JM&B Monthly Gold & Silver Report
November 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

November proved to be another month of price consolidation for both gold and silver.

2. Gold

2.1 News and Fundamental Considerations

Selected News Items from the Month

Hong Kong, 7th November 2011, (FT) – Chinese gold imports from Hong Kong, a proxy for the country's overall overseas buying, leapt to a record high in September, when monthly purchases matched almost half that for the whole of 2010.

The buying spree follows a sharp drop in the price of the precious metal. After hitting a nominal all-time high of $1,920.30 a troy ounce in September, gold fell to a three-month low of $1,534 an ounce later in the month. Chinese investors snapped up the metal as prices fell.

More video Analysts expect the September import surge to continue until the end of the year as Chinese gold buyers snap up gold in advance of Chinese New Year, China's key gold-buying period.

“In September we saw some bargain hunters come back into the market on the price dip,” said Janet Kong, managing director of research for CICC, the Chinese investment bank.

China is the world’s second largest gold consumer and demand has grown rapidly over the past year as Chinese investors buy gold to hedge against inflation and consumers buy more gold jewellery. Beijing does not publicly disclose its gold imports, but analysts consider the Hong Kong import figures a good directional proxy for the country’s total gold overseas buying.

Data from the Hong Kong government showed that China imported a record 56.9 tonnes in September, a six fold increase from 2010. Monthly gold imports for most of 2010 and this year run at about 10 tonnes, but buying jumped in July, August and September. In the three-month period, China imported from Hong Kong about 140 tonnes, more than the roughly 120 tonnes for the whole 2010.

The last two months of this year are likely to see China’s gold imports surge further ahead of Chinese New Year, supporting gold prices, according to Ms Kong. “We’ve noted a quite strong seasonality in gold prices, typically prices go up in the months before the Chinese New Year.”

Investment demand for gold in China has been particularly strong this year as a hedge against inflation. Chinese bank deposits offer negative real interest rates, and other outlets for investment have been limited as Beijing has curbed property sales and the stock market has performed poorly.

Rising household incomes and a tradition of giving gold have also buoyed China’s gold demand. “Growth in jewellery demand has been over 13 per cent year on year, a very positive number especially compared to the rest of the world,” said Cameron Alexander, senior analyst at GFMS, the consultancy. He puts China’s total gold imports at about 350 tonnes this year.

China has liberalised regulations for importing gold over the past year, widening the number of banks authorised to import gold. “China’s gold demand will continue to increase as per capita income increases,” said Shi Heqing, a Beijing analyst with Antaike. “There aren’t many investment channels available in China other than the stock market, property market and some commodities.”

London, 17th November 2011, (FT) – Central banks made their largest purchases of gold in decades in the third quarter, as a sharp drop in prices in September accelerated the shift to bullion as a means of diversification.

The scale of the buying, at 148.4 tonnes on a net basis, was far bigger than previously disclosed, surprising some traders.

The WGC declined to identify of the central banks behind the majority of the buying citing “confidentiality restrictions”, saying only that “a slew of new entrants emerged wishing to bolster gold holdings”.

Central banks are one of the most important drivers of the gold market but few disclose details about the changes in their bullion reserves.

Central banks became net buyers of gold last year after two decades of heavy selling – a reversal that has helped propel the price of bullion to a high of $1,920.30 a troy ounce, up 600 per cent in a decade.

This year, led by emerging market central banks intent on diversifying their growing foreign exchange reserves, they are set to buy more gold 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.

The purchase of 148.4 tonnes in July-September is the largest since GFMS, the consultancy which produces the data underlying the WGC reports, began compiling quarterly numbers in 2002. Before then, the last time central banks were net buyers of gold was in 1988 when they bought 180 tonnes.

Marcus Grubb, head of investment at the WGC, said of the buyers: "We believe it's a number of purchasers from different countries."

The majority of the buying took place in September after prices fell sharply from record levels at $1,900 to a low of $1,534.49, he said. It coincided with growing international tensions over the US dollar after a dispute in Washington about raising the US debt ceiling.

However, Mr Grubb said the buyers were probably pursuing longer-term targets: "Central bank buying tends to follow a different heartbeat than pure investment purchases of gold. It's often based on targets set earlier in the year on gold as a proportion of foreign exchange reserves."

He predicted that central bank buying for the full year could be 450 tonnes, implying a further 90 tonnes in the fourth quarter.

