JM&B Monthly Gold & Silver Report
September 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 September.

2. Gold

2.1 News and Fundamental Considerations

Selected News Items from the Month

London, 31st August 2011, (Reuters) – Colombia joined the ranks of official sector gold buyers in July for the first time in 13 years, along with Russia, mirroring the trend among emerging central banks to diversify their currency portfolios.

International Monetary Fund data released on Wednesday showed Russia, which is already the world's eighth largest official holder of bullion, raised its reserves by 4.42 tonnes in July to 841.131 tonnes, while Colombia added 2.3 tonnes to bring its reserves to 9.14 tonnes, its first increase since March 1998.

The gold price , which on Wednesday was last down 0.6 percent at $1,826.49 an ounce at 1145 GMT, has risen by nearly 30 percent this year, fuelled by a sagging dollar, waning confidence in the resilience of the global economy and purchases by central banks, particularly in emerging market (EM) countries, over the past few years.

Not all of this is new net buying, but it is a powerful source of demand for gold coming through from the central bank community and sends a number of messages, one of them is dollar holdings of EM countries are too high and they need to rebalance those and gold is the big beneficiary of that," said Deutsche Bank analyst Michael Lewis.

"This is still a very weak dollar environment where people do want to diversify."

While the dollar has fallen by over 6 percent this year against a basket of currencies , global equities have lost nearly 7 percent , while hedge funds have fallen by a similar amount in 2011, according to the HFRX Global Fund Index.

Russia alone has added over 51 tonnes to its reserves this year and has doubled the size of its holdings in the last four years. Other major buyers this year include Mexico with over 100 tonnes, Thailand with 28 tonnes and South Korea with around 25 tonnes.

The data showed Kazakhstan cut its holdings by 3.11 tonnes to 67.323 tonnes, while Tajikistan reduced by 1.19 tonnes to 1.841 tonnes and Mexico by 0.19 tonnes to 105.690 tonnes, meaning that net purchases by central banks amounted 2.24 tonnes in July, worth about $132 million at current prices.

The largest official buyers of gold since 2007 have been China, which boosted its holdings by over 450 tonnes, Russia, with some 400 tonnes and India with 200 tonnes.

New Delhi, 8th September 2011, (Reuters) – In a nation whose love for gold is legendary, financial adviser Biju Daniel is one of scores of Indians who are rethinking how they amass riches through the precious metal.

Daniel's wife owns at least a kilogram of jewellery and he sports a gold watch. But he is also shrewd enough to realise that the world's biggest gold consumers are falling out of love with wearing their wealth, preferring to stock up on coins, bars and bullion-based investment funds as they look for returns safe from the ravages of inflation and the dictates of fashion.

"The current generation is not serious about gold. They have bangles but they don't wear them," Daniel, of Shreyas Investment Services, told Reuters in his basement office, after wrapping up an offer to clients of the SBI Gold Fund as an investment.

"Look at college campuses, Indian girls there are not interested in gold jewellery. My wife has about one kilo of gold jewellery but my daughters are not interested."

Demand for gold bars, coins and other pure investments in India, Asia's third largest economy, soared 83 percent in 2010 from the year earlier to 349 tonnes, according to GFMS, a precious metals consultancy that is part of Thomson Reuters.

The amount of gold used in making jewellery in 2010 rose 36 percent to 685 tonnes -- giving investment demand 34 percent of total buying, up from 28 percent in 2009.

"Gold has come a long way from being a jewellery item to an alternative currency," said Gnanasekar Thiagarajan, a director with Commtrendz Research.

"Investment demand could surpass jewellery demand in the next two to three years," he said.

SOLID INVESTMENT

Indians' passion for gold dates back centuries and the country is home to one of the world's oldest -- albeit now largely defunct -- mines.

Gold, the ultimate status symbol, is also the gift of choice at celebrations, and jewellery stores across the country heave with customers in the run-up to festivals and the traditional wedding season in a country where brides are often weighed down with the wealth their parents give them.

