

JM&B Monthly Gold & Silver Report

October 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
- 2. Gold
 - 2.1 News and Fundamental Considerations
 - 2.2 Technical Comments
- 3. Silver
 - 3.1 News and Fundamental Considerations
 - 3.2 Technical Comments
- Appendix More about this report

1. Commentary

After consolidating in price for several weeks, both gold and silver rose in price towards the end of October.

2. Gold

2.1 News and Fundamental Considerations

Selected News Items from the Month

London, 4th October 2011, (GFMS) – Thomson Reuters GFMS and Société Générale launched their Q2 2011 Global Hedge Book Analysis with the following key points:

The second quarter saw net hedging again, with 0.19 Moz (6 t) added to the global hedge book.

This left the total hedge book standing at 5.07 Moz (158 t) at end-June.

This was the second consecutive quarter of net hedging; the last occurrence of consecutive quarters of net hedging was last seen in 2001.

Alkane Resources was the largest hedger, adding just 0.09 Moz (3 t) of forward sales. In total four companies actively increased their hedge positions.

The marked-to-market liability of the global hedge book fell to negative \$1.09 billion at end-June.

We forecast net hedging of around 1 Moz (32 t) for the full-year; the first time since the 'hedging crisis' that was triggered in 1999.

Shanghai, 10th October 2011, (Mine Web) – China has joined the United States, Germany, Italy and the United Arab Emirates, in hosting an ATM machine that dispenses bullion and gold coins. In Beijing's 800-year old Wangfujing shopping district, shoppers can use bank cards and cash to buy certified gold bars and coins.

China's first ATM dispensing gold bars and coins was switched on over the weekend of September 25 and then swiftly switched back off again. The equipment had to be shut down the same day because it was not producing receipts due to a small technical glitch, said an industry observer.

The German-imported gold vending machine was then officially installed during the Chinese National Day holidays, which fell in the first week of October.

Despite the initial hiccups, there are plans to roll out 2,000 more of the ATMs nationwide. The machines are operated jointly by Beijing Agricultural Commercial Bank and a gold trading German firm. Plans call for installing more of them in secure locations and in private clubs at banks and at landmark buildings in large cities across the Asian country.

Gold vending machines are already used in some countries. The Chinese government is keen to encourage sales of gold in a country which has seen gold demand soaring 27% last year.

At the ATM, the maximum limit for each withdrawal has been set at 2.5 kilo or one million yuan (\$157) worth of gold.

China is the second largest consumer of gold in the world. For some time now, the government has been actively discouraging real estate investment and speculation to cool down property prices.

The gold ATMs retrieve pricing every 10 minutes, and in exchange for cash, debit or credit cards, provides gold coins, wafers or bars in high-end boxes 24 hours a day, 365 days of the year.

A report by the World Gold Council in May showed that China had edged out India as the largest gold consumer in the first quarter of this year, snapping up 90.9 tonnes of the metal. It also said the demand for jewellery in China soared 21% in the same period.

Albert Cheng, managing director of the Far East at the World Gold Council had reportedly said in March 2010, that the Council had predicted gold demand in China to double by 2020, "We now believe this doubling may in fact be achieved sooner. China's appetite for gold has increased rapidly over the past few years," he said

Gongmei Gold Trading, the company that installed the ATM, said it can hold up to 200 kilograms of gold at once, in varying denominations.

In May 2010, Germany-based firm Gold said that it would churn out 50 gold machines a month. It launched its first ATM in Abu Dhabi's Emirates Palace Hotel and opened a second one in Germany.

By next month, the Chinese gold-vending machines are expected to include a gold buy-back facility.

Hong Kong, 17th October 2011, (Bloomberg) – Hong Kong's Chinese Gold & Silver Exchange Society, a century-old bullion bourse, started trading gold quoted in yuan, boosting the city's status as an offshore hub for the currency.

The contract may generate as much as HK\$6 billion (\$770 million) in trades a day, exchange President Haywood Cheung said in an Oct. 14 interview. Daily bullion trading volume at the society, which has 171 active members, has jumped to HK\$136 billion this year from last year's HK\$31 billion on appetite for gold as a haven from stock declines, he said.

"There's triple demand for this yuan product," said Cheung. "Investors can enjoy the bull market in gold, the yuan's appreciation and hedge gold denominated in other currencies against the yuan."

