JM&B Monthly Gold & Silver Report
May 2015

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

Although gold moved sideways in May, silver managed a small gain.

2. Gold

2.1 News and Fundamental Considerations

Selected News Items from the Month

London, 2nd May 2015, (Economist) – Uncertainty is supposed to lift the gold price. But neither upheaval in the Middle East, nor the travails of the euro zone, nor startlingly loose monetary policy in the rich world is brightening the spirits of those who swear by bullion. After a big rally during the financial crisis, the price has sagged to about $1,200 an ounce, a third below its peak in 2011. Little seems likely to turn it round. “We’ve seen everything gold bugs could hope for: endless money printing, 0% interest rates (both short-term and long-term adjusted for inflation), rising debt and debt ratios in the public and private sectors…So where’s the damn hyperinflation?” asks Harry Dent, a newsletter publisher, in a recent blog post.

The biggest pressure on the gold price comes from the expectation that interest rates in America will rise later this year. Matthew Turner of Macquarie, a bank, says that low interest rates cut the opportunity cost of owning gold. Higher interest rates, by contrast, raise the cost of holding non-interest-bearing assets. Mr Turner thinks expectations of rising rates are already built into the gold price; if they do not materialise as quickly as expected, there could even be a rally.

That cannot come soon enough for gold producers. Nikolai Zelenski, the boss of Nordgold, which has mines in Africa and the former Soviet Union, says that half of all producers have negative cashflow. Some are heavily indebted, too. If the price does not rise, production could fall on a scale not seen since the two world wars.

Gold bugs are determinedly optimistic. Gold is priced in dollars, so the fact that it stayed stable while America's currency was rising (making gold more expensive for buyers in foreign currencies) is cause for cheer. Chinese consumers are buying more gold, after a sharp decline sparked partly by an anti-corruption campaign. So are Indians, the world's biggest consumers of gold, after the government removed restrictions on imports last year. Yet the fact remains: gold is in a rut.

One reason may be that investors have so many more options nowadays. Humble citizens who distrust their own currencies can buy assets ranging from shares to bitcoins. Laurence Fink, the chairman of BlackRock, the world's biggest asset-management firm, said in March that gold had "lost its lustre", thanks to the wider availability of property and even contemporary art. "It's become much more accessible for global families worldwide to store wealth outside their country."

The main exception to the trend is Russia, where the central bank has been a notable buyer of gold, tripling its holdings since 2005. It bought 30 tonnes in March alone, bringing its hoard to 1,238 tonnes. The Kremlin's growing stockpile does not so much reflect a belief in gold's prospects, however, as a distaste for the American dollar. Whatever Vladimir Putin's other qualities, most investors would hesitate to take him on as a financial adviser.

Vienna, 22nd May 2015, (Reuters) – Austria's central bank plans to repatriate some of its gold reserves from Britain after facing criticism for storing too much of the precious metal abroad, the Krone newspaper reported on Friday without naming any sources for the information.

Officials at the Austrian National Bank (OeNB) were not immediately available for comment.

The OeNB in February rejected criticism of its gold storage policy by the country's Court of Audit and insisted that keeping the bulk of reserves in London was in the country's best interests, but also said a policy review was under way.

The central bank, which administers Austria's 280 tonnes of gold reserves, had argued it makes sense to store gold where it can be traded if need be, which made London a logical place given its role as an international market for the metal.

Austrian gold reserves have been unchanged since 2007, according to the OeNB's 2013 annual report, which says around 80 percent is kept in Britain, 17 percent in Austria and 3 percent in Switzerland.

Krone said in future 50 percent would be kept in Austria, 30 percent in Britain and 20 percent in Switzerland.

Shanghai, 25th May 2015, (Reuters) – China has established a fund that is expected to raise about $16 billion for gold-related investment as part of its "Silk Road" initiative to develop trade and transport infrastructure across Asia and beyond, official media reported.

The fund, which will be run by a new company to be set up by gold producers and financial institutions, is expected to raise an estimated 100 billion yuan ($16.13 billion) in three phases, Shanghai Securities News reported at the weekend.

Two leading gold producers, Shandong Gold Group, the parent of Shandong Gold Mining Co Ltd (600547.SS), and Shaanxi Gold Group will take stakes of 35 percent and 25 percent respectively, with the rest owned by financial institutions, the newspaper said.

The fund's activities could take in the launch of gold-backed exchange-traded funds and buying stakes in listed gold companies and mining firms.

President Xi Jinping said earlier this year he hoped annual trade with the countries involved in Beijing's plan to create a modern Silk Road would surpass $2.5 trillion in a decade.

