JM&B Monthly Gold & Silver Report
August 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 surged in price in August.

2. Gold

2.1 News and Fundamental Considerations

Selected News Items from the Month

New York, 15th August 2012, (Bloomberg) – Billionaire investors George Soros and John Paulson increased their stakes in the biggest exchange- traded fund backed by gold as prices posted the largest quarterly drop since 2008.

Soros Fund Management more than doubled its investment in the SPDR Gold Trust to 884,400 shares as of June 30, compared with three months earlier, a U.S. Securities and Exchange Commission filing for second-quarter holdings showed yesterday. Paulson & Co. increased its holdings by 26 percent to 21.8 million shares.

Gold slumped 4 percent in the second quarter, the biggest such loss since Sept. 30, 2008. Prices fell as European Central Bank President Mario Draghi and Federal Reserve Chairman Ben S. Bernanke failed to increase stimulus measures, damping the outlook for global growth and demand for the metal as a hedge against inflation. The price fell 0.1 percent since June 30 through yesterday.

"It's all about easing, and people are especially waiting for the Fed since investors expect prices will rise," if the central bank announces more bond purchases, said Walter "Bucky" Hellwig, who helps manage $17 billion of assets at BB&T Wealth Management in Birmingham, Alabama. "People are willing to hold on to gold to see what the Fed will say."

The metal surged 70 percent from the end of December 2008 to June 2011 as the Fed kept borrowing costs at a record low and bought $2.3 trillion of debt in two rounds of so-called quantitative easing.

Paulson's Fund

Paulson, 56, who became a billionaire in 2007 by betting against the U.S. subprime mortgage market, lost 23 percent in his Gold Fund through July as lower bullion prices and slumping mining stocks contributed to declines.

Holdings in the SPDR Gold Trust are Paulson's largest position. He also bought shares of NovaGold Resources Inc. (NG) last quarter and sold other stocks, leaving his $21 billion hedge fund with more than 44 percent of its U.S. traded equities tied to bullion.

Paulson's U.S.-listed holdings peaked at $34.3 billion at the end of March 2011, with about $7.7 billion of that amount, or 23 percent, invested in gold related stocks. He had 33 percent of his U.S. stock holdings in gold-related securities at the end of the first quarter and 25 percent a year ago.

Armel Leslie, a spokesman for Paulson, declined to comment. Michael Vachon, a spokesman for Soros, declined to comment.

Erased Gains

Gold erased its gains this year in May as investors favored sovereign debt and the dollar as economic growth slowed. The U.S. currency gained 3.3 percent against a basket of currencies last quarter.

Hedge funds have cut their net-long position, or bets on higher prices, by 66 percent from a record in August 2011. Their holdings fell to 85,510 futures and options on Aug. 7, according to the U.S. Commodity Futures Trading Commission.

Still, prices have rallied for 11 consecutive years, gaining more than sevenfold, as investors snapped up the metal after government and central bank stimulus programs boosted speculation that inflation would accelerate. The metal is up 2.2 percent this year.

Vinik, Mindich

Vinik Asset Management, the Boston-based hedge fund founded by Jeffrey Vinik, who formerly ran the Fidelity Magellan Fund (FMAGX), cut its entire stake in the gold ETF. On March 30, the fund held 2.3 million shares, SEC data show. Eric Mindich's Eton Park Capital also sold all of its 739,117 shares last quarter, a filing showed.

Jonathan Gasthalter, a spokesperson for Eton Park, declined to comment.

Moore Capital Management LP acquired 120,000 shares of SPDR Gold Trust in the second quarter, a filing showed yesterday. The hedge fund held no shares in the gold fund as of March 31.

Global holdings in exchange-traded products rose to a record 2,417.3 metric tons on Aug. 10, according to data compiled by Bloomberg.

Central banks and the International Monetary Fund are the largest bullion owners with 29,500 tons at the end of last year, or 17 percent of all mined metal, World Gold Council data show. Central banks have been net buyers for two straight years, the council said. Purchases this year will probably exceed the 456 tons added in 2011, the WGC estimates.

