JM&B Monthly Gold & Silver Report
December 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

Gold and silver prices were hammered down in December.

2. Gold

2.1 News and Fundamental Considerations

Selected News Items from the Month

New York, 30th November 2011, (Reuters) – Morgan Stanley said it prefers exposure to gold, silver and livestock in the coming year, as such commodities perform well in a global economic slowdown.

The bank's economists expect global GDP to grow by a mere 3.5 % in 2012, down from its prior forecast of 3.8 %, with the first half of the year seen as particularly weak.

Tel: +41 44 307 19 19; Fax: +41 44 307 19 20

"Given the low growth environment, we do not feel it is prudent to be long on the commodity complex indiscriminately," analysts Hussein Allidina and Peter Richardson said in a research note dated Tuesday, November 29.

Gold, silver and livestock are the most preferred commodities while base metals and crude oil are the least, the bank noted.

The defensive nature of gold, and silver to a lesser degree, will create significant investment demand as investors look for safe havens in a period of risk aversion.

Livestock has also been resilient in previous recessions, the investment bank said, adding that grains also tend to outperform more economically sensitive commodities as baseload feed demand is generally less sensitive to changes in GDP.

Base metals and soft commodities are highly cyclical and tend to sell off sharply during global slowdowns. Energy tends to be at the greatest risk going into a recession, as its demand is highly dependent on GDP growth.

The bank expects Brent crude prices to fall in the first half of 2012 to as low as $85-$90 per barrel, as it sees the current tight fundamentals diminishing as 2012 starts given recovering supply and slowing demand.

New Delhi, 1st December 2011, (Bullion Street) – World's largest gold consumer India is beyond the reach of the second positioned Chinese as far as gold storing is concerned.

According to reports Indians are holding at least 18,000 tons of gold while Chinese people accounts for 6000 tons only. In India, gold is acquired continuously over the years, as money is saved and available.

Thus the acquisition is done over generations. Except for the last few decades, gold was the only form of savings that was practical.

Gold purchase in India is entwined with religious and cultural beliefs. Indian customs demand buying gold for special occasions like weddings, births, birthdays, celebrate various festivals or offer gold to Indian deities.

Analysts said for Indians at least, gold will never lose its sheen and the mentality is so possessive for gold that it will be sold as a last resort only and before that most of the other assets will be liquidated.

They said China can't beat India in that department but could overtake them as largest consumer in the near future.

Meanwhile, World Gold Council said Chinese gold jewellery consumption may double in less than 10 years compared with last year's consumption of 452 tons thanks to an increasingly affluent population.

China's gold jewellery consumption may reach 550 tons this year, which is ahead of the curve of our original estimate of 519.6 tons. Analysts said based on this consumption, China's doubling may come earlier than 2020.

The WGC previously forecast China's gold consumption to double to 955.2 tons by 2020. World Gold Council also predicted China's gold consumption in 2012 to be just over 800 mt, up from 750 mt in 2011.

China has also taken drastic steps to improve and possible reform the overall gold sector by eliminating smaller-scale gold smelters.

China planned to shut down gold producers with ore processing capacities of less than 50 mt/day. However a detailed timetable for implementing this was not revealed.

Seoul, 2nd December 2011, (Bloomberg) – The Bank of Korea, which controls the world's eighth-biggest foreign-exchange reserves, boosted gold holdings for the second time this year as investors sought safer assets amid Europe's debt crisis.

The central bank bought 15 metric tons last month, boosting holdings to 54.4 tons, which is equivalent to 0.7 % of its total reserves, Lee Jung, head of the investment strategy team at the bank's Reserve Management Group, told reporters in Seoul.

Central banks are expanding reserves for the first time in a generation as the precious metal is in the 11th year of a bull market. Purchases of as much as 450 tons in 2011 may be repeated next year as Asian nations and emerging economies diversify their reserves, UBS AG said Nov. 30.

"They want to diversify," Gavin Wendt, the founder and senior resource analyst at Sydney-based Mine Life Pty., said by phone today. Investors and "central banks are pretty nervous about all currencies, not just the U.S. dollar."

Gold has risen about 23 % this year, reaching an all- time high of $1,921.15 an ounce on Sept. 6 and beating equities, treasuries and other commodities. The U.S. dollar, which typically moves inversely to bullion, is down about 1 % this year against a basket of six major currencies.

'Portfolio'

"We're buying gold to improve profitability against risks," the Korean bank's Lee said. "This is part of our mid- and long-term strategy to diversify our portfolio and enhance efficiency of asset management."

