JM&B Monthly Gold & Silver Report
September 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 surged again in September, up to overhead resistance.

2. Gold

2.1 News and Fundamental Considerations

Selected News Items from the Month

New York, 5th September 2012, (Market Watch) – I can't imagine it means anything cheerful that Vladimir Putin, the Russian czar, is stockpiling gold as fast as he can get his hands on it.

According to the World Gold Council, Russia has more than doubled its gold reserves in the past five years. Putin has taken advantage of the financial crisis to build the world's fifth-biggest gold pile in a handful of years, and is buying about half a billion dollars' worth every month.

No one else in the world plays global power politics as ruthlessly as Russia's chilling strongman, the man who effectively stole a Super Bowl ring from Bob Kraft, the owner of the New England Patriots, when they met in Russia some years ago.

Putin's moves may matter to your finances, because there are two ways to look at gold.

On the one hand, it's an investment that by most modern standards seems to make no sense. It generates no cash flow and serves no practical purpose. Warren Buffett has pointed out that we dig it out of one hole in the ground only to stick it in another, and anyone watching this from Mars would be very confused.

But there's another way to look at gold: As the most liquid reserve in times of turmoil, or worse.

The big story of our era is not that the Spanish government is broke, nor is it that Paul Ryan apparently feels the need to embellish his running record. It's that the United States, which has dominated the world's economy for several lifetimes, is in relative decline.

As was first reported here in April of last year, according to International Monetary Fund calculations, the U.S. is on track to lose its status as the world's biggest economy—when measured in real, purchasing-power terms—to China by 2017.

We will soon be the first people in two hundred years to live in a world not dominated by either Pax Americana or Pax Britannica. This sort of changing of the guard has never been peaceful. The declines of the Spanish, French and British empires were all accompanied by conflict. The decline of British hegemony was a leading cause of the First and Second World Wars.

What will happen as the U.S. loses its pre-eminence?

Maybe this will turn out better than similar episodes in the past. Maybe the Chinese will embrace an open society and the rule of law. If you believe that, there is probably no reason to hold any gold.

On the other hand, we may be about to enter a much more turbulent and dangerous era of power politics and international competition.

Not long ago, world gold reserves were mainly in the hands of the U.S. and the Europeans, which accumulated their holdings during their centuries at the top. The U.S. has 75% of its currency reserves in gold. Many other first world powers have comparable proportions.

But that's beginning to change. According to the World Gold Council, China, Saudi Arabia and Russia are now in the top five. Western European countries have been selling gold. If the current financial crisis gets any worse, they may yet sell more.

Emerging markets have been buying. In most cases, gold remains a very small percentage of their total reserves. China, despite its recent buying, holds less than 2% of its currency reserves in gold.

But you have to wonder how long emerging countries will want to hold their reserves in any currency that is controlled by someone else. Vladimir Putin clearly doesn't want to. Gold now accounts for 9% of Russia's reserves, and that figure is rising.

The gold price has had a shakeout since peaking at around $1,900 an ounce a year ago. It fell as low as $1,566 in June. Since then, it has risen to $1,688.

But that shakeout has been exaggerated by the rally in the U.S. dollar over most of the past year. Put another way: Priced in euros, gold is nearly back to its old high. It's 1,343 euros per ounce, just shy of the 1,356 euro record set a year ago.

The most common means of buying gold is either in bullion or through an exchange-traded bullion fund such as the SPDR Gold Shares. And maybe that's sensible.

But you might also take a look at shares in gold-mining companies. They are at, or near, historic lows when compared with the gold price. Contrarians may take that as a buying signal.

The Philadelphia Gold & Silver Index, which tracks the stocks of precious-metal mining companies, stood at 170 on Tuesday—a level first seen five years ago, in September 2007, when gold itself was just $730 an ounce. Relative to gold itself, the Philly index is about 60% below the average levels seen since 1985.

They're right on all of the above. On the other hand, the equities are cheap and they do generate cash flow. Barrick Gold (NYSE:ABX), the world's biggest, trades at eight times forecast earnings, with a dividend yield of nearly 2%. Newmont (NYSE:NEM) is trading at 10 times forecast earnings, yielding 2.8%.

As ever, you pays your money and you takes your choice.

London, 21st September 2012, (GFMS) – Thomson Reuters GFMS and Société Générale have released Q2 2012 Global Hedge Book Analysis with the following key points:

For the third consecutive quarter, the gold market saw net de-hedging, with the hedge book falling by 188 koz (6 t).

This left the outstanding producer hedge book at end-June at 4.89 Moz (152 t), down from 5.08 Moz (158 t) at end-March.

Eleven companies saw an increase to their hedge positions, while 29 companies saw their hedge positions fall on a delta-adjusted basis.

In a similar trend to the first quarter of 2012, many of the hedge book reductions came as part of scheduled deliveries or option expiries as hedge positions matured, rather than concerted moves by hedged producers to remove hedge cover.

The marked-to-market liability of the producer hedge book dropped by just over one third quarter-on-quarter, to negative $0.98 billion.