Overall, gold buying in India jumped 38 percent in the second quarter compared with a year ago, as soaring prices simply fuelled perceptions it was a smart investment as worries about the global economy deepen.

Global gold prices have risen 29 percent in 2011 and hit a record $1,920.30 per ounce on Tuesday. India's domestic gold prices MAUc1 have climbed 33 percent and touched a high of 28,744 rupees per 10 grams on Tuesday.

With India's inflation nudging 10 percent and the central bank's key lending rate at 8 percent, domestic deposits and fixed-income investments are looking especially vulnerable, and the Bombay stock market has fallen 16.5 percent this year.

"If you look at interest rates, in real terms they are still negative so investors will definitely look at gold," said Gargi Shah, metals analyst with GFMS.

"Investment demand has literally exploded."

BISCUITS VS BANGLES

World Gold Council data for the second quarter of 2011 shows Indian investment demand rose 78 percent on a year ago to 108.5 million tonnes while jewellery demand rose 17 percent to 139.8 million tonnes.

In China, the biggest gold consumer after India, jewellery demand rose a comparable 16 percent in the quarter and investment demand grew by 44 percent.

Unlike jewellery, investment gold retains its value better because fabrication costs are significantly less and buyers don't have to worry about their pieces becoming dated, making them harder to sell.

R.C. Joneja, the white-haired manager of a jewellery shop in New Delhi's central Janpath district, says it costs about 1,000 rupees ($21) to make a 10 gram "biscuit" -- a bar about the size of a credit card -- while manufacturing a jewellery piece of similar weight would cost three times as much.

"Customers prefer to buy these if it's only for investment," he said, displaying a coin and a biscuit.

"But if someone wants to buy jewellery, they will definitely still buy jewellery."

PAPER GOLD

While owning physical gold may now have become harder at such high prices, Indians are snapping up "paper gold", funds like those that financial adviser Daniel sells for a minimum monthly payment of 100 rupees (about $2).

Such small requirements are another attraction for paper gold investments in a country where 42 percent of the population have barely enough to eat and 15,000 rupees a month makes you middle class -- while a simple signet ring costs 20,000 rupees.

"Investing in gold has become affordable," says a flyer for the SBI Gold Fund, which closed its offering on Monday.

Reliance Capital's gold exchange traded fund (ETF), India's third-biggest gold fund, has more than trebled the number of its investors since March, and people are investing in it through online routes as well as in person.

Despite prices already higher than they have ever been, gold is still proving a worthwhile investment.

Funds that invest in gold were the top performers in August in India with gold exchange-traded funds (ETFs) garnering returns of 15.2 percent, data from tracker Lipper, a ThomsonReuters company, showed.

"Absolutely, you will see this kind of trend continuing," GFMS consultant Shah said of the investment appeal of gold over jewellery.

"We won't see the reverse unless there's a change in the gold price trend."

At Mumbai's Zaveri Bazaar, a warren of jewellery stores that is also the hub of India's bulk gold trade, businessman Sanjay Darji is betting on gold remaining a sound investment as he stocks up on coins.

"I bought one, two and eight gram coins for investment purposes. The thing about coins is quality is assured, unlike jewellery," Darji said.

"It's better than keeping idle money at home."

Montreal, 19th September 2011, (FT) – European central banks have become net buyers of gold for the first time in more than two decades, the latest sign of how the turbulence in the currency and debt markets has revolutionised the bullion market.

The purchases are minuscule compared with the size of the global gold market, but highlight a remarkable turnaround from a wave of heavy selling by European central banks.

The role of central banks in the gold market will be a central topic of debate at the annual London Bullion Market Association conference, the largest gathering of the gold industry, in Montreal this week. The switch from large selling to buying has helped propel the gold price more than 25 per cent higher so far this year, hitting a nominal record of $1,920 a troy ounce this month. The shift in Europe comes as central banks in emerging markets are also loading up on gold.

