# JM&B Monthly Gold & Silver Report
# June 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

## Contents



## 1. Commentary

Recent price movements in gold and silver have been extreme, but not unprecedented. For investors these movements have been, to say the least, a headache, for industrial users on the other hand, a boon. The question is, now what? Before we attempt to answer that question, we would like to go back to the seventies and look at gold price movements.

Gold started its last bull-market at 35 USD/toz in 1970 and proceeded to 194 USD/toz by the end of 1974, a gain of around 450%. Gold then corrected for some 20 months to 104 USD/toz, or one could say lost 46% of its value. Over the following four years, gold then rose to 850 USD/toz, for a gain of 720%.

Staying with gold, during the current bull-market gold has risen from 255 USD/toz in April 2001 to 1895 USD/toz in September 2011, a gain of 643%. Gold has corrected to 1192 USD/toz in June of 2013, or one could say has lost 37 % compared to its high. Is the correction over? Maybe, maybe not. All we know is that gold and silver are very much oversold on a monthly basis (gold has not been this much oversold during the current bull-market), therefore the time may now be ripe for industrial users and investors to consider purchases in gold and silver.

# 2. Gold

## 2.1 News and Fundamental Considerations

### Selected News Items from the Month

**Singapore, 13th June 2013, (Reuters) –** HuaAn Asset Management expects to raise between 2 billion yuan and 3 billion ($326 million - $489 million) initially for its planned gold-backed exchange-traded fund (ETF), one of China's first gold ETFs, the fund's portfolio manager said.

"We are still in the process of gauging the level of demand. The market potential is huge," Richard Xu told Reuters in an interview from Shanghai.

"We think we could raise about 2 to 3 billion yuan initially," Xu said. "We have got positive responses from institutional investors due to the lack of access to the gold market on-shore in China."

The launch comes after a sharp drop in the price of bullion earlier this year, which hit gold ETFs. Total global assets in gold exchange-traded products (ETPs) shrank to $96.2 billion in May, down 32 percent from $141.2 billion at the end of 2012, data from Blackrock showed earlier this month.

Bullion hit a two-year low of $1,321.35 an ounce in mid-April and is down 17 percent for the year.

But Xu said HuaAn, which started researching the launch of a gold ETF in China as far back as 2009, had received strong indications of interest from brokerages and hedge funds in China, after receiving approval for the launch from the China Securities Regulatory Commission (CSRC) over the weekend

The CSRC also approved Guotai Asset Management Co to launch a gold ETF. Guotai is in talks with banks and securities houses to sell the ETF, an administrative officer at the marketing department of Guotai in Shanghai said.

Demand for gold has been strong in China since the April sell-off, which has helped unleash years of pent-up demand at the No. 2 bullion consumer. China's gold imports from Hong Kong rose to an all-time high of 223.519 tonnes in March, though they fell in April due to a lack of supply.

HuaAn will start marketing its gold ETF this month and aims to launch the product as soon as possible after that. It is working with the exchanges to clear some remaining issues.

**Singapore, 26th June 2013, (Reuters) –** SPDR Gold Trust, the world's largest exchange-traded gold fund, posted its second-biggest percentage drop in holdings this year on Tuesday, and is set to suffer more outflows if a slide in prices of the metal is sustained.

Holdings in SPDR are closely watched and are key to gold prices as the fund holds about $40 billion worth of the metal at current prices.

Spot gold fell 3.6 percent to a near three-year low of $1,230.29 an ounce on Wednesday, as upbeat U.S. economic data supported the Federal Reserve's strategy of scaling back its stimulus.

Gold, typically seen as a hedge against inflation, has benefitted significantly from cheap central bank money courtesy of the Fed's quantitative easing, or QE, policy over the years.

Holdings in SPDR fell 16.23 tonnes, 1.65 percent, to 969.50 tonnes on Tuesday from the day before, to their lowest since February 2009.

