JM&B Monthly Gold & Silver Report
January 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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1. Commentary

Gold proved to be stronger than silver in January, with a month of solid gains.

2. Gold

2.1 News and Fundamental Considerations

Selected News Items from the Month

New Delhi, 6th January 2014, (Reuters) – Officials are in discussions to cut a record high import duty on gold and relax rules on exports, government sources said, after the measures helped narrow the country's trade deficit and now threaten to encourage smuggling.

India imposed the curbs last year when overseas gold purchases - the country's second most expensive import after oil - pushed its current account deficit to a record and undermined the rupee currency.

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With three duty hikes last year to a record 10 percent and onerous restrictions tying purchases to exports, official arrivals shrank almost 90 percent in the six months to November, helping China displace India as the world's top gold buyer.

The decision to cut the import duty is likely to be taken anytime this month, said one of the government sources, who has direct knowledge of the deliberations but did not want to be named because of the sensitivity of the issue.

With the current account deficit much reduced and little impact seen on the rupee from the U.S. Federal Reserve's decision to cut back stimulus, the time may soon be right for authorities to make it easier for gold-hungry Indians to buy.

"Earlier, we had argued that we should wait for the Fed's decision on tapering its monetary stimulus. After the Fed's decision, we are not left with any strong argument," said another source with direct knowledge of the deliberations.

The Fed trimmed its monthly bond purchases at the end of 2013 with little impact on the rupee.

India's current account deficit is now likely to be less than $50 billion in the year to March 31, 2014, down at least $20 billion from earlier estimates, the second source said.

Even the governor of India's central bank, whose insistence that 20 percent of gold imports be exported as jewellery has hurt the most, has suggested there may come a time for change.

"Once we feel more comfortable with the current account deficit, once we have a sense the tapering, at least the threat of it, is behind us, we will certainly consider unwinding some of these distortionary actions," Raghuram Rajan said last month.

He had also said smuggling would rise if curbs on gold imports continued for too long.

Indians are smuggling in more bullion than ever as buyers seek alternative sources of the metal, which is often given as gifts at weddings and festivals in the country.

Between April and September, customs officials seized nearly double the amount of illegal gold taken in the whole of 2012. The World Gold Council estimates about 150 to 200 tonnes may be smuggled during 2013, on top of official demand of 900 tonnes.

India's official imports were 21 tonnes in November, down from 2012's monthly average of 72 tonnes and sharply below the record of 162 tonnes hit in May, according to Thomson Reuters GFMS.

London, 7th January 2014, (Kitco News) – Chinese gold buying has noticeably picked up at the start of 2014, helped by softer prices and the approach of Chinese New Year holidays, traders and analysts said.

The premium in China has risen to $20 an ounce, perhaps $10 higher than a week ago, said Bernard Sin, global head of precious metals trading with MKS (Switzerland) SA.

“That is an indication that demand is relatively healthy,” he said. He also cited good demand in Hong Kong and Thailand.

Joni Teves, analyst with UBS, said volume on the Shanghai Gold Exchange picked up significantly lately, with combined turnover for the two gold contracts around six-month highs. They reached 34 metric tons Monday and averaged 24 tons over the first few business days of 2014, compared to an 18-ton average in December, she said.

“The increased activity in China is consistent with typical seasonal patterns, as we head closer to the Chinese New Year at the end of the month,” she said. “The dip in prices towards the end of 2013 likely encouraged a pickup in physical buying and therefore a further drawdown on existing stocks.”

The decline in bullion prices over the last couple of years is part of the impetus for the buying, Sin said, also citing a move by the Chinese industry to build gold stocks ahead of Chinese New Year celebrations. On the last day of 2013, gold nearly fell back to its June lows that in turn were the weakest levels since the summer of 2010. Gold was down nearly 40% from the 2011 peak.

One issue for the Chinese industry, Teves added, is fresh import licenses needed for 2014. With Chinese New Year festivities earlier this year, the time between getting the quotas in place and shipping metal is limited.

With the Chinese demand, the physical market likely would tighten significantly if India were to relax some of the rules limiting gold imports, Sin said.
Indian authorities instituted a number of measures in 2013 in an attempt to curb gold imports and reduce the country’s current-account deficit. They raised duties on gold imports several times; they currently stand at 10%. Also, a so-called 80-20 rule that stipulates that a minimum of 20% of all gold imported must be exported before further imports can be made.

