# JM&B Monthly Gold & Silver Report
# April 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

Gold and silver suffered the largest price-drop in April 2013 since the financial crisis of 2008.

## 2. Gold

### 2.1 News and Fundamental Considerations

#### Selected News Items from the Month

**London, 15th April 2013, (Sharps Pixley) –** The gold futures markets opened in New York on Friday 12th April to a monumental 3.4 million ounces (100 tonnes) of gold selling of the June futures contract (see below) in what proved to be only an opening shot. The selling took gold to the technically very important level of $1540 which was not only the low of 2012, it was also seen by many as the level which confirmed the on-going bull run which dates back to 2000. In many traders' minds it stood as a formidable support level - the line in the sand.

Two hours later the initial selling, rumoured to have been routed through Merrill Lynch's floor team, by a rather more significant blast when the floor was hit by a further 10 million ounces of selling (300 tonnes) over the following 30 minutes of trading. This was clearly not a case of disappointed longs leaving the market - it had the hallmarks of a concerted 'short sale', which by driving prices sharply lower in a display of 'shock & awe' - would seek to gain further momentum by prompting others to also sell as their positions as they hit their maximum acceptable losses or so-called 'stopped-out' in market parlance - probably hidden the unimpeachable (?) $1540 level.

The selling was timed for optimal impact with New York at its most liquid, while key overseas gold markets including London were open and able feel the impact. The estimated 400 tonne of gold futures selling in total equates to 15% of annual gold mine production - too much for the market to readily absorb, especially with sentiment weak following gold's non-performance in the wake of Japanese QE, a nuclear threat from North Korea and weakening US economic data. The assault to the short side was essentially saying "you are long... and wrong".


Futures trading is performed on a margined basis - that is to say you have to stump up about 5% of the actual cost of the gold itself making futures trades a highly geared 'opportunity' of about 20:1 - easy profit and also loss! Futures trading is not a product for widows and orphans. The CME's 10% reduction in the required gold margins in November 2012 from $9133/contract to just $7425/contract made the market more accessible to those wishing both to go long or as it transpired, to go short. Soon after we saw the first serious assault to the downside in Dec 2012, followed by further bouts in January 2013 - modest in size compared to the recent shorting but effective - it laid the ground for what was to follow. One fund in particular, based in Stamford Connecticut, was identified as the previous shorter of gold and has a history of being caught on the wrong side of the law on a few occasions. As badies go - they fit the bill nicely.

The value of the 400 tonnes of gold sold is approximately $20 billion but because it is margined, this short bet would require them to stump up just $1b. The rationale for the trade was clear - excessively bullish forecasts by many banks in Q4 seemed unsupported by follow through buying. The modest short selling in Jan 2013 had prompted little response from the longs - raising questions about their real commitment. By forcing the market lower the Fund sought to prompt a cascade or avalanche of additional selling, proving the lie; predictably some newswires were premature in announcing the death of the gold bull-run doing, in effect, the dirty work of the shorters in driving the market lower still.

This now leaves the gold market in an interesting conundrum - the shorter is now nursing a large gold position and, like the longs also exposed - that is to say the market is polarised between longs and shorts and they cannot both be right. Either the gold bulls - like in a game of tug-of-war - pull back and prompt the shorters to panic and buy back - or they do nothing, in which case the endless stories about the "end of gold" will see a steady further erosion in prices. At the end of the day it is a question of who has got the biggest guns - the shorts have made their play - let's see if there is any response from the longs to defend their position.

**New York, 17th April 2013, (Reuters) –** U.S. gold coins have been flying off dealers' shelves this week as retail investors snapped up bargains since the metal's historic plunge in price.

The spike in gold coin sales reflects a desire among mom-and-pop investors to have physical metal as a store of value in troubled economic times.

In contrast, retail and institutional investors have fled gold exchange-traded funds and futures contracts in recent months as fears of inflation have waned. Gold is seen as a hedge against inflation.

Sales of the American Eagle gold bullion coins totaled a whopping 77,000 ounces in just two days, exceeding the entire month of March, when dealers sold 62,000 ounces.

"We haven't had two back-to-back days like this since 2008 after the collapse of Lehman Brothers," said David Beahm, vice president at New Orleans-based coin dealer Blanchard & Co.

