JM&B Monthly Gold & Silver Report
July 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

Contents

1. Commentary

Both gold and silver experienced solid price gains in July. Whilst gold made new price highs, silver lagged somewhat.

2. Gold

2.1 News and Fundamental Considerations

Selected News Items from the Month

London, 30th June 2011, (World Gold Council) – Nanostellar Inc., a Silicon Valley developer of advanced materials, has completed the commercialisation of a gold-based catalyst, NS Gold™, which is now in production, with one of the four largest European diesel car manufacturers. The World Gold Council has provided an additional investment, which will help the company to accelerate wider commercial adoption of NS Gold™.

The inclusion of gold in this technology provides significant benefits for diesel vehicle manufacturers, providing emission reductions of up to 30%, manufacturing cost reductions, or alternatively improved fuel economy. Catalytic converters in cars and trucks use precious metals, such as platinum, to catalyse the oxidation of harmful by-products in the engine exhaust, and thereby reduce noxious emissions. The potential to use gold in this type of application has long been considered by the industry, but until Nanostellar's breakthrough the technical challenges concerning catalyst durability prevented its use. Following rigorous performance and durability testing, the NS Gold™ catalyst has proven to be fully compliant with the current European vehicle emissions standards (Euro-5).

Dr Richard Holliday, Director, Technology at the World Gold Council, said:

"This is one of the most advanced and exciting applications of gold in technology, with the potential to address stricter legislation on reductions in engine emissions cost-effectively, while broadening the technological uses for gold. We look forward to continuing our strategic partnership with this cutting-edge, innovative company and sharing our expertise to help spur further progress in other technologies."

Nanostellar, which was recognised by the World Economic Forum as a Technology Pioneer in 2008, has led the way in the use of gold in diesel emission control systems and has been supported in its commercial application by the World Gold Council since its first investment in the company in late 2007.

Pankaj Dhingra, CEO of Nanostellar, commented:

"We welcome the continued support of the World Gold Council. The performance benefits, durability and manufacturability of NS Gold™ based diesel oxidation catalysts have now been proven. In addition, the application of Nanostellar's materials design process, Rational Design, has provided us with a pipeline of exciting new materials that are undergoing durability tests. The World Gold Council's continued support puts Nanostellar in a stronger position to accelerate the adoption of the NS Gold™ catalyst beyond our lead customers."

In its recent publication, Gold: The hidden element in innovation, the World Gold Council describes how it helps to reduce the time it takes for gold-based innovations, like NS Gold™, to reach the market. The World Gold Council will continue to play a key role in the commercialisation and marketing of this and other gold-based technologies in the future.

London, 1st July 2011, (BBC) – A gold bar vending machine has opened in the Westfield shopping centre in west London.

The machine, which follows others around the world including in Dubai and Germany, dispenses gold bars. Prices are updated every ten minutes as the gold market changes.

The company behind the venture, Gold to Go, put a mark-up on the price of gold but CEO Thomas Geissler insists it is a good investment for members of the public.

Gold prices are currently close to record highs of more than $1,500 (£940) an ounce.

Members of the public had mixed views on whether the gold bars would make a good gift or investment.

Tehran, 6th July 2011, (Reuters) – Leafing through an old family photo album, 74-year-old Molook Amini wished she could afford to buy a gold coin as a wedding gift for her youngest grandchild as she did for others.

"It was always a tradition to give gold coins to close family members on special occasions. This year for the first time I can not afford to do it anymore."

Whether for wedding gifts or as a way to squirrel away savings, Iranians have a long history of buying gold coins, widely available from dealers in high street shops and bazaars. But recently, what was a steady demand has become a gold rush.

Amid global economic uncertainty, the price of gold on world markets rose steadily in the first half of 2011 and Iranian coins appreciated in line with that. Rather than cashing in their coins for a profit, Iranians continued to buy them in ever larger numbers.

"Usually, as the price of an item increases, demand will decrease. But in the case of gold, it seems that higher prices are creating more demand," said a gold retailer in Tehran who asked not to be identified.

