

JM&B Monthly Gold & Silver Report

December 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 essentially moved sideways in price in December with silver being the stronger of the two.

2. Gold

2.1 News and Fundamental Considerations

Selected News Items from the Month

London, 18th December 2013, (Financial Times) – The Chinese state could be behind a surge in bullion imports that will see China overtake India as the world's largest consumer of gold, according to one of the sector's most influential investors.

Evy Hambro, chief investment officer of BlackRock's Natural Resources Equity team, said the investment community had been surprised by the amount of gold flowing into China given its position as the world's biggest gold producer.

“The total amount of gold being consumed in China is a gigantic quantum and you have to wonder where that gold is going,” he said in an interview with the Financial Times. “Is it going on to wrists, ears and necks or is it going into state reserves?”

The People’s Bank of China has not provided an update on its bullion reserves since 2009, when it reported a holding of 1,054 tonnes. But the suspicion among some analysts is that China’s central bank has purchased up to 300 tonnes of gold this year.

If there was “clarity” on imports, Mr Hambro said it could provide a prop for the gold price, which has fallen sharply this year.

“I think we will need some clarity and that will really set the tone for gold in China in 2014,” he said. “If it does start to show that some of it has gone into state hands that will be very supportive for the gold market.”

Bullion has lost more than a quarter of its value this year, falling from \$1,674 a troy ounce to \$1,233, and is on course to record its first annual price fall in 13 years. Against a backdrop of persistently low inflation, an improving global economy, surging stock prices and the imminent end of US monetary stimulus, institutional investors have dumped gold.

Holdings of gold-backed exchange traded funds, one of the most popular methods of gold investment, have fallen by 824 tonnes to 1,939 tonnes in the year to date, according to Barclays. Demand from India has also been muted because of a series of government restrictions on gold imports. Indian consumption slumped 32 per cent in the third quarter to just 148 tonnes, the lowest since early 2009.

China does not report on its gold trade. Instead analysts have to rely on data from other jurisdictions, which show by far the bulk of the gold coming from Hong Kong. Records show that exports of gold from Hong Kong to China reached 955 tonnes by the end of October, up from 376 tonnes over the same period in 2012.

Few analysts believe buying from Chinese investors, consumers and jewellers can fully explain China’s voracious appetite for gold.

“We can expect Chinese gold reserves will at some future point be announced at a much higher level than the 1,054 tonne-level they have apparently maintained for some years now,” Philip Klapwijk, managing director of Precious Metals Insight, Hong-Kong based consultancy, told investors at the London Bullion Market Association’s annual gold conference earlier this year.

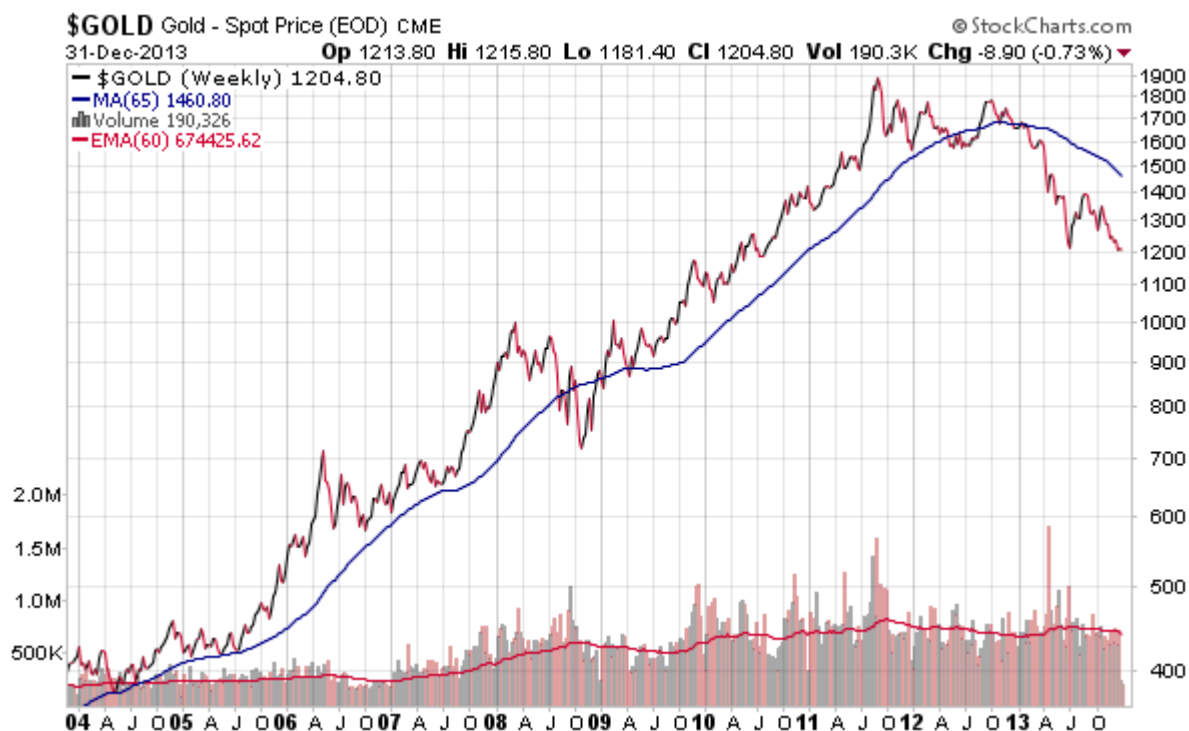
Including local mine production and recycling of scrapped gold, Macquarie estimates total gold supply into China this year could reach 1,800 tonnes.