Chinese Vice Premier Li Keqiang pledged the nation's support for yuan business in Hong Kong two months ago. The city's richest man, Li Ka-shing, sold Hong Kong's first renminbi shares in April and the city's bond sales in the currency have more than tripled this year. Yuan deposits in the former British colony rose 93 percent this year to a record 609 billion yuan (\$96 billion) in August.

"It's part of a larger trend in Hong Kong to increase investments priced in renminbi," said Zhang Qiang, an analyst in Shanghai at Haitong Futures Co., China's largest futures brokerage by registered capital. "It's a good proposition for investors who want exposure to both gold and renminbi, however, this would depend largely on the two moving in tandem."

Yuan Appreciation

The contract traded at 349.32 yuan per gram, or the equivalent of \$1,680 an ounce, according to data on the society's website at 4:44 p.m. in Hong Kong. That compares with 348 yuan on the Shanghai Gold Exchange and \$1,693.85 in London. In Hong Kong's offshore market, the yuan advanced 0.23 percent to 6.4270 per dollar, a 0.9 percent discount to the onshore spot rate. The currency rose 0.12 percent in Shanghai at 6.3706.

Twenty-five members will participate at the initial stage, Cheung said, adding that banks and jewelers had pushed him to start the contract. The society's members include Chow Sang Sang Holdings International Ltd., the biggest Hong Kong-listed jewelry maker and retailer, as well as HSBC Holdings Plc., the city's biggest lender, he said. BOC Hong Kong Holdings Ltd. and Wing Hang Bank are the clearing banks.

The yuan in Shanghai will advance 5.1 percent to 6.06 by the end of 2012, according to the median estimate in a Bloomberg survey of 18 analysts. Europe's debt crisis triggered a 2.1 percent slide in the offshore yuan rate in Hong Kong last month. The yuan is a denomination of China's currency, the renminbi.

'Right Timing'

"It's still the right timing," Cheung said. "With the depreciation of the dollar and problems in the Eurozone, investors realize they want some other currencies that are safer like the renminbi. Gold can be a way for people to bet on the yuan."

The Hong Kong Mercantile Exchange, backed by the world's largest lender, started trading dollar-denominated gold futures on May 18, tapping demand for the metal from Asian investors. It plans to offer products in yuan this year, Albert Helmig, president of the exchange, said in a May 9 interview.

Bullion prices have jumped 19 percent this year, reaching a record \$1,921.15 an ounce on Sept. 6. Gold prices fell from their peak as investors sold the metal to cover losses in other markets. The precious metal will likely trade between \$1,500 and \$1,700 an ounce in the short term, Cheung said.

The society, started in 1910, will consider trading silver in the Chinese currency later, Cheung said, declining to identify the timeframe. The society has imposed a daily ceiling of 300 kilos for physical delivery of gold denominated in yuan to avoid depleting the currency pool in Hong Kong, he said.

"The sudden influx into gold bars may take away half of the yuan liquidity in Hong Kong," Cheung said. "The uncertainties in the global economy are supporting gold."

Bhubaneswar, 24h October 2011, (Times of India) – It's raining gold and silver everywhere in the city. The high price of gold failed to deter the spirit of jewellery lovers as city shops teemed with customers on the eve of Dhanteras on Sunday. Raking on the moolah, the jewellers have offered attractive discounts and schemes for customers.

"We were a bit apprehensive about the sale due to the rising prices of gold and silver in the last few months. But the footfall was quite good before Dhanteras. We are hopeful of good sales on the occasion to be celebrated on Monday and Tuesday," said P K Sahu, a city-based jeweller beaming after doing did brisk business on Sunday.

Harbinger of wealth and prosperity, Dhanteras marks the beginning of Diwali festivities. It seemed to be a boom time for everyone -- the habitual shopper, the impulsive shopper, those who spend without a care and those who scrimp and save to buy something.

Not just jewellery, this auspicious day was also an occasion to buy utensils, cars electronics goods and clothes. Most people ritualistically buy idols of Lakshmi and Ganesh, gold and silver coins. While some jewellers are offering discount on making charges, others are offering discounts on the prices of gold.