The Iranian gold rush was mainly driven by fears about the domestic economy, particularly the risk of soaring inflation and a wobbly currency, he said.

In addition to concerns about a global double-dip recession, the economy has been hit by sanctions as the United States leads global pressure on Tehran over a nuclear program many states say is aimed at building atomic weapons, a charge Iran denies.

"The reasons that people are drawn to these safe assets -- gold coins and hard currency -- are firstly a limited choice of investment opportunities, and secondly a fear from the weakness of the national currency," said an economist who asked not to be named.

"These are results of more potential economic instability in the country."

KING AND CLERICS

Treasured as a store of value, Iran's gold coins, minted over centuries, are also culturally important.

They were traditionally stamped with the faces of kings. After the 1979 revolution, the Islamic Republic started to issue Bahar-e Azadi (Spring of Liberty) coins, some of which were engraved with the image of Ayatollah Ruhollah Khomeini, who led the uprising against the last shah.

Produced by the Central Bank of Iran, a standard gold coin weighs 8.133 grams. It is also sold in smaller denominations of a half coin and a quarter coin.

In June the price of a Bahar-e Azadi gold coin reached an all-time high at around 4,550,000 rials ($422), compared to a year ago when it sold for around 3,120,000 rials.

Iranian authorities have repeatedly denied that sanctions are hurting the country, saying the economy is strong.

But many Iranians are worried that keeping their wealth in rials is a risk.

"We can keep the coins at home and feel secure," said Mohammad, a 39-year-old stock trader who said financial sanctions have made it harder for normal Iranians to transfer capital abroad, for example to buy property in Dubai or Europe.

"In the current situation there are people who can move their capital and invest in other countries, but we as ordinary people have no choice but to invest in gold coins," he said.

INFLATION AND DEVALUATION

Saving rials is also less attractive than a few months ago after the government reduced the level of interest banks could pay on savings. Returns were slashed in April from a range of 26-28 percent to 14-17 percent, below what many Iranians believe to be the actual inflation rate.

Worries about the declining buying power of the rial and doubts over the currency's stability are the main drivers behind the flight to gold.

While the International Monetary Fund has praised Iran for reducing inflation to 12.4 percent for 2010-11 from 25.4 percent two years earlier, the rate has been creeping back up over the last year to 14.2 percent in May. Prices have risen much faster for key items such as fuel, water and food as heavy government subsidies are phased out.

At the end of last year, President Mahmoud Ahmadinejad started winding down some $100 billion of subsidies and giving direct cash payments to families to reduce the impact of price rises. The switch, praised by the IMF, was done despite the predictions that surges in the prices of fuel, food and water could stoke wider inflation.

As well as hoarding gold, many Iranians sought to change their rials into hard currency, increasing demand for dollars so much that the Central Bank devalued the rial by almost 11 percent last month.

That sudden decision did nothing to assuage Iranians' fears about the safety of their savings.

Many economists believe the rial, which is loosely pegged to major world currencies under a "managed floating exchange rate," has not been allowed to devalue in line with inflation and is overvalued by between 30 and 50 percent.

As international trade in rials is very limited, the change in its value has no real impact on global markets.

It sank to 12,500 to the dollar last month, compared to 10,500 earlier in the year.

Since the devaluation, Central Bank governor Mahmoud Bahmani has said he might use a raft of policies to prevent the rial falling further, including possibly restricting the activities of money traders he accuses of profiteering and speculation.

He also said Iran would reverse the bank interest rate decision. "We will curb the fake demand for foreign currency by increasing interest rates," the daily Arman quoted Bahmani as saying in June.

Following central bank intervention, injecting hard currency and gold into the market, the price of both the dollar and of gold coins has eased.

But analysts say fundamental problems will continue to pressure both and have criticized what they say are contradictory signals from the government.

Bahmani said the rial will recover to a "market rate" of 10,000 rials and the price of gold will decline.

But such comments, immediately after a devaluation which put the official dollar rate at 11,717 rials, have only added to the uncertainty, some economists say.

"Signs of confusion over forex policymaking are very apparent. The sudden increase (in the dollar) followed by a drop and the announcement of various rates for currency by different finance officials is indicative of that," the economic daily Abrar-e Eqtesadi, wrote on July 3.

