

JM&B Monthly Gold & Silver Report

July 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

Both gold and silver essentially consolidated in price in July.

2. Gold

2.1 News and Fundamental Considerations

Selected News Items from the Month

Beijing, 10th July 2012, (Bloomberg) – Gold demand in China, the second- largest user after India last year, may expand 13 % to 870 metric tons in 2012, the World Gold Council said, dropping a forecast for consumption to reach as much as 1,000 tons.

Jewellery demand may expand 7.7 % to 550 tons, slower than the 13 % growth last year, Albert Cheng, Far East managing director at the producer-funded group, said in an interview. Demand for bars and coins may gain 24 % to 320 tons, lower than the 38 % climb last year, he said.

Cash gold slumped for a fourth month in May in the worst run in 13 years as Europe's debt crisis drove investors to seek the dollar as a haven over the precious metal. Gold sales in China in the second quarter were slower-than-expected as local consumers usually refrain from buying when a rally stalls, said Cheng, who'd made the 1,000 ton prediction in May.

"From our talk to the industry people, we gathered that the Europe's debt crisis has led to a firmer U.S. dollar, which in turn suppressed the investors' willingness to buy gold," Cheng said in Beijing yesterday. "Gold jewellery is also discretionary consumption, so consumers feel they can wait."

Spot gold was little changed at \$1,586.30 an ounce at 2:03 p.m. in Singapore, down from a record \$1,921.15 last September. The metal has rallied for eleven straight years as investors sought protection from weaker currencies and inflation, and demand in emerging markets increased.

Record Quarter

China remains the "most important player on the global gold market," Commerzbank AG said in a report yesterday, citing increased demand from an expanding middle class and purchases by the country's central bank. Demand in China totaled a record 255.2 tons in the first three months, compared with 232.5 tons a year earlier, the World Gold Council said in a report in May.

The second-quarter is usually a quiet season in terms of gold sales in China, Cheng said, adding that an estimate of demand will be released in August. "Overall, demand should be lower" in the three-months to June 30 compared with "an exceptionally good" first quarter, he said.

"We are still optimistic on China's gold-investment demand as investors here don't have much choice in terms of investing their wealth," Cheng said. "The stock market's performance is poor and the property market's rally has stalled."

China's benchmark stock index in Shanghai has lost 1.2 % this year. Premier Wen Jiabao pledged on July 8 to continue property controls and prevent prices from rebounding, according to an official Xinhua News Agency report.

Khartoum, 18th July 2012, (Reuters) –In his office in Khartoum's gold market, central bank sales agent Mohamed Adam sips tea and watches while his staff load bundles of cash worth tens of thousands of dollars from the safe into four boxes.

The government will use these piles of Sudanese pounds to purchase gold, which it plans to sell for the dollars needed to pay for imports of food and other essentials.

Khartoum hopes to make up to US\$3-billion from gold exports this year, double the amount from last year

"We buy all gold from local traders and people who search for gold," Adam said. Outside his office, gold traders make deals in the busy market in a rundown downtown building, where paint is peeling from the walls.

Sudan is looking to expand gold mines and boost production of the metal to help keep the economy afloat.

Oil had been the main source of state revenues as well as the dollars needed to pay for imports, but Sudan lost three-quarters of its oil production when South Sudan split off last year.

A scarcity of dollars has driven the annual inflation rate to 37.2% in June, double the level of June 2011, and officials warn prices will rise further.

The country sits on what could be Africa's largest gold reserves, and the government has handed out exploration contracts to more than 600 mining firms to search for gold and other minerals.

Khartoum hopes to make up to US\$3-billion from gold exports this year, double the amount from last year. It made US\$603-million by the start of April, according to the latest official data.

Much of that output currently comes from small, individual miners, lured by high gold prices to seek gold in remote corners of the country. The central bank is now buying up their gold, which in the past was often smuggled abroad.

The government estimates that about 250,000 Sudanese search for gold, mostly in the north of the vast Arab African country, where the Nubian desert has been a source of gold since the Egyptian pharaohs.

"I always go and buy up gold from local people and sell it to the central bank," said gold trader Jumaa Mohamed Said, who travels every month to a desert area 300 kilometer (190 miles) north of Khartoum.

"Sometimes I buy a few grams, sometimes 500 grams, a kilo. I'm always busy," the 25-year old Said said. He brings the gold to Khartoum, where he does business with the central bank. Experts verify its grade before it ends up on Adam's desk.

The central bank has appointed three sales agents at the gold market, who buy gold for a little less than the global price, Adam said.

But a senior official at an international organisation said the agents sometimes pay above the global price to stop other traders from snapping it up for smuggling to Dubai, a large gold market.

"The central bank sometimes pays well above market prices," he said, declining to be identified. "It fuels inflation, but they need the dollars from gold exports."

BIG POTENTIAL, BIG CHALLENGES

The targeted US\$3-billion in gold revenue for this year is still well below Sudan's 2010 oil revenue of at least US\$5-billion. But the government hopes it will keep the economy afloat while it seeks a negotiated solution over oil export fees from South Sudan.

Khartoum faces a budget deficit of 6.5 billion pounds (US\$1.4-billion) following South Sudan's independence a year ago under a 2005 peace deal.

The finance ministry had counted on export fees paid in dollars by the landlocked new nation, which needs to ship its crude through northern pipelines and the Red Sea port of Port Sudan to get to international markets.

But Juba shut off all oil wells in January after talks over export fees failed, and Khartoum started taking some oil to cover what it said were unpaid pipeline dues.