Outside of China, central banks have slowed their purchases of gold this year to 300 tonnes by the end of September. Traders reckon gold price volatility has affected buying decisions. Bullion fell by \$200 an ounce over two days in April – its sharpest slide in 30 years – before hitting a three-year low in April.

2.2 Technical Comments

Long Term Technical Comments

Gold moved to test its summer low in December:



Daily/Weekly Technical Comments

London afternoon fix in USD/toz:

| Open | High | Low | Close |
|--------------------------|---------------------------|---------------------------|---------------------------|
| 2 nd December | 10 th December | 20 th December | 30 th December |
| 1230 | 1266 | 1195 | 1205 |

London fix in €/toz:

| Open | High | Low | Close |
|--------------------------|---------------------------|---------------------------|---------------------------|
| 2 nd December | 10 th December | 30 th December | 30 th December |
| 908.4 | 918.4 | 873.1 | 873.1 |



Gold moved sideways to down in December.

3. Silver

3.1 News and Fundamental Considerations

Mumbai, 3rd December 2013, (Reuters) – India's silver imports rose to a three-month peak in October and are on track to hit a record this year, data from Thomson Reuters GFMS showed, as buyers opt for the precious metal instead of expensive gold to meet high seasonal demand.

More shipments by the world's top buyer may help underpin global silver prices that have slumped 37 percent so far this year - their biggest annual drop in at least three decades. Silver imports jumped 40 percent to 338 tonnes in October from 241 tonnes in September, GFMS data showed, driven by demand during the festivals and weddings season that starts from October and tapers off by early May next year.

"By the end of the year, silver imports should be at 5,200-5,400 tonnes," said Sudheesh Nambiath, an analyst with Thomson Reuters GFMS. This would be more than India's record high purchases of 5,048 tonnes in 2008.

The country has imported 4,652 tonnes of silver in the first ten months from January, GFMS data shows.

Traditionally, gold is used for gifts at Indian weddings and festivals, but this year the metal has been made scarcer and dearer by measures aimed at cutting the country's trade deficit.

India has hiked the import duty on bullion three times this year, taking it to 10 percent, and has told importers that a fifth of their purchases would have to be turned around for export, leaving only 80 percent for domestic use.

The World Gold Council has predicted that China would topple India from its position of the world's top gold consumer this year as the strict import rules bite.

Robust silver imports by India will continue till early next year, boosted partly by high rural demand as incomes rise after a good harvest, said an official with a private silver importing bank who did not want to be named due to company policy.

Silver prices may recover to \$26 an ounce or 52,000 rupees per kg by March next year on Indian demand, said Gnanasekar Thiagarajan, director with broker Commtrendz Research.

"Silver has retreated more compared to gold and while rallying higher, it would take the lead," he said, referring to international prices.

Gold is on track for its first annual loss in 13 years and is down 27 percent so far this year, lagging the drop in silver that is currently trading below \$20.

3.2 Technical Comments

Long Term Technical Comments

Still no major bounce for silver:



Daily/Weekly Technical Comments

London fix in USD/toz:

| Open | High | Low | Close |
|--------------------------|---------------------------|---------------------------|---------------------------|
| 2 nd December | 11 th December | 20 th December | 31 st December |
| 19.75 | 20.09 | 19.33 | 19.50 |

London fix in €/toz:

| Open | High | Low | Close |
|--------------------------|---------------------------|---------------------------|---------------------------|
| 2 nd December | 11 th December | 19 th December | 31 st December |
| 14.59 | 14.81 | 14.13 | 14.16 |



Silver moved sideways in December.

John Fineron, 6th January 2014

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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