JM&B Monthly Gold & Silver Report
August 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 displayed similar technical pictures in August. However, the percentage price gain of silver in USD terms at 19.9% for the month was much higher than that of gold at 6.1%.

2. Gold

2.1 News and Fundamental Considerations

Selected News Items from the Month

Beijing, 6th August 2013, (Bloomberg) – China's net gold imports from Hong Kong fell 4.8 percent in June as a slump in prices damped demand and the government curbed the use of bullion in financing deals.

Mainland buyers purchased 101 metric tons, after deducting flows from China into Hong Kong, compared with 106 tons a month earlier, according to calculations by Bloomberg based on data from the Hong Kong statistics department yesterday. Inbound shipments including scrap were 113 tons, from 127 tons in May.

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Gold is heading for its first annual decline in 13 years as investors lose faith in the metal as a store of value and amid speculation the U.S. Federal Reserve will curb debt-buying. The metal dropped to a 34-month low in June, after tumbling 13 percent in April and May. That discouraged bargain hunters, said Wang Weimin, an analyst at Dalian Fortune Futures Co. China is the world's second-largest bullion user after India.

"Gold's been part of the commodity-finance trade, which was a popular way of taking advantage of the higher interest rates on the mainland," Wang said before yesterday's data was released. Some traders used gold to back foreign-currency loans from banks in Hong Kong, then repatriated cash to the mainland and converted it into yuan, before the crackdown reduced the practice trade, he said.

Investors refrained from bullion investments in June after they rushed to buy in mid-April, only to find that prices dropped further, Wang said. While gold for immediate delivery in London dropped as low as $1,321.95 an ounce in April, June's lowest price was $1,180.50. It traded at $1,292.85 at 5:24 p.m. in Shanghai yesterday.

Stimulus Program

Bullion of 99.99 percent purity on the Shanghai Gold Exchange slumped 14 percent in June, falling for a fifth month. Volumes for the benchmark spot contract were 12 tons on Aug. 1, compared with a record 43 tons on April 22.

The Shanghai Gold Exchange, China's largest bullion bourse, delivered 1,098 tons to buyers in the six months through June, compared with 1,139 tons for the whole of last year, according to data from the bourse on July 15. That was more than double the output in China, the world's largest producer, which reached a record 403 tons last year.

China's purchases in June were nearly twice the 68 tons in the same month last year, according to the data from the Hong Kong statistics department. Mainland China doesn't publish such data.

Exports of gold to Hong Kong from China were 12 tons in June, according to a separate statistics department statement, down from 21 tons in May, and compared with 27 tons in June 2012.

Singapore, 11th August 2013, (Bloomberg) – Gold climbed to the highest level this month after holdings in the biggest bullion-backed exchange-traded product expanded for the first time since June. Platinum advanced for a fourth day to a two-month high.

Bullion for immediate delivery rallied as much as 1.5 percent to $1,333.94 an ounce, the highest price since July 31, and traded at $1,329.92 at 11:16 a.m. in Singapore. Gold for December delivery climbed as much as 1.6 percent to $1,333 an ounce on the Comex in New York and was at $1,328.90.

The precious metal tumbled 21 percent this year as speculation that the U.S. Federal Reserve may taper its stimulus program prompted record outflows from ETPs. Assets in the SPDR Gold Trust increased 1.8 metric tons to 911.13 tons on Aug. 9, the first increase since June 10, according to data compiled by Bloomberg. Holdings are still down 439.69 tons this year after contracting every month from January, the data show.

"What we need to maintain the current gold price level is actually inflows," Dominic Schnider, head of commodities research at UBS AG's wealth-management unit in Singapore, said on Bloomberg Television today, predicting lower prices in the next three to six months. "What's really saved us so far on the consumer side in emerging markets has been China."

Nationwide gold consumption rose 54 percent to 706.36 tons in the first six months from a year earlier, the China Gold Association said today. China's jewelry sales climbed 42 percent in July from a year earlier, according to the National Bureau of Statistics. The country is the world's largest gold producer.

Bullish Outlook

Demand for physical metal is robust, irrespective of prices, Eddie Listorti, co-head of fixed income, currencies and commodities at Australia & New Zealand Banking Group Ltd., said in an interview last month. The bank has forecast gold at $1,400 an ounce in 2014 and $1,500 in 2015.

Silver for immediate delivery jumped as much as 3.5 percent to $21.285 an ounce, the highest price since June 20, before trading at $21.1095. The metal advanced 3.3 percent last week, the biggest gain since the period to July 12.

Singapore, 12th August 2013, (Bloomberg) – China's consumption of gold in the first six months of the year surged by more than half as sliding prices of the metal lured buyers, data showed, reinforcing expectations that the nation will overtake India as the world's top gold consumer this year.