Ordinary Iranians are far from reassured.

"During these times of instability in Iran, the safest form of investment is gold coins because no-one knows how much the rial will decline or interest rates will be," said 30 year-old private sector employee Saba Aqabala.

Back in her apartment in northern Tehran, Grandma Molook hopes she might still find the money to buy her granddaughter the gold coins. "I'm afraid I'll have to buy her a household appliance," she said. "Or just give her the cash

Mumbai, 18th July 2011, (World Gold Council) – Gold always falls in summer. That is the conventional wisdom among gold traders, conditioned over decades, in which the period from June to August has been characterised by slack demand for bullion.

But this summer has been rather different. On Monday, gold surpassed $1,600 a troy ounce for the first time. Even when it did suffer a brief correction at the end of June, it dropped only as far as $1,478, a level that only three months earlier would have been a record.

Yet one driver that has underpinned the market has gone largely unnoticed: an unexpected rush of buying from India.

With India battling high inflation, gold has found favour there as a means of wealth preservation, just as in China and other parts of Asia. According to the most recent data from the World Gold Council, India and China accounted for 58 per cent of global physical gold demand in the first quarter of this year.

In recent weeks, though, Asian buyers and western investors have been taking turns to drive prices higher. Investments in exchange traded funds backed by physical bullion rose to a record 2,156 tonnes on Friday, according to Barclays Capital, while investors boosted their bets on higher gold prices in the US futures market by the most since September 2009.

Monday's jump in the gold price came as part of a wider risk-aversion trade that saw US and European bank shares sold off, the euro slide to a record low against the Swiss franc and yields on Spanish and Italian debt resume their upward march: a flight to safety.

But the scale of the Indian buying has surprised traders because its gold market is usually quiet in June. The country has traditionally bought gold in seasonal patterns, dictated by festivals such as Akshaya Tritiya in May and Diwali in September, as well as the wedding season, which runs from September to December.

The shift in buying patterns from India, the world's top consumer of bullion, is changing the seasonality of the global gold market. While gold's performance in the summer months has tended to be sluggish over the past three decades, the yellow metal this year has risen 4.5 per cent since the start of June.

Abha Kachaliya, Mumbai-born chartered accountant in her mid-20s, is typical of the trend. As a child, she remembers her mother would dress her up to go out to buy gold at Zaveri Bazaar, the city's precious metals hub, for Diwali, the festival of lights.

"It was a special and exciting moment," she says. "Every year for Diwali the whole family would go out together to buy as much gold as we could afford."

Now, though, Ms Kachaliya takes a more opportunistic approach to buying gold. Although Diwali continues to be a special day for her family, she does not feel that is the only day she can buy gold any longer. "Whenever I have a chance I invest in gold, be it at the bazaar or online I'll jump on any good deal."

Buyers like Ms Kachaliya helped the Indian market buck the normal trend in June. Large bullion-dealing banks reported a surge in buying from the country, a factor traders say has been instrumental in keeping prices close to historical highs. Sales to India from UBS were more than double the level of a year earlier.

"Undoubtedly over time the market is becoming less seasonal," says Tom Kendall, precious metals strategist at Credit Suisse.

There are several reasons for the shift. One is simply the growing wealth in India and across emerging economies that has lifted demand for gold.

"What used to be wedding season now lasts for nine months of the year," Mr Kendall says. "There were not enough auspicious days of the year, so they found some more."

But Indians are also beginning to approach gold more like western investors, traders and analysts say, putting a proportion of their wealth into gold and buying opportunistically on dips. Atul Shah, head of commodities at Mumbai-based brokering firm Emkay, says the days when people acquired gold only during festivals and weddings are over. "Indian consumers are buying gold all year round," he says.

Vishal Kapoor, head of wealth management at Standard Chartered in Mumbai, says Indian consumption habits have changed over the past decade. "In recent times we have seen a shift in buying trends," says Mr Kapoor. "What is different of late is the availability and the acceptance of gold as a financial asset and not just as something you keep in a locker at home."

