JM&B Monthly Gold & Silver Report
February 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

Gold and silver displayed strong upward price movement in February.

2. Gold

2.1 News and Fundamental Considerations

Selected News Items from the Month

Beijing, 2nd February 2011, (FT) – China's gold imports are estimated to have more than doubled from a year ago in the run-up to Chinese new year, putting the country on track to overtake India as the world's largest consumer of the precious metal.

The growth in demand is being attributed in part to Chinese families giving each other gifts of gold instead of traditional red envelopes filled with cash.

Fears of inflation have also driven demand for gold as a retail investment.

Precious metals traders in London and Hong Kong said on Wednesday they were stunned by the strength of Chinese buying in the past month. "The demand is unbelievable. The size of the orders is enormous," said one senior banker, who estimated that China had imported about 200 tonnes in three months.

Gold prices softened in January on the back of positive economic data in the US, but prices for physical gold in Shanghai have been at a premium of about $20 per troy ounce over those in London, underscoring the tightness in Asian markets.

That spread fell to $4 on Wednesday because of slow trading during the new year.

Official data show China importing 209 tonnes of gold the first 10 months of last year, versus 333 tonnes for India for the whole year. The Indian festival of Diwali was once the key driver of seasonal demand patterns because of the large number of weddings taking place during the holidays.

But now, as India's gold demand has started to smooth out because of changing wedding habits, Chinese new year is starting to have a bigger impact.

Last year about a third of Chinese gold consumption was linked to the holidays, according to a precious metals trader, but this year the spike is more pronounced.

Gold gifts are more popular in China this year than ever, particularly rabbit-themed gold pieces to mark the year of the rabbit. Small bars of 100 ounces or less are elaborated engraved with auspicious rabbit idioms or scenes of rabbits at play.

A gold store in Tangshan, a mid-tier steel town near Beijing, was all but sold out of rabbit-themed products on a recent visit.

With about a five days to go before the start of the holidays, the store clerk said all that was left in stock was a 20-oz carved rabbit bar and a few leftover Bugs Bunny-style statuettes.

Edel Tully, precious metals strategist at UBS, said: "China is on the fast track to replace India as the largest physical consumer. And the Chinese new year is now significantly more important than Diwali in volume terms."

China consumes about 527 tonnes of gold a year, according to the World Gold Council, an industry body representing gold miners. Traders say China will overtake India as the largest consumer of gold this year.

"The seasonality around Chinese new year is something that we've seen in the last two to three years," said a senior trader in Asia. "This year the demand may actually also carry on after Chinese new year."

This week China's exchanges are closed for the holidays and traders are debating how much of the growth in imports has been seasonal and how much is a result of underlying demand. Gold has become popular with retail investors as a hedge against inflation because of curbs on the property market and negative real interest rates for Chinese bank deposits.

London, 18th February 2011, (World Gold Council) – We have recently published the latest issue of Gold Demand Trends full year 2010. This sets out the key factors that drove gold demand in 2010, together with expectations for 2011.

Global gold demand in 2010 reached a 10 year high in tonnage and an all time high in value, with strong demand across all sectors. Gold demand for the year reached a ten year high with annual demand of 3,812.2 tonnes worth approximately US$150 billion. On 9 November 2010, this demand led to a new record gold price of US$1,421.00/oz on the London PM fix.

Key factors:

The jewellery sector enjoyed a strong recovery in 2010, with annual demand 17% higher than in 2009. Asian consumers drove jewellery demand, particularly in China and India. Chinese demand is expected to continue to increase rapidly during 2011 as economic growth in China remains strong, while Indian gold jewellery demand is likely to remain resilient and grow.

Asian consumers led demand with the revival of the Indian market and strong momentum in Chinese gold demand, which together constituted 51% of total jewellery and investment demand during the year.

A structural shift in central bank policy towards gold meant that in 2010 central banks became net buyers of gold for the first time in 21 years, removing a significant source of supply to the market.

Investment demand was down 2% compared with 2009, but was the second highest year on record at 1,333 tonnes, which equated to US$52 billion. Investment demand for gold as a foundation asset in portfolios is likely to remain strong, fuelled by ongoing uncertainty surrounding global economic recovery and fiscal imbalances, as well as fear of impending inflationary pressures and currency tensions.

Gold Demand Statistics for full year 2010:

Gold demand in 2010 reached a 10 year high of 3,812.2 tonnes. Demand was up 9% year-on-year, and marginally above the previous peak of 2008 despite a 40% increase in the annual average price level between 2008 and 2010. In value terms, total annual gold demand surged 38% to a record of US$150 billion.

Jewellery demand was remarkably robust in the face of record prices in the majority of currencies. Annual demand for gold jewellery rose 17% from 1760.3 tonnes in 2009 to 2059.6 tonnes. The rise in annual average prices over the same period was 26%. In value terms, this resulted in record annual jewellery demand of US$81 billion.

