

JM&B Monthly Gold & Silver Report

May 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

After falling in price in the first half of May, gold and silver stabilised for the remainder of the month.

2. Gold

2.1 News and Fundamental Considerations

Selected News Items from the Month

Singapore, 8th May 2012, (Bloomberg) – Mainland China's gold imports from Hong Kong surged more than six-fold in the first quarter, adding to signs that the country may displace India as the world's largest consumer of the precious metal on an annual basis.

Imports from Hong Kong were 135,529 kilograms (135.53 metric tons) between January and March, from 19,729 kilograms in the year-earlier period, according to data from the Census and Statistics Department of the Hong Kong government. Shipments in March rose 59 % from February, yesterday's data showed.

Demand has climbed in the world's second-largest economy as rising incomes and curbs on property speculation boosted purchases. China may become the biggest user annually this year, according to a forecast from the producer-funded World Gold Council. Last year, total Indian demand including for jewellery and investment was 933.4 tons to China's 769.8 tons.

"We're looking at another solid year for Chinese demand based on these early numbers," said Nick Trevethan, senior commodities strategist at Australia & New Zealand Banking Group Ltd. "While it's largely related to price, negative real interest rates should keep demand strong."

Gold has lost 15 % from its record \$1,921.15 an ounce in September as the European debt crisis, combined with reduced expectations for further monetary easing by the Federal Reserve, boosted the dollar. Spot gold traded at \$1,637.32 an ounce at 9:41 a.m. in Singapore, 4.7 % higher this year.

Largest Consumer

The prospect of China becoming the largest bullion user reflects the country's economic ascendance. Per capita gross domestic product has more than doubled since 2000, according to World Bank data. The country is already the world's top consumer of copper and biggest producer of steel.

Gold shipments to the mainland climbed for a third month in March to 62,913 kilograms, the Hong Kong data showed. That compares with 39,668 kilograms in February and 9,166 kilograms in March 2011. China doesn't publish gold-trade data. Last year, imports from Hong Kong more than tripled to 431,226 kilograms.

The purchases through Hong Kong may signal that the mainland is accumulating reserves, London-based brokerage Sharps Pixley Ltd. said in February. The nation last made its reserves known more than two years ago, stating them at 1,054 tons.

"Summer is usually the low season for gold consumption," said Liang Ruian, director at Pinpoint Investment Consulting Ltd. in Beijing. "If we can see growth even in the low season, it represents the resilient nature of China's gold consumption."

China expanded 8.1 % in the first three months of 2012 from a year earlier in the fifth quarterly deceleration as authorities cracked down on property speculation. Inflation was 3.6 % in March, below a government target of about 4 %. So-called real interest rates are negative when the amount paid to savers on deposits is less than inflation.

London, 17th May 2012, (Market Watch) – China topped India as the world's top consumer of gold in the first quarter of this year, cementing expectations that China will be the dominant buying force in the gold market in 2012, the World Gold Council said Thursday.

Indian gold demand dropped 19% on the year in the first three months of the year, to 207.6 metric tons. The domestic gold sector was rattled by strikes following the announcement of new taxes on the gold trade and weakness in the Indian rupee made dollar-denominated gold more expensive for Indian buyers.

In contrast, Chinese gold demand rose 7% in the same period, to 255.2 tons, according to the WGC.

Between them, China and India accounted for 54% of global gold demand in the first quarter.

Although Chinese demand growth is starting to moderate and Indian gold demand is expected to pick up this quarter as the market adjusts to the new legislation and tax structure, China should remain the world's top gold consumer for the balance of the year, said the WGC.

"We still expect China to exceed India this year in overall gold demand," Marcus Grubb, WGC managing director of investment, told Dow Jones Newswires in an interview.

London, 24th May 2012, (Reuters) – Italy, Europe's biggest maker of gold jewellery, is set to be a leading global supplier of recycled bullion in the next few years as economic crisis and high metal prices push Italians to sell their family jewels.

Italy emerged in 2011 as the world's third-largest source of gold scrap, with 116.5 tonnes of recycled gold, behind the US and China.

"Already Italy is playing a key role in terms of a balance between recycling and demand," Marcus Grubb, managing director for investment at the industry-funded World Gold Council, told Reuters.

"In the longer run it is probable . . . its contribution will increase, provided the demand for gold remains strong, which we think it will," Mr Grubb said.

Last year, gold supply from Italy, which has no mining production, topped that of Indonesia, the world's seventh biggest producer, which mined 111 tonnes of gold in 2011, according to metals consultancy Thomson Reuters GFMS.

Rome's long-term belt-tightening measures, including higher taxes, mean world markets can count on steady high supplies of recycled gold from Italy in the next few years.

"If the situation in Italy worsens and if prices rise a lot, the volume of scrap could even increase a bit," said Ivana Ciabatti, head of Itaipreziosi, the leading Italian precious metals trading and refining company.

That would help to check relentlessly ebullient gold prices because gold has become crucial to meet strong demand as mining output has only grown modestly.

"This is a market in deficit, not in surplus," Mr Grubb said. "This is the only metal where the only way demand can be met is with a massive amount of recycling."