If gold's recent run, the bullish futures bets and sums being poured into ETFs are any guide, then western buyers may share the Indian way of thinking. As Mr Shah of Emkay says: "Whenever they see the price dip, they immediately buy more, as they are confident that valuations are going to go up again."

Singapore, 21st July 2011, (Reuters) – Gold fever is gripping Asian investors and could spread to central banks as global growth uncertainties tarnish the appeal of other assets, putting bullion on course for more gains but also provoking fears about supply.

Spot gold surged more than $100 in 11 straight days to Tuesday, its longest winning streak in four decades, hitting a record $1,609.51 an ounce, as debt default fears in the United States and Europe drove investors to seek safety.

Gold stayed above $1,600 on Thursday as market watchers remained cautious about the debt situation on both sides of the Atlantic.

Asian giants India and China, the world's two biggest consumers of the precious metal, expect to see demand continue to climb for the rest of the year, as growing wealth and stubbornly high inflation make bullion an attractive asset.

"Record high prices won't scare away investors," said Shi Heqing, an analyst at Antaike, a state-backed metals consultancy based in Beijing.

"Investors are likely to chase the rally and continue to buy gold because paper money feels increasingly worthless and they are worried about inflation."

Shi expects China's gold demand to rise about 20 percent to near 700 tonnes this year from 570 tonnes in 2010 as Beijing struggles to tame annual inflation that hit a three-year high of 6.4 percent in June.

In India, the wedding season in mid-August is expected to drive up sales of gold, a fixture in dowry and gifts.

"The case for gold in the longer term is still very strong. Gold may appeal to new classes of investors who previously avoided the market in favor of more mainstream investments like bank deposits, bonds and equities," said a Singapore-based trader.

"Potentially there's a whole new market for small-sized physical gold bars if these investors lose faith in paper."

Technical charts point to gold hitting as much as $1,940 by the end of the year, given the strong bullish momentum in the past two weeks, Reuters market analyst Wang Tao says.

'$2-TRILLION, $3-TRILLION ELEPHANT'

Even central banks, until recently keen to disperse some of their gold holdings, could soon be sniffing around for more of the precious metal, analysts say.

In 2010 central banks became net buyers of gold for the first time in 21 years, as developed nations of Western Europe and North America reduced selling in the wake of the global financial crisis while emerging economies tried to diversify their holdings of foreign currencies, especially the dollar.

Deepening worries about debt crisis contagion in the euro zone, uncertainties around U.S. growth in the second half and its impact on the greenback, are likely to increase central banks' appetite for gold.

"If you look at projections on debt for the United States and for some European countries enjoying triple A status, it's looking very likely that these countries are moving from triple A to something less shiny," said Philip Klapwijk, executive chairman at GFMS, a metals research consultancy.

"And that's surely going to burnish gold's credentials for asset managers globally, particularly central banks and some of the sovereign wealth funds."

But central banks have to tread lightly, as sizable purchases could jolt the relatively small gold market.

On April 24, 2009 spot gold prices jumped more than 1 percent, when China announced an increase of 454 tonnes in its gold holdings, representing a jump of 76 percent from 2003, the only previous occasion it revealed the size of its gold reserves.

Last year, global gold supply, including mine production and scrap, stood at 4,108.2 tonnes, which translates into about $210 billion at current price. Above-ground gold stocks stood at an estimated 165,000 tonnes, valued at more than $8 trillion.

By comparison, the amount of U.S. debt held by the public stood at $9.75 trillion by July 19, doubling from five years earlier -- adding nearly $1 trillion a year, based on data from the U.S. Treasury Department.

"Central banks have the will to increase gold holdings, but it is not a practical option and rather difficult," said Dong Tao, chief regional economist at Credit Suisse.

"Gold supply simply doesn't grow as fast as China's foreign reserves. Only the increase in U.S. debt can match that."

Central banks could raise gold holdings marginally, he said, but sizeable purchases could cause an earthquake in the market.

"We can buy whatever with our money without causing price distortion, but a $2-trillion, $3-trillion elephant will certainly cause distortion."