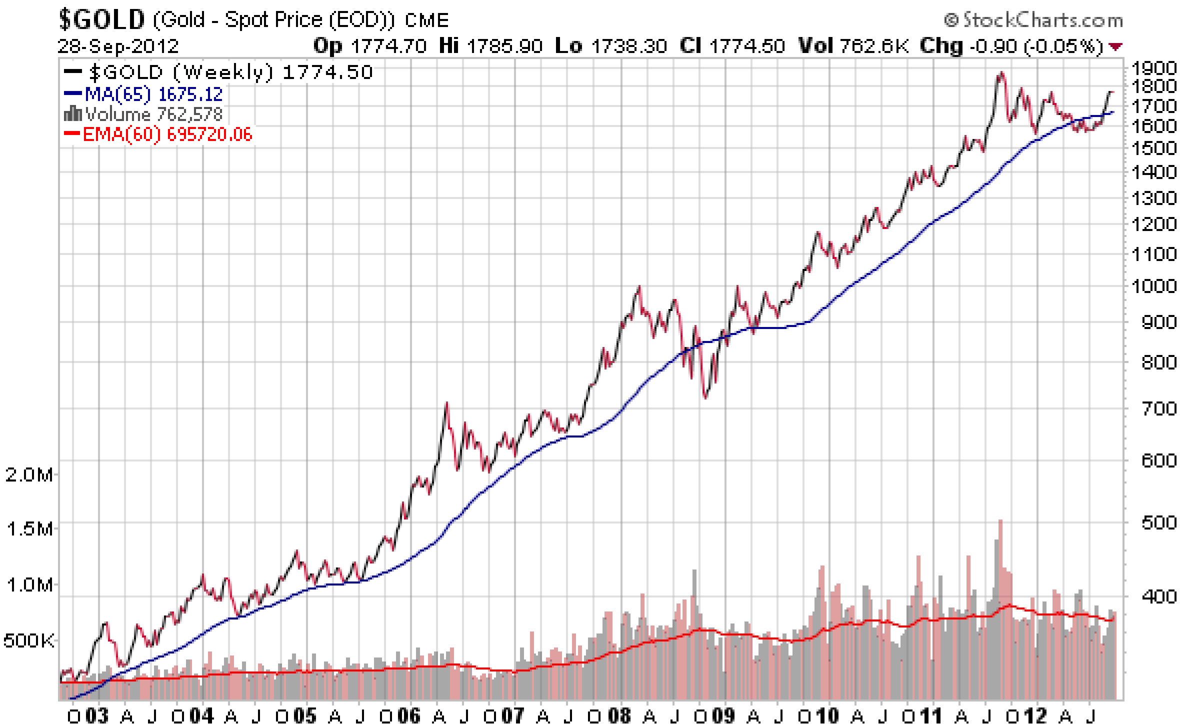
Over the first half of 2012 producers' activity accounted for just 253 koz (8 t) of demand in the gold market: the market impact of net producer hedging activity remains limited.

Given that we now forecast a lower end-year price than in our last report, we have changed our forecast for 2012 to net de-hedging, of 643 koz (20 t), as scheduled deliveries and option expiries are forecast to outweigh project hedging and higher delta-hedging against producers' end-year option positions.

2.2 Technical Comments

Long Term Technical Comments

The gold bull pressed ahead in September:



Daily/Weekly Technical Comments

London afternoon fix in USD/toz:

Open	High	Low	Close
3rd September	21st September	5th September	28th September
1692	1785	1690	1776

London afternoon fix in €/toz:

Open	High	Low	Close
3rd September	28th September	5th September	28th September
1346	1377	1341	1377

The gold bull may have pressed ahead in September, but he found resistance at around 1780 USD/oz, was it more sellers, or was it just a lack of Asian buyers?

3. Silver

3.1 News and Fundamental Considerations

Reno, 20th September 2012, (Mineweb) – Investors have so far purchased more than 32 million ounces of silver through silver ETFs this year, said the Washington, D.C.-based Silver Institute.

Silver ETF holdings now total more than 608 million ounces with a value of $20.5 billion through September 15, the Institute said in a news release Wednesday.

So far this year, the silver price has risen more than 20%, according to the Institute.

"Significantly, from January 2009 through September 15, 2012, the silver price has increased an astounding 211%," said the Institute. "Factors leading to the price increase include a desire by investors to diversify their portfolios with hard assets, the diminished value of key current and continue global economic uncertainty."

"Investors and analysts are bullish on expectations that additional central banks will do more to attempt to stimulate the economies in order to increase consumption and spur employment, leading to even greater investor attention on the 4,000 year allure of silver as a safe haven and a store of value," said Silver Institute Executive Director, Michael DiRienzo.

Precious metals analysts say investor demand is driving the price of silver today with some increasing their fourth quarter silver price projections, according to Institute research.

3.2 Technical Comments

Long Term Technical Comments

Silver regained its bull-trend in September:

Daily/Weekly Technical Comments

London fix in USD/toz:

Open	High	Low	Close
3rd September	14th September	3rd September	28th September
31.74	34.71	31.74	34.65

London fix in €/toz:

Open	High	Low	Close
3rd September	28th September	3rd September	28th September
25.25	26.81	25.25	26.81

Silver increased significantly in price in the first half of September, only to consolidate in the second half of the month.

John Fineron1st October 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.

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