Gold demand has risen about 11 per cent over the past 10 years to 4,486 tonnes in 2011, while mine output has grown at only 7 per cent since 2002 to 2,818 tonnes last year, GFMS data showed.

Over the same period, gold scrap supplies nearly doubled and at 1,661 tonnes last year accounted for 37 per cent of total gold supplies. Recycling is more environment-friendly and cheaper than mining, which would require huge investment to boost output.

Gold prices, rose 10 per cent last year and hit a record high of \$1,920.30 an ounce in September 2011, although they have only gained about one per cent in volatile trade so far this year.

A deeply rooted south European tradition of offering gold jewellery as presents from baptism throughout life means that Italians accumulated hundreds of tonnes of gold over the past 30 to 50 years, more than households in poorer Spain, Greece and Portugal, industry experts said.

“Since I was a child I remember that gold was given as a gift on various occasions and people used to say: ‘Put it aside’,” Mr Ciabatti said.

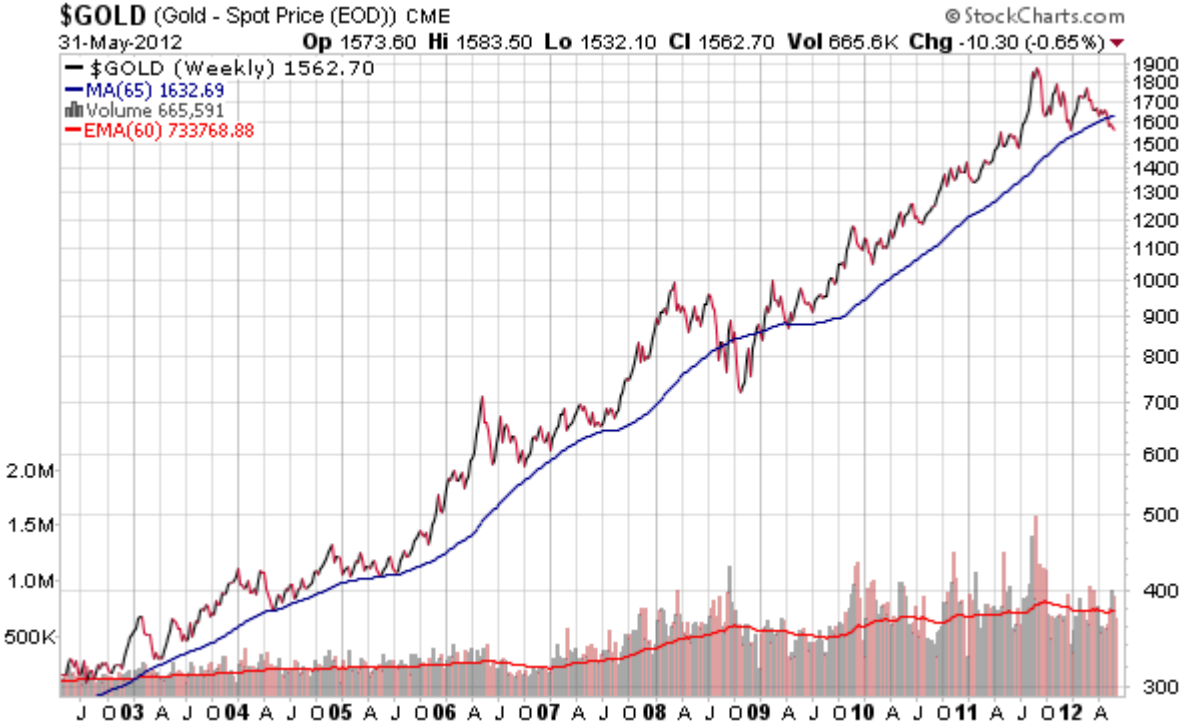
“We used to laugh at it, but they turned out to be right. Many families are surviving thanks to this gold.”

By contrast, in the traditional gold scrap markets of China and India, strong economies and growing incomes have reduced appetites to cash in gold jewellery, despite high metal prices.

2.2 Technical Comments

Long Term Technical Comments

As in the financial crisis of 2008, gold fell below its long-term trend line in May:



Daily/Weekly Technical Comments

London afternoon fix in USD/oz:

Open	High	Low	Close
1 st May	1664	1540	1558
1664	1664	1540	1558

London afternoon fix in €/oz:

Open	High	Low	Close
1 st May	29 th May	14 th May	31 st May
1256	1261	1215	



3. Silver

3.1 News and Fundamental Considerations

Silver Institute news:

<http://www.silverinstitute.org/site/wp-content/uploads/2012/05/SNApril2012.pdf>

3.2 Technical Comments

Long Term Technical Comments

Silver drifted further from its long-term trend line in May:



Daily/Weekly Technical Comments

London fix in USD/oz:

Open	High	Low	Close
1 st May	1 st May	16 th May	31 st May
30.78	30.78	27.25	28.10

London fix in €/oz:

Open	High	Low	Close
1 st May	2 nd May	16 th May	31 st May
23.22	23.23	21.44	22.65



John Fineron, 1st June 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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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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