The Bank of Korea purchased 25 tons over a one-month period from June to July, the first purchases in more than a decade, joining other emerging-market countries in expanding gold holdings to guard against volatile currency movements and to diversify portfolios.

The World Gold Council said central bank purchases in the third quarter jumped more than sixfold to 148.4 tons and forecast buying for the year would reach as much as 450 tons. Russia, Kazakhstan, Colombia, Belarus and Mexico added a combined 25.7 tons of gold to reserves in October, according to data on the International Monetary Fund's website.

Holdings in exchange-traded products reached a record 2,356 tons on Nov. 30 and were at 2,355.5 tons yesterday, according to Bloomberg data compiled from 10 providers.

South Korea's foreign-exchange reserves fell by $2.35 billion from October to $308.6 billion at the end of November as the euro weakened against the dollar, the central bank said in a statement today.

London, 13th December 2011, (Financial Times) – Interest in gold exchange traded funds reached a peak at the end of November as investors' appetite for bullion backed ETFs returned in strength amid acute concerns about the sovereign debt crisis in Europe.

Holdings in gold ETFs (funds and products) reached a record 2,399.3 tonnes after robust inflows of 72 tonnes during November, according to Barclays Capital.

Suki Cooper, precious metals analyst at Barclays Capital, said the macroeconomic environment remained conducive for further gold price gains next year, given the persistence of negative real interest rates and fears over inflationary pressures. Barclays expects the price of gold to average $2,000 an ounce in 2012.

The recovery in ETF inflows in November is notable as it follows a period of lacklustre interest since July, which prompted some observers to question whether the decade-long rally for gold prices might be approaching exhaustion.

Although the gold price hit a record $1,920.30 a troy ounce in early September, it then experienced an extremely sharp correction, dropping to $1,534.49 by the end of the month.

Gold has subsequently struggled for clear direction as jewellery demand, a key sector, has been softer than expected.

Demand has been disappointing in India, the world's largest jewellery market, where the weakness of the rupee drove the price of gold to record levels in local currency terms in late November.

However, demand for small bars and coins has remained robust so far this year at an estimated 1,088 tonnes and central banks have been actively buying gold to diversify their foreign exchange reserves. Central banks have bought an estimated 370 tonnes so far this year and are an increasingly important source of gold demand.

In comparison, the influence of gold ETF inflows on the market appears to have diminished.

Michael Lewis, commodity strategist at Deutsche Bank noted there had been an ongoing moderation in investor flows into gold ETFs over the past three years. He suggested this could reflect concerns that the gold price has moved into overvalued territory.

The extent of the slowdown in gold ETF flows is striking, particularly given ongoing strains in the eurozone bond market and the threat of a default by Greece.

So far this year, gold ETFs have seen inflows of 199.2 tonnes, well below last year (385.9 tonnes) or 2009 (619.5 tonnes), according to Barclays.

Although aggregate inflows have slowed this year, Ms Cooper said they had held up better in Europe, running at around 70 per cent of last year's levels, compared with the US, where they are only running at around 40 per cent of 2010's levels.

The largest gold ETF, the SPDR Gold Trust, known as GLD, has only managed to gather inflows of 17.8 tonnes so far this year. Part of that is due to increased price competition from a cheaper rival product from iShares, known as IAU, which has attracted 53.9 tonnes.

But a whole range of smaller European based gold ETFs have all attracted higher inflows than GLD. The gold ETF run by ZKB in Switzerland, for example, has seen inflows of 26.9 tonnes while a rival Swiss physical fund run by Julius Baer has gathered 22.4 tonnes.

Analysts have pointed to the strength of the dollar in the second half of this year as a factor weighing on both the gold price and ETF inflows.

"Unlike previous periods of risk aversion that occurred in 2009 and 2010, this time US dollar strength is not being accompanied by strong inflows into physically backed gold ETFs," said Mr Lewis.

Dubai, 18th December 2011, (Emirates 24/7) – Physical gold buying saw a significant upsurge last week after prices slumped in the wake of global concerns. "I was resigned to the fact that the physical buying in our market (Dubai and UAE in the wider sense) had finished for the year, and then came Thursday, 15th December. We saw excellent buying from customers which reminded us very strongly of the heydays in August/September," Gerhard Schubert, Head of Precious Metals at Dubai-based Emirates NBD, said in his weekly precious metals report.

Spot gold prices closed last week at below $1,600 per ounce, down $111, or 6.5 per cent, in a week on a lack of more quantitative easing from the US Federal Reserve and the dash for cash as the European sovereign debt crisis drags on.