The fall is the biggest this year since a 2.3 percent drop seen in mid-April, when spot gold prices fell the most in 30 years.

Gold prices have been in a fresh slump since the beginning of last week, losing 11.5 percent, as Fed Chairman Ben Bernanke said the U.S. central bank would likely begin to slow the pace of its $85 billion monthly bond purchases later this year.

"The outflows are very much driven by the positive stream of economic data and Bernanke clearly outlining the fact that if the economy continued to recover, QE is going to end," said Mark Keenan, commodity strategist at Societe Generale in Singapore.

'CASH NEGATIVE POSITIONS'

Gold fell below the key $1,300 mark last Thursday, fueling an acceleration in ETF outflows.

"With prices falling below $1,300 per ounce, this opens up a new bracket of potentially cash negative positions, given the positive number of shares accumulated between $1,200 and $1,300," Barclays Capital analysts wrote in a note.

About 288 tonnes of gold were accumulated across all physically-backed gold ETFs within that price range, the analysts said.

SPDR Gold, in which billionaire hedge fund manager John Paulson is the biggest shareholder, has seen about 380 tonnes of outflows this year, valued at over $16 billion at the current spot price.

The outflows are the biggest since the fund began operations in 2004. Bullion, down more than 26 percent for the year, is headed for its worst annual performance since 1981.

"ETFs have a huge impact on sentiment in the gold market," said Keenan. "They have a disproportionate effect because of their visibility."

Keenan expects about 800 tonnes of outflows across all gold ETFs this year.

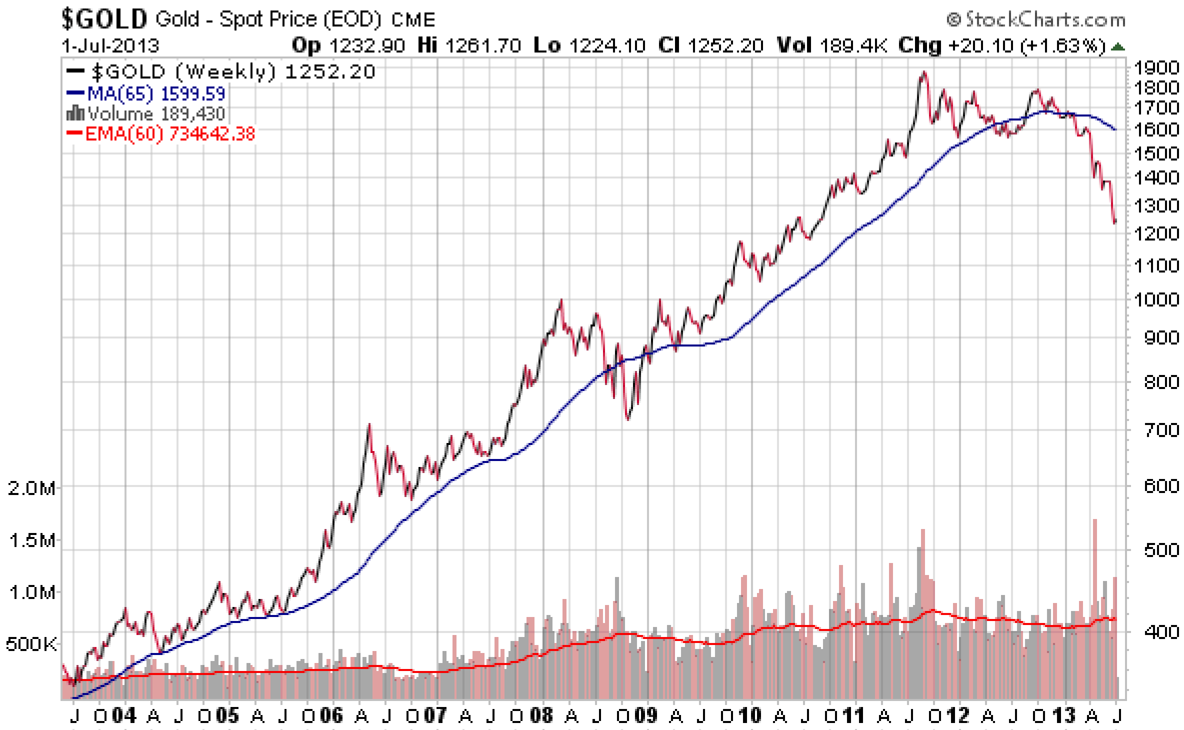
Several brokerages cut their estimates on gold prices earlier this week citing the Fed's plan to wind down bond purchases.

