JM&B Monthly Gold & Silver Report
January 2013

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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Silver outperformed gold in January.

2. Gold

2.1 News and Fundamental Considerations

Selected News Items from the Month

Singapore, 8th January 2013, (Reuters) – The net gold flow from Hong Kong to mainland China in November hit its second-highest level in 2012 after April, adding to evidence of China's unabated gold appetite, which lent support to gold prices.

Hong Kong exported 90.763 tonnes of gold to mainland China in November, an increase of 91 percent on the month. Its gold imports from China rose 23 percent to 27.681 tonnes, the Hong Kong Census and Statistics Department said on Tuesday.

The total net gold flow in the first eleven months of the year, at 462.75 tonnes, already exceeded last year's total of 379.573 tonnes, Reuters calculations showed.

China does not publish gold trade data, and the Hong Kong trade numbers offer a glimpse of the demand for bullion from the Middle Kingdom, which is vying with India to be the world's top gold consumer.

"The picture is consistent with the overall idea that growth in China's gold demand has been a main driver of higher gold prices in past few years, and will quite likely continue," said a Hong Kong-based trader.

However, the gold inflow from China, possibly related to financing activities, could have distorted the data, traders and analysts have warned.

"The number is certainly very impressive, but there are all sorts of asterisks on this data series, which make it a bit ambiguous," the Hong Kong-based trader added.

Spot gold hovered around $1,710 an ounce in November, down from the year's peak of $1,795.69, hit in early October. It has since slumped further, to trade around $1,650.

"The lower price in November triggered a lot of buying, and this trend is continuing," said a Singapore-based trader.

Physical buying interest from China, as well as India and Southeast Asia, has picked up rapidly in the past few days as weaker prices attract bargain hunters, ahead of the Lunar New Year in early February, which is seen as the peak season for gold consumption in China and other countries in the region.

Tokyo, 8th January 2013, (Bloomberg) – Japanese pension funds, the world’s second-largest pool of retirement assets after the U.S., will more than double their gold holdings in the next two years as the new government pushes for a higher inflation target, according to an adviser to the funds.
Assets held by Japanese pension funds in gold-backed exchange-traded products may expand to 100 billion yen ($1.1 billion) by 2015 from less than 45 billion yen at present, said Itsuo Toshima, who represented the Tokyo office of World Gold Council for 23 years through 2011.

New Prime Minister Shinzo Abe’s pledge to spur inflation to 2 percent and end the yen’s appreciation means Japanese pension funds now have to hedge against rising prices and a currency decline after two decades of stagnation. They’re set to jump into gold after 12 straight years of gains with the precious metal now 14 percent below its all-time high reached 2011. Gold priced in yen reached a record a week ago.

“Bullion’s role as an inflation hedge, long ignored by Japanese fund operators, has come under the spotlight thanks to Abe’s economic policy,” Toshima, who now works as an adviser to pension-fund operators, said in an interview today in Tokyo. “Gold may be a standard asset-class in the portfolio of Japanese pension funds as Abe’s target is realized.”

Pension Funds
Japanese pensions oversee $3.36 trillion, according to human-resource and consulting services company Towers Watson & Co. Corporate pension funds in Japan will diversify 72 trillion yen in

assets after domestic stocks produced little return in the past two decades, according to Daiwa Institute of Research.

Japan's Nikkei-225 (NKY) Stock Average lost 73 percent at the end of 2012 from a record high reached in December 1989, compared with the MSCI All-Country World Index (MXWD), which more than doubled.

The nation's economy has been mired in deflation, with consumer prices kept below 3 percent since 1991, as the bursting of an asset bubble in the late 1980s led to stagnant economic growth as land values dropped to about half of what they were. Abe wants the Bank of Japan to raise its inflation target of 1 percent.

Bullion posted its longest run of annual gains in at least nine decades last year. Credit Suisse Group AG said Jan. 3 gold will average the most ever this year and joined Goldman Sachs Group Inc. in predicting the 12-year bull market will probably peak in 2013.

Gold in Yen

Mitsubishi UFJ Trust and Banking Corp., which introduced Japan's first gold ETF in 2010, expects assets held in the product to double over the next several years from 26.2 billion yen as of Nov. 30. Global investors are holding a near-record amount in gold-backed ETPs that are valued at $139.6 billion, data compiled by Bloomberg show.

