JM&B Monthly Gold & Silver Report
June 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

Contents

1. Commentary

Gold and silver remained below their long-term uptrends in June.

2. Gold

2.1 News and Fundamental Considerations

Selected News Items from the Month

Singapore, 4th June 2012, (Reuters) – Hong Kong shipped 101,768 kilograms of gold to mainland China in April, up 62 % on the month and marking the second-highest monthly exports, the Hong Kong Census and Statistics Department said on Monday.

The flow of gold from the mainland to Hong Kong jumped 38 % to 34,368 kilograms, it said.

New York, 6th June 2012, (Bloomberg) – Gold is stuck in the longest slump in a decade as investors shun bullion for the dollar and bonds, just seven months after Bank of America Corp. said Europe's debt crisis would send prices to a record $2,000 an ounce.

The bank was joined by Goldman Sachs Group Inc., Morgan Stanley and Barclays Plc in urging investors to buy in December and January. Now, after gold fell 10 percent in a four-month slide through May, they say prices will rebound this year or next as the Federal Reserve shores up the world's biggest economy by easing monetary policy and devaluing the dollar.

Billionaire George Soros bought more in the first quarter and hedge-fund manager John Paulson held on to the biggest stake in the SPDR Gold Trust, the largest exchange-traded product backed by bullion, Securities and Exchange Commission filings show. Some investors are refusing to capitulate even after failed elections in Greece drove the euro to a two-year low against the dollar and gold slumped as much as 21 percent in December from the record $1,923.70 set in September.

"The $2,000 target has moved further away, but it still holds," said John Stephenson, who helps manage $2.7 billion at First Asset Investment Management Inc. in Toronto and predicted in November that prices would reach $2,500 in the next several months. "We will see some easing, and that will push gold higher, but the reality is that we are on hold until the outcome of the Greece elections."

Bear Market

Gold fell 19 percent by May 16 from its closing high of $1,891.90 in August, within 1 percentage point of the common definition of a bear market. Prices then touched a five-month low of $1,523.90 on Dec. 29. After rallying 3.7 percent on June 1, the metal is now up 4.5 percent since the start of January to $1,637.80 today, extending an 11-year bull market.

The Standard & Poor's GSCI Spot Index (MXWD) of 24 commodities retreated 7.6 percent this year, and the MSCI All-Country World Index of equities declined 0.8 percent. The U.S. Dollar Index, a measure against six currencies, advanced 2.9 percent. Treasuries returned 2.2 percent, a Bank of America index shows.

Hedge funds and other speculators reduced their net-long positions, or bets on higher prices, by 70 percent since August, Commodity Futures Trading Commission data show. They held 77,325 U.S. futures and options in the week ended May 29, almost the fewest since December 2008.

Gold held through ETPs dropped for a third month in May, according to data compiled by Bloomberg. Combined with the decline in prices, the holdings are now valued at $125 billion, down from $141.7 billion in August.

Goldman Predicts

In October, Bank of America forecast $2,000 by early 2012. Goldman predicted in December that gold would reach $1,840 by early June. Barclays and Morgan Stanley said in January that it would average $1,850 and $1,810 this quarter. The metal actually averaged $1,619 since the end of March. Goldman now expects prices to reach $1,940 in 12 months. Barclays predicts an average of $1,790 in the fourth quarter, and Morgan Stanley forecasts $2,000 in the final three months.

Bullion is heading for a 12th straight annual gain, after temporarily giving up its gains for the year last month. The metal rose almost sixfold since the end of 2000, beating the 24 percent advance in the S&P 500, with dividends reinvested, and the 90 percent return on Treasuries. The Dollar Index (DXY) fell 25 percent.

While gold's four-month drop from February is the longest since the start of the bull market, it's not the biggest. Futures fell 21 percent in a month in 2006 and 30 percent over eight months in 2008, before rallying to end higher for the year. The 2,375.8 metric tons held in ETPs exceeds official reserves in all but four nations tracked by the International Monetary Fund, and the amount is within 1.5 percent of the record 2,410.2 tons reached in March.

