

# JM&B Monthly Gold & Silver Report

## October 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

New highs for gold and silver in October were followed by a price correction.

## 2. Gold

### 2.1 News and Fundamental Considerations

#### Selected News Items from the Month

**London, 1st September 2010, (GFMS) – Key Points Global Hedge Book (end-period)**

- Net producer hedging was recorded in the second quarter of 2010, with 0.16 Moz (5 t) added to the global book.
- This represented a 2% addition to the total book, which stood at 7.19 Moz (224 t) at end-June
- AngloGold was the largest de-hedger, removing 0.29 Moz (9 t). All other reductions were limited in magnitude.

- New project hedges were put in place during the quarter by St Barbara Mines, Perseus Mining, Regis Resources and Integra Mining.
- The marked-to-market liability of the producer book increased slightly to total negative \$3.49 billion in the first quarter. Looking forward, the impact of AngloGold Ashanti's planned hedge book reduction has prompted us to increase our forecast for the full year, to over 4.21 Moz (131 tonnes).

## Summary & Overview

Net producer hedging was recorded in the second quarter of 2010, with the global hedge book increasing by 0.16 Moz (5 t) on a net basis. The book was expanded primarily by way of additions to the options portion of the book, with a new collar option positions added by St Barbara Mines to cover production from its King of the Hills deposit. This position was of a delta-adjusted volume of 0.22 Moz (7 t).

The hedge by St Barbara Mines was one of many seen in the second quarter of 2010. Forward sale positions totalling 0.30 Moz (9 t) were also entered into by Perseus Mining, Integra Mining and Regis Resources.

Active hedge book reduction was, by comparison, sparse during the second quarter. AngloGold Ashanti continued to remove hedge cover, with its position falling by 0.29 Moz (9 tonnes). However, no other producers managed a cut of greater than one tonne, as hedge books were progressively unwound.

The addition to the book in the first quarter left the delta-adjusted hedge book at end-June standing at 7.19 Moz (224 t), up from a revised figure of 7.04 Moz (219 t) at end-March.

Notable news has, however, been reported in the third quarter of 2010: AngloGold Ashanti has indicated that it is to undertake an accelerated hedge book elimination. This is being financed through an equity offering, a convertible bond offering and the utilisation of debt. Indications are that this process will be finished by early 2011, and this substantially changes our forecast for the remainder of 2010. At end-June AngloGold held the largest hedge book, of 3.06 Moz (95 t).

Other news for the third quarter includes the closure of Norton Goldfields' forward sales position, the offsetting of Resolute Mining's remaining book and an extension of Sumitomo Metal Mining's collar option positions.

**Mumbai, 7th October 2010, (Mineweb)** – It is a gold rush the likes of which the country has not witnessed in a long time. Fears of double dip recession in the US and the subsequent global fallout of such an event has caused high net-worth individuals in India thronging to precious metal counters.

“The way this class (read wealthy investors) responds to a fear situation is by buying bars and kilos of gold,” said A L Adjaniwala, precious metals analyst at KJMC Capital, a Mumbai-based research firm. “Given the firming up of bank deposit rates in India, consumers in the world's

biggest buyer of the precious metal are keen to increase the share of gold in their investment portfolio to 20%-25% over the following year, from the current 10%-12%," he added.

Last year, bullion gained 34% and investors in India had realised the benefits of holding the yellow metal. With investors currently seeking a hedge against inflation and a weakening dollar, even a slight price drop is an opportunity that cannot be missed.

On Tuesday, Comex gold soared to an all-time high against a weakening dollar. Last Friday, the dollar fell to the lowest level since January, against a basket of currencies, partly on speculation that the Federal Reserve would ease the monetary policy to stimulate the US economy.

Data had showed that growth in US manufacturing had slowed. Inflation too was subdued; reason enough to spike the Indian market.

"Not just the richie-rich, even small investors have started buying gold coins. Most of them say they collect it for their children," said Harmesh Arora, director of NIBR Bullion, a Mumbai-based gold refinery that sells coins.

