JM&B Monthly Gold & Silver Report
February 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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1. Commentary

Both gold and silver fell significantly in price in February.

2. Gold

2.1 News and Fundamental Considerations

Selected News Items from the Month

Beijing, 6th February 2013, (Bloomberg) – Gold imports into mainland China from Hong Kong surged 94 percent to an all-time high last year as rising incomes in the world's second-largest economy underpinned increased demand and helped the metal to post a 12th annual gain.

Mainland China imported 834,502 kilograms (834.5 metric tons), including scrap and coins, compared with about 431,215 kilograms in 2011, according to Bloomberg calculations based on data from Hong Kong's Census and Statistics Department. Imports in December rose to a monthly record of 114,405 kilograms, according to data from the department yesterday.

China was expected to displace India as the world's biggest gold consumer last year, according to a forecast in November from the producer-funded World Gold Council. Rising consumption in the country may help to offset concern that the metal's bull run may be coming to an end as the global economy recovers. Spot gold is little changed so far this year, while the Standard & Poor's GSCI Index of raw materials has risen 4.4 percent.

The increase in gold imports last year "was largely a result of income growth," Jiang Shu, a senior analyst at Industrial Bank Co. Ltd., said from Shanghai before the data was released. "The Chinese are becoming more wealthy."

Economic growth in China, the world's largest gold producer, has boosted the country's consumption of everything from copper to energy and farm commodities. The nation, which snapped a seven-quarter slowdown in the final quarter of last year, is the world's largest base-metals user, the biggest importer of soybeans and the top crude-oil consumer after the U.S.

All-Time High

Gold for immediate delivery traded at $1,670.20 an ounce at 2:44 p.m. in Singapore after losing 0.3 percent this year. The price hit a record $1,921.15 in September 2011. Cash bullion of 99.99 percent purity was at 337.16 yuan a gram on the Shanghai Gold Exchange.

Spot gold fell in January for a fourth monthly loss, and investors' holdings in exchange-traded products declined as improving economic data from the U.S. to Europe and China signaled that the global recovery was gaining traction. Credit Suisse Group AG said last week that it's increasingly probable that the price peak in 2011 was bullion's top.

The imports in December compared with 90,764 kilograms in November, and were more than double the 38,650 kilograms a year earlier, according to the data. Net imports, after deducting flows from China to Hong Kong, were 84,687 kilograms in December, compared with 61,787 kilograms a month earlier. China doesn't publish such data.

Higher Incomes

Exports of gold to Hong Kong from China more than tripled to 310,861 kilograms in 2012 from about 95,529 kilograms a year earlier, according to Bloomberg calculations. Shipments were 29,718 kilograms in December, up from 28,978 kilograms in November, a separate statistics department statement showed.

China's urban per capita disposable income rose 12.6 percent in nominal terms in 2012 to 24,565 yuan, the National Bureau of Statistics said on Jan. 18. Per capital rural net income increased 13.5 percent in nominal terms, and 10.7 percent in real terms, to 7,917 yuan, the bureau said. The economy may expand 8.1 percent this year from 7.9 percent in 2012, according to the median of analysts' forecasts tracked by Bloomberg.

"We see demand continuing to be robust into 2013," said Wang Xiaoli, chief investment strategist at CITICS Futures Co., a unit of China's biggest listed brokerage. "The economy will recover, albeit slowly, while real interest rates will remain low and central banks will continue to accumulate. These are all bullish for gold."

Moscow, 11th February 2013, (Bloomberg) – When Vladimir Putin says the U.S. is endangering the global economy by abusing its dollar monopoly, he's not just talking. He's betting on it.

Not only has Putin made Russia the world's largest oil producer, he's also made it the biggest gold buyer. His central bank has added 570 metric tons of the metal in the past decade, a quarter more than runner-up China, according to IMF data compiled by Bloomberg. The added gold is also almost triple the weight of the Statue of Liberty.

"The more gold a country has, the more sovereignty it will have if there's a cataclysm with the dollar, the euro, the pound or any other reserve currency," Evgeny Fedorov, a lawmaker for Putin's United Russia party in the lower house of parliament, said in a telephone interview in Moscow.

Gold, coveted by Russian rulers including Tsar Nicholas II and the Bolshevik leader whose forces assassinated him, Vladimir Lenin, has soared almost 400 percent in the period of Putin's purchases. Central banks around the world have printed money to escape the global financial crisis, sapping investor appetite for dollars and euros and setting off a scramble for safety.

In 1998, the year Russia defaulted on $40 billion of domestic debt, it took as many as 28 barrels of crude to buy an ounce of gold, data compiled by Bloomberg show. That ratio tumbled to 11.5 by the time Putin first came to power a year later and in 2005, after it touched 6.5 -- less than half what it is now -- the president told the central bank to buy.