Gold prices have lost about a fifth of their value this year after 12 years of gains, releasing pent-up demand across the world and particularly in India and China, where gold is an essential part of weddings and gift-giving.

China consumed 706.36 tonnes of gold in the first half of 2013, up 54 percent from the year-ago period, the China Gold Association (CGA) said in a statement on its website on Monday.

It consumed 832.18 tonnes in all of 2012 and about 460 tonnes in the first half of 2012.

"China bought a lot when prices fell below $1,350 in April thinking it will not fall further," said Chen Min, precious metals analyst at Jinrui Futures in Shenzhen.

"They bought much more than usual in April and May to meet the need for later in the year."

In April, gold witnessed its biggest two-day fall in 30 years. The metal has recovered after dropping below $1,200 in June, but is still subject to volatile trading and negative sentiment as a recovering U.S. economy stirs worries of a scale-back in the Federal Reserve's stimulus measures.

"China's demand in April and May was unmatched," said one Shanghai-based trader. "They bought more than anyone and were consistent buyers even after prices recovered a little."

China's gold demand could hit a record 1,000 tonnes this year and will overtake India, the World Gold Council said last month.

India's consumption this year is expected to be lower than last year's 860 tonnes as the government is trying to curb imports and reduce its trade deficit.

The Chinese government does not release data on gold consumption or imports. Investors rely on data from trade groups such as the CGA and import numbers from Hong Kong - a key supplier to China - to gauge demand.

"All signs have been pointing towards China overtaking India. Their demand in the second half may not be this high, but they are still way ahead of India," said the Shanghai-based trader.

Chinese consumers would like to see more stability in prices and not just lower prices, which is why Chinese demand is subdued currently, analysts and traders said.

The CGA also said output in China, the world's biggest gold producer, reached 192.82 tonnes in the first half, up 9 percent from a year ago.

London, 15th August 2013, (World Gold Council) – The World Gold Council's Gold Demand Trends (GDT) is the leading industry resource for data and opinion on world-wide gold demand. Our quarterly publication examines demand trends by sector and geography. The most recent review of the second quarter of 2013 comprises three sections:

Key findings for second quarter 2013 examined by sector and region:

- Jewellery: Multi-year high in the jewellery sector as lower prices generated a surge in demand from consumers.
- Investment: Record demand for gold bars and coins was countered by sizeable net outflows from ETFs, resulting in a year-on-year decline in overall investment demand relative to Q2 2012.
- Technology: Technology sector saw marginal growth, the 1% year-on-year increase the first in two years.
- Central Banks: Central banks demand slowed in Q2 2013 from record quarter in year previous, marking tenth consecutive quarter of purchases.
- Supply: Total gold supply shrunk 6% from Q2 2012, almost solely due to the reduction in recycling

Mumbai, 19th August 2013, (Reuters) – Indian traders said they will start importing gold again over the next week or so after the RBI clarified a new rule that brought the flow of the precious metal into the world's top gold consumer to a standstill at the end of July.

A resumption of imports would ease tight domestic supply and prices ahead of a festival and wedding season that kicks off next month. Indian imports would also support benchmark international gold prices, which hit a two-month high on Monday.

Indian traders stopped imports on July 22 due to confusion over a rule issued by the Reserve Bank of India that was aimed at stemming the flow of gold into the country, not stopping it completely.

Gold imports are a big contributor to India's record trade deficit, so the central bank is trying to slow them down.

The confusion centred on a rule that required importers to re-export at least 20 percent of all imports, known as the 80/20 rule.

Last week, the Reserve Bank issued detailed guidelines on how the rule would work, but the complexity of the rule had prevented banks from importing immediately. Banks are the main importing agencies for gold into India.

"I've spoken to many banks and I believe imports may start within this week. (Last week's) circular has clarified many things for importers," said Bachhraj Bamalwa, director of the All India Gems and Jewellery Trade Federation.

"Once the imports start, premiums will come down," said Bamalwa, who expects premiums charged on London prices to fall to $10 an ounce from $40 on Monday.

Since the rule is new, the importing agencies are taking time to get a grasp on the many operational procedures involved, including the undertaking that needs to be submitted to the customs department once the goods are delivered to an exporter for the next lot of imports.

"From operational or concept point of view the RBI circular is very clear. We would take at least a minimum of 10 days to start importing again," said an official with foreign bank importing bullion in Mumbai.

To cut its import bill, India has tightened rules to curb gold consumption, increased import duty three times in eight months to a record 10 percent and banned imports of coins and medallions.

Analysts have said the moves may curb imports but not demand which is at heightened levels due to a fall in gold prices, and could prompt an increase in local premiums and smuggling.

BUYING FROM SINGAPORE

The higher taxes have not curbed India's appetite for gold. India's gold imports rose to $2.9 billion in July from $2.45 billion in June.

