

# JM&B Monthly Gold & Silver Report

## March 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](http://www.platinum.matthey.com/publications/price_reports.html)

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## 1. Commentary

Silver was weak again in March with gold fairly stable around the 1600 USD/toz level.

## 2. Gold

### 2.1 News and Fundamental Considerations

#### Selected News Items from the Month

**Seoul, 6th March 2013, (Bloomberg)** – South Korea joined Russia and Kazakhstan in boosting gold holdings, even as the metal had its worst start to a year since 1991 and billionaire investor George Soros cut his stake in the biggest bullion exchange-traded fund.

The Bank of Korea added 20 metric tons in February, raising its gold reserves by 24 percent to 104.4 tons, it said in a statement today. Holdings rose about \$1.03 billion by value to \$4.79 billion at the end of last month, equivalent to 1.5 percent of total foreign exchange holdings, according to the statement. Prices advanced.

Russia and Kazakhstan expanded bullion reserves for a fourth straight month in January and the World Gold Council expects central banks to remain strong buyers this year after increasing purchases in 2012 by the most in almost five decades. Banks from Goldman Sachs Group Inc. to Credit Suisse Group AG predict the metal's 12-year bull market may be unwinding after five straight monthly losses.

"They are buying gold for a long-term commodity that they can put into their portfolios," said David Lennox, a resource analyst at Fat Prophets in Sydney. "The timing of their entry into the market can sometimes be quite contrary to what's happening price-wise."

Gold for immediate delivery has fallen 5.9 percent this year, making it the worst-performing precious metal. It touched \$1,555.55 on Feb. 21, lowest level since July, and traded 0.1 percent higher at \$1,577.32 at 4:55 p.m. in Seoul.

### Gold Hoards

Central banks increased gold buying 17 percent to 534.6 tons last year, according to London-based World Gold Council. Russia boosted holdings by 12.2 tons to 970 tons in January after gaining 8.5 percent over 2012, according to International Monetary Fund data. Kazakhstan's hoard rose 1.5 tons to 116.8 tons, following last year's 41 percent expansion.

The Seoul-based central bank's latest purchases are its fifth round of buying since June 2011. Bullion reserves rose by 30 tons in 2012 and 40 tons in 2011.

"The Bank of Korea's gold buying is part of the long-term diversification of currencies and assets in foreign-exchange reserves," it said in the statement. "It is of no great importance to try to gauge if it's profitable or not based on short-term price swings."

The Asian nation's foreign-exchange reserves, the world's seventh-biggest at the end of January, dropped by \$1.51 billion to \$327.4 billion in February due to the weakness of the euro and the pound against the dollar, the bank said today. That was the first decline since May, Bloomberg data show.

### Soros, Paulson

Soros cut his stake in the SPDR Gold Trust, the biggest gold ETP, by 55 percent in the fourth quarter, government filings showed last month. John Paulson, the largest investor in the product, kept his holding unchanged.

Bullion holdings in ETPs dropped to 2,491.5 tons as of March 5, the lowest level since September, according to data compiled by Bloomberg. The holdings reached an all-time high of 2,632.5 tons on Dec. 20, the data show.

The cycle for gold prices has probably turned as the recovery in the U.S. economy gathers momentum and investment holdings collapse, Goldman Sachs Group Inc. said on Feb. 25. Credit Suisse Group AG said in a Feb. 21 report that an "inevitable unwind" appears to be under way.

"Central banks really don't worry too much about the gold price," said Lennox. "What they are more concerned about is making sure that they get a good balance in their reserve portfolios."

**New York, 6th March 2013, (Market Watch)** – You won't hear about it in the usual places. Everywhere you turn these days, all you hear is that gold is down, it's finished, it's heading for something called a "death cross," which sounds terrifying. But away from the headlines, gold just rocketed to a new, all-time high.

Where? In Japan — the world's fourth largest economy.

The arrival of a new government in December, and the launch of Japan's own brand of "quantitative easing," or money printing, has sent the yen tumbling dramatically on the international exchanges. Lots more yen means each yen is worth less

An ounce of gold, which sold for 125,000 yen as recently as last July, now sells for 145,000. It touched 155,000, an all-time record, early in February.

Those Japanese who dumped their yen in the past couple of years and stocked up on gold are probably feeling pretty good at this point.

Gold has rocketed up 36% in yen in two years. So much for the collapse in gold.

And this isn't an isolated case. In recent months, gold also hit new highs in other countries, including Brazil, Iceland and India.

Look at Argentina. I'll leave it to others to comment on the presidency of Cristina Fernandez de Kirchner. As I'm in the news business, allow me to be candid and say that at least she is entertaining and ensures that those of us who scribble for a living won't run short of things to write about.