Mexico, Russia, South Korea and Thailand have all made large purchases this year, in a move to reduce their exposure to the dollar. Globally, central banks are set to buy more gold this year than at any time since the collapse of the Bretton Woods system 40 years ago – the last time the value of the dollar was linked to gold.

"We're going back to a time when gold is seen very much as money," Jonathan Spall, director of precious metals sales at Barclays Capital, told FT.com in a video interview. "It has been a complete reversal of the attitudes we saw during the 1990s."

European central banks have added about 25,000 ounces, or 0.8 tonnes, of gold to their reserves in the year to date, according to data from the European Central Bank and the International Monetary Fund.

That compares with average sales of almost 400 tonnes a year since 1999, as they swapped their non-yielding and unfashionable bullion for sovereign debt. Global gold consumption stands at about 4,500 tonnes a year.

Most of the buying in Europe was related to Estonia's move to join the single currency bloc at the start of the year. The Estonian central bank bought gold to add to the ECB's reserves, according to an ECB statement in January. Elsewhere, Malta bought 3,000 ounces.

Europe's central banks have not been net buyers of gold since 1985, according to data from the World Gold Council.

"The motivation for European central banks to diversify out of gold into dollar-denominated assets has been negatively impacted by US fiscal and monetary policy," said Natalie Dempster, head of government affairs at the mining industry-backed group.

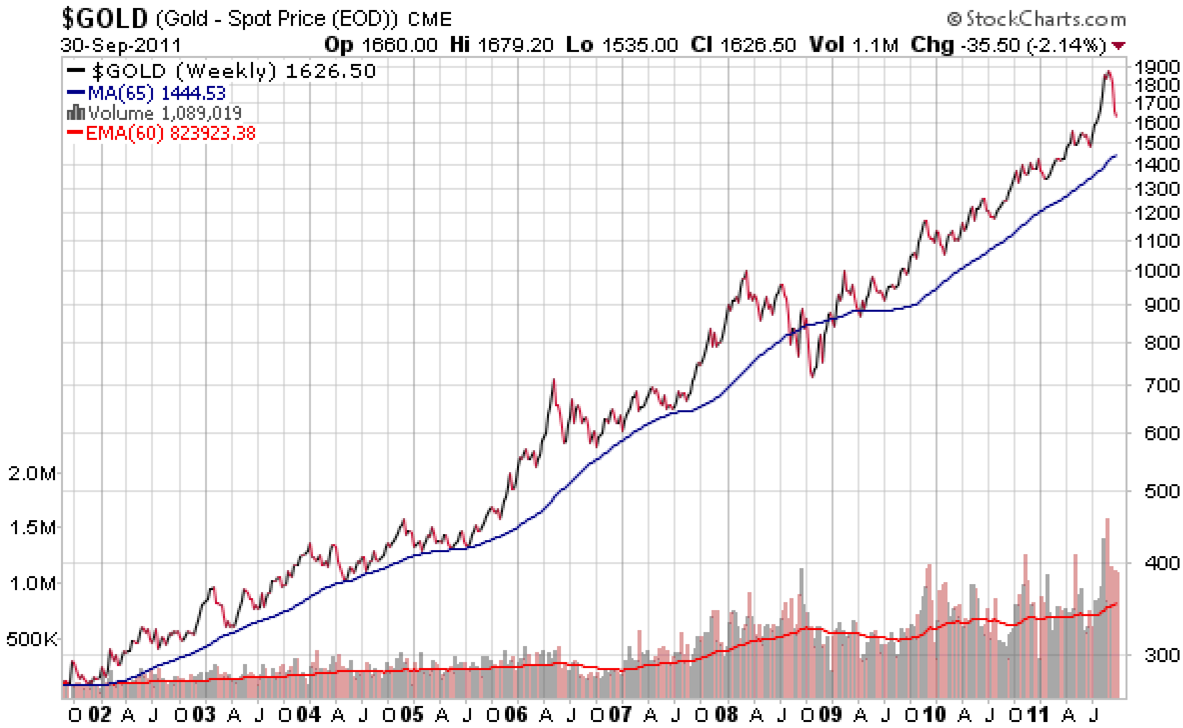
A third round of quantitative easing would make the sale of gold "look less attractive than ever before", she added.

