JM&B Monthly Gold & Silver Report
January 2011

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

Both gold and silver spent all of January correcting in price.

2. Gold

2.1 News and Fundamental Considerations

Selected News Items from the Month

Toronto, 13th January 2011, (GFMS) – GFMS released Gold Survey 2010 - Update 2 today, their latest report on the gold market, at a launch in Toronto. The following details some of the highlights of the report from the briefing given at the event by Philip Klapwijk, chairman of the independent metals research consultancy.

GFMS' report highlights the critical role that investment demand played last year in bringing about a series of record prices highs and the 26% jump in the annual average. These elevated levels of interest were in turn ascribed to a raft of factors, most notable of which initially were European sovereign debt concerns and, arguably, rising concern about fiat currencies in general. Klapwijk commented here, "press attention certainly centred on smaller countries like Greece and Ireland and their potential to destabilise the euro. However, we could easily see the crisis cross the Atlantic as America's QE2 steams on".

Loose fiscal and monetary policy in the United States, such as December's tax cuts package and the maintenance of low or negative real interest rates, were felt to only be storing up problems, with Klapwijk noting, "inflation may seem a quite distant threat today but there's many an investor out there who sees real longer term danger in current US policy and the lack of political will or consensus to start tackling deficits". The shaky prospects for GDP growth in most industrialised countries was also seen as having provided another boost to gold investment. Klapwijk added, "we've seen how sensitive the market can be to economic data with gold having recently come off around $40 in a matter of days in response to some brighter news out of the US".

Gold's losses in the first week of January were not felt, however, to presage a true reversal in the longer term rally, although the consultancy did warn that the bulls might be disappointed in the opening months of the year. Instead, GFMS are expecting that towards the summer prices could start to move materially higher, with gold possibly breaking through $1,500 at that stage. They also see an approach to or even a breach of $1,600 by late 2011/early 2012 as quite feasible. Much of this is expected to be driven by still low interest rates, poor returns elsewhere, the elevated level of government debts in Europe, the United States and Japan, and lastly nagging concerns over quantitative easing in the United States and its ramifications for the dollar.

The consultancy is, however, not expecting any real support for further price gains to come from jewellery demand, which basis their current price projections, GFMS expect to fall by 7% in the first half. However, it was noted that good jewellery related buying and, in Asia, a bounce back in bar hoarding were expected to emerge on any price dips, which should defend the market's underside. The report also details how, due to such factors as economic normalisation, the recovery in jewellery demand last year, particularly in the first quarter, did much to provide support, effectively matching the drop in World Investment from 2009's exceptional levels.

Another area of the fundamentals that GFMS believe helped facilitate the rally was relatively restrained scrap as this is estimated to have fallen by 1% last year, despite the jump in prices. Klapwijk added, "it may seem odd to have scrap down at the same time as a massive rally in the price. But that's what looks to have happened in the face of price acclimatisation, lower distress selling and some consumers postponing selling back as they were expecting yet higher prices in the near future".

A final supportive area was official sector activity, with the report noting a swing in 2010 to net purchases for the first time since 1988. Klapwijk commented, "the absolute scale of the swing from 2009's net sales of around 30 tonnes to last year's net buying of almost 90 tonnes was not great, but that did a fair bit to boost investor sentiment".

The two obvious negatives for the price were mine production and producer de-hedging. The former was estimated to have risen by almost 3% last year, chiefly as new projects came on stream or ramped up their output, with further gains expected for the first half of 2011. De-hedging meanwhile was estimated to have fallen by over 40% last year, leaving the outstanding year-end producer book at trivial levels of under 100 tonnes.

London, 14th January 2011, (FT) – A spike in gold buying by Asian investors has created a scarcity of investment-grade gold bars in the region, supporting prices even as western investors trim their holdings.

Traders said that gold sales to China had jumped 30-50 per cent since Christmas, driving the cost of kilo bars in Hong Kong more than $3 per ounce above the market price of gold, the highest level since 2008 and an indication of the tightness in the physical market.

“Physical demand has rocketed in China at the start of the year,” said Walter de Wet, head of commodities research at Standard Bank.

The wave of Asian buying has propped up gold prices at about $1,360 a troy ounce, traders and analysts said.

The metal’s price has dropped 4.6 per cent from its December record price of $1,430.95, trading at $1,364.10 on Friday, as optimism about prospects for US growth has led western investors to turn their attention away from gold to other commodities and equities. “We have a balanced situation where one part of the world is buying and the other part is selling,” said a senior trader in Hong Kong. Chinese and Indian investors are increasingly turning to gold to protect savings against sharply rising food prices.