He adds, the corporate sector too has started gifting coins to their staff and dealers, "Knowing its intrinsic value, many retail stores are giving a gold coin as a free gift with the purchase of high value products, especially in the forthcoming festive season."

Shwetambur Shah of Choksi Vimalkumar, a jeweller in Mumbai's Kalbadevi area noted that Indians traditionally buy gold jewellery during festival time. "It is the most common gift during religious events and an essential wedding present, but buyers are becoming increasingly aware of the benefits of holding gold in other forms too. So, from coins to bars, several people are now coming in asking for larger quantities of gold," he added.

However, the high price is playing spoilsport in some areas. An official of Riddisiddhi Bullions, a large wholesaler in Mumbai, said sales may fall slightly before they pick up again. "Usually by this time, most of our stocks get lifted. This year, people are nervous about the high price," he added.

In the April to June quarter, India's investment demand for gold was at 41.5 tonnes, up 7% year-on-year, while jewellery demand stood at 123 tonnes, down 2% year-on-year, data from the World Gold Council has shown. Sunil Solanki of M H Karbawala & Co said the retail rate of gold jewellery at Rs 19,700 was too high for the normal consumer to jump in. "It is a wait and watch policy that is being adopted by most people. We do receive enquiry sales practically every hour on whether the rate has reduced, which would entice people to come in and buy some jewellery for the Navratri festive season ahead," he added.

## 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> October	14 <sup>th</sup> October	4 <sup>th</sup> October	29 <sup>th</sup> October
1316	1373	1314	1347

London afternoon fix in €/oz:

Open	High	Low	Close
1 <sup>st</sup> October	18 <sup>th</sup> October	1 <sup>st</sup> October	29 <sup>th</sup> October
957.4	980.1	957.4	968.3



Another new high for gold in October was followed by a correction.

## 3. Silver

### 3.1 News and Fundamental Considerations

**Toronto, 29th October 2010, (Reuters)** – Sprott Inc (SII.TO), the Canadian fund manager specializing in resource investments, said on Friday that it planned to raise \$500 million in the initial public offering of the Sprott Physical Silver Trust.

The offering will consist of 50 million units priced at \$10 each.

The trust, which will be managed by Sprott Asset Management, will invest and hold nearly all its assets in silver bullion.

It will be listed on the NYSE Arca and the Toronto Stock Exchange under the symbols "PSLV" and "PHS.U," respectively.

The offering was made simultaneously in the United States and Canada through a syndicate of underwriters led by Morgan Stanley (MS.N) and RBC Capital Markets (RY.TO).

As part of the offering, the underwriters have been granted an overallotment option to purchase up to an additional 7,500,000 units at \$10 each.

The Canadian syndicate includes TD Securities Inc (TD.TO), Canaccord Genuity Corp, National Bank Financial Inc (NA.TO), BMO Capital Markets (BMO.TO), HSBC Securities (Canada) Inc, GMP Securities LP, Wellington West Capital Markets Inc, and Mackie Research Capital Corp.

Sprott did an initial public offering of the Sprott Physical Gold Trust in March, which raised \$400 million. The value of that trust crossed the \$1 billion mark at the end of last month as gold prices soared.

## 3.2 Technical Comments

### Long Term Technical Comments

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



### Daily/Weekly Technical Comments

London fix in USD/oz:

Open	High	Low	Close
1 <sup>st</sup> October	14 <sup>th</sup> October	1 <sup>st</sup> October	29 <sup>th</sup> October
21.95	24.49	21.95	23.96

London fix in €/oz:

Open	High	Low	Close
1 <sup>st</sup> October	19 <sup>th</sup> October	1 <sup>st</sup> October	29 <sup>th</sup> October
15.99	17.46	15.99	17.29



Silver moved to a new high for the current bull market in October, after which a correction started.

John Fineron, 1<sup>st</sup> November 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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