The imports were shipped in the first three weeks of July, according to the gems and jewellery trade body, as the 80/20 rule came into effect in the later half.

Traders have said gold is also brought into the country through unofficial means.

Dealers in Singapore said they have seen an increase in buying from Indian dealers and jewellers since last week's hike in import duty to 10 percent, but they were not sure if it was entering India through legal means.

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"We are seeing a lot of buying from Indian nationals over the counter from us," said Brian Lan, managing director of Singapore-based dealer GoldSilver Central Pte Ltd.

Gold forms an essential part of a bride's dowry in India and is considered auspicious as a gift or offering at religious festivals.

"The more the Indian government tries to curb gold consumption, the more likely a black market will occur as there will always be a demand for gold in India," said Lan.

London, 19th August 2013, (Bloomberg) – Gold exports from the U.K. to Switzerland in the first half of 2013 were more than eight times the total for all of 2012 as metal was probably moved from Europe to investors in Asia, Macquarie Group Ltd. said.

U.K. gold exports were 797 metric tons in the first six months this year, compared with 92 tons for all of 2012, Macquarie said in an e-mailed report dated today. Investors sold 586 tons of gold in exchange-traded products in January through June this year, data compiled by Bloomberg show.

“Gold ETFs are part of the physical gold market and if investors don’t want the gold it has to go somewhere else,” Matthew Turner, an analyst at Macquarie, wrote in the report. “The Chinese are simply willing to pay more for it.”

Gold for immediate delivery fell 0.8 percent to $1,365.27 an ounce by 5:39 p.m. in London, bringing the drop this year to 19 percent. Bullion is heading for the worst year since 1997 after 12 consecutive gains.

Most of the world’s gold refining capacity is in Switzerland and refineries’ business was “very strong” in the first half as Asian physical demand climbed, Turner wrote.

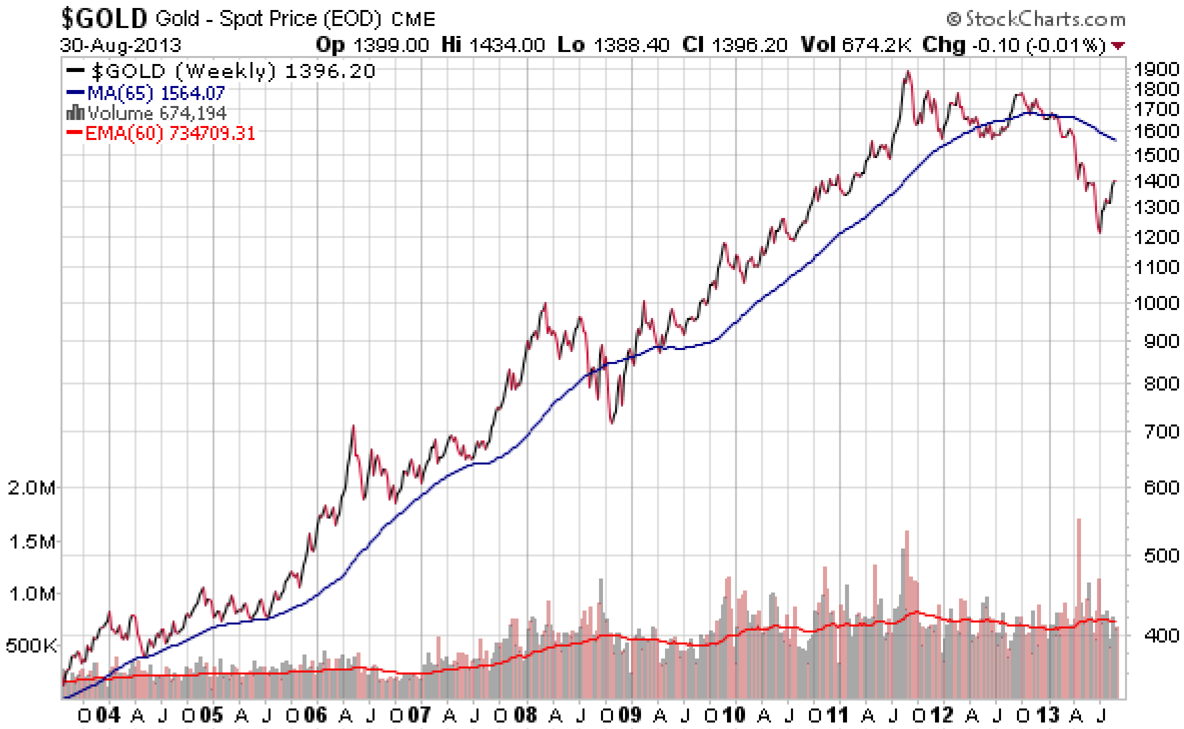
Global jewelry demand jumped 37 percent to 575.5 tons in the second quarter, and combined global bar and coin sales advanced 78 percent from a year earlier to an all-time high of 507.6 tons, the World Gold Council said in a report Aug. 15. India is the biggest gold buyer, followed by China.

