JM&B Monthly Gold & Silver Report
May 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 corrected significantly in price in May, however, their long-term price trends remain positive.

2. Gold

2.1 News and Fundamental Considerations

Selected News Items from the Month

London, 4th May 2011, (Bloomberg) – Mexico, Russia and Thailand added gold now valued at about $6 billion to their reserves in February and March as prices advanced to a record, the dollar weakened and Treasuries lost investors money.

Mexico bought 93.3 metric tons since January, adding to holdings of about 6.9 tons, according to International Monetary Fund data. Russia increased its reserves by 18.8 tons to 811.1 tons in March and Thailand expanded assets by 9.3 tons to 108.9 tons in the same month, the data show.

Central banks are expanding their gold reserves for the first time in a generation, as purchases by billionaire investors including John Paulson contributed to bullion extending its longest winning streak since at least 1920. Countries were also boosting their holdings in 1980 when gold rose to a then-record $850 an ounce, only to fall for most of the next 20 years.

"Central banks have good reason to buy gold," said Peter Morici, a professor of business at the University of Maryland in College Park and a former economic adviser to the U.S. government. "The dollar is no longer a safe asset for backing currencies. Treasuries are not a sound investment" and budget and debt issues mean central banks should buy gold, he said.

Gold for immediate delivery climbed to a record $1,577.57 an ounce on May 2 and traded at $1,539.29 by 3:04 p.m. in London today. Prices are up 8.3 percent this year and have gained the past 10 years. Global holdings of gold by governments and official institutions such as the IMF stood at 30,523 tons by April, according to the World Gold Council.

Lowest Level

The dollar today slid to the lowest level since July 2008 against six major currencies. Treasuries lost investors 0.14 percent in February and March, according to Bank of America Merrill Lynch indexes.

Bullion earlier today dropped after the Wall Street Journal reported Soros Fund Management LLC sold precious metal holdings because of a reduced risk of deflation, citing unidentified people close to the matter. The Soros fund held shares in the SPDR Gold Trust and the iShares Gold Trust equal to about 508,800 ounces as of Dec. 31, a U.S. Securities and Exchange Commission filing on Feb. 14 showed.

Soros described gold at the World Economic Forum's meeting in Davos, Switzerland, in January last year as "the ultimate asset bubble." In a Nov. 15 speech in Toronto the 80-year-old said conditions for the metal to keep rising were "pretty ideal" and at this year's Davos forum he said the boom in commodities may last "a couple of years" longer. Michael Vachon, a spokesman for Soros, declined to comment today.

Thailand's Reserves

Since the end of 2009 countries including India, Sri Lanka, Mauritius and Bangladesh have bought gold. Before this year's purchases, gold accounted for about 0.2 percent of Mexico's total reserves, and 2.6 percent of Thailand's reserves. The metal accounts for more than 70 percent of reserves of the U.S. and Germany, the biggest holders, World Gold Council data show.

"Mexico's gold accumulation confirms the demand of emerging market central banks to diversify their reserves," said Bayram Dincer, an analyst at LGT Capital Management in Pfaeffikon, Switzerland. "They will be the big buyers for years to come."

London, 13th May 2011, (FT) – The sharp drop in gold and silver prices has stimulated a surge in buying from India in a sign that consumers in the world's largest gold-buying country retain faith in the decade-long bull story for precious metals.

Bankers have been surprised by the strength of Indian demand in the past week, when gold dropped below $1,500 a troy ounce and silver tumbled below $35 a troy ounce.

UBS and Standard Bank, two large bullion dealers, have enjoyed some of the strongest days of sales to India this year, according to analysts at the banks, while others reported a similar surge.

The buying from India, which accounts for a fifth of global gold demand and a 10th of demand for silver, comes as some investors in the west have cut exposure to precious metals and other commodities, spooked by a series of steep falls and the imminent end of quantitative easing in the US. Investors have cut their holdings of gold and silver through exchange-traded funds by 1.4 per cent and 5.7 per cent respectively in the past two weeks.

But in Mumbai's bustling Zaveri market, the gold hub of India's wealthiest city, traders were suffering from no such jitters. Indeed, they were fiercely elbowing one another to grab as many shiny bars as possible last Friday amid expectations that falling prices would cause demand to soar.

"Tonight people will be invading the market to buy gold ... I'm here to refill as I'm running out of bars," said Amit Soni, a vendor standing in the packed store with a bag of cash in one hand and his mobile in the other to monitor the sales back at his shop.

The apparent confidence of Indian consumers in a rapid price rebound could provide a floor for the market, analysts said.

Walter de Wet, head of commodities research at Standard Bank, said that gold would "continue to push higher" and touch new highs this year. "The metal has reached $1,500 and we expect it to consolidate above this level soon," he said.

On Friday gold was trading at $1,487, down 0.5 per cent on the week, and silver at $34.50, down 2.8 per cent on the week.

Indians traditionally buy gold for weddings or festivals, but traders say the nature of the market is shifting as gold and silver buyers become more speculative.