China has the world's biggest foreign reserves, which stood at $3.2 trillion at the end of June. Gold holdings of 1,054.1 tonnes make up just 1.6 percent of its reserves, though China ranks sixth among the world's top official holders of gold.

INDIA, CHINA DEMAND

India and China together made up 57 percent of first-quarter global consumer demand for gold, the World Gold Council says.

China's frenzy for gold prompted the central bank to step up sales this year of gold and silver Panda Coins.

The People's Bank of China plans to sell 500,000 1-ounce gold coins, or 66 percent more than its earlier target of 300,000. It also tripled sales targets for half-ounce, quarter-ounce, 1/10-ounce and 1/20-ounce gold coins to 600,000 each from 200,000 earlier.

The increase in sales of these coins alone will represent a rise of 560,000 ounces in gold demand, or 17 tonnes.

Commercial banks and fund houses are also cashing in with products to let investors buy more gold jewellery, coins and bars.

Two Chinese companies, Lion Fund Management Co and E Fund, have launched funds to invest in gold-backed exchange-traded funds overseas, the only two Beijing has allowed so far to do so. E Fund is also investing in gold mining stocks abroad.

India, also the No. 1 gold importer, bought 286 tonnes of gold overseas in the first quarter, up nearly 10 percent from a year ago, World Gold Council data show. The country imported 959 tonnes of gold in 2010, or an annual increase of 72 percent.

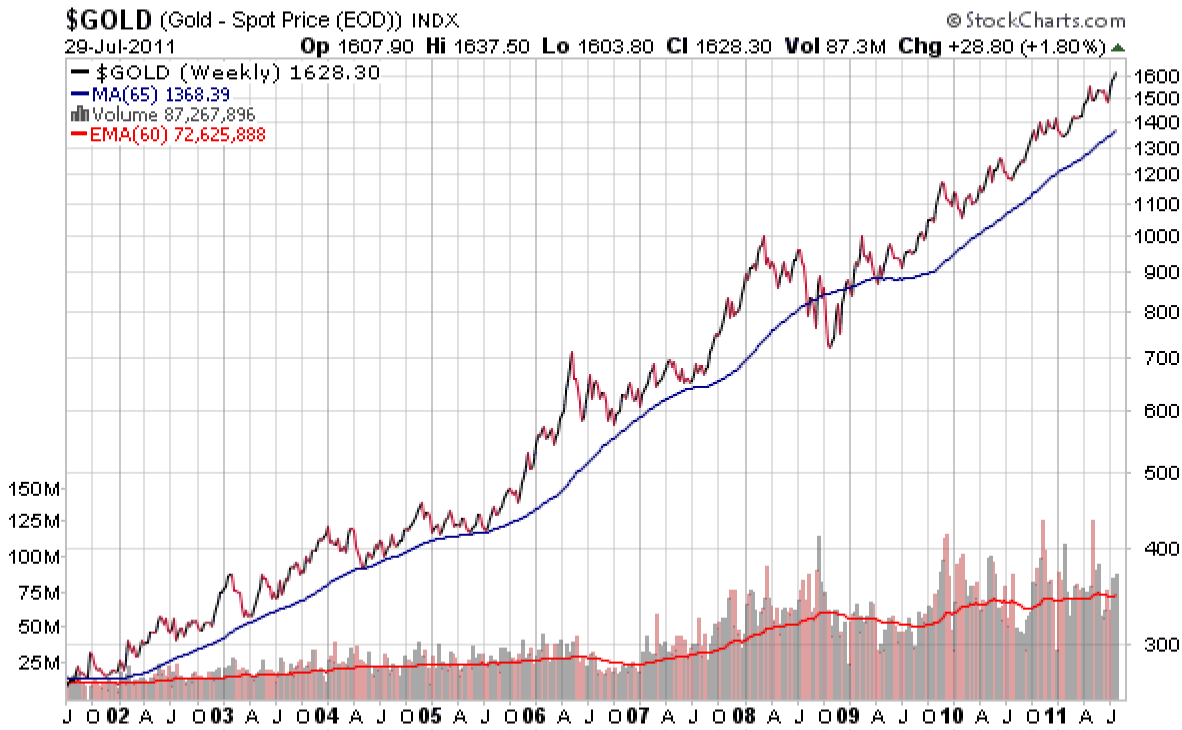
Rajesh Mehta, chairman and managing director of gold importer and retailer Rajesh Exports, said he expected his firm to import 130 tonnes of gold in the year to next March, up 8 percent from the previous year.

