JM&B Monthly Gold & Silver Report
February 2014

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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Gold and silver had another month of solid price gains in February.

2. Gold

2.1 News and Fundamental Considerations

Selected News Items from the Month

Beijing, 10th February 2014, (Reuters) – China's gold consumption jumped 41 percent in 2013 to exceed 1,000 tonnes for the first time, an industry body said on Monday, as a sharp slide in prices attracted buyers for jewellery and bullion.

The demand surge has helped China become the No. 1 gold consumer and should support prices, which took a hit last year from expectations of a tapering of commodities-friendly economic stimulus by the U.S. Federal Reserve and a drop in demand in the other major buyer India.

Gold consumption in China grew to 1,176.40 tonnes last year, with jewellery demand climbing 43 percent to 716.50 tonnes and bullion demand soaring 57 percent to 375.73 tonnes, the China Gold Association said on its website.

Chinese demand hit a record as gold prices fell for the first time in 13 years amid an improving global economy and a rally in equities. Prices tumbled 28 percent in 2013.

"The sharply lower prices attracted a lot of Chinese consumers looking for bargains," said Chen Min, an analyst at Jinrui Futures in Shenzhen.

"Gold will continue to be an attractive investment in China in the near term as prices look steady near $1,200 an ounce," Chen said.

Data last month showed that China's 2013 gold imports from Hong Kong more than doubled from the previous year to reach a record 1,158.162 tonnes.

Data from the industry association also showed that China's gold output in 2013 rose 6.2 percent from the previous year to a record high 428.163 tonnes, making the country the world's biggest producer for a seventh straight year.

China's gold consumption figures do not include demand from the central bank, whose gold reserves stand at 33.89 million ounces (1,054 tonnes), unchanged since April 2009, according to the latest figures on the central bank's website.

China last announced a rise in its gold reserves in April 2009 and has not revised the figure since, though there had been recent market speculation that the bank had been accumulating gold reserves and would announce a new figure.

Shanghai, 11th February 2014, (FT) – A 500-tonne gap in China's gold consumption data is fuelling talk that the central bank took advantage of weak prices last year to bulk up its holdings of the precious metal.

The last time the Chinese central bank said it increased its gold holdings was nearly five years ago, in early 2009. Officials have since then repeatedly insisted that they do not view gold as a useful asset for diversifying the country's $3.8tn mountain of foreign currency reserves.

But the latest official figures show that China imported and produced far more gold in 2013 than its citizens bought. This chasm suggests that the central bank was a buyer in the gold market last year in spite of its protestations to the contrary, say analysts.

The China Gold Association published data on Monday showing that Chinese demand for gold surged 41 per cent to 1,176 tonnes last year, making it all but certain that China overtook India as the world's biggest consumer of bullion.

Yet Chinese import and production volumes were even stronger. China imported 1,158 tonnes of gold via Hong Kong, more than double its 2012 total. Domestically, production of bullion rose 6 per cent to 428 tonnes, making China again the world's top producer. On top of that, China also imported gold directly through Shanghai, though these numbers have not been published.

Adding up the reported and estimated figures, Na Liu, of CNC Asset Management, calculated that China's "apparent gold consumption" exceeded 1,700 tonnes in 2013, more than 500 tonnes higher than reported.

"We would not be surprised to hear the People's Bank of China announce a new, significantly higher figure, if it chooses to do so," Mr Na said. The PBOC has said that its gold reserves have been steady at 1,054 tonnes since April 2009.

Tom Kendall, precious metals analyst at Credit Suisse, said it was generally assumed that the Chinese government purchases the majority of domestic production for state reserves.

"In that context, the government buying 500 tonnes of gold last year is quite feasible. Some people think it's significantly higher than that."

But central bank buying is only one of the explanations for the chasm between China's apparent and actual gold consumption.

Liu Xu, an analyst with Capital Futures in Beijing, said that companies in the jewellery market may have also built up their gold stocks and that commercial financial institutions such as banks have also been adding to their holdings. Neither would show up in the gold demand data, which measures final consumption.

"It's not only about increases in official holdings. It's more accurate to say that every level of society, from individuals up to banks, has been allocating more to gold," Mr Liu said. "Wealth is expanding and people have limited investment channels, so gold is attractive."

Moreover, the Chinese jewellery industry has also grown quickly and exports of finished products would not necessarily be captured by the gold data.

The price of gold rose every year from 2001 until 2012, soaring from $271 per ounce to $1,670. But last year its bull run ran out of steam, and prices fell 28 per cent. The drop would have been much greater were it not for the surging demand in China, where consumers took advantage of the lower prices to buy small gold bars, coins and jewellery.