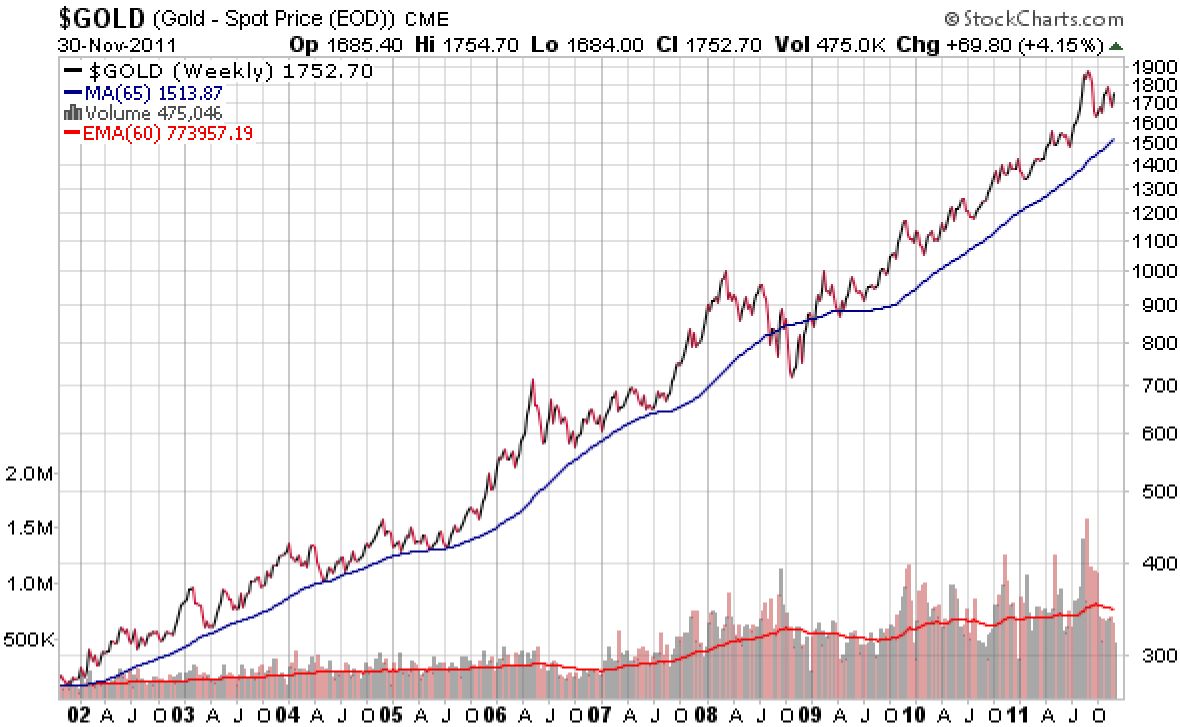
GFMS last month said central bank purchases were likely to be in excess of 400 tonnes and could reach 500 tonnes, an upward revision from its forecast in September of 336 tonnes.

Elsewhere, the WGC reported that China overtook India to become the largest consumer of gold jewellery in the third quarter. Chinese jewellery consumption rose 13 per cent from a year earlier to 138.6 tonnes, while buying from India – traditionally the world's top consumer – fell 26 per cent.

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 November	8th November	23rd November	30th November
1699	1795	1681	1746

London afternoon fix in €/oz:

Open	High	Low	Close
1st November	15 November	1st November	30th November
1244	1317	1244	1297

November saw further price consolidation for gold.

3. Silver

3.1 News and Fundamental Considerations

New York/Washington, 4th November 2011, (Reuters) – The U.S. futures regulator said on Friday it continues to investigate possible unlawful acts or manipulation in silver markets, in a probe that began more than three years ago.

The Commodity Futures Trading Commission said in a brief statement it has analysed more than 100,000 documents in its investigation, interviewed dozens of witnesses, and obtained expert advice since the start of the probe in September 2008.

"It has been a long, detailed, and thorough investigation, and it continues in an appropriate and considered manner," the agency said in its one-paragraph statement.

The CFTC did not say specifically why it issued the update.

On Friday, CFTC Commissioner Bart Chilton was quoted by a gold advocacy web site as saying he believed there have been violations to the Commodity Exchange Act in the silver market. (Chilton's online interview: r.reuters.com/deg84s)

Chilton, known as an outspoken proponent of regulation to protect investors and consumers, has in the past said that he believed there had been "fraudulent efforts to persuade and deviously control" silver prices.

In October of last year, JPMorgan Chase & Co (JPM.N) and HSBC Holdings Plc (HSBA.L) were hit with two lawsuits by investors who accused them of conspiring to drive down silver prices, and reaping an estimated hundreds of millions of dollars of illegal profits.]

HSBC has since then been dropped from one investor lawsuit, leaving JPMorgan as the only bank defendant in that case.]

Federal regulators and aggrieved investors have faced an uphill battle to prove allegations that some of the biggest silver trading firms are manipulating the market, if history is any guide.]

Silver has featured prominently in modern commodity market scandals. In the most memorable case, the Hunt brothers of Texas hoarded the precious metal, aiming to corner the market and control global prices starting in the late 1970s.

