JM&B Monthly Gold & Silver Report
August 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 made new price highs in all currencies in August, corrected and ended the month consolidating its gains. Silver spent most of August in consolidation mode.

2. Gold

2.1 News and Fundamental Considerations

Selected News Items from the Month

London, 3rd August 2011, (Reuters) – Central banks of emerging market countries such as Korea and Thailand have added more than $10 billion of gold to their reserves this year in a sign of waning faith in the West's benchmark bonds and currencies like the dollar and the euro.

International Monetary Fund data for June on Wednesday showed Thailand bought gold for the second time this year, raising its reserves by nearly 19 tonnes to over 127 tonnes, while Russia bought another 5.85 tonnes, bringing its reserves to 836.7 tonnes, the world's eighth largest official stash of the metal.

So far in 2011, emerging market central banks have bought nearly 180 tonnes of gold, more than double the roughly 73 tonnes purchased by central banks globally in the whole of 2010. The spot price of gold has risen by more than 17 percent this year to a record $1,672.65 an ounce, driven chiefly by investor concerns over the impact on the developed world's economy of its debt burdens and sluggish growth.

Mexico has been the largest buyer of gold in the year to date, with $5.3 billion worth of purchases, or 98 tonnes of gold, followed by Russia, which has bought 48 tonnes, worth $2.6 billion at current prices. Earlier this week, Korea confirmed it had bought 25 tonnes of gold in June and July. "Central banks evidently do not regard the price level as too high and are diversifying their currency reserves. This was the first purchase of gold for the Korean central bank in over ten years," said Commerzbank metals analyst Daniel Briesemann. "Gold's high-altitude flight still appears to be supported by many factors and an end to the boom soon is not in sight."

In the euro zone, smaller economies such as Greece, Portugal and Ireland have already sought emergency funding, while concern is mounting over the finances of some of the region's larger members such as Spain and Italy, driving the euro to record lows against the safe-haven Swiss franc . The United States averted an unprecedented debt default on Tuesday after lawmakers reached an eleventh-hour deal to raise the country's borrowing limit, although severe doubts remain about the economic outlook, stripping 6 percent off the value of the dollar this year.

DEBT MISERY

The U.S. economy is also likely to lose its top-notch credit rating as ratings agencies are increasingly discomfited by the weight of the twin trade and budget deficits and the country's patchy growth. A downgrade will almost certainly push up yields on U.S. Treasury notes as their value falls, which could prove unwelcome to the major investors in U.S. debt such as the Chinese government, which holds nearly $900 billion in Treasuries. The trend among central banks, particularly those with large foreign exchange holdings, to diversify some of their portfolios into gold from currencies has been well established over the last couple of years. "The market generally expects central banks with growing reserves and small gold holdings to buy gold," said Jesper Dannesboe, senior commodity strategist at Societe Generale." "So I don't think that is particular surprising, but it does support the bullish story (for gold)," he said.

Central banks are expected to remain net buyers of gold this year and the most likely buyers will be those with the biggest reserves and relatively small bullion holdings, such as China. The Chinese central bank is the sixth largest official owner of gold, yet its holdings account for just 1.6 percent of its $2.5 trillion total reserves. The IMF data showed Russia, Kazakhstan, Greece, Ukraine and Tajikistan also added to their reserves two months ago and feature among some of the bigger bullion buyers this year. Kazakhstan's reserves rose for the third time this year, by3.11 tonnes in June to 70.434 tonnes, Taijikistan's reserves rose 0.04 tonnes to 3.036 tonnes and Greece and Ukraine added 0.03 tonnes each, bringing their official holdings of gold to 111.506 tonnes and 27.744 tonnes, respectively. Russia has added to its gold reserves every month for the past five years, according to the IMF's data.

London, 3rd August 2011, (GFMS) – Q1 2011 Hedge Book analysis, Key points:

The first quarter saw net hedging, with 0.19 Moz (6 t) added to the global hedge book. This left the total hedge book standing at 4.88 Moz (152 t) at end-March.

This was the second quarter of net hedging in the last 12 months, following more than four years of uninterrupted de-hedging.

Boliden was the largest hedger, adding 0.33 Moz (10 t) of forward sales in the first quarter.

The marked-to-market liability of the hedge book decreased slightly from the fourth quarter, to negative $1.21 billion.

Due to both higher mine output as well as net hedging for the period, total supply from the mining industry rose by 1.66 Moz (52 t) year-on-year.

London, 15th August 2011, (FT) – The system of fiat money is 40 years old today. And quite frankly, it is looking its age.

The Bretton Woods system under which fixed exchange rates were linked to the gold price gave way to the current monetary system, in which currencies are backed by fiat, or trust, four decades ago.

For the gold market, it has been a tumultuous time. When Bretton Woods collapsed on August 15, 1971 – the Nixon Shock – gold lost its long-held role as the anchor for the global financial system.

But after a period in the wilderness, the yellow metal has come almost full circle. As currency markets become ever more volatile and global imbalances more entrenched, gold is once again in favour.