“If the India market would open, there will be a shortage of supply,” Sin said. “For the time being, the supply is just enough to feed the Chinese market and (the rest of the) Asian market.”

Analysts with HSBC, in a late-Monday research note to clients, said Indian authorities are reportedly in discussions on reducing the import duties on gold and relaxing regulations limiting imports. News reports say while the rules have curbed official gold imports, there also has been an increase in smuggling.

“The return of India as a greater importer would be gold friendly but it is still not clear when, or even if, the authorities will cut the tariffs on gold,” HSBC said.

London, 17th January 2014, (Reuters) – Deutsche Bank will withdraw from gold and silver benchmark setting, or fixing, amid an investigation by German regulators into suspected manipulation of precious metals prices by banks.

Deutsche, one of five banks involved in the twice-daily gold fix for global price setting, said it was dropping out of the process after withdrawing from the bulk of its commodities business.

"Deutsche Bank is withdrawing its participation in the gold and silver benchmark setting process following the significant scaling back of our commodities business," the bank said in a statement on Friday.

"We remain fully committed to our precious metals business."

In mid-December, German banking regulator Bafin demanded documents from Deutsche Bank as part of a probe into suspected manipulation of benchmark gold and silver prices by banks, the Financial Times reported, citing sources.

At the time, Deutsche declined to comment on the FT report.

Bafin in December reiterated that besides benchmark interest-rate rigging by banks, it had been looking at other benchmark-setting processes such as gold and silver price fixings at individual banks.

A source close to Deutsche said on Friday it was seeking to sell its gold and silver fixing seats to another member of the London Bullion Market Association.

Gold fixing happens by teleconference with four other banks: Bank of Nova Scotia-ScotiaMocatta, Barclays Bank Plc , HSBC Bank USA, NA and Société Générale, all of which declined immediate comment on the Deutsche move.

Chairmanship of the gold fixing rotates annually among the member banks.

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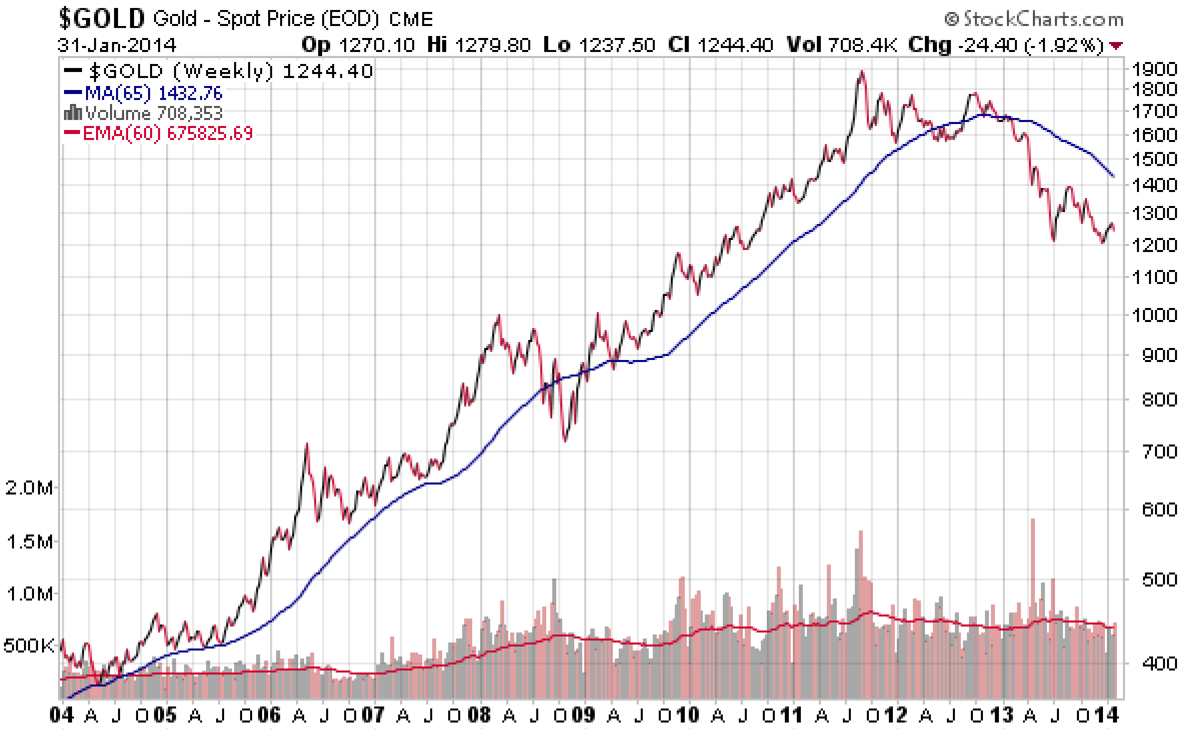
2.2 Technical Comments