Investor buying of gold bars jumped 80 per cent to a record 144 tonnes last year in India, according to GFMS, the precious metals consultancy, while across east Asia bar hoarding was up 125 per cent at a 15-year high.

In another sign of the booming investment demand for gold in the region, China’s first exchange-traded fund to offer exposure to physical gold, launched last month by Lion Fund Management, announced this week that it had already achieved its target of raising $500m.

The tightness in the Asian market is likely to persist until the end of the month, traders said, as some refiners have booked out production until February and Chinese demand remains robust ahead of the new year holiday.

However, some warned that the gold market could lose its main support when China shuts down in the first week of February.

Edel Tully, precious metals strategist at UBS, said that next month, “if investors are intent on selling, gold will not have the buffer it had in January”.

London, 20th January 2011, (GFMS) – GFMS and Société Génerale launched their Q3 2010 Global Hedge Book Analysis. Key points were:

Producers’ net hedging activity swung back to the demand side of the market in the third quarter, with 2.16 Moz (67 t) removed from the global book.

This represented a cut of nearly one-third of the book, which at end-September stood at 5.11 Moz (159 t).

AngloGold was the largest de-hedger, removing 1.73 Moz (54 t) in the quarter as it initiated the hedge book termination.

The most significant hedge came from Sumitomo Metal Mining, which (delta-adjusted) increased its collar options position by 0.13 Moz (4 t).

The marked-to-market liability of the producer book roughly halved to total negative $1.81 billion in the third quarter.

With the remainder of AngloGold Ashanti's hedge position closed early in the fourth quarter, we forecast net de-hedging will push towards 4.65 Moz (145 t) for the year.

To see the full report, click here:
http://www.gfms.co.uk/Market%20Commentary/SG_GFMS_Global_Hedge_Book_Analysis_Q310.pdf

London, 20th January 2011, (Bloomberg) – Russia's central bank will raise the share of gold in its international reserves, the world's third largest, from about 8 percent, First Deputy Central Bank Chairman Alexei Ulyukayev said.

"We've increased our investment in gold during the last several years and we will continue to move in the same direction in the future," he said in an interview in London. "Gold is a natural part of reserves."

Russia, which aims to diversify its reserves, started adding the Canadian dollar and plans to invest in the Australian dollar. The central bank has almost doubled the share of gold in the past three or four years, according to Ulyukayev. The stockpile comprises 47 percent U.S. dollars, 41 percent euros, 9 percent British pounds, 2 percent Japanese yen and 1 percent Canadian dollars, according to the central bank.

The bank won't begin to add the Australian dollar until the middle of the year, Ulyukayev said on Dec. 1. Policy makers may also add new currencies to the reserves, with the Chinese yuan a potential target once it becomes fully convertible.

"We are trying our best to diversify the reserves" and investing in managed currencies is difficult, Ulyukayev said today. "If the capital control regime will be changed, in the People's Republic of China in this case, we can invest in that currency also."

Moscow, 24th January 2011, (Dow Jones) –The Central Bank of Russia plans to buy from domestic banks 100 metric tons of gold a year in order to replenish the country's gold reserves, Deputy Head of the bank Georgy Luntovsky said Monday, according to the bank's press service.

In 2010 Russia's gold reserve increased 23.9% to 790 tons, or 25.4 million Troy ounces.

London, January 2011, (World Gold Council) – We are pleased to announce the publication of the latest issue of our research quarterly, Gold Investment Digest offering investment professionals a concise analysis of recent gold market trends. The report is now available from our website.

Key findings from the latest Gold Investment Digest show that:

The gold price rose by 29% in 2010. By comparison the S&P Goldman Sachs Commodities Index (S&P GSCI) rose by 20%, the S&P 500 rose by 13%, the MSCI World ex US Index increased by 6% in US dollar terms, and the Barclays US Treasuries Aggregate Index rose only by 6% over the year.

Gold price volatility at 16% on an annualised basis in 2010 remained consistent with its long-term trend. By comparison, volatility on the S&P Goldman Sachs Commodity Index was 21% during the year, based on daily returns.

Gold benefited from the continued contagion from European sovereign debt problems as investors' hedge their currency risk. This was evidenced by strong gold buying in ETFs, bars, coins and other investment vehicles in Europe and other parts of the world.
Investors bought 361 tonnes of gold in the ETFs the WGC monitors in 2010, bringing total holdings to a new high of 2,167 tonnes, worth US$98 billion. This represents the second largest yearly inflow on record, after the 617 tonnes of net inflows experienced in 2009.