Billionaire hedge fund manager John Paulson, the largest investor in the SPDR Gold Trust (GLD), the biggest ETP for the metal, cut his holdings by more than a half in the second quarter from the first three months of the year, a government filing showed last week. Billionaire George Soros and Daniel Loeb sold their entire SPDR stakes in the past quarter, U.S. Securities and Exchange Commission filings showed.

2.2 Technical Comments

Long Term Technical Comments

Gold continued to recover in price in August:



Daily/Weekly Technical Comments

London afternoon fix in USD/toz:

Open	High	Low	Close
1. Aug	28. Aug	6. Aug	30. Aug
1315	1420	1281	1395

London fix in €/toz:

Open	High	Low	Close
1. Aug	28. Aug	6. Aug	30. Aug
993.2	1066	963.1	1056

Gold broke upward through its 50 DMA in August and remained above its 10 DMA at months end, finishing the month not particularly overbought with a daily RSI of around 63.

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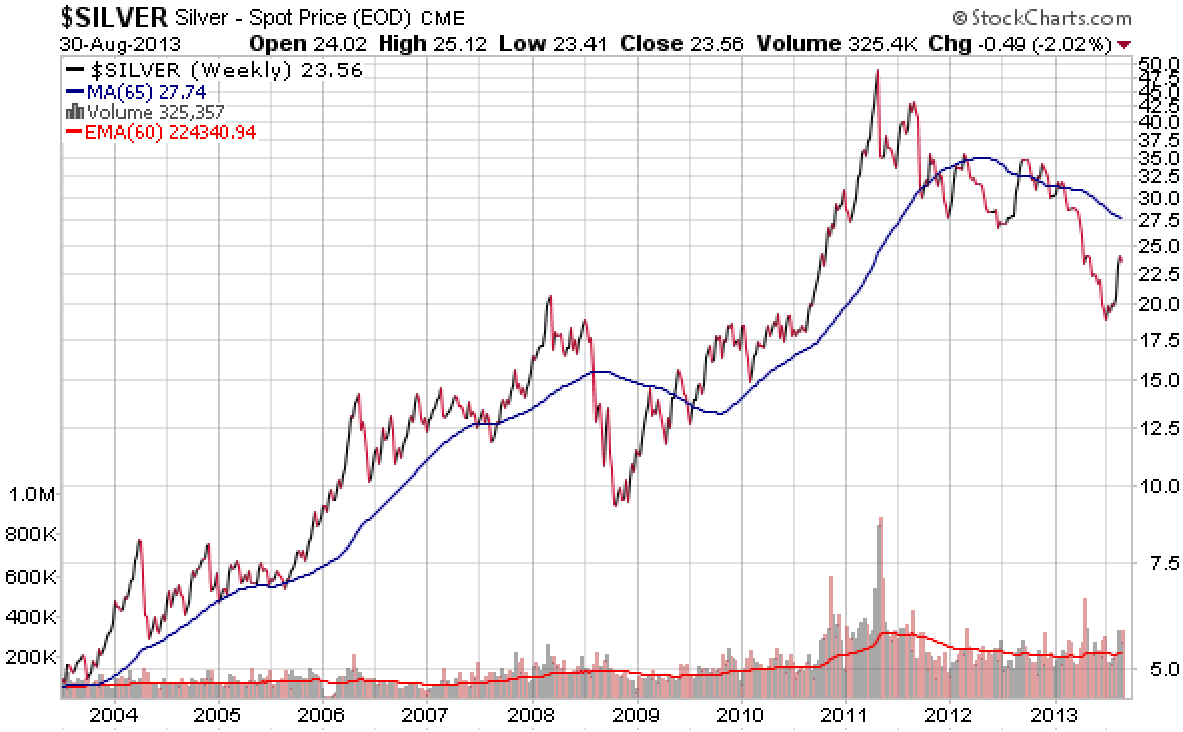
3. Silver

3.1 News and Fundamental Considerations

3.2 Technical Comments

Long Term Technical Comments

Silver recovered further in August:



Daily/Weekly Technical Comments

London fix in USD/toz:

Open	High	Low	Close
1. Aug	28. Aug	7. Aug	30. Aug
19.72	24.74	19.27	23.64

London fix in €/toz:

Open	High	Low	Close
1. Aug	28. Aug	7. Aug	30. Aug
14.90	18.53	14.49	17.86

Silver displayed a similar technical picture to gold in August. However, the percentage price gain of silver at 19.9% for the month was much higher than that of gold at 6.1% for the month in USD terms.

John Fineron, 2nd September 2013

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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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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

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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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