Gold's plunge is drawing a muted response from Asian consumers and not a repeat of the buying frenzy seen in April as India's curbs on trade of the precious metal and renewed concerns about China's growth dent demand.

## 2.2 Technical Comments

### Long Term Technical Comments

Is the bull-market over?




### Daily/Weekly Technical Comments

London afternoon fix in USD/toz:

| Open | High | Low | Close |
|---|---|---|---|
| 3rd June | 5th June | 28th June | 28th June |
| 1403 | 1404 | 1192 | 1192 |

London fix in €/toz:

| Open | High | Low | Close |
|---|---|---|---|
| 3rd June | 3rd June | 28th June | 28th June |
| 1079 | 1079 | 914.4 | 914.4 |


Gold fell significantly in price in June ending one of its worst quarters ever. Far more interesting, was the candle on the last day of the month possibly signalling a reversal in price and higher prices going forward.

# 3. Silver

## 3.1 News and Fundamental Considerations

**London, 13th June 2013, (Bloomberg) –** Silver is punishing investors amid diminishing trust in precious metals as a store of wealth and concern that growth is weakening, with $5.2 billion erased from the value of their near-record holdings this year.

Investors expected silver to be one of the biggest gainers in 2013, with a 33 percent return, a Bloomberg survey in December showed. Instead it's leading a retreat in commodities with a 28 percent plunge to $21.79 an ounce, on track for its worst performance since 1984. While the median prediction from 14 estimates compiled last week is for a rally to $23.50 by Dec. 31, that would still mean a 23 percent drop for the year.

Analysts expected silver to surge because either turmoil would boost demand for precious metals as protection against inflation and currency debasement or accelerating growth would spur more industrial buying for everything from solar panels to batteries. The collapse of gold into a bear market, steady consumer prices and mounting concern about the strength of economies means silver's allure is instead diminishing.

"Silver has been caught in the crossfire between being a precious and industrial metal," said John Stephenson, a senior vice president and fund manager who helps oversee about C$2.7 billion ($2.65 billion) at First Asset Investment Management Inc. in Toronto. "Since investors were selling gold, silver also lost luster. We need enough economic growth to happen before people can start considering it as an industrial metal."

Gold Slump

This year's plunge in silver exceeds the 17 percent drop in gold, which is poised for its first annual decline since 2000. The Standard & Poor's GSCI gauge of 24 commodities fell 3.9 percent, extending its retreat from last year's peak to 14 percent. The MSCI All-Country World Index (MXWD) of equities advanced 6.1 percent since the start of January and a Bank of America Corp. index shows Treasuries lost 1.6 percent.

Investors are maintaining their belief in silver even as they lose faith in gold. While the amount of silver held through exchange-traded products is little changed this year, and within 5 percent of the record reached in March, gold holdings dropped 19 percent, data compiled by Bloomberg show.

Silver investments stand at 18,918 metric tons, valued at $13.3 billion and enough to meet global demand for jewelry and silverware for almost three years. The value of gold ETP investments slumped 33 percent to $94.6 billion this year.

Investors for now are treating silver more like a precious metal than an industrial one, with its 30-week correlation coefficient to gold at 0.85, from 0.68 in 2011. A figure of 1 means the two move in lockstep. Silver also tumbled into a bear market in April and is now 56 percent below the record $49.8044 reached in April 2011.