"Indian gold jewellery demand is expected to show resilience in the face of higher price levels, with some opportunistic buying on price dips," said Ajay Mitra, managing director for India and Middle East at the World Gold Council.

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 July	29th July	1st July	29th July
1483	1629	1483	1629

London afternoon fix in €/oz:

Open	High	Low	Close
1st July	18th July	1st July	29th July
1026	1139	1026	1133

Gold moved up rapidly in price in July and made new all-time price highs in many currencies, but not in Swiss francs.

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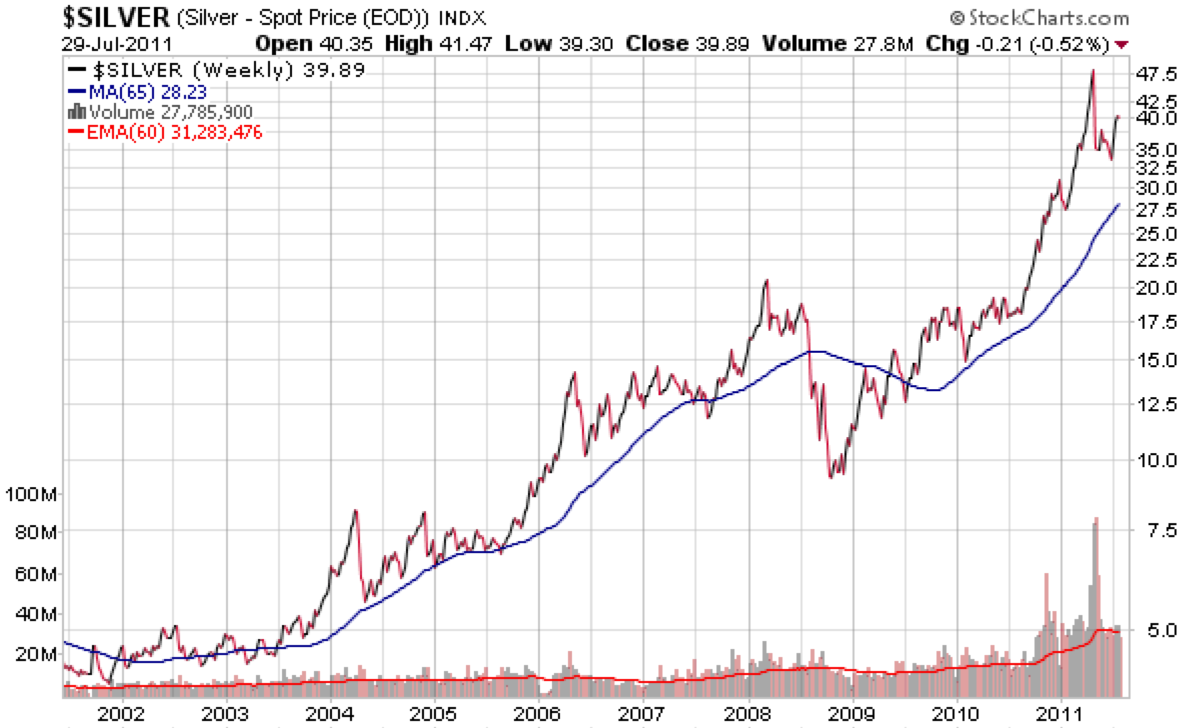
3. Silver

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 July	27th July	1st July	29th July
33.85	40.81	33.85	39.63

London fix in €/oz:

Open	High	Low	Close
1st July	18th July	1st July	29th July
23.37	28.70	23.37	27.83

Silver broke upwards, out of price consolidation in July, but new price highs remained elusive.

John Fineron, 1st August 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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