'Last Resort'

"Gold remains the currency of last resort," said Jeff Currie, the New York-based head of commodity research at Goldman, which predicts $1,840 by the end of the year. "The case for higher gold prices remains intact."

Greek voters return to the polls on June 17 after elections on May 6 failed to produce a government. Syriza, a party proposing to cancel the terms of an international bailout and restore pensions and wages, was propelled into second place, increasing prospects that the 17-nation euro would fracture. Those concerns were partially allayed last week after Irish voters backed the EU's fiscal treaty.

Central banks, the world's biggest owners of gold, have added to their reserves for 14 consecutive months through March, the longest streak since 1964, IMF data show. Investor demand for gold coins is accelerating, with sales of American Eagles more than doubling to 53,000 ounces last month, according to figures on the U.S. Mint's website. The 10 most widely held options confer the right to buy bullion at prices from $1,800 to $2,500 between July and March 2013, Comex data show.

'Asset Bubble'

Soros Fund Management LLC, founded by the 81-year-old billionaire, more than tripled its investment in the SPDR Gold Trust in the first quarter to 319,550 shares now valued at $50.2 million, an SEC filing May 15 showed. It held as few as 42,800 shares last year and as many as 6.2 million at the end of 2009. Soros called gold the "ultimate asset bubble" in January 2010. Michael Vachon, a spokesman for Soros, didn't respond to a voicemail for comment.

Paulson & Co., founded by the 56-year-old investor who became a billionaire in 2007 by wagering against the subprime mortgage market, still holds 17.3 million shares in the SPDR Gold Trust, now valued at $2.72 billion, an SEC filing on May 15 showed. Paulson is seeking to reverse record losses last year caused by an ill-timed bet on an economic recovery. Armel Leslie, a spokesman for Paulson, declined to comment.

Winning Streak

The decline in prices accelerated a contraction in the size of the gold market. Open interest, or contracts outstanding, fell to 423,433 on June 4, from as much as 650,764 in November 2010, Comex data show. An average of 17.9 million ounces was cleared through London in April, the least since October 2010, according to the London Bullion Market Association.

Prices slumped as investors sought safety in the dollar, the world's most-used currency, and bonds. The Dollar Index has appreciated for five consecutive weeks, the longest winning streak since January 2009. Yields on 10-year Treasuries, 10-year U.K. gilts and 10-year German bunds declined to records last month, data compiled by Bloomberg show.

“People are moving to the dollar because of liquidity,” said Peter Sorrentino, a senior fund manager at Huntington Asset Advisors in Cincinnati, which oversees $14.7 billion of assets. “Gold has had extended periods in this bull run where it has backed up and given up some of those gains,” he said, predicting $2,000 in the first quarter of next year.

Central Bank

Gold rallied last year in anticipation of the Federal Reserve announcing a third round of debt buying. The metal rose about 70 percent as the Fed bought $2.3 trillion of debt in two rounds of so-called quantitative easing ending in June 2011. The central bank has since held off on prospects for accelerating growth in this and the next two quarters, the median of as many as 69 economist estimates compiled by Bloomberg show.

Demand may also be supported by record-low interest rates from the U.S. to Europe because gold generally earns investors returns only through price gains. The Fed has pledged to keep rates at “exceptionally low levels” at least through late 2014. The European Central Bank, as well as flooding markets with more than 1 trillion euros ($1.23 trillion), has kept its refinancing rate at 1 percent since December.

Cover Losses

Some investors sold gold to cover losses across commodities and equities, said Jeffrey Sica, the Morristown, New Jersey- based president of SICA Wealth Management who helps oversee $1 billion of assets. About $6 trillion was erased from the value of global equities since the end of March, and the S&P GSCI commodities gauge slid 14 percent as Europe’s crisis deepened and growth slowed in China, the biggest consumer of everything from coal to soybeans to copper.