## Coin Sales

The slump spurred demand for physical metal, with the U.S. Mint predicting last week that its gold and silver coin sales may reach a record in 2013. The Austrian Mint sold about 2 million ounces of silver in April, compared with 8.8 million for all of 2012. Degussa Goldhandel GmbH, a precious-metal trading and investment company in Frankfurt, said silver sales last month were double the first-quarter average.

Hedge funds and other large speculators have turned bullish again after betting on lower prices as recently as mid-May, U.S. Commodity Futures Trading Commission data show. They are holding a net-long position of 1,230 futures and options, compared with a five-year average of 21,400 contracts.

Industrial demand may gain as the global economy improves, with the International Monetary Fund predicting growth of 3.3 percent this year and 4 percent in 2014, from 3.2 percent in 2012. About 50 percent of silver is used in industry, compared with 10 percent for gold, data from the Silver Institute and London-based World Gold Council show.

## Mobile Phone

Consumption by industrial users will rise 1.7 percent to a three-year high of 14,625 tons this year and gain another 2.8 percent in 2014, Barclays Plc predicts. A car contains as much as 30 grams (1.1 ounces) and a mobile phone as much as 0.25 gram, according to Washington-based Silver Institute data.

Slowing investor demand means industry will have to absorb a bigger share of this year's supply glut, which Barclays says will expand 8.9 percent to 5,512 tons. The cumulative surplus since 2009 will have reached 20,759 tons by the end of 2013, or almost 10 months of mine output, the bank predicts. Inventories (COMXSILV) monitored by Comex in New York rose 11 percent since the start of January, touching a 15-year high of 5,204.1 tons in April.

China, the biggest buyer after the U.S., imported the smallest amount of metal since at least 2008 in April, customs data show. The nation more than doubled mine output since 2000, according to CPM Group Inc., a New York-based research company.

## Policy Makers

Signs the U.S. economy is strengthening boosted speculation the Federal Reserve will curb stimulus that helped silver jump 91 percent since 2008. Fed Chairman Ben S. Bernanke said in May that the pace of the $85 billion in monthly bond buying could be reduced if the jobless rate keeps dropping. Policy makers will trim purchases to $65 billion in October, the median of 59 economist estimates compiled by Bloomberg this month shows.

"As the Fed continues to talk down the market and trim down quantitative easing, it will hurt precious metals," said Scott Gardner, who helps manage $400 million at Verdmont Capital SA in Panama City. "Now that the Fed is talking about slowing it, it makes the market nervous. Unless you see a sustained rise in gold you will not see any improvement in silver prices."

Gold may drop to $1,100 an ounce in a year, from $1,382.98 now, Credit Suisse Group AG forecast last month. Goldman Sachs Group Inc. sees gold at $1,345 in 12 months.

Price Swings

The slump in silver, mostly a byproduct in the mining of other metals, is crimping profit for mining companies. Shares of Mexico City-based Fresnillo Plc (FRES), the largest primary silver producer, dropped 41 percent in London this year. Coeur Mining Inc. (CDE), which gets about 61 percent of its revenue from the metal, slid 43 percent in New York trading.