In common with many emerging economies, high inflation in India is driving investors into precious metals as a store of value when rising prices erode the value of their paper currencies. For that reason, many analysts and investors believe gold prices could soon resume their upward march and reach new record highs before the year is out.

Chhabil Jain, a Mumbai silver trader, said that demand for silver bars was going through the roof and that many vendors were starting to run low on stocks.

"People are booking incredible amounts of silver as they see the current drop in prices as a great opportunity to buy more ... most are buying for pure investment," he added.

London, 19th May 2011, (Bloomberg) – Gold demand rose 11 percent in the first quarter as China helped boost investment and jewellery usage, while demand will remain "firm" throughout this year, the World Gold Council said.

Global demand gained to 981.3 metric tons in the quarter, compared with 881 tons a year earlier, the London-based industry group said today in a report. China's consumption surged 47 percent in the quarter, and may double before 2020 as the growing population's wealth increases and near-term concerns about faster inflation spur investment, the council predicts.

Accelerating inflation, Europe's debt crisis, a weakening dollar and unrest in north Africa and the Middle East boosted gold to a record $1,577.57 an ounce on May 2. Central banks are adding to their reserves for the first time in a generation, helping prices extend a 10-year rally, the longest run of gains in at least nine decades.

Investment "demand will remain resilient in 2011," Eily Ong, an investment research manager at the council, said in an interview from London yesterday. "Jewellery demand is remarkable. We still see inflation pressures and that has driven the Chinese investors."

Gold for immediate delivery traded at $1,498.88 at 4:45 p.m. yesterday in London. Prices averaged $1,387.67 in the first quarter, up 25 percent from a year earlier and 1.3 percent more than the fourth quarter.

Jewellery Demand

Jewellery consumption gained 6.8 percent to 556.9 tons in the first quarter, the council said. China's jewellery demand surged 21 percent to a record 142.9 tons, and together with India, the biggest buyer, accounted for 63 percent of global purchases.

Consumers in China and India "continue to view jewellery not just only as an adornment, but as a good investment," Ong said. "They see a lot of value in gold. They still have expectations of a higher price."

Investment increased 26 percent to 310.5 tons in the quarter. While bar and coin purchases climbed 52 percent to 366.4 tons, holdings in exchange-traded products backed by the metal declined. ETP assets dropped 69.9 tons from December through March, according to data compiled by Bloomberg, after reaching a record 2,114.6 tons. Investors currently own 2,037.8 tons in the products, more than all but four central banks.

Billionaire investor George Soros sold 99 percent of his bullion-backed SPDR Gold Trust assets and all 5 million shares in the iShares Gold Trust in the first quarter, a government filing showed this week. John Paulson, the biggest investor in the SPDR Gold Trust, maintained his positions.

Going Nowhere

"You have ongoing concern about the euro area and geopolitical unrest," Ong said. "Inflation pressure is still an ongoing issue. These concerns are not going away."

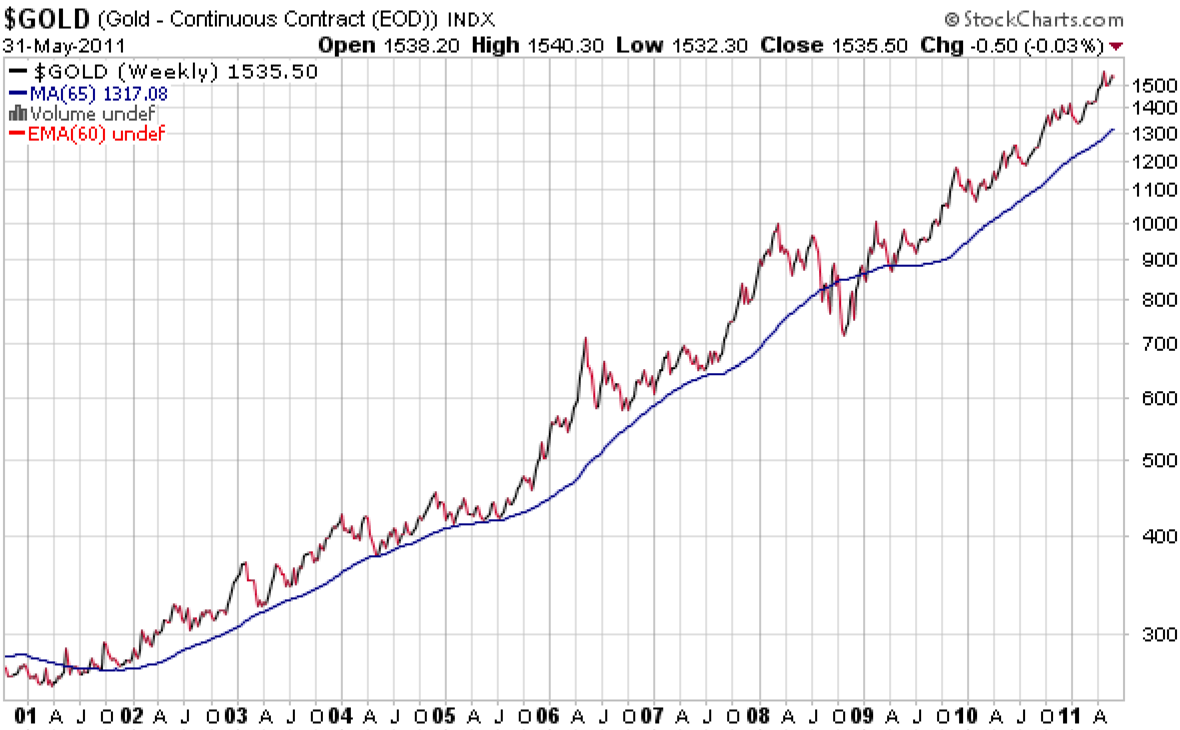
Central bank and government institution purchases doubled to 129.3 tons in the first quarter, exceeding the amount bought in the first three quarters of last year, the council said. Countries will remain net buyers this year, it said.

