JM&B Monthly Gold & Silver Report
January 2012

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 and silver prices rebounded in January from the significant correction of the previous month.

2. Gold

2.1 News and Fundamental Considerations

Selected News Items from the Month

New Delhi, 4th January 2012, (Reuters) – India has made hallmarking gold jewellery mandatory, a senior government minister said on Wednesday, a move that could boost demand in the world's biggest gold market by taking care of quality worries.

Bombay Bullion Association President Prithviraj Kothari welcomed the move, saying the government now needed to quickly build more hallmarking centres to keep pace with demand.

"Gold prices are high. Customers paying a hefty price need to be assured of quality. It is good move for the industry," Kothari said.

"Hallmarking can boost investment demand in jewellery form. Currently purity concerns deter many consumers from buying jewellery."

Traders also hope quality assurance would also lead to higher jewellery exports.

The move also prompted a call for similar measures on silver jewellery.

Hallmarking silver products is not yet mandatory in India, where jewellery quality is sometimes an issue, mainly with small jewellers, and customers face problems during redemption.

"Like gold, the government should make hallmarking compulsory in silver. It is a big market. Many people invest without purity guidance," Kothari said.

Gold imports by India plunged 56 percent to 125 tonnes in the fourth quarter, cutting full-year imports by 8.4 percent as record high prices and high interest rates hit demand.

Singapore, 5h January 2012, (Reuters) – Gold was on course for a fifth straight session of gains on Thursday as growing anxiety on Iran boosted its safe-haven appeal and rising seasonal demand in China buoyed sentiment.

Gold rose with oil in the previous session, breaking its lockstep with the euro over the past few months, after the European Union reached a preliminary agreement to ban imports of Iranian oil. An escalation of tensions could drive investors to seek safety in bullion, even though in the past few months gold has largely moved in tandem with riskier assets after recent market turmoil tarnished its safe-haven appeal. "If we don't have any shock out of Iran or any surprise on data, gold is likely to stay in consolidation with a near-term bottom at $1,550," said Hou Xinqiang, an analyst at Jinrui Futures in the southern Chinese city of Shenzhen.

Analysts said the 200-day moving average, at $1,631.6, will be a key technical resistance for gold, and a move near that level could fuel selling.
Spot gold gained 0.9 percent to $1,624.30 an ounce by 0801 GMT. Earlier, it hit an intra-day high of $1,624.66, its highest since Dec. 21. U.S. gold rose 0.8 percent to $1,626. Technical analysis suggested spot gold could end the rebound below $1,629 an ounce, said Reuters market analyst Wang Tao. Gold demand usually picks up ahead of the Lunar New Year, which falls on Jan. 23 this year, in China and elsewhere in Asia, traders said. Shanghai gold rose 1 percent to 331.50 yuan a gram, or about $1,636 an ounce, at a premium of an unusually high $12 on spot prices. "We are seeing Chinese banks on the bid ahead of the Chinese New Year," said a Singapore-based trader.

Worries about the euro zone debt crisis linger, with markets eyeing a French bond sales later in the day after Germany's bond auction on Wednesday fared better than November. In contrast to the gloomy outlook on the euro zone economy reinforced by latest private sector data, U.S. data continued to show signs of solid growth in the fourth quarter.

Investors will be watching the ADP National Employment report later today, a precursor to the key non-farm payroll data on Friday, to seek evidence of improvement in the labour market.
Physical dealers in Hong Kong reported purchases from funds, albeit in small volumes, and supply is likely to improve next week as refineries resume operations after the new year break.

Exchange-traded funds, however, have yet to see investment interest picking up. Holdings of SPDR Gold Trust, the world's largest gold-backed exchange-traded fund, remained unchanged at 1,254.57 tonnes for the seventh session.

Vincenza, 15th January 2012, (Reuters) – Gold jewellery demand in India, a major global market, is estimated to have risen 5 to 7 percent in 2011 and is set to grow a further 10 to 15 percent this year with bullion prices falling back after recent gains, the head of Gitanjali Gems, India's biggest jewellery retailer said on Sunday.

India's jewellery demand dropped 26 percent in the third quarter of 2011 to 125.3 tonnes, hit by strong price swings and a weaker rupee, the industry-funded World Gold Council has said.

Mehul Choksi, managing director of jewellery retail giant Gitanjali Gems (GTGM.NS: Quote, Profile, Research), brushed off concerns that a slowing of his country's economic growth may put brakes on jewellery consumer demand.