Putin's Call

During a tour that November of the Magadan region in the Far East, where Polyus Gold International Ltd. and Polymetal International Plc have operations, Putin told Bank Rossii not to "shy away" from the metal. "After all, they're called gold and currency reserves for a reason," Putin said, according to a Kremlin transcript.

At the time, gold was at an 18-year high of $495 an ounce and the Moscow-based central bank held 387 tons, or 2.2 percent of its $165 billion total reserves. The share reached 3.5 percent within a month, according to data compiled by Bloomberg.

Gold for immediate delivery fell a third day today, dropping 0.6 percent to $1,657.80 an ounce as of 4:35 p.m. in Moscow. It rose 7 percent last year, the 12th straight year of gains. Analysts expect the metal to advance again in 2013, to $1,825 by the end of the year, according to the median of 26 forecasts in a Bloomberg survey.

Dmitry Peskov, Putin's spokesman, declined to comment today on Putin's interest in gold.

Lucky Guy

"Putin's gold strategy fits in with his resource nationalism, statist agenda," said Tim Ash, head of emerging- market research at Standard Bank Plc in London. "It's kind of a defensive play, but it worked, right?" Ash said in an interview in Moscow. "You need luck in politics and business, and clearly the guy has it."

Other world leaders haven't been as lucky. Gordon Brown, as U.K. finance minister, sold almost 400 tons of gold in the 30 months to March 2002, when prices were at two-decade lows. London tabloids have referred to the period as Brown's Bottom.

Quantitative easing by major economies to support financial asset prices is driving demand for gold in the emerging world, said Marcus Grubb, head of investment research at the World Gold Council. Before the crisis, central banks were net sellers of 400 to 500 tons a year. Now, led by Russia and China, they're net buyers by about 450 tons, Grubb said by phone from London, where his industry group is based.

'Significant Switch'

"That's a very significant switch, and obviously a very positive one for the gold market," Grubb said.

While Putin is leading the gold rush in emerging markets, developed nations are liquidating. Switzerland unloaded the most in the past decade, 877 tons, an amount now worth about $48 billion, according to International Monetary Fund data through November. France was second with 589 tons, while Spain, the Netherlands and Portugal each sold more than 200 tons.

Even after Putin's binge, though, Russia's total cache of about 958 tons is only the eighth largest, the World Gold Council said in a Feb. 8 report. The U.S. is No. 1 with about 8,134 tons, followed by Germany with 3,391 tons and the Washington-based IMF with 2,814 tons. Italy, France, China and Switzerland are fourth through seventh. While gold accounts for 9.5 percent of Russia's total reserves, it accounts for more than 70 percent in the U.S., Germany, Italy and France.

Truth Street

Russia keeps about two-thirds of its stockpile in a greenish gray stone-and-glass building on Ulitsa Pravdy, or Truth Street, in central Moscow. The road is named after Pravda, the official newspaper of the Communist Party, which also was headquartered there.

Then-Prime Minister Putin became the first Russian leader to visit the complex on Jan. 24, 2011, according to the government's website. He toured the 17,000 square-meter facility, which includes 1,500 square meters of storage, with First Deputy Chairman Georgy Luntovsky, posing for photographs lifting an ingot. Most of the bars weigh 10 to 14 kilograms (22 to 31 pounds) and are boxed in plastic or wooden crates alongside an emergency supply of banknotes.

Technically, state metals depositary Gokhran has the exclusive right to buy all gold mined in the country. In practice, it lets commercial banks buy from producers directly, usually in the form of project financing, said Sergey Kashuba, chairman of the Russian Union of Gold Producers in Moscow.

When the central bank buys gold, it's from those commercial banks, led last year by OAO Sberbank, OAO Nomos Bank, VTB Group and OAO Gazprombank, Kashuba said. Russia produced 205 tons of gold last year, making it No. 4 after China, Australia and the U.S., according to U.S. Geological Survey estimates.

Tight Security

Security is tight along the entire production chain, Kashuba said. Just two organizations are allowed to move partially refined gold from miners in the Far East and northern Siberia to processing facilities in other parts of the country, he said. One is FeldSvyaz, a courier service that reports directly to Putin. The other, SpetsSvyaz, was split off from Stalin's NKVD secret police in 1939 to transport precious metals and state secrets, according to its website.

Russia has gone through bouts of hoarding before. Tsar Alexander II ordered his government to start amassing bullion in 1867, just months after selling Alaska, now the No. 2 gold- producing U.S. state, for $7.3 million. His grandson, Nicholas II, introduced the gold standard in 1897, then needed a loan from France to ward off speculators and save the system in 1906.