Beahm said that one customer bought an entire 500-ounce gold "monster box" usually delivered by the U.S. Mint to coin dealers which then sell the 1-ounce coins individually to customers.

Buying took off on Monday when 35,500 ounces of coins were sold - that's more than 10 times the daily average at 3,250 ounces in the first three months of 2013 - and accelerated on Tuesday with 42,000 ounces sold.

If the pace of buying continues, April's sales are likely to beat January's total of 150,000 ounces, which was the highest in three years.

Collectors typically snap up the newest mint in the first month of the year, but dealers also said lower prices had attracted buyers earlier this year.

American Eagle silver coin sales was at 503,000 ounces on Monday, nearly three times higher than the daily average in the first quarter.

In addition, demand remained very strong for Gold Maple Leaf and Silver Maple Leaf coins even after the gold's drop, said Chris Carkner, Royal Canadian Mint's managing director in sales.

Trading was higher than usual on Monday with investors buying gold coins at discount prices, Ray Nessim, CEO of major U.S. coin dealer Manfra, Tordella & Brookes told Reuters.

Monday's trading volume at Bullionvault, an online precious metals exchange, was six times higher than usual with a 50 percent increases in new account openings.

BARGAINS SEEN

Gold fell by a combined $225, or 15 percent, on Friday and Monday to under $1,400 an ounce, its lowest price in over two years, as investors liquidated bullish bets en masse after months of disappointment over the performance of the precious metal. <GOL/>

Retail investors entered the coin market as they considered prices to be cheap. Bullion's fundamentals have not drastically changed even after a bearish call by Goldman Sachs and a plan by Cyprus to sell some of its gold reserves.

On the other hand, investors have fled gold exchange-traded funds. Holdings of major global gold ETFs are at their lowest since late 2011.

Gold, a traditional safe haven, has been used by retail and institutional investors as a hedge against inflation because of central banks' monetary stimulus.

However, inflation has failed to materialize as feared despite rounds of asset purchases known as quantitative easing after the 2008 economic crisis.

**London, 19th April 2013, (Bloomberg) –** Gold futures topped $1,400 an ounce on signs that jewelers and other users of the metal are taking advantage of the biggest slump in prices in three decades.

A rush in India to buy jewelry and coins will boost gold imports this quarter as traders and banks run out of inventory, Mohit Kamboj, the president of the Bombay Bullion Association Ltd., said yesterday. Customer traffic in Hong Kong and Macau soared from April 13 to April 16, Chow Tai Fook Jewellery Group Ltd. (1929) said. The U.S. Mint has sold 153,000 ounces of American Eagle gold coins in April, the highest in almost three years.

The metal plunged 13 percent in two sessions through April 15, the biggest slump since 1980. Futures touched $1,321.50 on April 16, the lowest since January 2011, partly on concern that central banks in Europe will sell holdings to pay debt. The price will rebound as skepticism over the recovery in the global economy increases demand, billionaire T.S. Kalyanaraman, the chairman of Kalyan Jewellers, said.

“The gold price is finally reacting to the physical demand,” Tim Gardiner, a managing director at TD Securities Inc. in New York, said in an e-mail. “Reports of record demand keep coming in from around the globe with retailers in North America, Europe and Asia-Pacific all out or running out of stock as buying interest overwhelms supply.”

Gold futures for June delivery climbed 0.2 percent to settle at $1,395.60 at 1:35 p.m. on the Comex in New York. Earlier, the price reached $1,424.70, up 7.8 percent from the low on April 16. India is the world’s biggest buyer, followed by China.

$1,800 Forecast

The price will climb to $1,800, Kalyanaraman of Kalyan Jewellers said an e-mail. The closely held company is based in Thrissur, Kerala, in India. Chow Tai Fook, the world’s largest jewelry chain, is based in Hong Kong.

The Real Cost of Owning Gold

“We’ve seen enormous numbers of people, and they’re all buying,” said Nigel Moffatt, the treasurer at Australia’s Perth Mint, which refines almost all of the nation’s bullion. “There’s been continued buying interest, particularly into China,” he said in an interview on Bloomberg Television.