Local pension funds last year for the first time allocated 2.1 billion yen, or 2 to 3 percent of their assets, in the gold- backed ETF of Mitsubishi UFJ Trust, a member of Mitsubishi UFJ Financial Group Inc., Japan's largest lender, according to general manager Osamu Hoshi. The bank is in talks with several pension funds on gold, he said Dec. 20.

Gold rose 70 percent as the Fed bought $2.3 trillion of debt in two rounds of monetary easing from December 2008 through June 2011. The European Central Bank, Bank of Japan and China have all pledged to do more to bolster their economies.

Gold in Japan's currency reached a record 147,780 yen an ounce on Jan. 2, after climbing 21 percent last year. Gold in dollars reached a record $1,921.15 an ounce on Sept. 6, 2011 and gained 7 percent in 2012.

Federal Reserve

The metal fell last week for a sixth week, the worst run since May 2004, after U.S. Federal Reserve policy makers said they'll probably end their $85 billion of monthly bond purchases this year, according to the record of the Federal Open Market Committee's Dec. 11-12 gathering. Bullion traded at $1,651.05 at 5:56 p.m. in Tokyo.

Turnover at Mitsubishi UFJ Trust's gold ETF on the Tokyo Stock Exchange amounted to 8.67 billion yen in November, exceeding turnover in the SPDR, the biggest exchange-traded fund backed by bullion, and becoming the ninth most-traded fund out of the 140 products listed on the Japanese securities exchanges, data compiled by the bank show.

Mitsubishi UFJ's ETF is linked to yen-based gold prices on the Tokyo Commodity Exchange, Japan's largest raw-material bourse. Gold futures on the exchange known as Tocom rallied 19 percent last year, outperforming the 7.1 percent increase in the spot market in London, as the yen declined 13 percent against the dollar.

Assets held by corporate pension funds in Japan amounted to 72.24 trillion yen as of March 2012, declining 0.9 percent from a year earlier, according to Yasuo Sugeno, director at Daiwa Institute of Research in Tokyo. Of the total, about 72 billion yen were allocated to commodities including gold through hedge funds, he said Dec. 10.

Government Pension Investment Fund of Japan, the operator of the world's largest pension fund with 113.6 trillion yen, stays away from commodity investment as 67 percent of their assets were allocated to Japanese bonds, Sugeno said.

"Pension money invested in bullion is 'peanuts' at the moment," Toshima said. "If 1 percent of their total assets shift to the metal, the gold market would explode."

Frankfurt, 16th January 2013, (Bloomberg) – The Bundesbank will repatriate 674 metric tons of gold from vaults in Paris and New York by 2020 to restore public confidence in the safety of Germany's reserves.

The phased relocation of the gold, currently worth about 27 billion euros ($36 billion), will begin this year and result in half of Germany's reserves being stored in Frankfurt by the end of the decade, the Bundesbank said in a statement today. It will bring home all 374 tons of its gold held at the Banque de France and a further 300 tons from the New York Federal Reserve, it said. Holdings at the Bank of England will remain unchanged.

"With this new storage plan, the Bundesbank is focusing on the two primary functions of the gold reserves: to build trust and confidence domestically, and the ability to exchange gold for foreign currencies at gold trading centers abroad within a short space of time," the Bundesbank said. It said the complete withdrawal of reserves from Paris reflects the fact that Germany no longer depends on France as a financial center to exchange gold because both nations use the euro.

Germany's Audit Court sparked a debate about the country's gold reserves last year when it called on the Bundesbank to take stock of its holdings abroad, saying their existence had never been verified. German gold reserves, the second-largest in the world after the U.S., amounted to 3,391 tons as of Dec. 31 and were valued at 137.5 billion euros.

'A Lot of Emotion'
"In Germany, a lot of emotion is attached to the topic of gold reserves," Bundesbank board member Carl-Ludwig Thiele said at a press conference in Frankfurt. "The Bundesbank has managed the gold reserves with great caution and will continue to do so."

The Bundesbank is negotiating auditing rights with its partner central banks. Thiele said he visited all storage locations last year and the returning gold will be examined. He declined to comment on the cost of the transfers, saying only it is "economically tolerable for the Bundesbank."

