JM&B Monthly Gold & Silver Report
July 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 and silver moved lower in price in July.

2. Gold

2.1 News and Fundamental Considerations

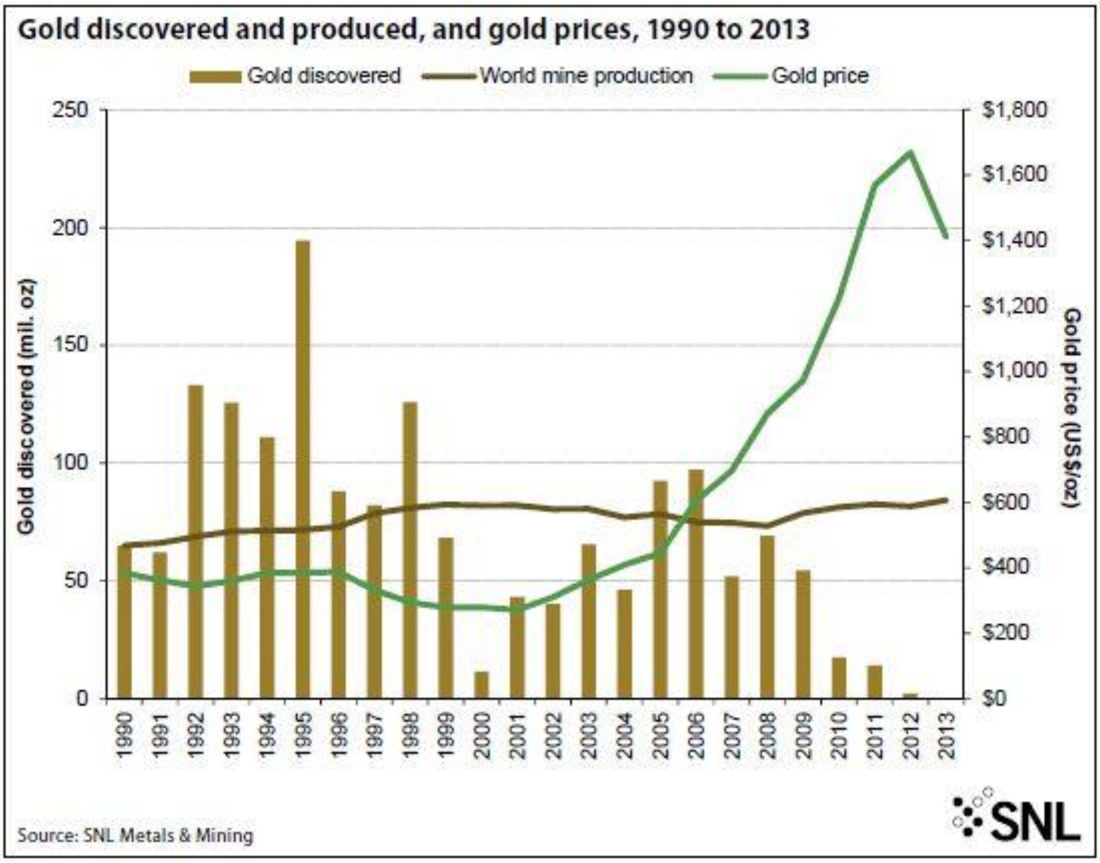
Selected News Items from the Month

London, 18th July 2014, (Mineweb) – SNL Metals & Mining is nowadays one of the sector's leading suppliers of statistical information having, in recent years, absorbed the highly respected Metals Economics Group, based in Halifax, Nova Scotia, and Australian headquartered Intierra, which itself had absorbed Sweden's Raw Materials Group. Its latest major report is titled Strategies for Gold Reserves Replacement and points to some hugely significant data, which will affect global newly mined gold production way into the future.

The report points out that over the past 24 years mining companies have discovered some 1.66 billion ounces of gold in 217 major discoveries, BUT – and it's a big BUT – while this may sound a huge amount, over the same period the industry has actually produced 1.84 billion ounces of gold, so discoveries have not been keeping pace with production. But the report goes much further in showing that the number of significant discoveries (defined as deposits with a minimum of 2 million ounces of contained gold) is diminishing and this diminishing trend seems to be accelerating. In the 1990s some 124 deposits containing 1.1 billion ounces of gold were discovered while since the year 2000 this has fallen to only 605 million ounces in 93 such discovered deposits. And most recently significant new discoveries appear to have slowed to a trickle.