Investment demand, comprising bar and coin demand, ETFs and similar products, but excluding OTC investment demand, remained stable in 2010, down just 2% from the exceptional levels seen in 2009. This equated to a 23% rise in value terms from US$43 billion in 2009 to US$52 billion in 2010. Physical bar demand was particularly strong during the year, recording an annual gain of 56% at 713.2 tonnes.

Demand for gold ETFs and similar products totalled 338.0 tonnes during 2010 or 9% of total demand. Although this was 45% below the 2009 peak of 617.1 tonnes, it was nevertheless the second highest annual figure on record. As at the end of 2010, total gold holdings in ETFs and similar products stood at 2,175 tonnes with a US$ value of $96 billion.

Demand for gold used in technology was 419.6 tonnes, 12.4% higher than in 2009 as the electronics segment fuelled recovery in the sector, with demand returning to long-term trend levels. Demand soared by 41% year-on-year in US$ terms to a record US$17 billion.

India was the strongest growth market in 2010. Total annual consumer demand of 963.1 tonnes registered growth of 66% relative to 2009, which was largely driven by the jewellery sector. In value terms this was worth US$38 billion.

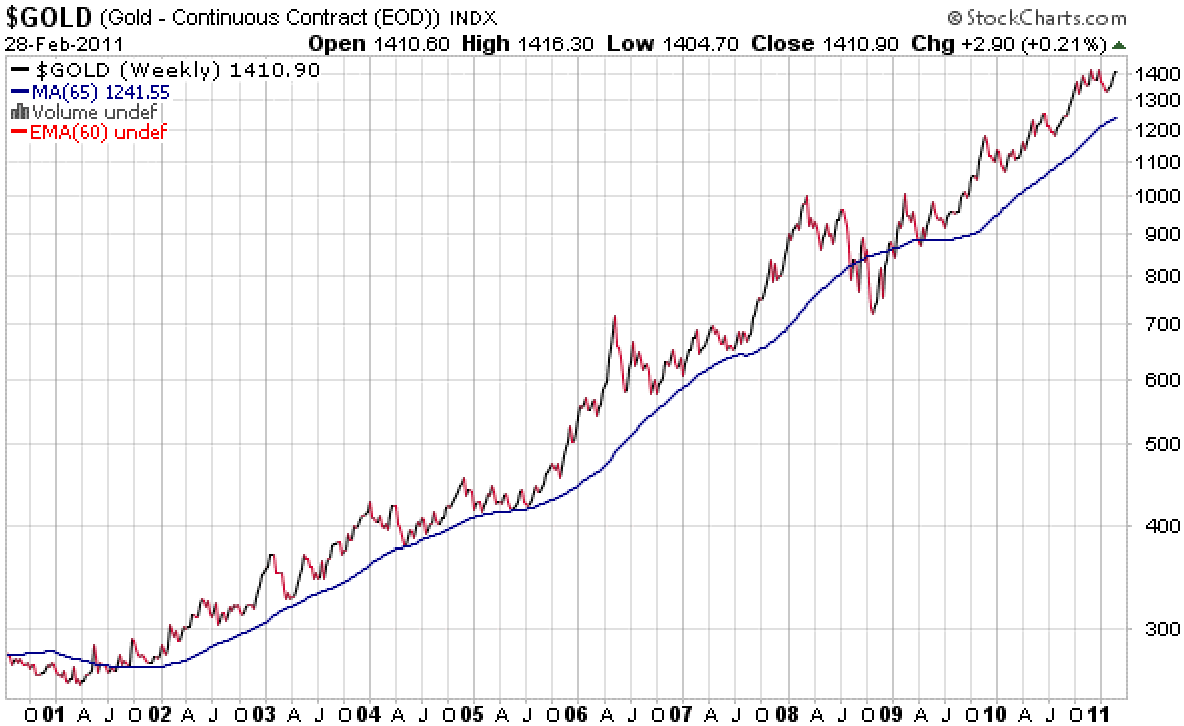
China was the strongest market for investment demand growth. Annual demand for small bars and coins increased by 70% year-on-year, totalling 179.9 tonnes, which is worth approximately US$7 billion.

Total supply is estimated to have increased marginally, 2% higher year-on-year for the full year 2010, with a number of new projects across a range of countries and regions contributing to higher levels of mine supply. Within total supply, recycled gold, which accounts for 40%, fell 1% compared with the previous year to 1,653 tonnes.

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 February	24th February	3rd February	28th February
1332	1412	1328	1411

London afternoon fix in €/oz:

Open	High	Low	Close
1st February	21st February	2nd February	28th February
989.1	1027	968.7	1020

Gold recovered all of January's losses in February to come within striking distance of it's previous highs.

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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
1st February	28th February	2nd February	28th February
28.32	33.49	28.27	33.49

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London fix in €/oz:

Open	High	Low	Close
1st February	21st February	2nd February	28th February
20.57	24.44	20.49	24.21

Silver advanced strongly in February to a new high for the current bull market.

John Fineron, 1st March 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.

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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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