"For the whole year we will end up with a 5-7 percent volume growth ... (In 2012) I expect, as the prices of gold come down, it will once again catch up the momentum and will grow in volume by 10-15 percent, " Choksi told Reuters in an interview on Sunday at an international jewellery fair.

Strong jewellery demand is expected to help Gitanjali group boost its revenues by about 35 percent in the new financial year which will start in March from the $2 billion made in the current year, Choksi said.

BOOSTING ITALIAN BRANDS

Gitanjali has been looking around to further expand its portfolio of Italian jewellery brands, which at present numbers six after the company last year bought four Italian jewellers, Stefan Hafner, IO Si, Porrati and Nouvelle Bague.

Choksi said a new acquisition may be made this year if he finds a complementary brand or product line in Italy. He declined to comment on reports in Italian media that Gitanjali was among potential buyers for Italian goldsmith Unoaerre.

Gitanjali plans to expand sales of its Italian brands in the Far East with the opening of distribution centres in China, Singapore and Japan in the next few months and is also interested in expanding on the markets in Russia, Kazakhstan and the Middle East, he said.

To help promote its Italian brands around the world Gitanjali has engaged Concetta Lanciaux, who used to advise Bernard Arnault, the head of the world's biggest luxury group LVMH (LVMH.PA: Quote, Profile, Research), Choksi said.

The Indian group, which has recently bought Chinese jewellery maker Grown Aim and British jewellery distribution company Alfred Terry, does not plan to buy any more jewellers outside Italy, he said.

"We very strongly believe that only one jewellery design can be universal for the whole world, which is Italian jewellery," he said.

London, 17th January 2012, (FT) – Central banks increased the amount of gold they lent for the first time in a decade in 2011, as they used their bullion reserves to help commercial banks raise US dollars.

Although central banks hold one-sixth of all the gold ever mined in their reserves, their activities in the bullion market are opaque, with not a single institution revealing its day-to-day operations. In addition to holding gold for their reserves, some central banks also trade the metal, lending it on the open market in order to obtain a yield.

The estimate by GFMS confirms a trend that bankers and gold traders have been privately discussing for the past six months. The increase in lending came as eurozone commercial banks, suffering a shortage of dollar liquidity, rushed to borrow gold from central banks and later swap it on the market in exchange for dollars.

“There is growing evidence that short-term loans from some central banks to commercial banks could well have increased considerably [in 2011], with the latter then using gold to swap for US dollars,” GFMS said.

As the squeeze in the dollar funding markets intensified, short-term interest rates for lending gold fell to record lows in late 2011. The rate for lending gold for one month fell to -0.57 per cent in early December, implying that a bank would have to pay to swap it for dollars.

The rush among eurozone commercial banks to lend gold was one of the clearest signs of the “dash for cash” late last year that weighed on the bullion price.

Goldman Sachs said in a report that “the downward pressure from European bank funding issues has left gold prices at a steep discount to the levels suggested by US [real interest rates]”. The metal tumbled 20 per cent from a peak above $1,900 a troy ounce in September to a low of $1,522 in December. On Tuesday, gold was trading at a five-week peak of $1,663.

The increase in gold lending by central banks has brought an end to a decade-long decline in the amount of bullion out on loan, as falls in hedging by gold miners reduced demand to borrow the metal.

GFMS did not put a number on the increase last year, saying only that lending had risen “by a small amount”. It estimates that the outstanding volume of swapped or leased gold stood at 700 tonnes at the end of 2010, down from a peak of about 5,000 tonnes in 2000.

Philip Klapwijk, head of metals analytics at the consultancy, was sceptical that the lending activity had affected the gold price. “This is a purely financial swap of gold for US dollars; it shouldn’t have an impact on price,” he said.

Nonetheless, GFMS maintained a cautious outlook for gold prices in the near term, predicting that the metal would average $1,640 in the first half of 2012.

“A huge amount of gold needs to be taken out of the market day in, day out by investors,” Mr Klapwijk said. “I’d be astounded if we see a reversal of sentiment but it may be that investment simply underperforms our expectations and prices sag.”

All the same, GFMS predicted that gold prices would once again gather steam later this year, touching a peak “just over the $2,000 mark” in late 2012 or early 2013.

Caracas, 30th January 2012, (Bloomberg) – Venezuela today received the last shipment of gold bars in an operation that repatriated 160 tons of the South American country’s reserves of the metal held abroad, said Nelson Merentes, president of the country’s central bank.