As expected, a number of analysts climbed out of the woodwork to call the end of the metal's bull-run. Economist Dennis Gartman says he is out of gold, seeing "the beginnings of a real bear market, and the death of a bull."

In his Gartman Letter published last Tuesday, Gartman warned that the incredible run-up in gold over more than a decade appears to be at an end. He noted that China has been buying gold aggressively over the past several weeks, which should have sent the price surging.

"Instead they plunged," the publisher wrote. "One of the oldest rules of trading is simply this: A market that cannot or does not respond to bullish news is a bearish market not a bullish one," he said.

As for gold's future direction, Gartman is categorically bearish. "Lower, we fear and perhaps decidedly so. So much damage has been done to the psychology of the market in the past week and so many late longs have been caught off guard that we think wholesale liquidation … and perhaps forced liquidation … shall be the outcome," he said.

Emirates NBD's Schubert agrees with Gartman on the liquidation factor playing a major role in last week's decline. "The ferocity of the liquidation seen last week took me by surprise, but the relatively thin market conditions lent themselves to extraordinary moves," he said.

Part of Gartman's predictions came true later last week, when spot gold prices slumped as low as $1,572 per ounce before inching back up a little until $1,598.46 per ounce. "We can imagine gold trading back toward … $1475-1525. It really won't take much to push it there. Panic liquidation would do so rather swiftly. We'll simply stand aside from the gold market then, preferring to be long of gold and not wishing really to be short of it. The sidelines seem the cosier of the two," he opined.

But Emirates NBD's Schubert does not share Gartman's pessimistic opinion on the future price of bullion. "There are quite a lot of analysts and commentators who are predicting the end of the bull market, but we do not subscribe to this scenario, at least not yet. The situation in the US, and more importantly in the Eurozone, will stay relevant for some time to come. The world economic picture looks a little brighter, but the looming recession in the Eurozone makes it difficult to view this as more than a temporary phenomenon," said Schubert.

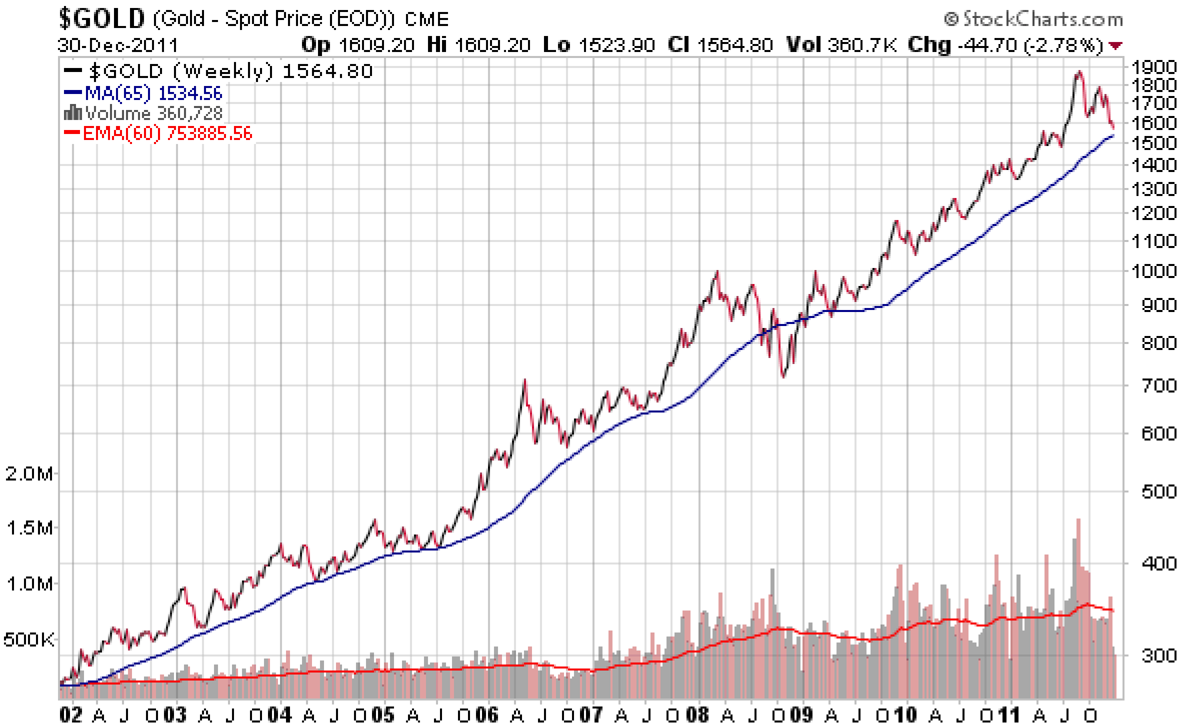
"We saw our second-best single day last Thursday and I am encouraged to applaud our customers, who obviously view the prices under $1,600 as a bargain," said Schubert.