Meanwhile, the government is trying to attract more investment as it hopes to boost gold production, which amounted to 33.7 tonnes last year.

The mining industry is one of the few areas growing in the economy, in crisis due to the shortage of foreign exchange.

Out of the 600 licenses granted for mineral exploration, 88 have gone to large companies. New fields will be opened for investment, the state-linked Sudanese Media Center said last week.

"Sudan is right up near the top in Africa in terms of mineral potential," Tucker Barrie, a Canada-based mining consultant knowledgeable about Sudan, said.

"Northeast Sudan is very high on the list in Africa to look for gold," he said. "There are going to be discoveries."

Companies had long neglected the country amid its civil war and ethnical conflicts, but they are now turning to it as one of the last large unexplored areas in Africa.

Last week, Canadian mining firm La Mancha Resources, the biggest player in Sudan, said it had agreed to be bought by a firm owned by Egyptian tycoon Naguib Sawiris.

La Mancha said the deal would help it develop the Hassai mine, Sudan's biggest gold mine which is run by the Ariab Mining Co, majority-owned by the Sudanese government and 40% by the Canadian firm.

"With the influx of cash from a wealthy Egyptian, the company should fair well and keep exploring and developing," Barrie said.

Foreign firms face a number of obstacles, however, in dealing with a government desperate for cash.

The royalties they have to pay are higher than those of other African countries such as Ghana or Eritrea, which have issued more investor-friendly laws, industry insiders say.

"Under pressure they are now reviewing the laws," said Abulrahim Hamdi, a former finance minister.

Mining projects in Sudan tend to be expensive because equipment must be trucked in over long distances. Few qualified miners graduate from local universities, and firms tend to rely on large expatriate workforces.

First they just were walking around with metal detectors and discovering gold on the surface. Now people need to drill deeper

A U.S. trade embargo, in place since 1997 over Khartoum's role in hosting prominent Islamists in the past including Osama bin Laden, deters most Western firms and makes life difficult for those that come. Western banks routinely reject project funding in Sudan.

While the government hopes for quick cash, Hamdi said many projects would take three to five years to start producing.

La Mancha, for example, expects its attributable gold output to fall by some 16% this year because the top layer at the main Hassai mine is being depleted after being mined for 20 years. It needs to invest in new technology to drill deeper.

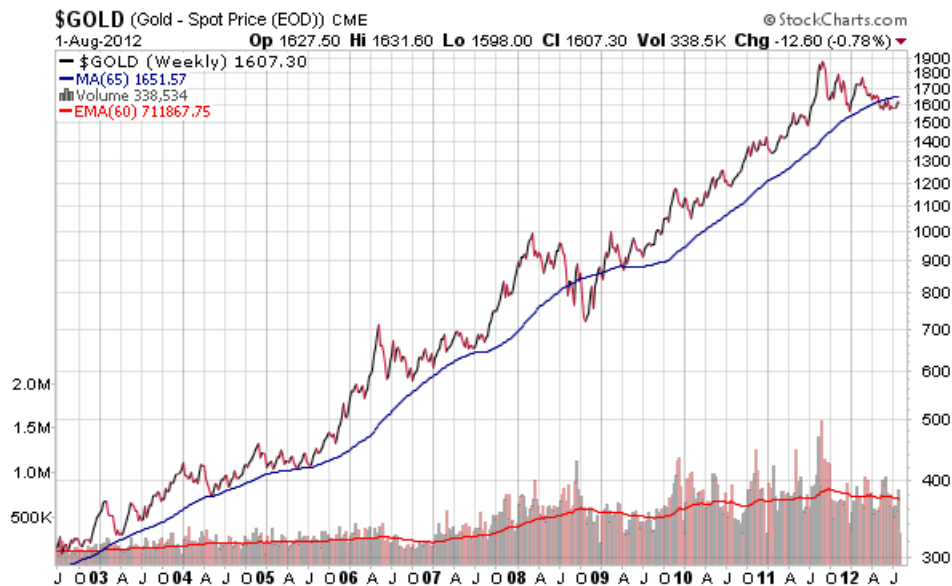
Jumaa Mohamed Said, the gold trader doing business with the central bank, said amateur diggers at the field he visits every month face the same problem.

"First they just were walking around with metal detectors and discovering gold on the surface. Now people need to drill deeper. It gets more expensive," he said.

2.2 Technical Comments

Long Term Technical Comments

Gold remained below its long-term trend in July:



Daily/Weekly Technical Comments

London afternoon fix in USD/toz:

Open	High	Low	Close
2 nd July	31 st July	12 th July	31 st July
1592	1622	1556	1622

London afternoon fix in €/toz:

Open	High	Low	Close
2 nd July	31 st July	2 nd July	31 st July
1263	1321	1263	1321



As in June, gold essentially moved sideways in July.

3. Silver

3.1 News and Fundamental Considerations

3.2 Technical Comments

Long Term Technical Comments

Silver remained below its long-term trend in July:



Daily/Weekly Technical Comments

London fix in USD/toz:

Open	High	Low	Close
2 nd July	5 th July	12 th July	31 st July
27.36	28.33	26.67	28.20

London fix in €/toz:

Open	High	Low	Close
2 nd July	31 st July	2 nd July	31 st July
21.68	22.96	21.68	22.96



Silver consolidated in price in July.

John Fineron, 3rd August 2012.

Appendix: More about this report

Purpose of the Report

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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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