Yesterday, holdings in exchange-traded products backed by gold decreased 0.7 percent, the 13th straight drop, to 2,348.099 metric tons, the lowest since January 2012, according to data compiled by Bloomberg. Assets in the SPDR Gold Trust, the biggest ETP, dropped to the lowest in three years.

Silver futures for May delivery retreated 1.2 percent to $22.96 an ounce. On April 16, the price touched $22, the lowest since Oct. 11, 2010. This week, prices slumped 13 percent, the most since September 2011.

Silver has tumbled 24 percent in 2013, the most among 24 raw materials in the Standard & Poor’s GSCI Spot Index. Gold dropped 17 percent, entering a bear market last week.

On the New York Mercantile Exchange, platinum futures for July delivery fell 0.4 percent to $1,423.90 an ounce, extending the week’s drop to 4.8 percent, the most since December 2011.

Palladium futures for June delivery rose 1.1 percent to $677.05 an ounce, paring the weekly drop to 4.5 percent.

**New York, 29th April 2013, (Reuters) –** Physical gold stocks held at CME Group's Comex warehouses in New York have dropped to a near-five year low in a further sign that gold's price crash unleashed a frenzy of demand as investors scramble to buy bars and coins.

U.S. gold stocks, comprised of 100-troy ounce COMEX gold bars, have fallen almost 30 percent since February, as dealers have switched to selling into the burgeoning Asian market, where prices and demand are higher than in New York.

But the pace of the outflows from vaults has accelerated since bullion's historic sell-off, falling more than 7 percent last week for its biggest weekly drop since 2005.

Analysts say the sudden recent surge is further evidence of pent-up demand for coins and bar, particularly from China and India, caused by the slump in prices. Investors also appear to prefer to hold physical metal rather than futures, traders said.

"Some investors feel much safer having gold within their reach and their hands," said Jonathan Potts, managing director of Delaware Depository, a CME-approved silver warehouse which also holds gold and other precious metals for investors.

Total gold stocks held at CME's COMEX warehouses, often viewed as a gauge for physical supply and demand, fell almost 30 percent to around 8 million ounces on Friday, their lowest level since July 2008, from this year's high of nearly 11 million ounces in mid-February, CME data showed.

What surprised many dealers was that most of last week's withdrawals, worth $620 million based on Monday's prices, were from a vault run by JPMorgan Chase, one of the top global bullion banks.

A JPMorgan spokeswoman declined to comment.

Exchange data showed that the fall at JPMorgan's warehouse was led by plummeting "eligible" stocks, which meet COMEX requirements but do not have warehouse delivery receipts issued against them, as opposed to "registered" stocks, which are the only gold used to meet Comex futures delivery requests.

The bank's eligible stocks fell more than 420,000 ounces to 163,802 ounces on Friday from 586,769 ounces last Monday, making up about two-thirds of all Comex gold stocks.

On the other hand, JPMorgan is by far the biggest warehouse holding about 760,000 ounces of registered stocks.

Eligible gold stocks held by HSBC, another top bullion bank, however, edged up 40,000 ounces to 3,146,000 ounces on Friday from 3,184,000 ounces, although they are still below the 3,343,000 ounces prior to gold's sharp selloff two weeks ago.

An HSBC spokeswoman also declined to comment.

In addition to JPMorgan and HSBC, CME has three approved gold warehouse firms, Brink's, Scotia Mocatta and Manfra, Tordella & Brookes (MTB) for a total of five CME-approved storage facilities all based in New York City.

While the JPMorgan warehouse accounts for 11 percent of total gold stocks, HSBC and Scotia Mocatta hold a combined 80 percent of them.

The strength of physical retail buying has taken dealers and mints around the world by surprise, leaving them struggling to keep up with demand.

Potts said that Delaware Depository, based in Wilmington, Delaware, has so far this year delivered about $500 million worth of physical precious metals, or about 340,000 ounces of gold, a jump of 10 percent from the same period last year.

Investors' voracious physical appetite has helped bullion recover more than half the ground lost in the historic two-day sell-off. Spot gold prices hit a ten-day high of $1,485 per ounce on Friday and it traded up nearly 1 percent at $1,475 on Monday.

Even so, speculative investors show no sign of returning, uncertain about bullion's prospects, as better economic data prompted some U.S. Federal Reserve policymakers to suggest withdrawing economic stimulus that has supported prices over the past four years.