Fourteen tons of gold arrived at the Caracas airport today on a flight from Europe, Merentes said. The gold bars were transported in a caravan, broadcast on state television, to vaults at the central bank where street banners proclaimed “Mission Complete.”

“In two months, we’ve brought 160 tons of gold valued at around $9 billion back to Venezuela,” Merentes said on state television from the Caracas airport. “Today marks the last day of the mission.”

President Hugo Chavez in August ordered the central bank to repatriate the country’s gold reserves as a safeguard against instability in financial markets. The South American country, which has the 15th-largest holdings in the world, according to the World Gold Council, held 211 tons of its 365 tons of gold reserves in U.S., European and Canadian banks as of August.

Venezuela will leave about 15 percent of its reserves, or around 50 tons, outside of Venezuela for financial transactions, Merentes said today. He said on Jan. 3 that the country would leave 15 tons of gold in banks outside the country.

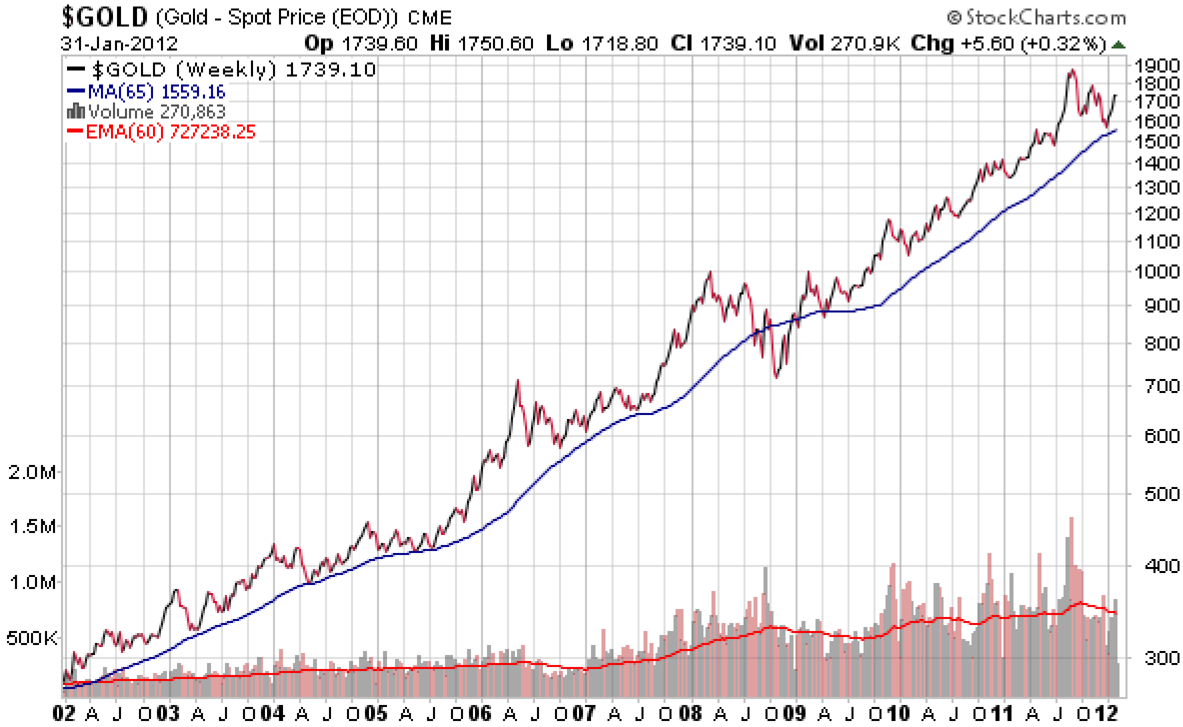
A central bank report released in August showed that Venezuela held gold reserves with the Bank of England, JPMorgan Chase & Co., Barclays Plc and Standard Chartered Plc among other banks.

“This was the largest type of operation to transport this type of metal in the last fifteen years,” said Merentes. “The repatriation of our gold was an act of financial prudence and sovereignty.”

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
3rd January	31st January	3rd January	31st January
1598	1744	1598	1744

London afternoon fix in €/oz:

Open	High	Low	Close
3rd January	31st January	3rd January	31st January
1225	1328	1225	1328

January saw a month of continuous gains for gold, becoming a tad overbought in the process.

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3. Silver

3.1 News and Fundamental Considerations

London, 30th January 2012, (Bloomberg) – Record industrial demand for silver and resurging investor interest is diminishing a supply surplus, driving the metal used in everything from solar panels to batteries into its best start to a year in almost three decades.