A more recent comparison was the case between Barrick Gold Corp (ABX.TO), one of the world's largest gold miners, and bullion and coin dealer Blanchard & Co, which accused Barrick of manipulating the gold price in league with JPMorgan Chase. Barrick and Blanchard settled the lawsuits they brought against each other in 2005.

London, 17th November 2011, (GFMS) – GFMS' Interim Silver Market Review

Silver Prices Forecast To Exceed $50 by end-2012
As Investment Demand Continues To Surge

Fabrication demand – forecast to grow by 4% in 2011. Industrial offtake is set to rise, in spite of the Japanese earthquake, weak economic growth in western economies and the end of stock replenishment. Jewellery demand is likely to edge higher despite stronger silver prices, while silverware and photography will weaken further. Demand for coins and medals, however, is set to establish a new record high, achieving the largest gain, in volume terms, of any category of fabrication demand in 2011.

Supply – further, noteworthy gains are forecast for mine production and scrap in 2011, although these will be countered by a heavy fall in government sales and, to a lesser extent, producer hedging.

Investment – The value of World Investment (on a net basis) is projected to reach a new high of $10 billion this year. Conditions in 2012 are likely to remain highly supportive of further growth in investment demand, underpinning additional price gains.

Prices – Thomson Reuters GFMS forecast the annual average price in 2011 at $35.66, up by a noteworthy 77% year-on-year. The rally is expected to extend into next year, reaching an annual average, in terms of the consultancy's Base Case, of over $45 in 2012.

The full press release and the presentation can be viewed at the Silver Institutes website:

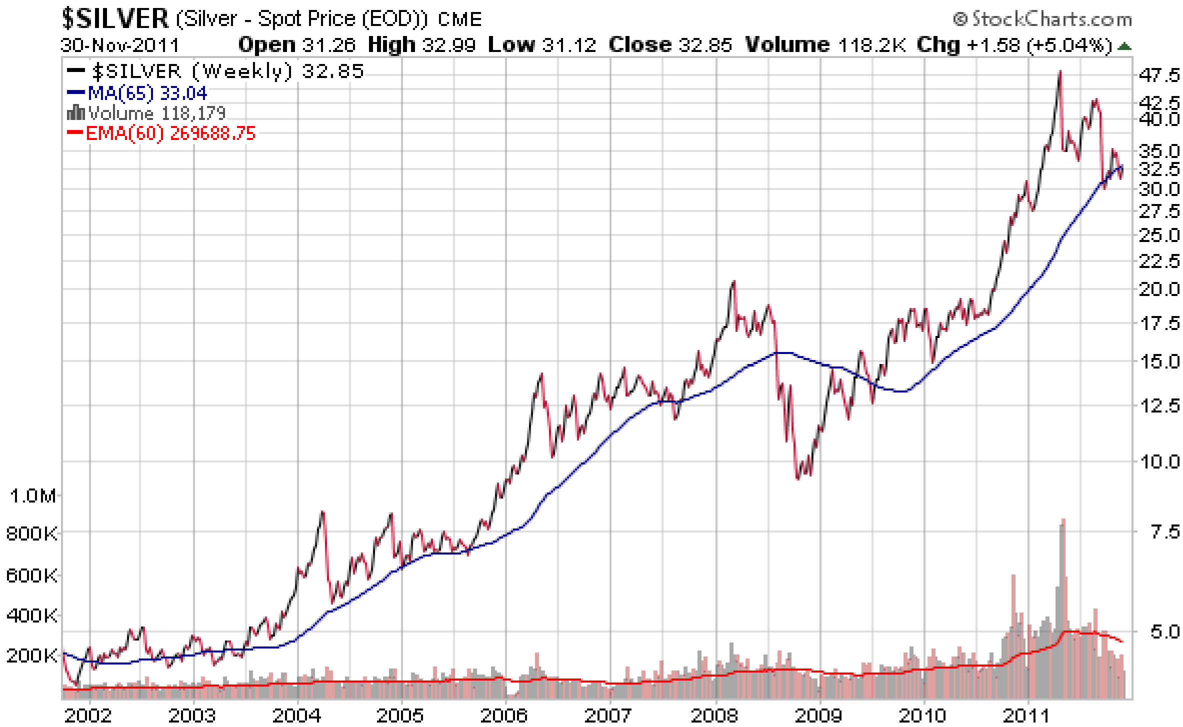
http://www.silverinstitute.org/images/stories/silver/PDF/SIInterimPRNov11.pdf

http://www.silverinstitute.org/images/stories/silver/PDF/SilverMarket2011Report.pdf

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 November	3rd November	21st November	30th November
32.97	34.72	30.90	31.35

London fix in €/oz:

Open	High	Low	Close
1st November	16th November	21st November	30th November
24.13	25.57	22.99	23.54

Silver displayed similar price behaviour to gold in November, albeit with a slight downward bias.

John Fineron, 2nd December 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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