The shift to buying comes as some politicians in the eurozone are calling for heavily indebted members such as Portugal, Spain or Italy to be forced to sell their gold reserves to reduce their debts. However, at current gold prices such a move would barely dent the countries' debt piles, while analysts believe it would amplify investors' concerns about the eurozone.

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 September	5th September	26th September	30th September
1821	1895	1598	1620

London afternoon fix in €/oz:

Open	High	Low	Close
1st September	6th September	29th September	30th September
1275	1346	1183	1205

Gold corrected significantly in price in September, but appeared to have stabilised as the month drew to a close.

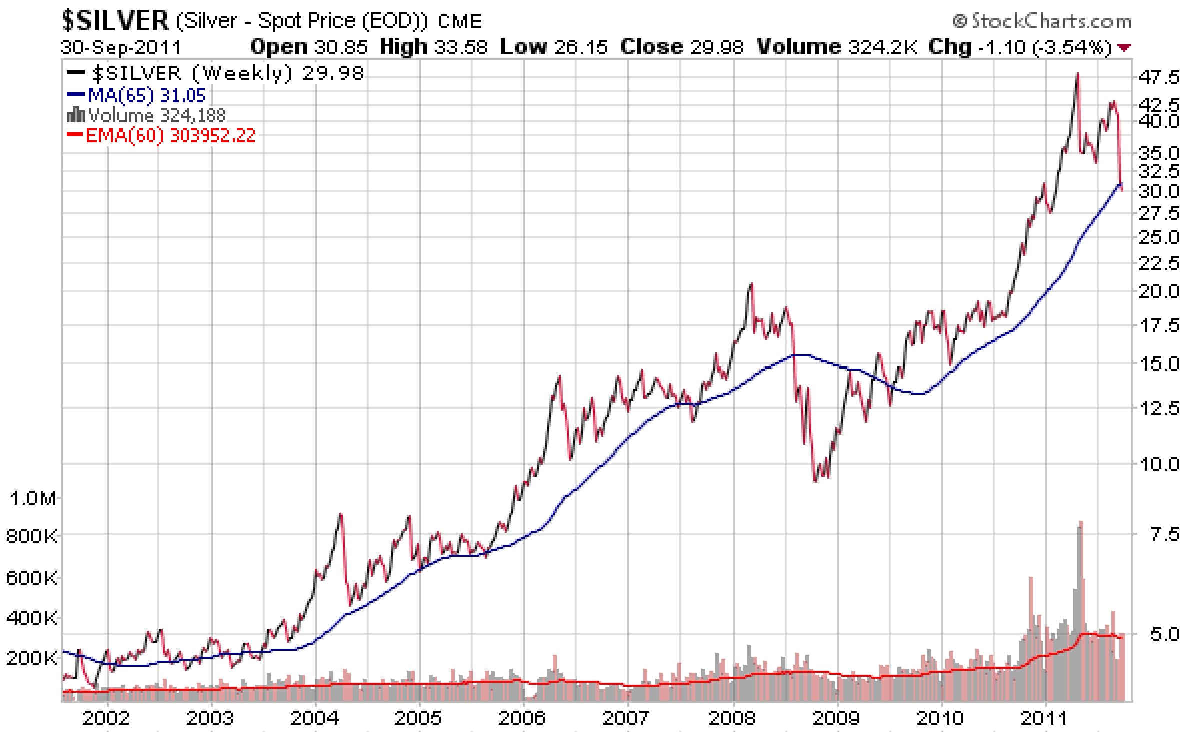
3. Silver

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 September	5th September	26th September	30th September
41.47	42.71	28.16	30.45

London fix in €/oz:

Open	High	Low	Close
1st September	5th September	26th September	30th September
29.04	30.21	20.80	22.56

Silver corrected more than gold in September.

John Fineron, 3rd October 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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