Lenin's Link

Nicholas, Russia's last tsar was forced to free the ruble in 1914 as war broke out in Europe. Lenin's revolutionary government reinstated the gold link along with a new currency in 1922. While Soviet rubles were nominally backed by gold, sales of the metal to citizens were halted in 1930, making the peg meaningless.

When Lenin's Bolsheviks seized power in Petrograd, as St. Petersburg was then known, in 1917, one of their first targets was the State Bank and its gold, which they captured at 6 a.m. on Nov. 7, according to Bank Rossii's website. They soon nationalized all the banks, confiscating any gold found in vaults and deposit boxes.

Communist Secrecy

Communist secrecy regarding the country's gold holdings fueled speculation that party elites had amassed a huge hoard of bullion that they spirited out of the country before the Soviet Union disintegrated in 1991.

Viktor Gerashchenko, the last Soviet central banker and a two-time chairman of Bank Rossii, has repeatedly denied such speculation, including last February.

"When people ask about the party's gold, my answer is always: Are you an idiot or something?" Gerashchenko, 75, told Afisha magazine.

For now, with more than five years left in Putin's term, Russia plans to keep on buying.

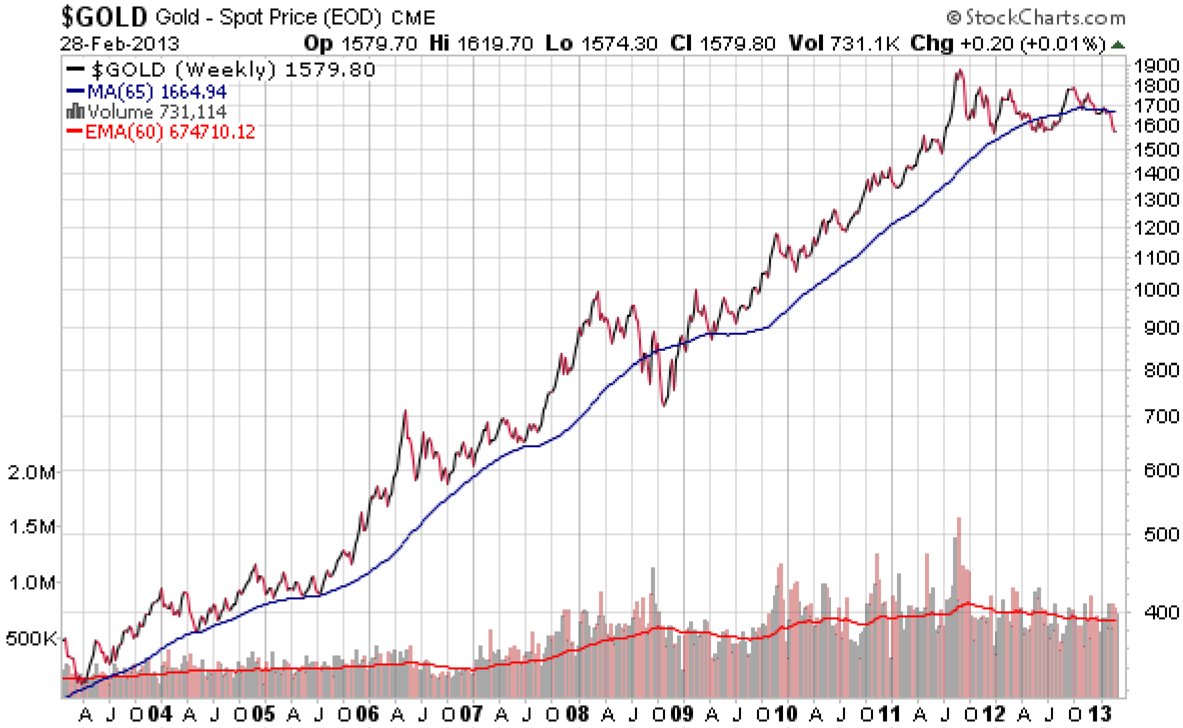
"The pace will be determined by the market," First Deputy Chairman Alexei Ulyukayev said in an interview in Davos, Switzerland, on Jan. 25. "Whether to speed that up or slow it down is a market decision and I'm not going to discuss it."

Frankfurt, 14th February 2013, (Market Watch) – The world's central banks last year bought 534.6 tons of gold in 2012, the most since 1964, as global gold demand hit a record value level, the World Gold Council said Thursday in a quarterly report. Purchases by central banks for the full year rose 17% compared with 2011, while fourth-quarter purchases of 145 tons marked a 29% rise from the same period a year earlier. "Central banks move from net sellers of gold to net buyers that we have seen in recent years has continued apace," with official sector purchases across the world now at their highest level for almost half a century, said Marcus Grubb, managing director for investment at the World Gold Council. In value terms, total gold demand in 2012 was $236.4 billion, an all-time high, the council said.