“Gold is still going to $2,000 an ounce this year,” said Michael Widmer, an analyst at Bank of America Merrill Lynch in London, who predicts a fourth-quarter average of $1,875. “It’s just going to take a little bit longer to get there.”

Beijing, 11th June 2012, (Bloomberg) – Gold-investment demand in China may gain more than 10 % this year as buyers seek a haven from Europe’s debt crisis and the prospect of weakening currencies, according to the country’s largest bullion bank.

“Investors here want to hold part of their assets in gold to hedge for the risks, especially now that the financial crisis has evolved into a sovereign crisis,” Zheng Zhiguang, general manager of the precious-metals department at Industrial and Commercial Bank of China Ltd., said in an interview in Shanghai.

China will topple India this year as the largest bullion market as rising incomes bolster demand, the World Gold Council forecasts. Gold may gain for a 12th year in 2012 as European policy makers strive to avoid a breakup of the euro zone and the U.S. Federal Reserve weighs more stimulus to aid the recovery. Investors in China, facing lackluster equity markets and property curbs, are looking more to the metal, Zheng said June 6.

“It’s necessary for individual, institutional or even government investors to hold gold when the value of money is decreasing at a time of possible quantitative easing or excessive money-printing practices,” said Zheng.

Investment demand in China was a record 98.6 metric tons in the first quarter, 13 percent higher the same period in 2011, according to figures from the producer-funded council. Last year, it climbed 38 percent to 258.9 tons compared with 2010, as overall demand gained 20 percent to 769.8 tons. China's total gold demand may reach 1,000 tons this year, the WGC has said.

Debt Crisis

Gold for immediate delivery traded at $1,598.02 an ounce at 4:03 p.m. in Shanghai, 2.2 percent higher this year. The price touched $1,526.97 on May 16, the lowest level since December, as Europe's debt crisis weakened the euro and investors favored increased dollar holdings.

While a stronger dollar may pressure bullion, "I'm optimistic on the gold prices in the long term because of the China demand," said Zheng. "There are too many uncertainties now in the global economy, politics and the financial sector."

ICBC represents more than 20 percent of the turnover on the Shanghai Gold Exchange, China's largest spot market for precious metals, and more than 30 percent of the gold-leasing business in China, according to Zheng. The lender accounted for about 16 percent of nationwide bullion sales last year.

Gold imports by mainland China from Hong Kong climbed 65 % to a record 103.6 tons in April, according to data from the Census and Statistics Department of the Hong Kong government released on June 5. The increase came even as Lao Feng Xiang Co. (900905), the mainland's biggest gold-jewellery maker, said in May that gold-demand growth in China may stagnate this year as falling prices put off investors and an economic slowdown crimps sales.

Hurt Exports

The second-largest economy expanded 8.1 % in the first quarter, the slowest pace in almost three years as Europe's crisis hurt exports. Should Greece exit the euro, the expansion may slow to 6.4 % in 2012 without stimulus, China International Capital Corp. said on May 23.

China, which on June 7 announced the first cut in borrowing costs since 2008, has curbed property investments to avoid a bubble. The Shanghai Composite Index (SHCOMP) declined 15 % in the past year, while spot bullion gained 5.4 %.

On a three-month basis, gold demand in China eclipsed India's over the past two quarters, according to the World Gold Council. The increased wealth of China's middle class is helping to drive consumption, Albert Cheng, the council's Far East managing director, said in an interview in May.

Last Resort

Greek voters are set to go the polls for the second time in two months on June 17 in a vote that may determine whether the country stays in the 17-nation euro. Goldman Sachs Group Inc. (GS) said gold remains the so-called currency of last resort, forecasting a rally by year-end, according to a May 9 report.

Spanish Economy Minister Luis de Guindos said on June 9 that he would request as much as 100 billion euros ($126 billion) in emergency loans from the euro area to shore up the country's banking system. That, coupled with weekend trade data from China, helped to boost stocks and commodities today.