Further, the report notes that the amount of potential production from these major discoveries is particularly concerning when looking at the discoveries made in the past 15 years. Assuming a 75% rate for converting resources to economic reserves and a 90% recovery rate during ore processing, the 674 million ounces of gold discovered since 1999 could eventually replace just 50% of the gold produced during the same period.

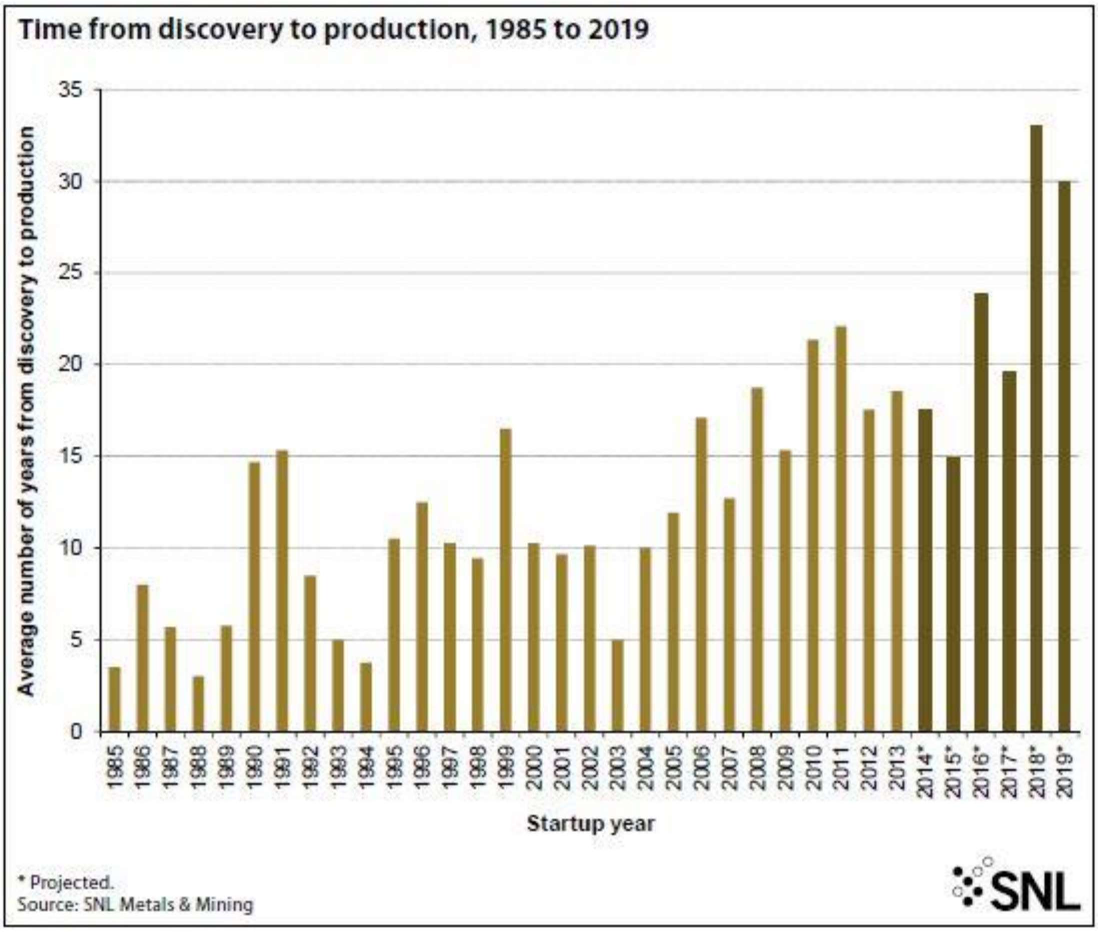
Furthermore, many of these deposits face significant political, environmental or economic hurdles, so, together with only perhaps a 75% conversion rate for resources to reserves and a possibly optimistic 90% metallurgical recovery rate, the amount of gold becoming available for production in the near term almost certainly well under 50% of that currently being produced.



The above chart demonstrates this shortfall in discoveries very well and shows that despite the big rise in gold price so far this century the amount of new gold discovered over the same period has dropped off dramatically over the past few years.

And the problem doesn't end here. It is also nowadays taking far longer to bring a new deposit from discovery through to production. SNL estimates that the 63 projects now in the pipeline and scheduled to begin production between 2014 and 2019 are expected to take a weighted-average 19.5 years from the date of discovery to first production. The trend is also getting worse.