Manufacturers will use 15,415 metric tons, 2.5 percent more than in 2011 and reducing the glut by 41 percent to 3,297 tons, Barclays Capital estimates. Investors may buy 2,000 tons through exchange-traded products, after selling 1,300 tons last year, Morgan Stanley predicts. Prices will average $37.50 an ounce in the fourth quarter, 11 percent more than now, the median estimate in a Bloomberg survey of 13 analysts shows.

The metal rallied 25 percent since closing at an 11-month low in December, entering a bull market on mounting confidence that another global recession will be avoided even as the World Bank and International Monetary Fund cut their growth forecasts. Prices had plunged 44 percent in eight months, making it the most volatile of any metal tracked by Bloomberg, as expansion slowed from Europe to China, crimping demand for commodities.

“Silver got hammered and now we’re into a phase where it will do quite well,” said Dan Smith, an analyst at Standard Chartered Plc in London, and the second-most accurate price forecaster tracked by Bloomberg Rankings in the past eight quarters. “Appeal comes from its widespread use in both industry and investment. I think it’s relatively cheap.”

Standard & Poor’s
The commodity advanced 22 percent since Dec. 31 to $33.8575, the best start to a year since 1983. The Standard & Poor’s GSCI Total Return Index of 24 commodities rose 3.1 percent and the MSCI (MXWD) All-Country World Index of equities 5.7 percent. Treasuries returned 0.3 percent, a Bank of America Corp. index shows.

This year’s anticipated gains in silver will mean record profit for Coeur d’Alene Mines Corp. (CDE) and Fresnillo Plc (FRES), analyst estimates compiled by Bloomberg show.

Economies may still pose the biggest threat to the rally. The IMF cut its 2012 forecast on Jan. 24 to 3.3 percent from 4 percent and warned that Europe’s debt crisis threatened to derail the world economy. The World Bank reduced its estimate by the most in three years on Jan. 18, to 2.5 percent from 3.6 percent. Global industrial production will expand 2.3 percent, from 4.9 percent in 2011, Macquarie Group Ltd. predicts.

The 0.5 percent contraction in the 17-nation euro region seen by the IMF may curb demand for imported goods. Chinese exports rose 13.4 percent in December from a year earlier, the slowest pace since February, according to customs data. The nation imported 235 tons of silver in December, 36 percent less than the average over the past two years, the data show.

Industrial Demand
“In the face of weak industrial demand, the short-term investment argument is not entirely convincing,” said David Jollie, an analyst at Mitsui & Co. Precious Metals Inc. in London and the

most accurate forecaster in the London Bullion Market Association's 2011 price survey. "It's much more difficult to get people to invest for the long term in times of economic uncertainty."

For now, speculators are getting more bullish. Hedge funds and other money managers more than doubled wagers on higher prices this year, Commodity Futures Trading Commission data show. They held 16,034 futures and options in the week ended Jan. 24, the most since mid-September. The most widely held option gives the owners the right to buy silver at $40 by June, data from the Comex in New York show. The three biggest holdings are all call options at 18 percent or more above prices today.

Investors added 196 tons to their ETP holdings this month, taking the total to 17,492 tons valued at $19.04 billion, within 7 percent of the record reached in April, according to data compiled by Bloomberg. They also bought 6.082 million ounces (189 tons) of American Eagle silver coins, the most in a year, data on the U.S. Mint's website shows.

Kodachrome Film

Those sales are whittling away the supply glut as industrial consumption strengthens. Global solar-panel installations increased capacity by 70 percent last year, creating enough generating power to supply about 20 million homes, according to the European Photovoltaic Industry Association. The metal is also used in electrical conductors, wood preservatives and alloys, compensating for a slump in photographic film demand.

Eastman Kodak Co. (EK), based in Rochester, New York, said in 2009 it would stop making Kodachrome film after more than seven decades and on Jan. 19 filed for bankruptcy. Demand for silver from photographic-film makers slid at least 66 percent in the past decade, the Washington-based Silver Institute estimates.

Gold Ratio

Silver may still be cheap relative to gold, with a price ratio of 51.5, down from 57.4 in December. It averaged 32.4 in 1980, when silver reached a record $50.35 in New York trading. Nelson and William Hunt of Dallas were convicted eight years later of conspiracy for attempting to manipulate prices and were ordered to pay $130 million.

In inflation-adjusted terms, that peak would be equal to $138.31 as of last year, according to a calculator from the Federal Reserve Bank of Minneapolis.

