producer de-hedging, the slight rise in mine output and a return to modest net selling by the official sector. The consultancy also added that the risk to its forecast on central bank activity was firmly to the buyside as it was far easier to envisage additional purchases than sales.

London, 14th September 2010, (Bloomberg) – AngloGold Ashanti Ltd., Africa's biggest gold producer, plans to sell 15.8 million new shares and offer bonds that convert into the same number of American depositary receipts to fund an end to its gold hedges.

There will be over-allotment options to sell an additional 2.37 million shares and the same number of convertible bonds, the Johannesburg-based company said today in a statement. The company said it will use the proceeds along with cash on hand and credit facilities to "effectively eliminate its gold hedging position."

The company's ADRs, each representing one ordinary share, rose $2.13, or 4.8 percent, to close at $46.72 in New York trading before the bond and stock sales were announced.

AngloGold, in which hedge-fund firm Paulson & Co. holds a 12 percent stake, is among gold-mining companies reducing forward sales of the metal to take advantage of record prices. Producers cut hedges by about 780,000 ounces to 6.75 million ounces in the first quarter, research company GFMS Ltd. said in a June report.

Gold futures for December delivery rose to a record $1,276.50 an ounce on the Comex in New York today.

UBS AG, Morgan Stanley, Citigroup Inc. and Deutsche Bank AG are working for AngloGold on the sales.

Berlin, 26th September 2010, (FT) – Europe's central banks have all but halted sales of their gold reserves, ending a run of large disposals each year for more than a decade.

The central banks of the eurozone plus Sweden and Switzerland are bound by the Central Bank Gold Agreement, which caps their collective sales.

In the CBGA's year to September, which expired on Sunday, the signatories sold 6.2 tonnes, down 96 per cent, according to provisional data.

The sales are the lowest since the agreement was signed in 1999 and well below the peak of 497 tonnes in 2004-05.

The shift away from gold selling comes as European central banks reassess gold amid the financial crisis and Europe's sovereign debt crisis.

In the 1990s and 2000s, central banks swapped their non- yielding bullion for sovereign debt, which gives a steady annual return. But now, central banks and investors are seeking the security of gold.

The lack of heavy selling is important for gold prices both because a significant source of supply has been withdrawn from the market, and because it has given psychological support to the gold price. On Friday, bullion hit a record of $1,300 an ounce.

“Clearly now it’s a different world; the mentality is completely different,” said Jonathan Spall, director of precious metals sales at Barclays Capital.

European central banks are unlikely to sell much more gold in the new CBGA year, according to a survey by the Financial Times.

Although many central banks declined to detail their sales plans, the responses of some, along with numerous interviews with bankers and consultants, suggest it is unlikely there will be a return to the trend of the past decade, when CBGA signatories sold on average 388 tonnes a year.

The central banks of Sweden, Slovakia, Ireland and Slovenia said they had no plans to sell, while Switzerland reiterated a previous statement to the same effect.

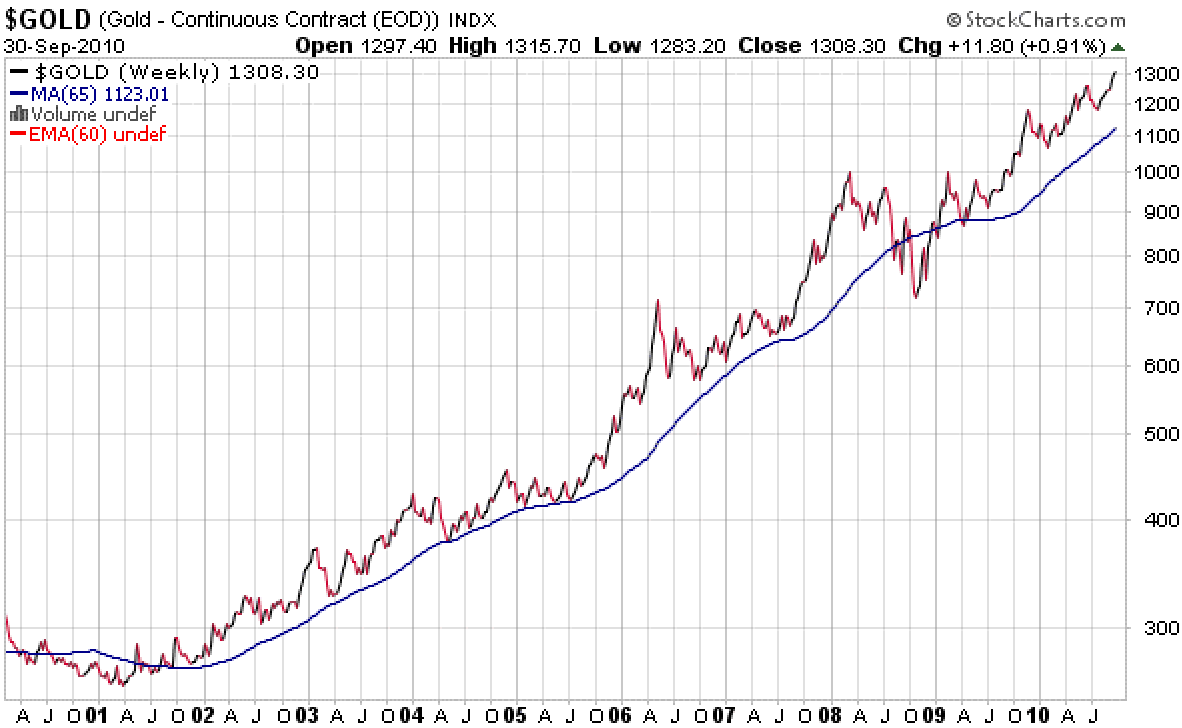
The CBGA was first signed after gold miners protested that central banks’ rush to sell was depressing prices.