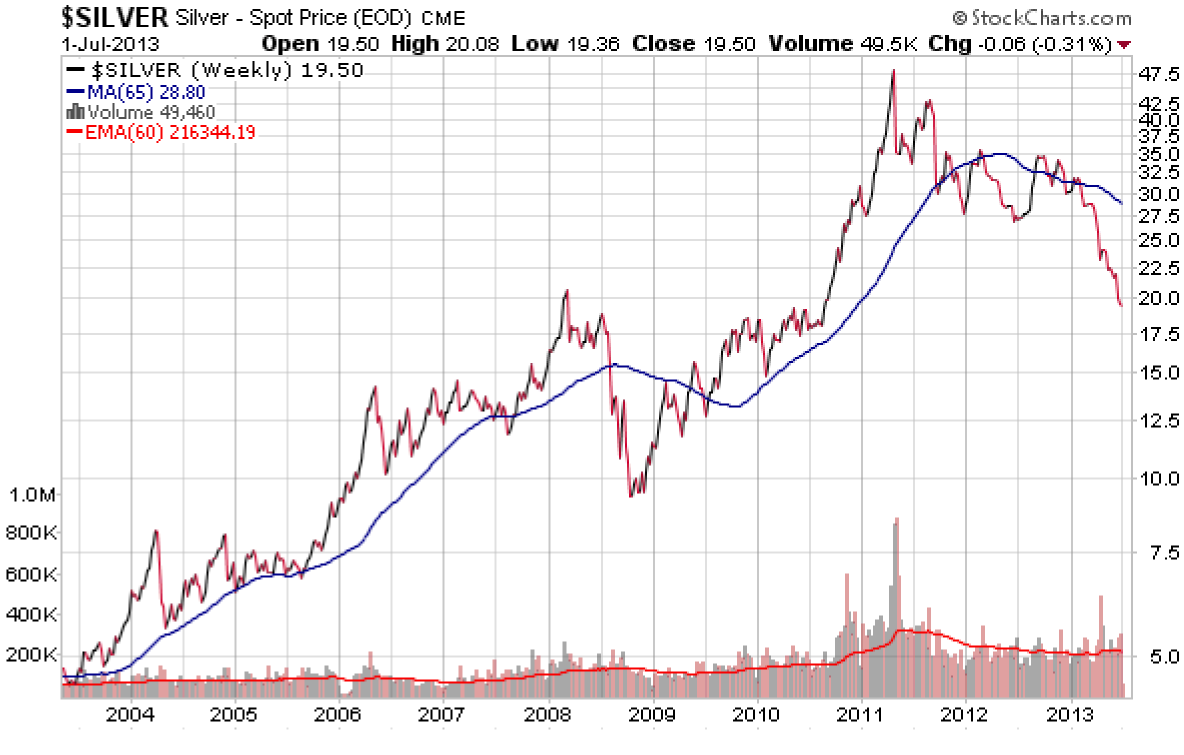
Holdings of silver in ETPs rose 1.1 tons this year, compared with a 1,621-ton expansion in 2012, data compiled by Bloomberg show. Further gains may be curbed as silver's widening price swings dissuade investors. The metal's 60-day historical volatility reached an 11-month high in April as it entered a bear market, the 11th in nine years, and climbed further since. It is now at 37 percent, compared with 29 percent for gold.

"Investor sentiment will remain poor going forward, as with gold, and the real risk will come from further ETP liquidation," said Jeremy Baker, a senior commodities strategist overseeing about $800 million at Harcourt Investment Consulting AG in Zurich. "You have some decent areas of industrial demand, but you need to see significant uptick in those areas to really see any kind of flow through, and you're just not seeing that at the moment."

## 3.2 Technical Comments

### Long Term Technical Comments

After the price fall in 2008, it took silver more than a year to recover and this time?



**Daily/Weekly Technical Comments**

London fix in USD/toz:

| Open | High | Low | Close |
|---|---|---|---|
| 3rd June | 6th June | 27th June | 28th June |
| 22.43 | 22.62 | 18.61 | 18.86 |

London fix in €/toz:

| Open | High | Low | Close |
|---|---|---|---|
| 3rd June | 6th June | 27th June | 28th June |
| 17.23 | 17.25 | 14.29 | 14.43 |


Tel: +41 44 307 19 19; Fax: +41 44 307 19 20


As with gold, silver fell significantly in price in June.

John Fineron, 2nd July 2013

# 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.


Tel: +41 44 307 19 19; Fax: +41 44 307 19 20

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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