Holding On

"People expect prices to rise in the third quarter since historically it has been proved that it's one of the best periods for gold, and investors who see easing coming in from various central banks are either increasing or holding on to their positions," Donald Selkin, the New York-based chief market strategist at National Securities Corp., which manages about $3 billion of assets, said by telephone.

Money managers who oversee more than $100 million in equities must file a Form 13F with the SEC within 45 days of each quarter's end to show their U.S.-listed stocks, options and convertible bonds. The filings don't show non-U.S. securities or how much cash the firms hold.

Newport Beach, 22nd August 2012, (Bloomberg) – Pimco Commodity Real Return Strategy Fund has expanded its holding of gold as a hedge against inflation, anticipating further moves by central banks to spur economic growth, said Nic Johnson, the fund's manager.

The $20 billion fund increased its gold holdings to 11.5 percent of total assets from 10.5 percent two months ago, Johnson said today in a telephone interview from Newport Beach, California. The commodity fund is part of Pacific Investment Management Co., which also owns the world's largest bond fund.

"We think gold is going to perform in a positive correlation to changes in inflation," Johnson said. "We see higher inflation because of rising commodity prices, unconventional monetary policies and increasing sovereign debt."

Gold rallied in New York today to the highest price since May 2 after Federal Reserve policy makers issued the minutes from their July 31-Aug. 1, which indicated the Federal Open Market Committee may expand monetary stimulus to bolster the economy. Gold futures for December delivery rose as high as $1,658.20 an ounce on the Comex.

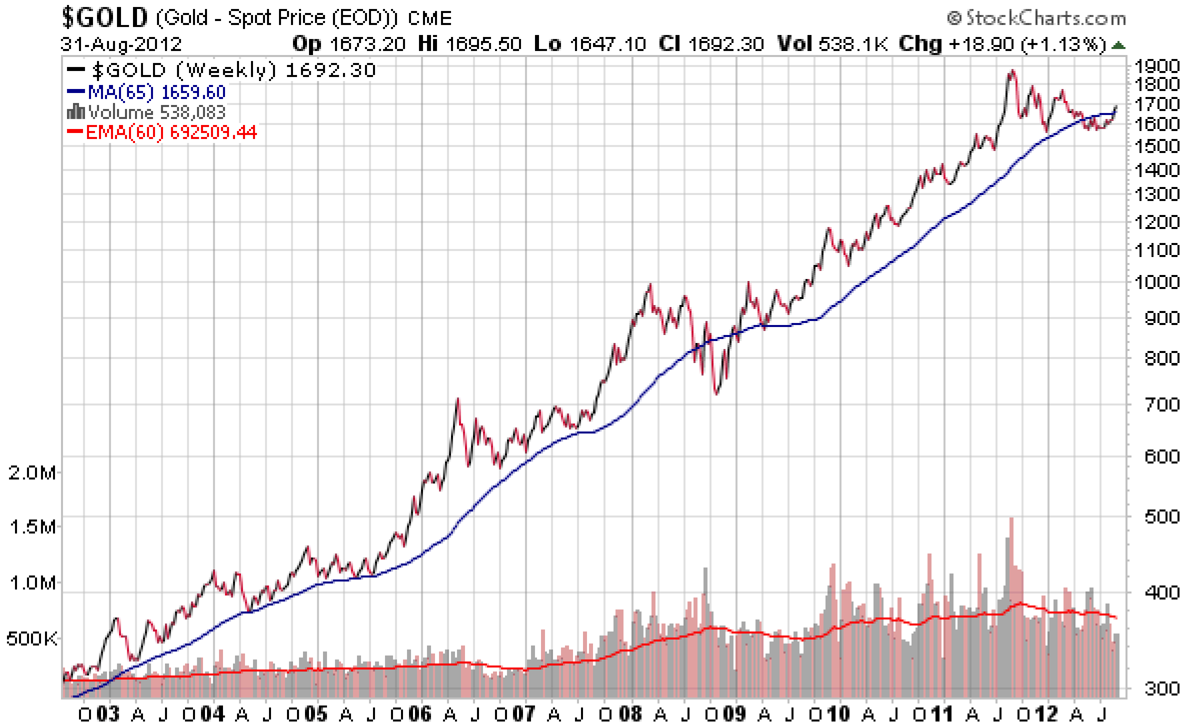
The precious metal surged 70 percent from the end of December 2008 to June 2011 as the Fed kept borrowing costs at a record low and bought $2.3 trillion of debt in two rounds of so-called quantitative easing. Gold advanced in the past two months amid speculation that China, the U.S. and Europe may take more steps to boost economic growth.