A return of any form of gold standard – by which the value of currencies is directly linked to gold – is unlikely. But make no mistake: gold is reclaiming is place at the heart of the financial system.

The most striking evidence of its return is the approach of central banks to the bullion market. After two decades in which central banks, mainly in Europe, were queueing up to dump their gold, central banks are now significant buyers.

The most recent figures from the World Gold Council show that as a group, on a net basis, central banks bought about 208 tonnes of gold in the first half of this year.

That is huge: since Bretton Woods ended in 1971, the largest annual net gold purchase by central banks was 276 tonnes in 1981. At the start of this year, only a few analysts expected full-year net purchases of even 200 tonnes.

But bankers – some of whom helped organise the gold sales of European central banks only a few years ago – are now falling over one another to buy gold on behalf of emerging market central banks. Following significant purchases by Thailand, Mexico and South Korea in recent months, bullion bankers are now setting off to Brasília, Buenos Aires and Riyadh to pitch gold as a reserve asset.

The gold buying comes as the sovereign debt crisis in the eurozone, the debt ceiling debacle in the US, and the general willingness of the world's central banks to fire up the printing presses have demonstrated the precariousness of a global monetary system that puts just one or two currencies at its centre.

Instead, the growing orthodoxy among policymakers and economists is for a multipolar currency system. A recent survey of 80 central bank and sovereign wealth reserve managers by UBS found that more than half believed that a "portfolio of currencies" would supplant the dollar as the most important reserve currency within 25 years.

The good news for gold bulls is that bullion is also seen as part of this system. Articulating the new orthodoxy in an opinion piece in the Financial Times last year, Robert Zoellick, president of the World Bank, wrote that a new monetary system involving a basket of currencies "should also consider employing gold as an international reference point of market expectations about inflation, deflation and future currency values".

"Although textbooks may view gold as the old money, markets are using gold as an alternative monetary asset today," he added.

It may be easy to forget with prices hitting a record almost every day, but the return of gold as a prominent financial asset is without doubt the most important development in the bullion market today.

These days, it is not uncommon to hear from traders that one of the factors supporting the gold price on any one day is "central bank buying" – usually meaning that the Bank for International Settlements, through which many central banks like to conduct their gold dealing, has been seen bidding in the market. Indeed, while the latest data on gold purchases run only to the end of June, traders tell me there has been plenty of additional buying since then.

The sea change is a challenge to the view among some commentators – including some of my FT colleagues – that the gold market is primed for a collapse. Given that most emerging market central banks are only now embarking on their gold buying, the "official sector" is likely to underpin gold prices for some time yet.

London, 18th August 2011, (World Gold Council) – Gold Demand Trends Second Quarter 2011

Gold's strong start to the year was reinforced during the second quarter of 2011 where total global gold demand measured 919.8 tonnes (t), worth a near-record US$44.5bn, with broad-based support across all sectors and geographies. Standout markets were India and China, as these two markets accounted for 52% of total bar and coin investment and 55% of global jewellery demand.

According to the Gold Demand Trends report for Q2 2011, gold demand in the second half of 2011 will remain strong owing to a number of key factors:

Despite a higher gold price, Indian and Chinese demand grew 38% and 25% respectively during Q2 2011 compared to the same period of 2010. This growth is likely to continue, due to increasing levels of economic prosperity, high levels of inflation and forthcoming key gold purchasing festivals.

The impact of the European sovereign debt crisis, the downgrading of US debt, inflationary pressures and the still-fragile outlook for economic growth in the West are all likely to drive high levels of investment demand for the foreseeable future.

Central banks are likely to remain net purchasers of gold. Purchases of 69.4t during Q2 2011 demonstrated that central banks are continuing to turn to gold to diversify their reserves.