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
1st February	6th February	20th February	28th February
1669	1674	1569	1589

London afternoon fix in €/toz:

Open	High	Low	Close
1st February	8th February	20th February	28th February
1225	1246	1188	1214

Gold fell significantly in February.

3. Silver

3.1 News and Fundamental Considerations

Washington, 4th February 2013, (Silver Institute) – The Silver Institute today released a new video entitled, “Silver: The Element of Change.” The video covers numerous facets of one of the most widely-used and indispensable precious metals: silver. The video explores silver’s role in history and how it changed the course of countless lives in times of the Greek and Roman Empires, when it was used to prevent infection.

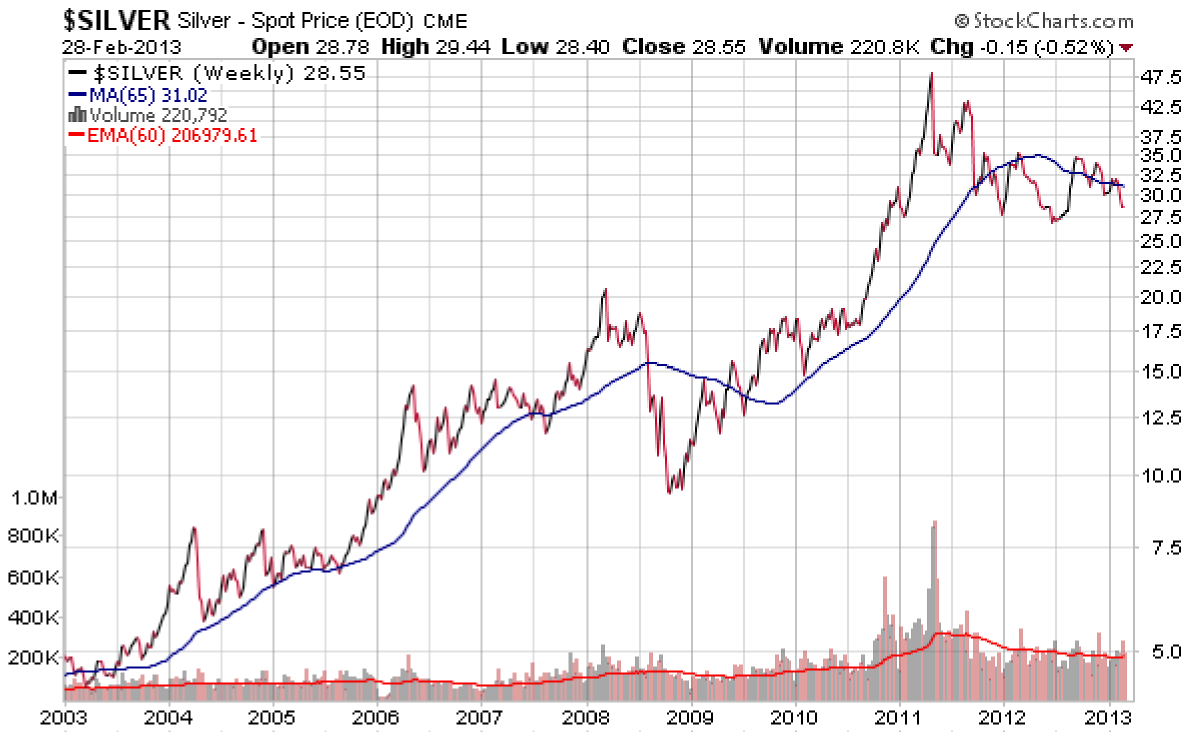
Focusing on its remarkable properties as an element of change, the video looks at silver’s role in industry, highlighting its ability to make today’s mobile interconnected life possible as well as its use in medicine and water purification, which relies primarily on its natural antibacterial qualities. The video also notes silver’s importance to fashion through exquisite silver jewellery, and finally it speaks to silver’s intrinsic worth as well as its role as a store of value, given its historical and modern use as a popular investment

http://www.silverinstitute.org

3.2 Technical Comments

Long Term Technical Comments

Silver remained in its bull-trend:



Tel: +41 44 307 19 19; Fax: +41 44 307 19 20

Daily/Weekly Technical Comments

London fix in USD/toz:

Open	High	Low	Close
1st February	5th February	21st February	28th February
31.43	32.01	28.72	28.95

London fix in €/toz:

Open	High	Low	Close
1st February	5th February	20th February	28th February
23.04	23.62	21.76	22.08

Silver had a poor month in February.

John Fineron, 1st March 2013

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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