During the first nine months of 2010, global jewellery demand totalled 1,468 tonnes, increasing 18% from the same period during 2009. Gold demand for technological and industrial applications continued to recover during the first nine months of 2010, registering a 19% increase over the same period in 2009. Complete full-year data for gold demand will be available in February when the WGC publishes its Gold Demand Trends report.

Central banks became slight net buyers of gold for the full-year, after two decades as a steady source of supply to the market. The IMF successfully completed its gold sales programme of 403.3 tonnes without disruption to the market. The Fund sold 200 tonnes to the Reserve Bank of India, 10 tonnes to Sri Lanka, 10 tonnes to Bangladesh and 2 tonnes to Mauritius, all in off-market transactions executed at market prices. The remaining sales were conducted through on-market sales within the ceiling set by the third Central Bank Gold Agreement (CBGA3).

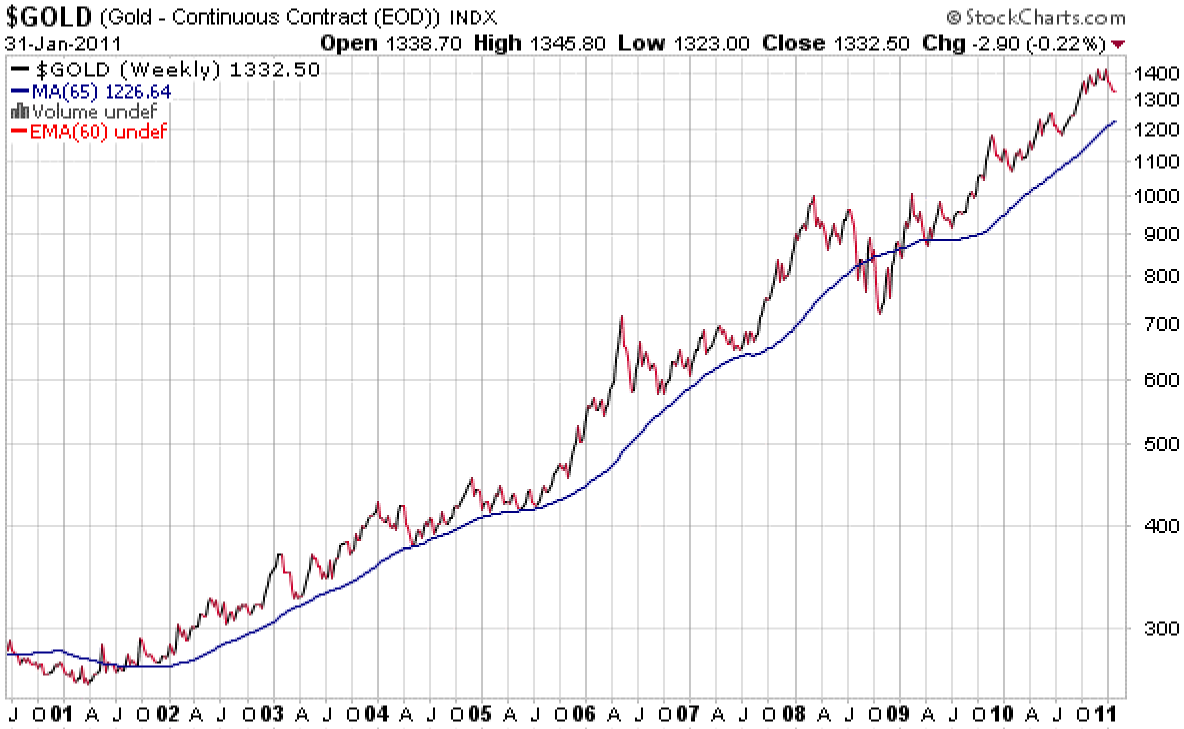
More here:

http://www.gold.org/publication/archive/gold_investment_digest/

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
4th January	4th January	28th January	31st January
1389	1389	1319	1327

London afternoon fix in €/oz:

Open	High	Low	Close
4th January	11th January	28th January	31st January
1039	1064	962.8	967.8

A continuous correction in January took gold to within 30 USD/oz of it's 200 DMA.

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3. Silver

3.1 News and Fundamental Considerations

3.2 Technical Comments

Long Term Technical Comments

The long-term trend is still up:

Daily/Weekly Technical Comments

London fix in USD/oz:

Open	High	Low	Close
4th January	4th January	25th January	31st January
30.67	30.67	26.70	27.75

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

London fix in €/oz:

Open	High	Low	Close
4th January	4th January	25th January	31st January
22.92	22.92	19.58	20.29

Like gold, silver corrected in price in January, but at the end of the month appeared to be getting close to a buy signal.

John Fineron, 1st February 2011.

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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