Total supply declined 4.4 percent to 872.2 tons in the first quarter from a year earlier as central banks purchased the metal and as scrapping fell 6 percent to 347.5 tons, the council said. Mine output rose 7 percent to 663.9 tons, it 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
3rd May	4th May	17th May	31st May
1540	1541	1479	1537

London afternoon fix in €/oz:

Open	High	Low	Close
3rd May	25th May	6th May	31st May
1039	1087	1025	1067

After a modest correction at the start of May, gold proceeded to recover it's losses to end the month almost unchanged.

3. Silver

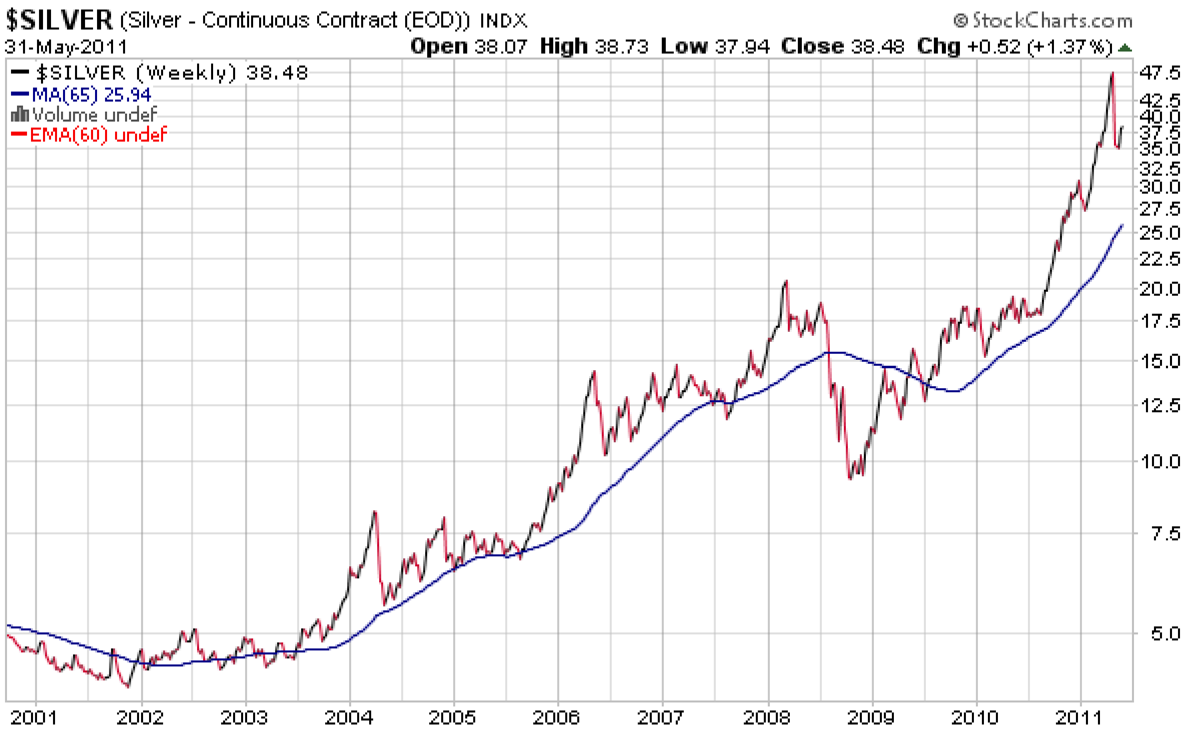
3.1 News and Fundamental Considerations

No significant news this month.

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
3rd May	3rd May	12th May	31st May
43.61	43.61	32.50	38.65

London fix in €/oz:

Open	High	Low	Close
3rd May	3rd May	12th May	31st May
29.49	29.49	22.95	26.84

As we indicated last month: 'silver looked poised to correct in price'. Silver did indeed correct significantly in price, finishing May in what may prove to be another uptrend.

John Fineron, 1st June 2011.

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Appendix: More about this report

Purpose of the Report

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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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