“We are tactical and will look for attractive dips” in prices to add to the fund’s holdings, Johnson said, adding that a drop near $1,500 would prompt some buying.

2.2 Technical Comments

Long Term Technical Comments

Gold moved back above its long-term trend in August:



Daily/Weekly Technical Comments

London afternoon fix in USD/toz:

Open	High	Low	Close
1st August	28th August	2nd August	31st August
1599	1668	1597	1649

London afternoon fix in €/toz:

Open	High	Low	Close
1st August	24th August	14th August	31st August
1298	1333	1295	1312

This month we are showing a weekly chart instead of a daily chart. In August, gold broke above its medium-term downtrend.

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3. Silver

3.1 News and Fundamental Considerations

London, 14th August 2012, (Bloomberg) – At a time when hedge funds are the least bullish on silver in almost four years, investors' holdings are near a record, siding with the analysts predicting a rally as central banks move to bolster growth.

Speculators cut bets on higher prices by 72 percent since the end of February, mirroring changes in their copper wagers, which turned bearish in May, U.S. Commodity Futures Trading Commission data show. Silver held in exchange-traded products climbed for three months and is now valued at $16.2 billion, according to data compiled by Bloomberg. Prices will average $33.02 an ounce in the fourth quarter, 18 percent more than now, the median of 13 analyst estimates compiled by Bloomberg show.

Hedge funds anticipate slowing growth will curb demand for silver, 53 percent of which is used in products from televisions to batteries. Investors and analysts are bullish on expectations central banks will do more to stimulate economies, expanding consumption and increasing the allure of precious metals as a store of value. Prices tripled as the Federal Reserve bought $2.3 trillion of debt in two rounds of so-called quantitative easing from December 2008 to June 2011.

"Since the beginning of the year it has reacted more like a base metal than a precious one," said Frederique Dubrion, the Geneva-based president and chief investment officer of Blue Star Advisors SA, which manages metals and energy assets. "The main negatives are still in industry. We're waiting for more quantitative easing, and that would be really positive."

Comex Bourse
After tumbling 29 percent in the four months to the end of June, silver is now little changed for the year at $27.76 on the Comex bourse in New York. The LMEX index of six industrial metals from aluminum to zinc fell 5.2 percent as gold advanced 2.5 percent. The Standard & Poor's GSCI gauge of 24 commodities rose 1.6 percent since the start of January and the MSCI (MXWD) All- Country World Index of equities gained 8 percent. Treasuries returned 2.1 percent, a Bank of America Corp. index shows.

Silver is the most volatile metal tracked by Bloomberg and the price swings are masking what are already historically high prices. While the metal is trading 44 percent below the 31-year high of $49.845 set in April 2011, it averaged $30.37 since the start of January, on track for the second-highest annual level after last year's $35.27. The two-decade average is $9.97.

For Coeur d'Alene Mines Corp., which gets about 65 percent of its revenue from extracting the metal, that will mean a 35 percent jump in profit to a record in 2012, according to the mean of six analyst estimates compiled by Bloomberg.

Interest Rates
Industrial demand for silver may strengthen as economic growth accelerates. The International Monetary Fund said July 16 it expects the global economy to expand 3.9 percent next year, from 3.5 percent in 2012. The European Central Bank and the Federal Reserve are already

holding interest rates at record lows and the People's Bank of China cut rates in June and July, the first reductions since 2008.

They may need to do more to bolster growth because U.S. factory output contracted in July for a second month, the Institute for Supply Management said Aug. 1. Manufacturing in the euro area shrank for a 12th consecutive month, a Markit Economics report showed the same day. China's industrial-output growth was the slowest in three years in July, according to government data released Aug. 9.