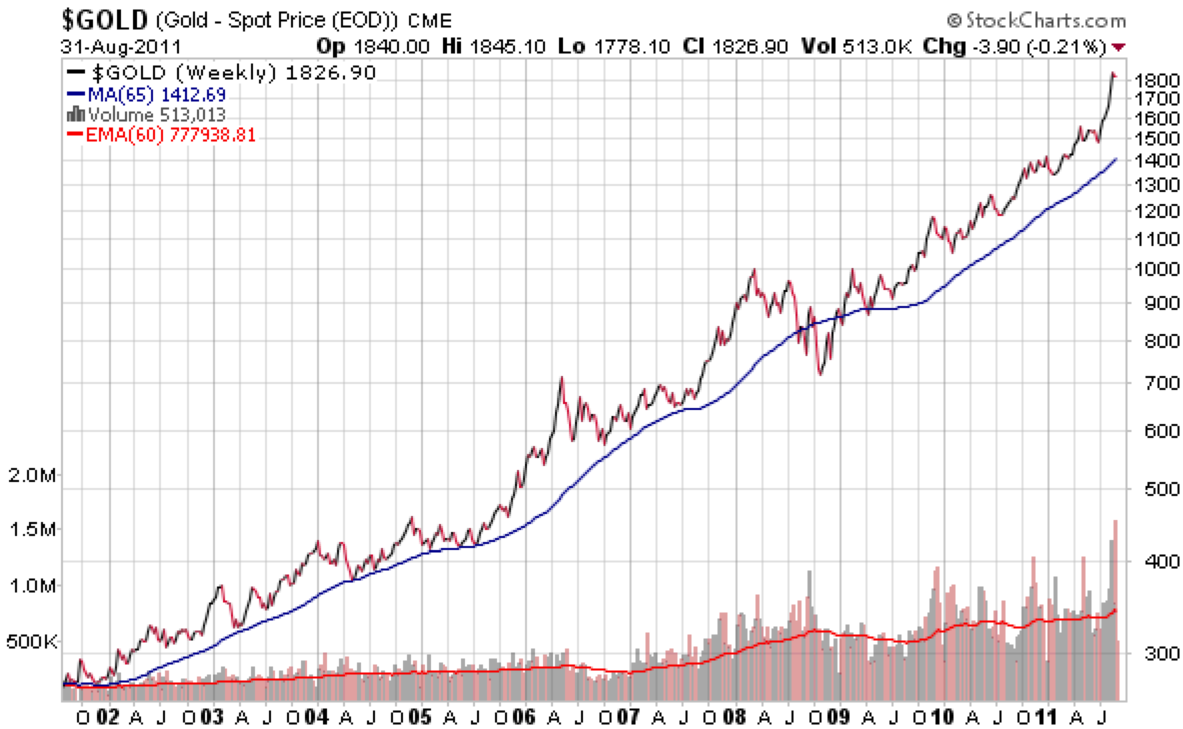
More here:

http://www.gold.org/investment/research/regular_reports/gold_demand_trends/

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 August	23rd August	1st August	31st August
1623	1876	1623	1814

London afternoon fix in €/oz:

Open	High	Low	Close
1st August	23rd August	1st August	31st August
1137	1304	1137	1256

After making new price highs in all currencies gold ended the month consolidating its gains.

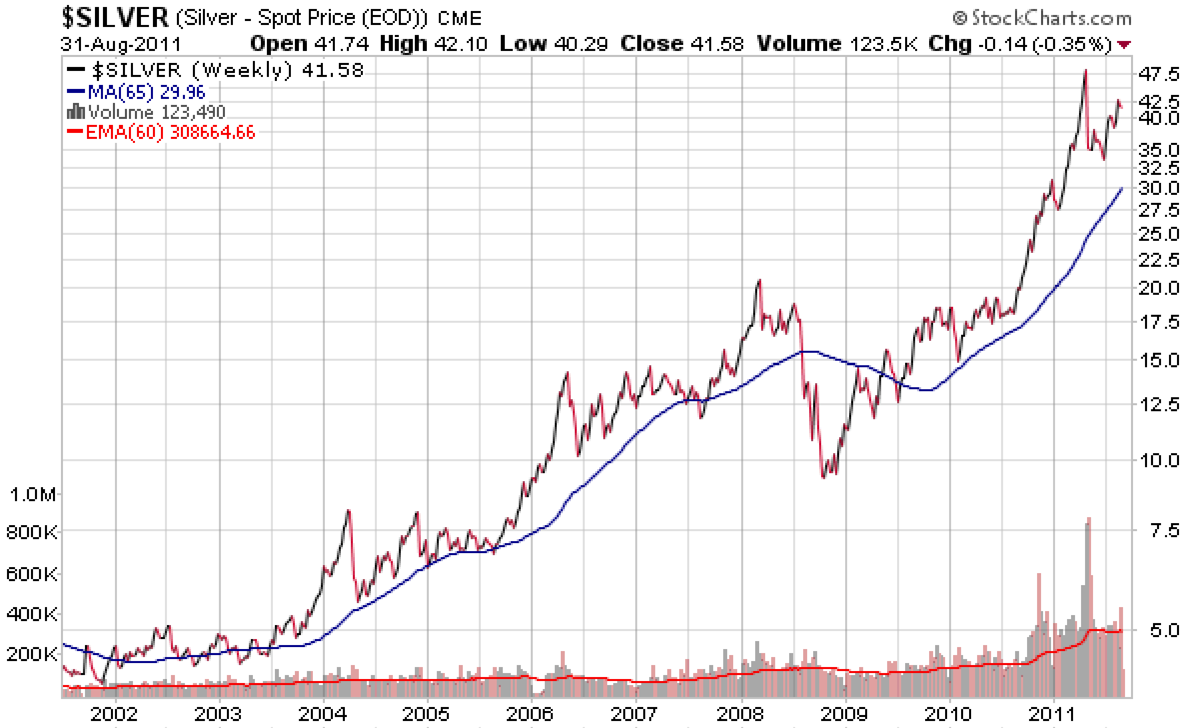
3. Silver

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 August	22nd August	12th August	31st August
39.31	43.49	38.29	41.35

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London fix in €/oz:

Open	High	Low	Close
1st August	22nd August	10th August	31st August
27.24	30.16	26.65	28.64

Silver spent August in a fairly wide price range, but essentially went nowhere..

John Fineron, 1st September 2011.

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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