The reasons for this are many and well understood by the industry itself if not always by those on the outside looking in. These include the need for increased and more detailed feasibility work, hurdles imposed by greater social and environmental awareness, longer and more demanding permitting processes, increased need for infrastructure and processing capacity due to lower ore grades and/or more remote locations, limited availability of capital, and scarcity of experienced personnel.



As it can take several years of exploration for a new discovery to be defined, it is too early to tell whether any surge in discovery-oriented exploration since 2010 has moderated the downward trend in the number and richness of new discoveries. SNL thus reckons that the tough financial environment for junior explorers over the past two years suggests that the longer-term downward trend in discoveries will likely continue for at least the next few years.

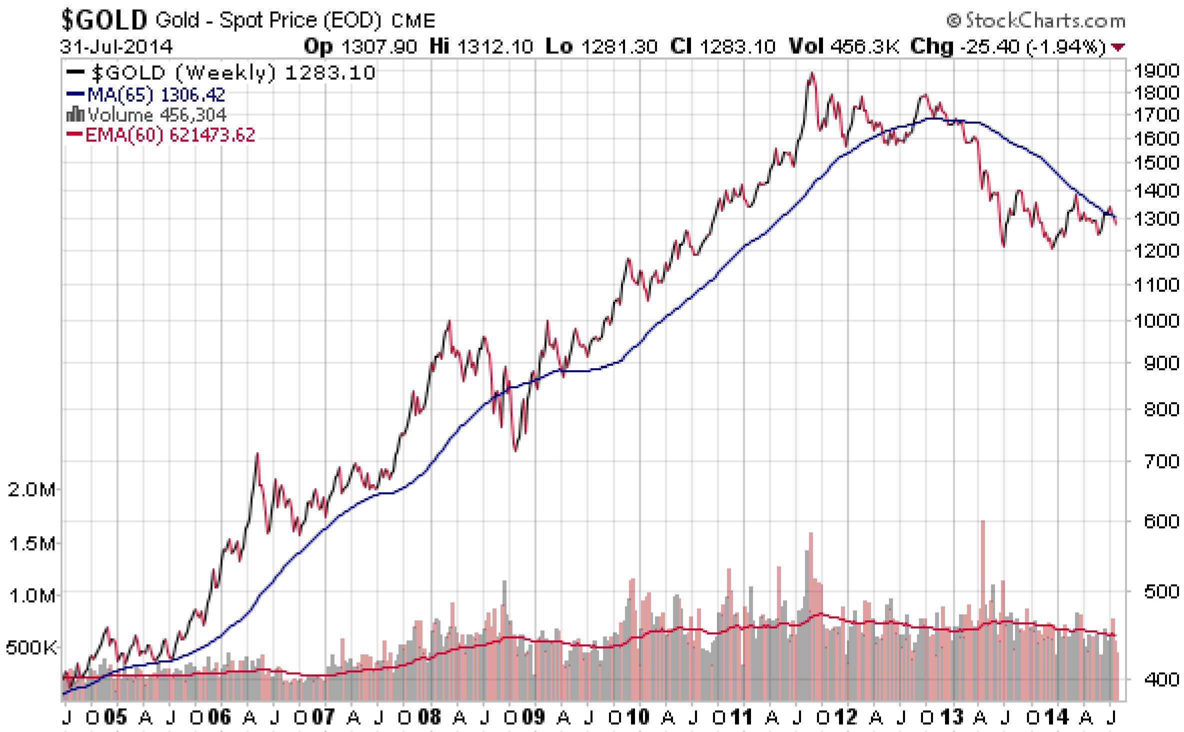
SNL's research can be criticised for perhaps being too simplistic in its approach, and relies heavily on published data which may not be forthcoming from state-owned corporations – notably those in countries like China, nowadays the world's largest producer of gold, which does seem to have been successful in annually raising its gold output. For example, state-owned information outlet Antaike is reported as suggesting China's gold output will grow again this year by around 7.4% to 460 tonnes. The same source also reported earlier this year that China had found 761.4 tonnes of new gold deposits in 2013 – but grades and economics are seldom present in such findings! SNL data also ignores smaller deposits as well as expansions to existing operations.

Be this as it may, the SNL research, like all research of this type, does indeed indicate a serious trend which is certain to significantly impact the global gold/supply equation in the years ahead. Global gold output seems to being maintained (just) at the current time, but the suggestion is that unless there is some significant change in the rate of new discoveries, it will inevitably start to drift downwards in the relatively near future and this drift will likely accelerate. Even if exploration activity is stimulated upwards by perhaps much higher gold prices, this can have little immediate impact purely because of the enormous lead times it is now taking to get a new discovery into production.