## ASIAN WEALTH, HIGHER PREMIUMS ELSEWHERE

Comex stocks had fallen since February on buying by affluent Asian investors.

U.S. export data for December showed an exodus of privately owned gold from the United States into emerging economic powers, such as China, which analysts attributed to a growing number of gold vaults and new precious metals investment products, particularly exchange-traded funds.

Pressure on Comex futures in recent months, as speculative investors have grown more bearish, have also spurred some U.S. banks and traders to sell bullion in Asia, where demand is better. U.S. COMEX futures had fallen 21 percent to $1,320 an ounce on April 16 from the 2011 year-end prices.

Implied gold lease rates, seen as bullion's premium calculated by subtracting the London interbank offered rates (LIBOR) from the gold forward offered rates (GOFO), had turned positive since February.

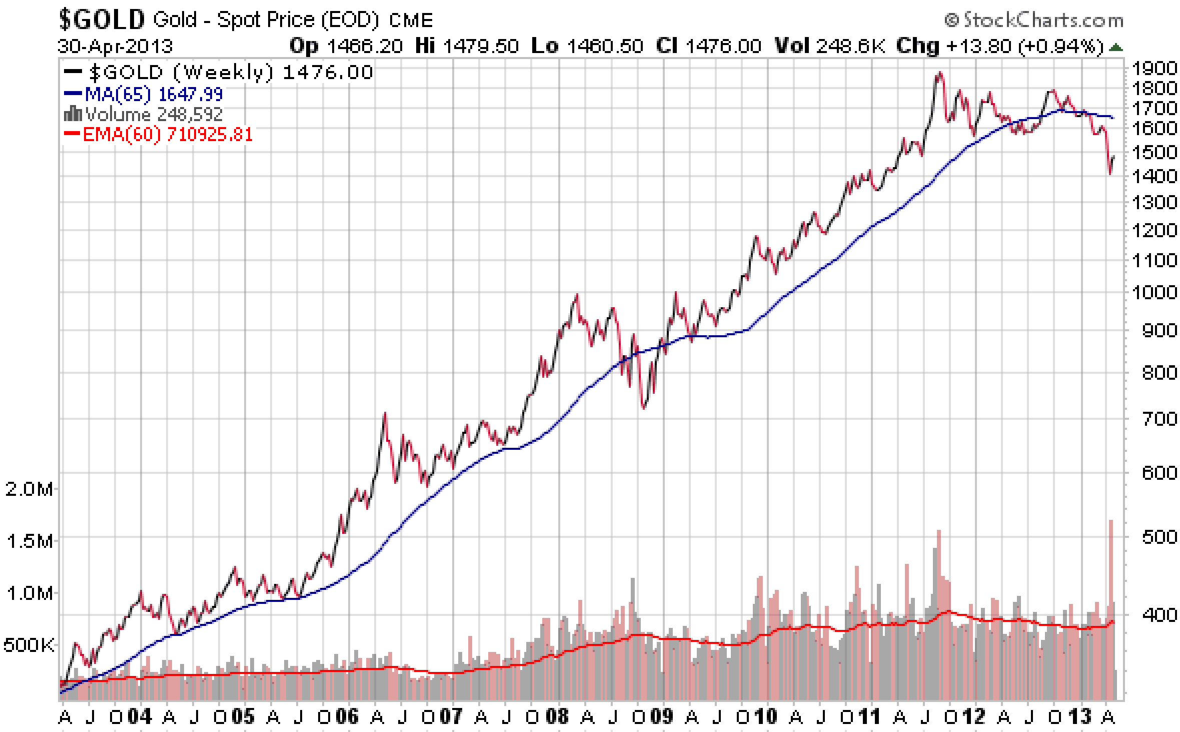
GOFO are the rates at which bullion banks are prepared to lend gold on a swap against U.S. dollars.

Since gold's cost of carry is negative in the United States, analysts say, it is profitable for dealers to take up Comex stock, remelt the bars into the correct specification and sell it to markets in Asia or Europe where physical gold demand exceeds that in the United States.