In previous years signatories haggled for individual allowances to sell under the CBGA, but the most recent renewal of the agreement in 2009 contained no such quotas, according to Darko Bohnec, vice governor of Slovenia’s central bank.

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 September	29th September	3rd September	30th September
1247	1308	1241	1307

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

London afternoon fix in €/oz:

Open	High	Low	Close
1st September	7th September	30th September	30th September
971.6	985.7	958.4	958.4

Another solid month of price gains for gold in September.

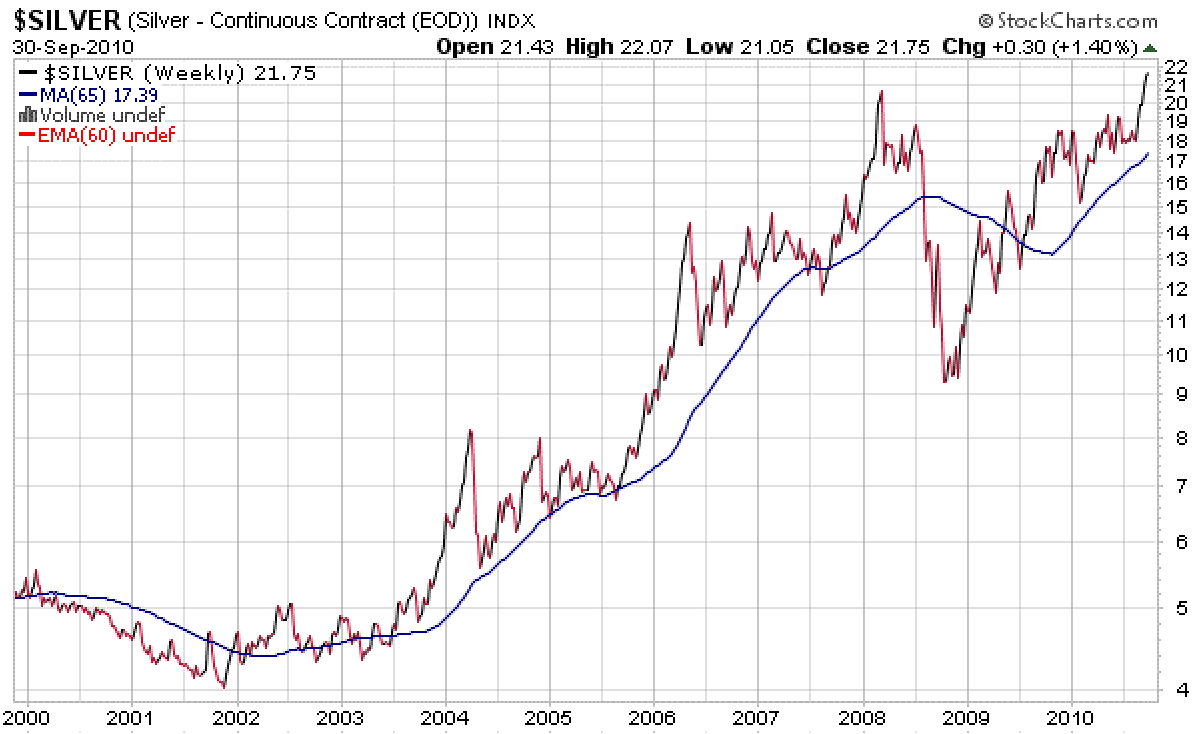
3. Silver

3.1 News and Fundamental Considerations

3.2 Technical Comments

Long Term Technical Comments

Silver moved to new highs for the current bull market in September:



Daily/Weekly Technical Comments

London fix in USD/oz:

Open	High	Low	Close
1st September	30th September	2nd September	30th September
19.47	22.07	19.45	22.07

London fix in €/oz:

Open	High	Low	Close
1st September	30th September	2nd September	30th September
15.21	16.15	15.15	16.15

Silver broke through overhead resistance in August and hardly had a losing day in September. At the end of the month silver was overbought on a daily basis, but not yet on a monthly basis, indicating that the rally may have further to go.

John Fineron, 1st October 2010.

Appendix: More about this report

Purpose of the Report
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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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