Dubai's Emirates NBD holds a neutral outlook on gold, and sees support levels between $1,535 and $1,562 per ounce, while believes it will meet resistance between $1,640 and $1,665 per ounce.

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 December	1St December	29th December	30th December
1752	1752	1531	1575

London afternoon fix in €/oz:

Open	High	Low	Close
1st December	1st December	29th December	30th December
1298	1298	1184	1217

December saw a significant drop in the gold price.

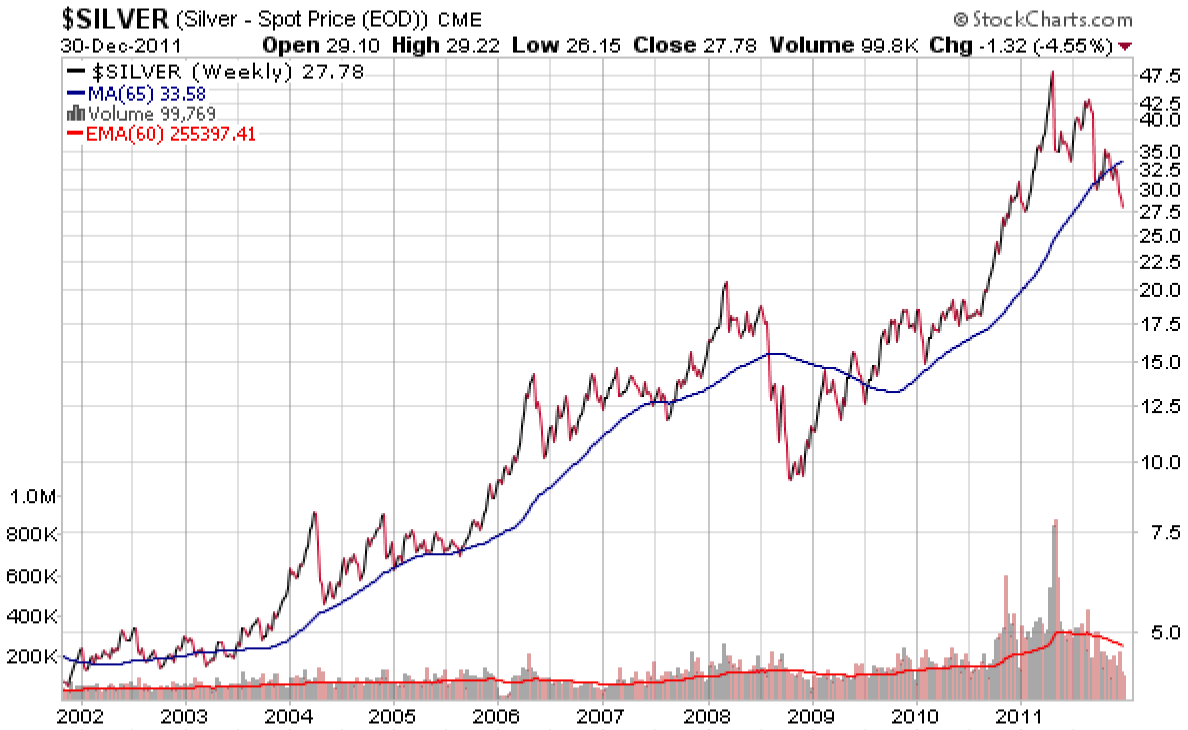
3. Silver

3.1 News and Fundamental Considerations

3.2 Technical Comments

Long Term Technical Comments

The long-term trend was under attack in December:



Daily/Weekly Technical Comments

London fix in USD/oz:

Open	High	Low	Close
1st December	1st December	29th December	30th December
33.28	33.28	26.16	28.18

London fix in €/oz:

Open	High	Low	Close
1st December	1st December	29th December	30th December
24.67	24.67	20.33	21.79

Silver also fell significantly in price in December.

John Fineron, 1st January 2012.

Tel: +41 44 307 19 19; Fax: +41 44 307 19 20

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

This document is supplied in PDF format. To view, you may need to download the free Adobe Acrobat Reader:

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.

Special Legal Notice/Disclaimer concerning this report
This report represents the views of Johnson Matthey & Brandenberger AG, which may be materially different from those of Johnson Matthey plc and other group companies.