## 2.2 Technical Comments

### Long Term Technical Comments

Only time will tell if the gold bull market is over. Interestingly, the price drop in this correction so far in percentage terms, is similar to that for the correction, which took place in 2008:




### Daily/Weekly Technical Comments

London afternoon fix in USD/toz:

| Open | High | Low | Close |
|---|---|---|---|
| 2nd April | 2nd April | 16th April | 30th April |
| 1584 | 1584 | 1380 | 1469 |

London afternoon fix in €/toz:

| Open | High | Low | Close |
|---|---|---|---|
| 2nd April | 2nd April | 16th April | 30th April |
| 1235 | 1235 | 1051 | 1117 |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At the end of the month, gold had recovered just over half of its price fall. Technically, such price action is normal and does not necessarily mean the bull-trend has resumed, this would need gold to climb back above the breakdown point at around 1550 USD/toz.

# 3. Silver

## 3.1 News and Fundamental Considerations

Reno, 3rd April 2013, (MineWeb) – The U.S. Mint figures show silver bullion coins sales continued to climb to 3,368,500 ounces for March 2013, up 826,500 ounces (32%) from 2,542,000 ounces in March 2012.

However, gold bullion coin sales declined by 500 ounces last month from 62,500 ounces in March 2012 to 62,000 ounces.

The U.S. Mint hit a record for the sales of American Eagle silver bullion coins in January at a total of 7,498,000 ounces, despite the fact sales were suspended for more than a week due to a lack of inventory. The previous all-time monthly high was 6.1 million ounces set in January 2012.

The American Eagle silver bullion coins are produced at the Mint's West Point, New York facility.

Total sales of 14,223,000 silver bullion coins through March 31, 2013, increased 40.3% from 10,139,000 American Eagle silver bullion coins over the same period of last year.

The previous record year for silver bullion coins was in 2011 when 39,868,500 coins were sold. If the sales trend for the first three months of this year holds, that record could

**Singapore, 29th April 2013, (Bloomberg) –** The slump in silver this month has spurred demand for products from Silver Bullion Pte, one of Singapore's largest suppliers of coins and bars to retail investors, depleting inventories and doubling delivery times.

Holdings of bars fell to just 54 ounces from 60,000 ounces two and a half weeks ago, according to founder Gregor Gregersen. It now takes at least six weeks for new supplies to arrive in the country up from two to three weeks previously, he said. The company, set up in 2009, counts the Perth Mint in Australia and the Royal Canadian Mint among its suppliers.

Gregersen's comments add to signs from across Asia that the plunge in silver, as well as gold, has triggered higher demand from physical buyers who see an opportunity to expand holdings. While silver has led declines in commodities this year, losing 20 percent in New York, the amount held in exchange-traded products worldwide remains 2.3 percent higher in 2013. The metal is used both as an investment as well as by industry.

"For many leveraged paper owners, this price fall was a disaster, for most physical bullion owners it was a buying opportunity," Gregersen said. A batch of 23,000 ounces is expected to be delivered tomorrow, with almost all destined for existing customers who pre-ordered, he said.

Demand for Maple Leaf gold and silver coins is very strong, and has increased in Asia, Europe and North America, said Chris Carkner, managing director of sales for bullion, refinery and ETPs at the Ottawa-based Royal Canadian Mint. The facility continues to supply all its customers, he said.

‘Ramping Up’

“The Perth Mint is meeting the surge in demand for physical silver and gold by ramping up productivity as quickly as possible to ensure lead times are kept to an absolute minimum,” Ron Currie, sales and marketing director, said in an e-mailed response to questions.

Futures tumbled to $22 an ounce on April 16, the lowest since October 2010. The contract for delivery in July traded at $24.245 an ounce on Comex at 5:28 p.m. in Singapore after rising 2.5 percent. Prices peaked at $49.845 in April 2011.

High price swings may deter so-called bargain hunters, Peter Richardson and Joel Crane, Melbourne-based analysts at Morgan Stanley, said in an April 23 report, cutting this year’s silver forecast 19 percent to $27.17. Silver’s thirty-day volatility rose to 46.66 today, the highest since January 2012.

‘Scares Investors’

“Too high volatility usually scares investors away,” Steven Dooley, head of research at brokerage Forex Capital Trading Pty in Melbourne, said by phone today. Prices may test the low of $22 over the next 12 months as prospects for new U.S. monetary stimulus are low, while slower-than-expected economic expansion in China may hurt demand, he said.