Speaking on the occasion, director of Khimji Jewellers Mitesh Khimji said, "Matching with the popular trend of buying gold and other precious metals on the occasion of Dhanteras and Diwali, we are offering attractive discounts on all purchases as part of our special Dhanteras Dhanlaxmi offer for this special occasion. We are sure that customers in the twin cities of Bhubaneswar and Cuttack will certainly be delighted with the special offers providing more value for their money."

The shops are also offering discounts on watches, diamond and fashion jewellery to match the style trend of the youth brigade. A K Hans, another jeweller said, "Expecting a good sale this year, it's a good time for people in the business. We're stocking up on new designs and styles for Dhanteras."

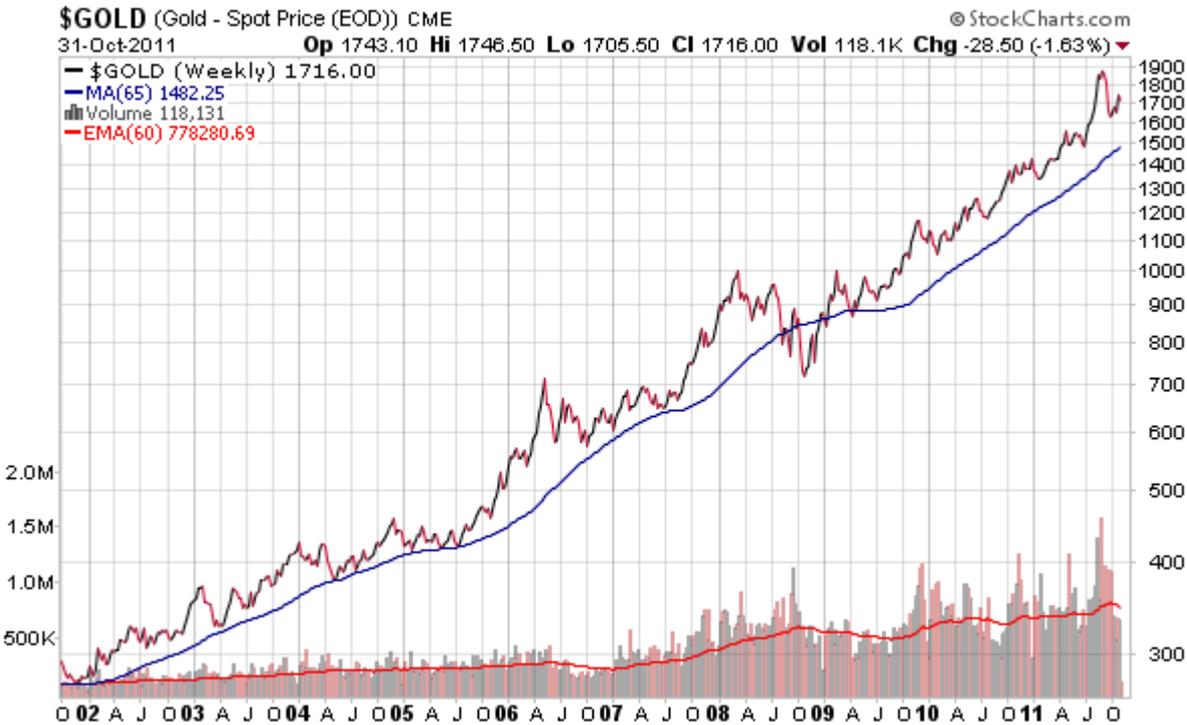
Priyambada Das, a customer said, "I had no specific need to buy gold but since it is regarded auspicious to bring something new on this day, I thought of buying a piece. It was huge rush in the jewellery shops of the city and the high price of gold has no impact on customers."

Debashis Nanda, a software engineer said, "We had bought gold last year, so this year we are planning to buy a new car during Diwali. A number of new models are also launched this year."

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
3 rd October	31 st October	5 th October	31 st October
1656	1722	1617	1722

London afternoon fix in €/oz:

Open	High	Low	Close
3 rd October	3 rd October	20 th October	31 st October
1243	1243	1178	1232



After consolidating in price for several weeks, gold rose towards the end of October.

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
3 rd October	28 th October	5 th October	31 st October
31.05	35.42	28.69	34.24

London fix in €/oz:

Open	High	Low	Close
3 rd October	28 th October	5 th October	31 st October
23.24	25.00	21.48	24.43



Silver displayed similar price behaviour to gold in October.

John Fineron, 1st November 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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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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