The precious metal has clawed back 6 percentage points this year, and rose to a near three-month peak on Tuesday, trading as high as $1,287.50.

Speculation has been mounting in recent months that the Chinese central bank might announce updated figures for its gold holdings, but Mr Liu said the recent rebound in prices could lead it to remain quiet, for fear of sparking a jump in the market.

The central bank has said the global gold market is too small relative to China's foreign exchange reserves to serve as a viable channel for asset diversification.

Even if the Chinese central bank's gold holdings were twice as large as officially reported, they would still account for roughly 2 per cent of the country's official reserves, well below the norm in more developed economies

London, 18th February 2014, (Reuters) – Net gold demand fell 15 percent in 2013 as huge outflows from physically backed investment funds outweighed record consumer demand but that disinvestment is tailing off this year, the World Gold Council said on Tuesday.

Massive liquidation of bullion-backed exchange-traded funds returned 881 tonnes of gold to the market last year, part of a 51-percent slump in investment demand to 773.3 tonnes, the WGC said, citing data from Thomson Reuters GFMS.

Expectations of a tapering in the U.S. bond-buying programme, which had boosted gold by holding down interest rates while stoking fears of inflation, helped drive prices to their biggest annual loss in 32 years.

That, in turn, drove demand for gold jewellery, coins and bars, which rose 21 percent to its highest ever at 3,863.5 tonnes, the WGC said, while overall demand slid to a four-year low of 3,756 tonnes.

With consumer demand expected to hold firm, gold prices might recover this year as selling from ETFs tails off, it said. Already this year, the largest gold ETF, New York's SPDR Gold Trust, has reported a small inflow.

"You're seeing a significant change in the behaviour of those ETFs," the WGC's managing director for investment, Marcus Grubb, said.

"Notwithstanding that the year is yet young, you are certainly going to see a much better year for investment and ETFs than you did last year," he said.

"The market is getting back to balance. Futures sentiment is improving too, with the increase in net longs back to nearly 10 million ounces. Overall, it leads us to think this will be a better year for gold than last year ... we expect to see a positive return this year," Grubb said.

"Unprecedented" amounts of gold flowed from Western vaults to Eastern markets, via refiners in North America, Switzerland and Dubai, the WGC said.

China overtook India as the world's biggest gold consumer, with overall demand of 1,065.8 tonnes, largely driven by a 29-percent rise in Chinese jewellery demand and a 38-percent increase in coin and bar buying.

Signs are that demand may match those levels this year.

"Demand post-new year is remarkably high," Grubb said "We had a 29-tonne delivery from the Shanghai Gold Exchange last week in one day, and a consistent premium in Shanghai - we expect on balance that China will be close to the same level of demand in 2014 as last year."

He said the difference between the amount of gold going into China and measured demand suggested that a lot of metal remained in the inventory chain, ready to meet demand.

China bucked the trend in developing markets for lower scrap supply - which fell 14 percent globally to 1,371.4 tonnes, its lowest since 2008 - to show an increase in recycled gold returning to the market.

"The surge in demand (in China) seen in 2013, with consumers making opportunistic purchases at lower prices, does increase the prospect of a resurgence in recycling should prices rebound with any conviction," the WGC's report said.

Globally, gold jewellery demand rose to a five-year high of 2,209.5 tonnes, the largest volume increase since 1997 and in India demand for jewellery rose 11 percent to 612.7 tonnes, while buying in the United States rose for the first time since 2001, to 122.8 tonnes.

Grubb expects the gradual improvement in Western jewellery demand to continue in 2014 as long as economic recovery keeps strengthening and lifting consumer's earnings.

Demand for smaller gold investment products such as coins and bars also rose 38 percent in China and 16 percent in India last year, with buying also rising sharply in Thailand, South Korea, and the Middle East, particularly in Egypt. Turkish coin and bar demand more than doubled to 102 tonnes.

Central bank buying fell to its lowest in three years, down by nearly a third to 368.6 tonnes. This was driven in part by the last year's price volatility, Grubb said.

"Effectively one of the reasons the slowdown happened was the increased volatility of the gold price, which is certainly looking better this year so far," he said. "That did affect these longer-term programmes last year."

"Overall we still think you'll see a strong year for central banks (in 2014), probably similar to last year."

On the supply side of the market, mine supply rose again by about 5 percent to 1,968.5 tonnes, a record high.

London, 20th February 2014, (Reuters) – The top five recipients of Swiss gold exports in January were in Asia, with Hong Kong the top destination for shipments out of Europe's leading refining centre, data from the Swiss customs office showed on Thursday.