As China allowed investors to buy and hold gold only in recent years, “there’s explosive, pent-up demand because the Chinese have an attachment to gold,” said Zheng, predicting that growth in investment demand will beat the expansion in jewellery sales. “There’s great potential for expanding China’s physical-gold investment market.”

London, 14th June 2012, (Thomson Reuters) – Thomson Reuters GFMS and Société Générale are launched their Q1 2012 Global Hedge Book Analysis. Key Points:

In the first quarter the volume of the producer hedge book declined once again, by 0.08 Moz (3 t).

This left the outstanding producer hedge book at end-March at 5.07 Moz (158 t), down from a revised end-December figure of 5.15 Moz (160 t).

Seven companies saw an increase to their hedge positions, while hedge book reductions were recorded for 33 companies.

Much of the quarter’s notable activity came from the hedgers. In contrast, hedge book reductions came from ongoing deliveries into forward sales and the maturity of option positions, with little active dehedging.

The marked-to-market liability of the producer hedge book expanded by 23% quarter-on-quarter, to negative $1.52 billion.

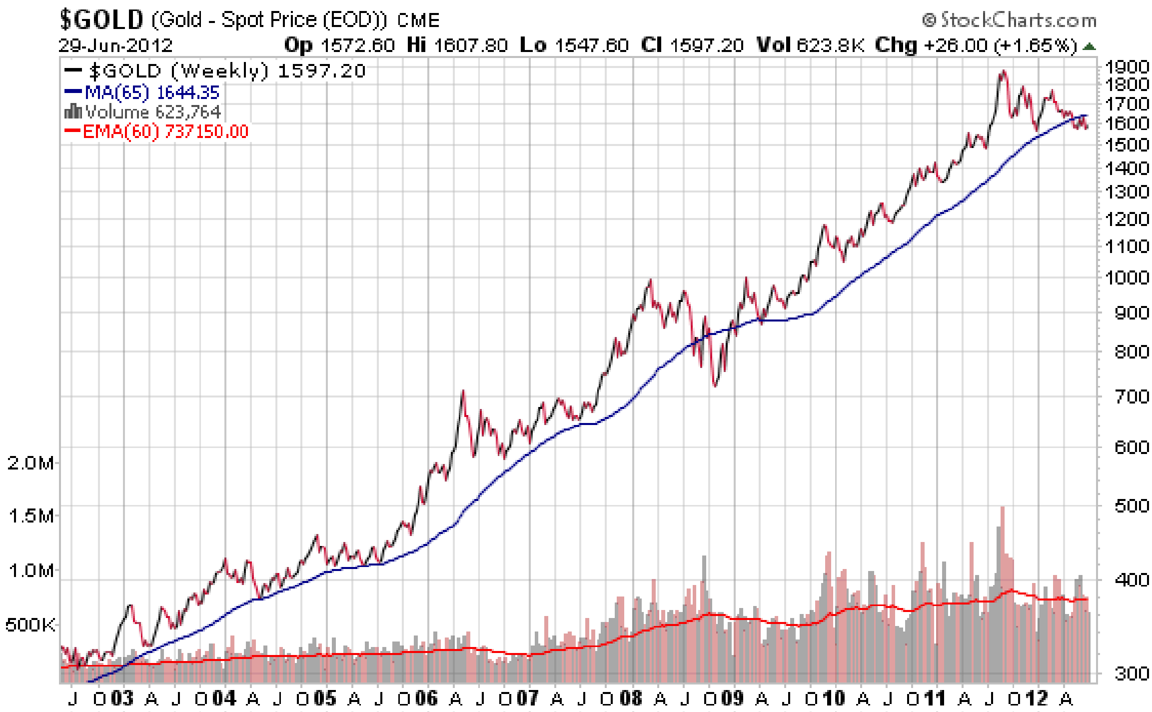
The net market impact of hedging remains muted, when compared to other market components such as mine supply, scrap or jewellery fabrication.