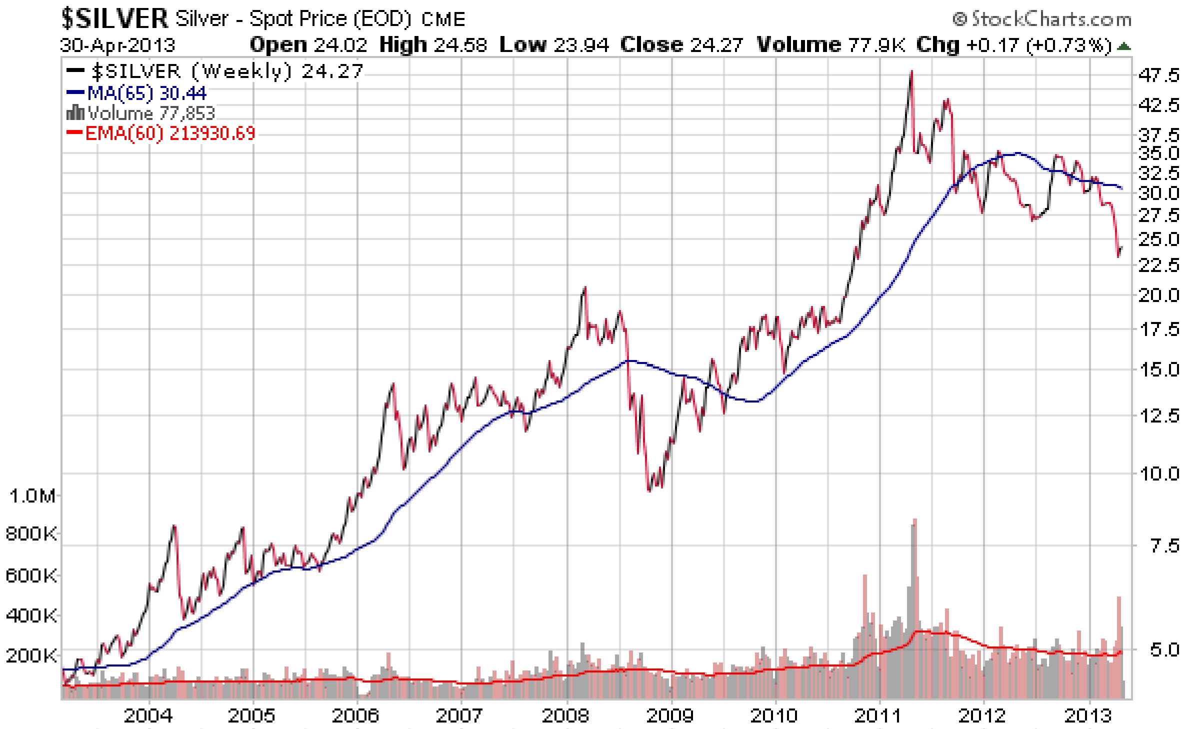
Holdings in silver-backed ETPs stood at 19,353.38 tons on April 26, according to data compiled by Bloomberg. While that’s 1.6 percent lower this month, it compares with 18,916.92 tons at the end of 2012.

The plunge in prices wasn’t foreseen by some investors. A Bloomberg survey of 49 analysts published in December showed that the metal was expected to rally to as much as $40.25 an ounce, according to the median high figure.

## 3.2 Technical Comments

### Long Term Technical Comments

Silver suffered a significant price drop in April. The fall from the 2011 peak is comparable in percentage terms with the correction, which took place in 2008:




### Daily/Weekly Technical Comments

London fix in USD/toz:

| Open | High | Low | Close |
|---|---|---|---|
| 2nd April | 2nd April | 24th April | 30th April |
| 27.96 | 27.96 | 22.91 | 24.42 |

London fix in €/toz:

| Open | High | Low | Close |
|---|---|---|---|
| 2nd April | 2nd April | 24th April | 30th April |
| 21.78 | 21.78 | 17.60 | 18.68 |


A much weaker bounce for silver than gold!

John Fineron, 2nd May 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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