Hong Kong received 3.073 billion Swiss francs' ($3.5 billion) worth of gold last month, or 44.3 percent of total exports by value, the data showed. India, Singapore, the United Arab Emirates and China made up the rest of the top five destinations.

The main source of Swiss gold imports was the United Kingdom, which accounted for 60 percent of gold imports by value. London is a major vaulting centre for investment-grade bullion, which was sold heavily last year.

Separate Swiss customs data showed gold flows into and out of Switzerland jumped last year, in what analysts say is likely to be the latest evidence of metal moving from U.S. and European investment funds to Asian consumers.

Exports of the metal from Switzerland jumped 77 percent to 2,777.14 tonnes last year, the data showed, while imports climbed by more than a third to 3,060.66 tonnes.

Investors last year liquidated 881 tonnes of gold from exchange-traded funds, which issue securities backed by physical metal, according to World Gold Council and Thomson Reuters GFMS data released earlier this week.

Holdings of the largest gold-backed ETF, New York-listed SPDR Gold Shares, fell more than 550 tonnes.

Meanwhile, demand soared to record levels in China and rose sharply in Turkey, Egypt, Japan and India, despite tough import restrictions in the latter, historically the world's biggest bullion consumer.

While the statistics office does not provide data on the source or destination of its gold shipments by volume, analysts say outflows from ETFs are likely to have fed this demand via Switzerland.

"A lot of metal was migrating (last year) from Europe and North America, not least from the SPDR and similar funds, to the Middle East, the Far East, and to some extent South Asia," said Rhona O'Connell, head of metals research at consultancy Thomson Reuters GFMS.

"Metal coming out of the ETFs and to some extent the over-the-counter market would have been large 400-ounce bars. They would have been going through refineries, predominantly in Switzerland, for conversion into kilobars or smaller."

Gold held to back the SPDR ETF is stored in 400-ounce bars in HSBC's vaults in London, according to the fund's prospectus.

In a note earlier this week, Australian bank Macquarie, citing trade data from EU statistics agency Eurostat, said the UK exported 1,739 tonnes of gold in 2013, with the vast majority sent to Switzerland.

This is more than 10 times higher than in 2012, it said. "We believe this largely reflects investor liquidation, and that much of it eventually found its way to China," Macquarie said.

London, 25th February 2014, (Zero Hedge) – Global gold prices may have been manipulated on 50 per cent of occasions between January 2010 and December 2013, according to analysis by Fideres, a consultancy.

The findings come amid a probe by German and UK regulators into alleged manipulation of the gold price, which is set twice a day by Deutsche Bank, HSBC, Barclays, Bank of Nova Scotia and Société Générale in a process known as the “London gold fixing”.

Fideres’ research found the gold price frequently climbs (or falls) once a twice-daily conference call between the five banks begins, peaks (or troughs) almost exactly as the call ends and then experiences a sharp reversal, a pattern it alleged may be evidence of “collusive behaviour”.

“[This] is indicative of panel banks pushing the gold price upwards on the basis of a strategy that was likely predetermined before the start of the call in order to benefit their existing positions or pending orders,” Fideres concluded.

“The behaviour of the gold price is very suspicious in 50 per cent of cases. This is not something you would expect to see if you take into account normal market factors,“ said Alberto Thomas, a partner at Fideres.

Alasdair Macleod, head of research at GoldMoney, a dealer in physical gold, added: “When the banks fix the price, the advantage they have is that they know what orders they have in the pocket. There is a possibility that they are gaming the system.”

Pension funds, hedge funds, commodity trading advisers and futures traders are most likely to have suffered losses as a result, according to Mr Thomas, who said that many of these groups were “definitely ready” to file lawsuits.

Daniel Brockett, a partner at law firm Quinn Emanuel, also said he had spoken to several investors concerned about potential losses.

“It is fair to say that economic work suggests there are certain days when [the five banks] are not only tipping their clients off, but also colluding with one another,” he said.

Matt Johnson, head of distribution at ETF Securities, one of the largest providers of exchange traded products, said that if gold price collusion is proven, “investors in products with an expiry price based around the fixing could have been badly impacted”.

Gregory Asciolla, a partner at Labaton Sucharow, a US law firm, added: “There are certainly good reasons for investors to be concerned. They are paying close attention to this and if the investigations go somewhere, it would not surprise me if there were lawsuits filed around the world.”

All five banks declined to comment on the findings, which come amid growing regulatory scrutiny of gold and precious metal benchmarks.