We believe 2012 will see slight net hedging once again, as new project hedging, plus delta hedging of producer’s option positions, will outweigh scheduled deliveries and option expiries.

2.2 Technical Comments

Long Term Technical Comments

Gold remained below its long-term trend in June:



Daily/Weekly Technical Comments

London afternoon fix in USD/toz:

Open	High	Low	Close
1606	1635	1559	1599
1st June	6th June	28th June	29th June

London afternoon fix in €/toz:

Open	High	Low	Close
1252	1307	1245	1260
1st June	6th June	22nd June	29th June

Gold essentially moved sideways in June.

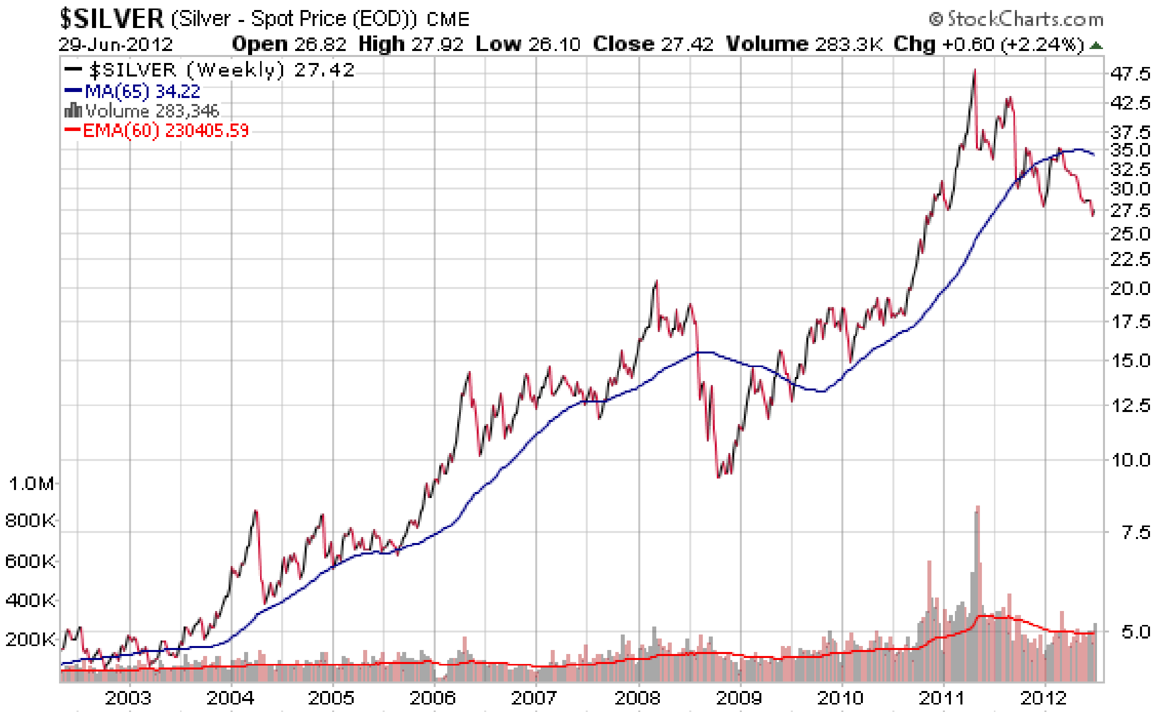
3. Silver

3.1 News and Fundamental Considerations

3.2 Technical Comments

Long Term Technical Comments

Silver remained below its long-term trend in June:



Daily/Weekly Technical Comments

London fix in USD/toz:

Open	High	Low	Close
27.38	29.36	26.72	27.08
1st June	6th June	25th June	29th June

London fix in €/toz:

Open	High	Low	Close
22.23	23.49	21.40	21.53
1st June	6th June	25th June	29th June

Silver drifted lower in June.

John Fineron, 2nd July 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

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.