While German gold is stored for free in New York and Paris, the Bank of England charges between 500,000 euros and 550,000 euros a year.

Thiele said the decision to repatriate all German gold from Paris "won't cause any diplomatic problems" and that Bundesbank President Jens Weidmann and his French counterpart Christian Noyer had discussed the decision.

London, 23rd January 2013, (GFMS) – Thomson Reuters GFMS and Société Générale released the Global Hedge Book Analysis for Q3 2012 with the following key points:

The volume of the delta-adjusted global hedge book was virtually unchanged in the third quarter of 2012, with a slight increase of just 19 koz over the period.

This left the outstanding producer hedge book at end-September at 4.88 Moz (152 t).

Ten companies saw an increase to their hedge positions, while 27 companies saw their hedge positions fall on a delta-adjusted basis.

The flat outcome for producer hedging came despite a 601 koz (19 t) fall in the nominal (number of contracts) hedge position, as the amount of gold delta-hedged against producers' remaining option positions rose during the quarter.

The marked-to-market liability of the producer hedge book worsened, by almost fifty percent quarter-on-quarter, to negative $1.46 billion.

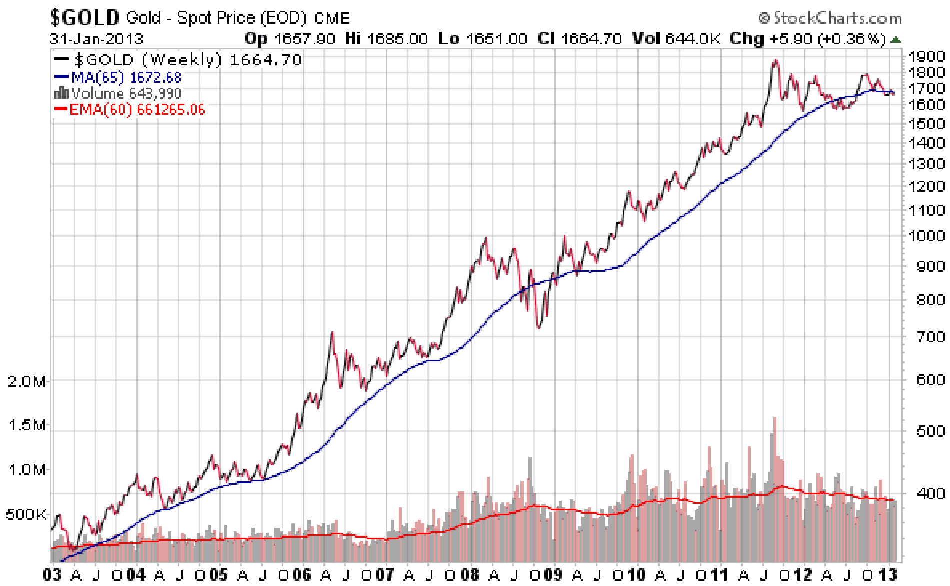
Over the first nine months of 2012 producers' hedging activity accounted for just 324 koz (10 t) of demand in the gold market.

We maintain our estimate for full-year dehedging at approximately 643 koz (20 t) in 2012, as scheduled deliveries and option expiries are forecast to outweigh project hedging.

2.2 Technical Comments

Long Term Technical Comments

The gold bull continued:



Daily/Weekly Technical Comments

London afternoon fix in USD/toz:

Open	High	Low	Close
2nd January	2nd January	7th January	31st January
1694	1694	1645	1665

London afternoon fix in €/toz:

Open	High	Low	Close
2nd January	2nd January	31st January	31st January
1278	1278	1227	1227

Gold essentially traded sideways in January.

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3. Silver

3.1 News and Fundamental Considerations

3.2 Technical Comments

Long Term Technical Comments

Silver remained in its bull-trend:

Daily/Weekly Technical Comments

London fix in USD/toz:

Open	High	Low	Close
2nd January	23rd January	4th January	31st January
30.87	32.23	29.32	32.03

London fix in €/toz:

Open	High	Low	Close
2nd January	23rd January	4th January	31st January
23.28	24.16	22.54	23.63

Silver had a better month in January, regaining some of December's losses.

John Fineron, 1st February 2013

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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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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