Long Term Technical Comments

The long-term chart may be showing a double-bottom in the recent downtrend:



Daily/Weekly Technical Comments

London afternoon fix in USD/toz:

Open	High	Low	Close
2nd January	24th January	8th January	31st January
1225	1267	1221	1251

London afternoon fix in €/toz:

Open	High	Low	Close
2nd January	31st January	2nd January	31st January
897.4	927.7	897.4	927.7

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Gold moved up in price in January, breaking a downward trend in place since November.

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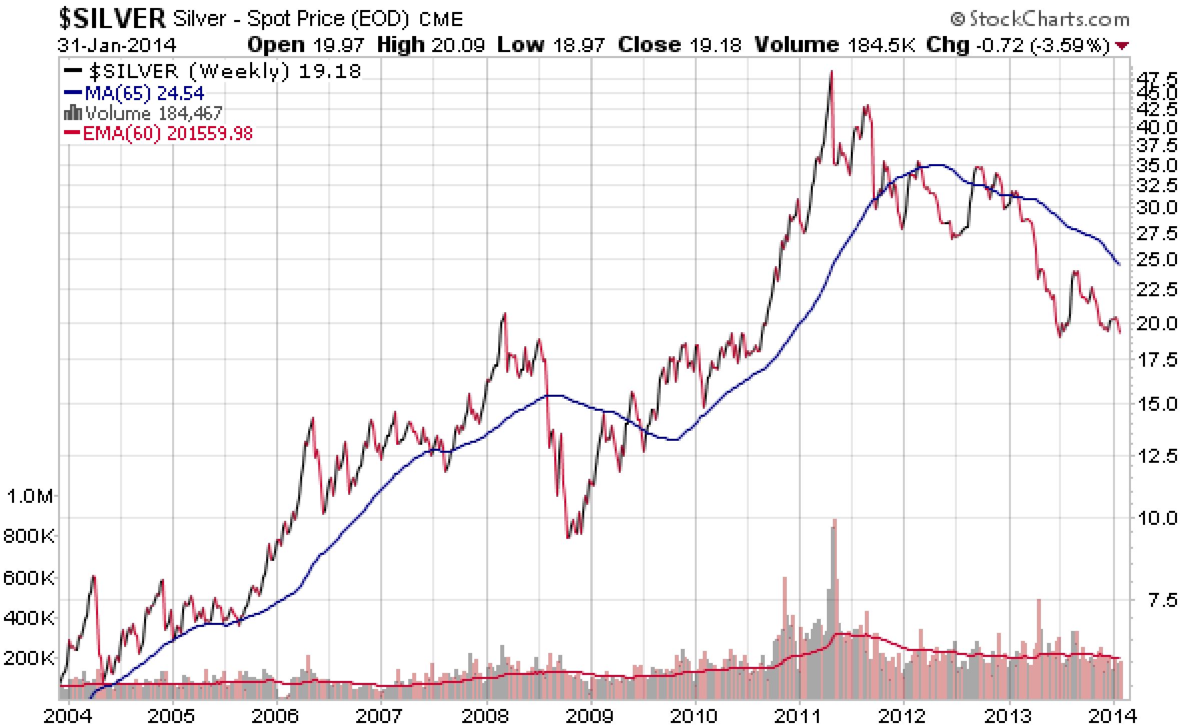
3. Silver

3.1 News and Fundamental Considerations

3.2 Technical Comments

Long Term Technical Comments

Like gold, silver perhaps is displaying a double-bottom on the long-term chart:



Daily/Weekly Technical Comments

London fix in USD/toz:

Open	High	Low	Close
2nd January	20th January	31st January	31st January
19.94	14.97	19.31	19.31

London fix in €/toz:

Open	High	Low	Close
2nd January	20th January	31st January	31st January
14.57	14.97	14.25	14.25

Silver was weaker than gold in January and moved sideways, closing at the low for the month, but **not** below the December low.

John Fineron, 3rd February 2014

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Appendix: More about this report

Purpose of the Report
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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.

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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