Any Argentines who dumped their pesos when she first became president, in 2007, and loaded up on bullion instead are probably very, very relieved. Gold has more than tripled since then, when measured in pesos. It is up 45% just in the past two years, recently hitting record highs.

It is looking pretty healthy to a lot of people in London about now, too. The British pound has been slumping after economic data came in worse than expected. The traditional response is, "Oh, that's just because their currencies are down." Er, yes. That's like saying demand for umbrellas has only gone up because it's raining.

Japan is deliberately driving down its currency to boost its economy.

This is a zero-sum game: It can only work by boosting your economy versus other countries, whose currencies thereby become more expensive. At some point, they are apt to respond.

I'm gold-agnostic. I think it's a ridiculous currency. I just accept that the others may well be worse. Gold is the only currency no country can just print incessantly in order to boost its economy.

(Incidentally, there are two other arguments in favour of gold. The first is that the Chinese Central Bank is surely going to increase its holdings. It makes no sense for the Chinese to hold their reserves in dollars and euros, two assets that their chief rivals can devalue at will. The

second is that gold is now the only financial asset that still accords privacy. Everything else is being monitored.)

Worried about inflation? Hedge with gold. The prospect of inflation in Japan as the yen weakens may prompt people to turn to gold as a currency hedge. The WSJ's Clementine Wallop talks about what to expect from gold demand in India and China as well as Japan.

I have to say I am somewhat baffled by the latest outpouring of bullishness and unfettered optimism. Things were never as bad as they seemed at the bottom, but they are hardly A-OK now. The entire economic recovery has been built on the back of record federal budget deficits and record money printing by the Federal Reserve.

This is financial engineering.

The latest sequestration fiasco shows that the only institution left which can actually govern is the Fed. It's all down to Fed chief Ben Bernanke. And if deficits come down, there is every reason to suspect he may have to keep printing.

We do not have much inflation at the moment, except in financial assets. But it would be a brave person who could say confidently that we won't get any down the road.

Gold, famously, is a hedge against inflation. This is why some very sensible people suggest you should always have a few percent of your portfolio in gold, as insurance.

As the Japanese — and Argentines — could tell you.

### **London, 14th March 2013, (World Gold Council) –**

Central bank diversification strategies – rebalancing from the dollar and the euro

Central banks adding gold and alternative assets to diversify US dollar and euro reserves

A new report by the World Gold Council, “Central bank diversification strategies – rebalancing from the dollar and the euro”, examines the growing trend of central banks’ actively looking to diversify their reserve portfolios. While the dollar is still the primary global currency, its long-term dominance is less certain. In response, central banks are reducing allocations to US dollars and euros while increasing purchases of traditional assets such as gold and Japanese yen and new alternatives including Chinese renminbi.

The official reserves of global central banks have grown from \$2 trillion in 2000 to more than \$12 trillion in 2012. During this same twelve-year period the data shows significant shifts away from the US dollar while the share of “other” currencies in reserve composition has tripled in absolute terms since 2008.

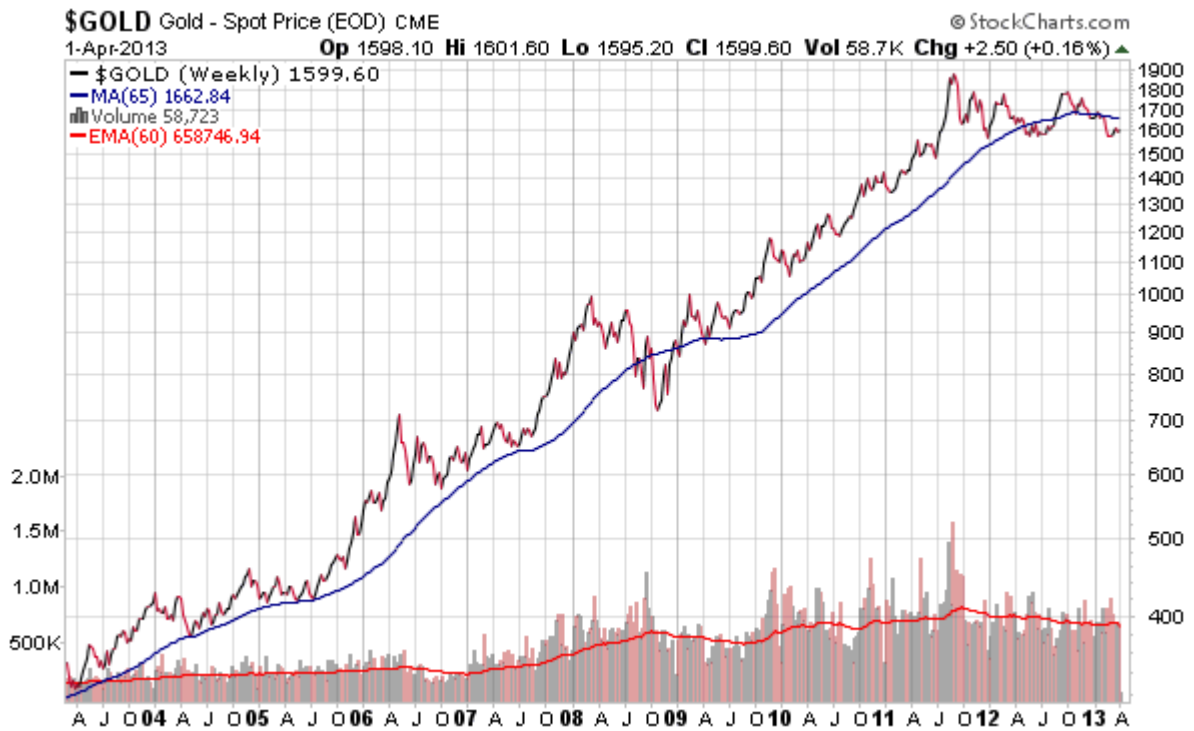
Gold has a long history as a reserve asset for central banks, and as such is considered a traditional one. Gold is statistically uncorrelated with other traditional reserves and new alternatives, making it one of the most important assets for diversifying out of the US dollar and euro. In line with this trend, central bank gold buying in the fourth quarter of 2012 marked the