Silver imports by China, the second-biggest user after the U.S., declined for three consecutive months through June, customs data show. Global fabrication demand, a measure that includes coins, jewelry and photographic film, will be little changed in 2013, Barclays Plc estimates. The bank expects supply to beat consumption for a fifth year, leaving a glut of 4,148 tons as mine production expands to a record 25,835 tons.

'The Gap'

"Industrial demand may remain weak at least for another six months," said Jochen Hitzfeld from UniCredit SpA in Munich, the fourth most-accurate precious metals forecaster tracked by Bloomberg in the past two years. "This makes the gap that investors have to absorb even higher," said the analyst, who anticipates a fourth-quarter average of $28.

Investors bought 797 tons through silver-backed ETPs this year and now hold 18,093 tons, equal to more than eight months of global mine output, data compiled by Bloomberg show. They sold a net 812 tons from ETPs last year. Total assets are now 2.9 percent below the record 18,639 tons reached in April 2011. Investors probably will buy another 500 tons in 2013, Barclays and Morgan Stanley predict.

There are also signs that industrial demand is improving. Stockpiles in warehouses monitored by Comex fell 6.5 percent since July 3, reaching a four-month low on Aug. 8, bourse data show. Inventories had expanded every month since November to 147.1 million ounces (4,575 tons), the most since 1997.

More Bullish

Hedge funds may be getting more bullish, more than doubling their net-long position, or bet on higher prices, to 9,323 futures and options in the two weeks to Aug. 7, CFTC data show. That's still 58 percent below the five-year average. Wagers fell to 2,888 contracts on June 26, the lowest since October 2008.

Options traders are divided. The most widely held contract confers the right to buy silver at $50 by November 2013 and the next two biggest allow holders to sell metal at $20 by the same time and November 2012, Comex data show. The five biggest gold options are all for purchases at prices higher than today.

Some investors may be deterred by silver's price swings. The 100-day historical volatility for futures is at 30.8 percent, more than in gold, platinum, palladium and the main industrial metals traded on the London Metal Exchange, data compiled by Bloomberg show.

Analyst Forecasts

Coeur d'Alene will report net income of $126.6 million this year, from $93.5 million in 2011, the analyst estimates show. Shares of the Coeur d'Alene, Idaho-based company slid 18 percent to

$19.80 this year. They will rally 35 percent to $26.74 in 12 months, according to the average of seven analyst forecasts.

Pan American Silver Corp. (PAAS), based in Vancouver, will make $302.5 million next year, from $234.8 million in 2012, the mean of six analyst estimates shows. Shares of the company, which got 51 percent of its revenue from silver in 2011, fell 28 percent to $15.64 in New York trading since the start of January. They will rise 45 percent to $22.63 in the next 12 months, the average of 14 forecasts compiled by Bloomberg shows.

Fed policy makers pledged to do more if needed on Aug. 1 and ECB President Mario Draghi said July 26 he would do whatever it takes to preserve the 17-nation euro. Lower interest rates increase the allure of precious metals because they generally earn investors returns only through price gains.

"People like me who have tremendous confidence in silver and are invested in the market see it rising once the easing begins," said Jeffrey Sica, the Morristown, New Jersey-based president of SICA Wealth Management, who helps oversee about $1 billion of assets. "I expect an acceleration in the fear trade. Most of the hedge funds who sold will be back once the market gathers momentum."

3.2 Technical Comments

Long Term Technical Comments

Silver remained below its long-term trend in August:

Daily/Weekly Technical Comments

London fix in USD/toz:

Open	High	Low	Close
1st August	28th August	3rd August	31st August
27.87	30.81	27.25	30.52

London fix in €/toz:

Open	High	Low	Close
1st August	28th August	3rd August	31st August
22.64	24.57	22.17	24.27

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As with gold, we are showing a weekly chart instead of a daily chart this month. Silver surged in price in August

John Fineron, 3rd September 2012.

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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
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