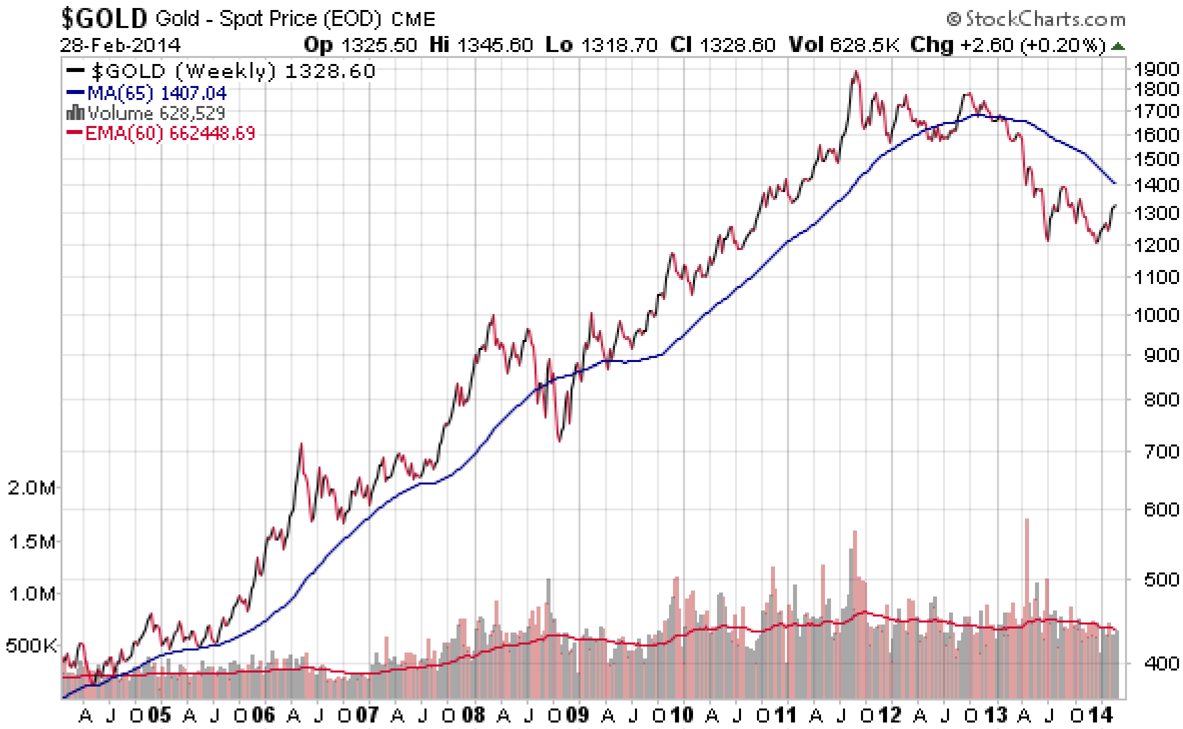
BaFin, the German regulator, has launched an investigation into gold-price manipulation and demanded documents from Deutsche Bank. The bank last month decided to end its role in gold and silver pricing. The UK’s Financial Conduct Authority is also examining how the price of gold and other precious metals is set as part of a wider probe into benchmark manipulation following findings of wrongdoing with respect to Libor and similar allegations with respect to the foreign exchange market.

The US Commodity Futures Trading Commission has reportedly held private meetings to discuss gold manipulation, but declined to confirm or deny that an investigation was ongoing.

2.2 Technical Comments

Long Term Technical Comments

With each passing month, a double-bottom in the long-term chart appears to be more probable:



Daily/Weekly Technical Comments

London afternoon fix in USD/toz:

Open	High	Low	Close
3rd February	25th February	4th February	28th February
1262	1339	1250	1327

London afternoon fix in €/toz:

Open	High	Low	Close
3rd February	26th February	6th February	28th February
933.9	973.6	923.1	961.6

Gold moved up again in price in February, closing down only on four days during the month.

3. Silver

3.1 News and Fundamental Considerations

3.2 Technical Comments

Long Term Technical Comments

Like gold, a double-bottom on the long-term chart for silver is becoming more and more likely:

Daily/Weekly Technical Comments

London fix in USD/toz:

Open	High	Low	Close
3rd February	26th February	3rd February	28th February
19.27	21.85	19.27	21.27

London fix in €/toz:

Open	High	Low	Close
3rd February	24th February	3rd February	28th February
14.27	16.06	14.27	16.42

Silver was not quite as strong as gold in February, but still managed an impressive 10% price-gain for the month.

John Fineron, 3rd March 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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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.

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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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