eighth consecutive quarter of net purchases by the official sector and the highest level since 1964.

## 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
1 <sup>st</sup> March	21 <sup>st</sup> March	6 <sup>th</sup> March	28 <sup>th</sup> March
1582	1614	1574	1598

London afternoon fix in €/toz:

Open	High	Low	Close
1 <sup>st</sup> March	21 <sup>st</sup> March	7 <sup>th</sup> March	28 <sup>th</sup> March
1219	1251	1206	1246



Gold essentially moved sideways in March.

## 3. Silver

### 3.1 News and Fundamental Considerations

**Washington, D.C., 14th March 2013, (Silver Institute)** – Industrial demand for silver has increased substantially over the past two decades and is expected to soar to a new record level in the coming year.

Speaking last week at the annual Prospectors & Developers Association of Canada convention in Toronto, Michael DiRienzo, Executive Director of the Silver Institute, said that demand for silver is broadening in many directions. Industry's widening use of the precious metal is expected to average more than 483 million ounces (Moz.) from 2012 to 2014, a level 53 percent greater than the average annual industrial fabrication demand of 313.4 Moz from 1992-2001.

Silver provides a unique combination of properties that make it ideal for applications in industries ranging from health and medicine to electronics, communications, solar power, batteries, superconductors, and computers, as well as jewellery and silverware. Silver withstands extreme temperatures, serves as an excellent reflector of light and conductor of heat and electricity, and is a natural anti-microbial agent.

"Silver helps make today's interconnected lifestyle possible and is a vital component of virtually every automobile, cell and smartphone, computer and laptop, appliance and electronic device we use. Further, silver's antibacterial properties are finding new uses in textiles, medical instruments and hospital equipment, providing an effective tool in combatting infection and bacteria," according to Mr. DiRienzo.

As industry continues its wide-ranging use of silver, investors are also increasingly acquiring silver bullion, seeking the safety of the precious metal as a store of value. Investor demand for silver can be seen in the record-shattering sale of 7.5 million American Eagle Silver Bullion Coins by the U.S. Mint in January of this year. In fact, over the first two months of 2013 investors purchased 10.9 million American Eagle Silver Bullion Coins, up by 43 percent over the sale of the coins in the first two months of 2012.

Further, Exchange Traded Funds (ETFs) that track physical backed silver are at a record high. As of March 8, total silver ETF holdings were 653.7 Moz, up by 22 Moz from year-end 2012. "Clearly, investor demand for silver remains buoyant by any measure," Mr. DiRienzo said.

Established in 1971, the Silver Institute serves as the industry's voice in increasing public understanding of the many uses and values of silver.

## 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
1 <sup>st</sup> March	12 <sup>th</sup> March	27 <sup>th</sup> March	28 <sup>th</sup> March
28.01	29.25	28.33	28.64

London fix in €/toz:

Open	High	Low	Close
1 <sup>st</sup> March	12 <sup>th</sup> March	1 <sup>st</sup> March	28 <sup>th</sup> March
21.53	22.49	21.52	22.35





Silver had another poor month in March and was approaching oversold at months end on the daily chart.

John Fineron, 2<sup>nd</sup> April 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](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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