Crystalline silicon solar panels use as much as 0.12 grams of silver per watt, and as much as 40 grams go into a 32-inch plasma television, according to VM Group, a London-based research company. Electronic-equipment manufacturing will expand 5 percent this year, according to Los Altos, California-based researcher Henderson Ventures in a December report.

Coeur d'Alene, which gets about 69 percent of its revenue from silver, will report profit of $241.50 million this year, compared with an estimated $120.25 million in 2011, according to the mean of four analysts' estimates compiled by Bloomberg. Shares of the Idaho-based company gained 18 percent since the start of January.

Most Accurate Forecaster

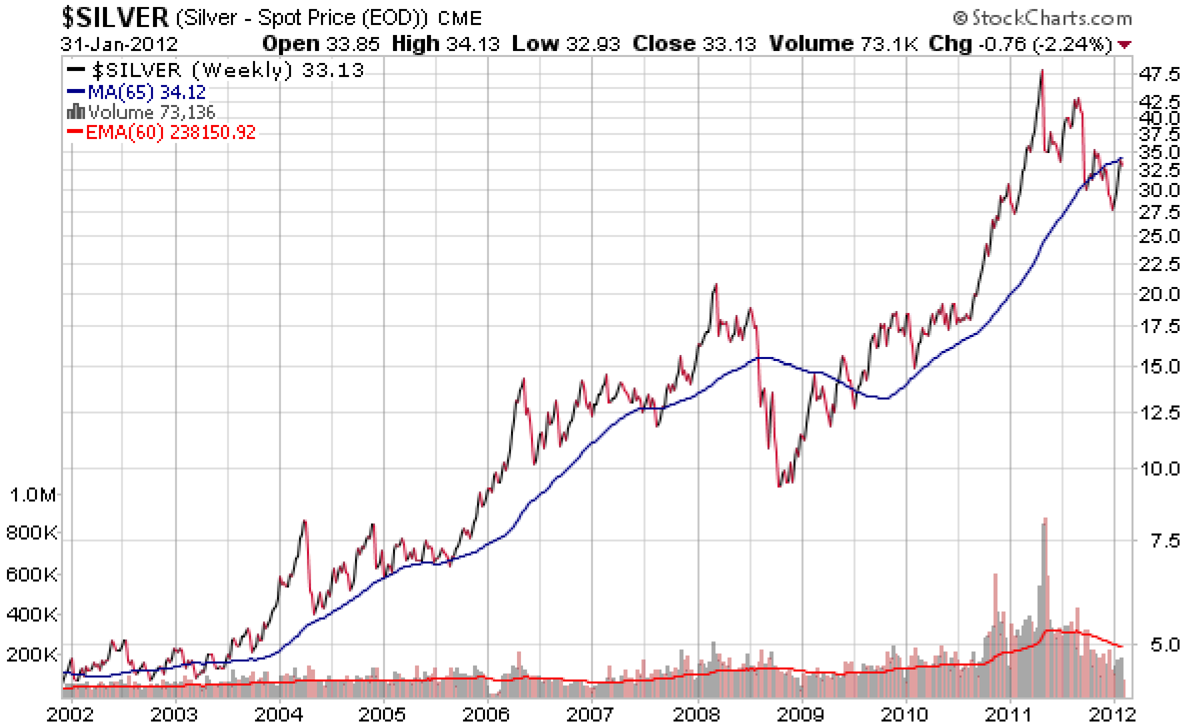
Fresnillo will report net income of $988.7 million this year, compared with an estimated $945 million in 2011, the mean of six estimates shows. Shares of the Mexico City-based company jumped 16 percent in London this year.

"Silver is a hybrid," said Bart Melek, the head of commodity strategy at TD Securities Inc. in Toronto and the most accurate forecaster tracked by Bloomberg Rankings in the past eight quarters. "It benefits from being precious. Later on in the year we're going to see a bit of a recovery in industrial demand."

3.2 Technical Comments

Long Term Technical Comments

The long-term trend recovered somewhat in January, a weekly close above the 34-36 USD/oz band would be price-positive:



Daily/Weekly Technical Comments

London fix in USD/oz:

Open	High	Low	Close
3rd January	31st January	3rd January	31st January
28.78	33.80	28.78	33.80

London fix in €/oz:

Open	High	Low	Close
3rd January	31st January	3rd January	31st January
22.06	25.76	22.06	25.76

Silver gained significantly in January, but encountered initial price resistance at the end of the month.

John Fineron, 1st February 2012.

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.