2.2 Technical Comments

Long Term Technical Comments

Gold flirted with its 65 WMA in July:



Daily/Weekly Technical Comments

London afternoon fix in USD/toz:

Open	High	Low	Close
1st July	10th July	31st July	31st July
1328	1340	1285	1285

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London afternoon fix in €/toz:

Open	High	Low	Close
1st July	10th July	14th July	31st July
969.5	985.7	958.8	960.1

Gold closed at its low in July.

3. Silver

3.1 News and Fundamental Considerations

London, 11th July 2014, (Reuters) – CME Group and Thomson Reuters will operate an electronic silver benchmark when the 117-year-old "fix" is disbanded in August, in a move widely seen preceding sweeping reforms of precious metals price-setting.

The London Bullion Market Association (LBMA) said in a statement on Friday that CME Group will provide a price platform and methodology for the daily process, while Thomson Reuters is responsible for administration and governance.

CME/Thomson Reuters will start testing the new process in early August after the closely contested competition to produce a solution.

The silver fix - used by producers, consumers and investors - is set every day at noon by three banks via a conference call, working out a price at which their customers are willing to buy and sell the metal.

But with increased attention from regulators in the wake of benchmark manipulation in other markets, the current operator - London Silver Market Fixing Ltd - said in May it would stop running the daily call.

The LBMA consulted market participants with the aim of producing a transparent electronic alternative that complies with toughened regulatory benchmarking standards.

The association received seven proposals. The main contenders also included the London Metal Exchange (LME) and technology provider Autilla, which had this week joined forces; U.S. derivatives exchange Intercontinental Exchange (ICE.N: Quote, Profile, Research), and U.S. news agency Bloomberg.

The new price mechanism is electronic, auction-based and auditable, the LBMA said. It is also tradeable with an increased number of direct participants.

"The winner of the silver fixings is of course the first who would have his hat in the ring when it comes to conducting the other fixings," said one market participant who took part in the LBMA consultation.

BIG BANG

The overhaul of the silver fix is likely to mark the beginning of a major revamp of precious metals benchmarks, including the century-old gold fix and the platinum and palladium fixes.

Some of the companies that had proposed alternatives to the silver fix said they would be ready to assist the gold market, should the current benchmarking process be reformed.

The LME said "we are ready to expand our range of products to further service the industry".

A CME statement said: "We regularly review the market landscape and global dynamics of the gold market, and we continue to talk with customers and market participants about new and innovative ways to help them manage their global price risk."

The World Gold Council held a discussion among buyers and sellers of gold last week on ways to reform the price benchmark.

Financial details of the service to be provided by CME Group and Thomson Reuters were not disclosed.

IOSCO LOOMS

Although market participants view many aspects of the existing gold process favourably, reforms still need to comply with the 19 principles on financial benchmarks outlined in July 2013 by the International Organization of Securities Commissions (IOSCO), an umbrella body of market regulators.

"In the end, we had a workable structure, and two large organisations with plenty of experience behind them in terms of systems and compliance, and regulatory issues," said Jonathan Spall of G Cubed Metals Ltd, which conducted an independent review for the LBMA as part of the selection process.

Thomson Reuters already works with the LBMA to administer Gold Forward Offered Rates, used in swap deals.

The banks involved in the current silver fixing are Deutsche Bank, HSBC and Bank of Nova Scotia–ScotiaMocatta.

Deutsche Bank's decision earlier this year to leave the gold and silver fix process raised questions about the future of the precious metals benchmarking system.

Barclays Plc and Societe Generale operate the gold fixing, along with Scotia and HSBC, while Deutsche Bank stopped in May after two decades.

A senior British regulator said last week when answering lawmakers' questions on the trustworthiness of the gold market that collusion among banks in setting the gold benchmark was possible, but there is no evidence of this.

3.2 Technical Comments

Long Term Technical Comments

As with gold, silver also flirted with its 65 WMA in July:

Daily/Weekly Technical Comments

London fix in USD/toz:

Open	High	Low	Close
1st July	10th July	25th July	31st July
21.08	21.05	20.46	20.69

London fix in €/toz:

Open	High	Low	Close
1st July	10th July	25th July	31st July
15.40	15.79	15.21	15.46

Silver drifted down in price in July.

John Fineron, 1st August 2014

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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

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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