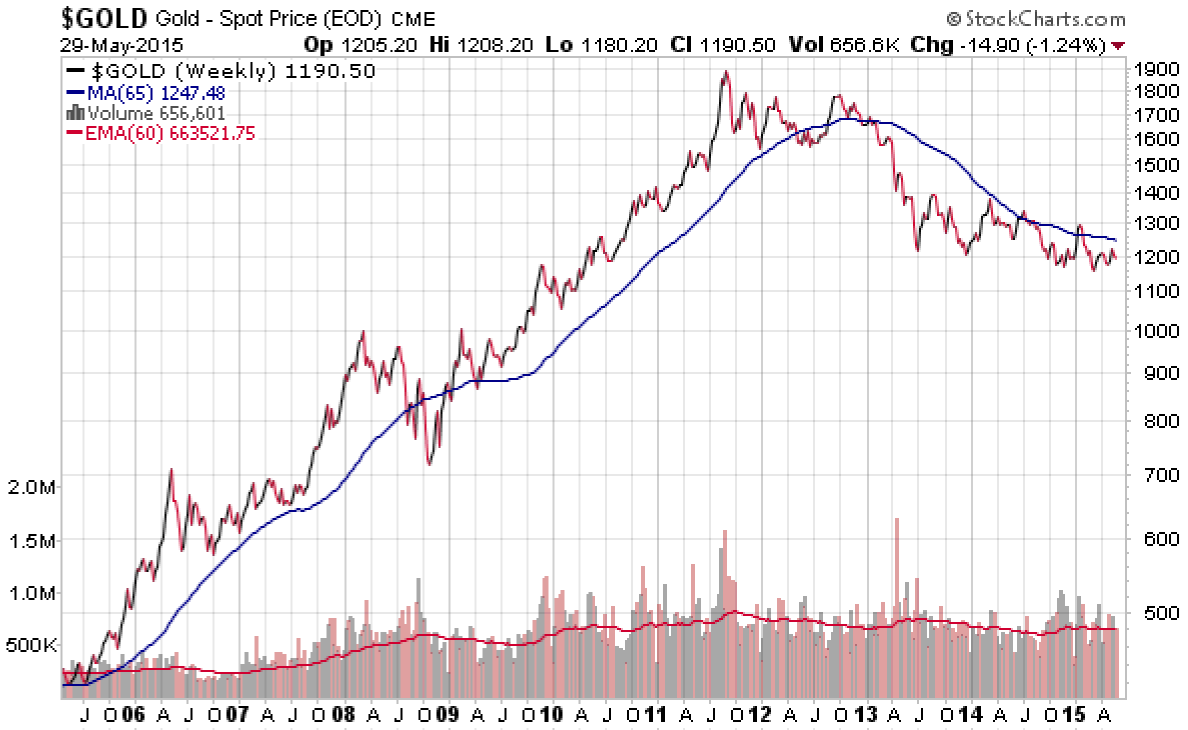
China is the world's biggest producer of gold and a top consumer of the precious metal.

In 2014 it was the second-biggest consumer of gold jewellery, bars and coins and it took the first place from India in the first quarter of this year, according to the World Gold Council.

2.2 Technical Comments

Long Term Technical Comments

Gold still looks to be basing around the 1200 USD/oz level:



Daily/Weekly Technical Comments

London afternoon fix in USD/toz:

Open	High	Low	Close
01.05	14.05	01.05	29.05
1176	1225	1176	1191

London afternoon fix in €/toz:

Open	High	Low	Close
01.05	22.05	01.05	29.05
1044	1093	1044	1083

Gold essentially went nowhere again in May.

3. Silver

3.1 News and Fundamental Considerations

Washington D.C., 6th May 2015, (Silver Institute) – Key components of global silver demand rose in 2014, with global silver jewellery demand posting a new record last year and silverware offtake rising to its highest level since 2006. This was coupled with notable growth in key silver industrial end uses, including ethylene oxide, photovoltaics, and brazing and alloys, according to World Silver Survey 2015, released today by the Silver Institute. Gains in supply from mine production and producer hedging were partially offset by a continued decline in scrap supply.

Silver Fabrication Demand

Total silver physical demand stood at 1.07 billion ounces last year, the fourth highest level recorded since 1990, but a 4 percent decline from the 2013 total. A main factor in the decrease in physical demand was a fall in coin and bar demand from 2013, which had been a record year.

The largest component of physical silver demand, industrial applications, which accounted for 56 percent of total physical silver demand, was marginally lower by 0.5 percent. On a regional basis, a modest increase in industrial demand in developing countries, led by 4 percent growth in China and Taiwan, was offset by weaker demand in advanced countries in 2014. This marks the fifth consecutive year of Chinese industrial demand growth. Last year's industrial demand total for Taiwan was 23 percent above their 2009 figure.

Silver demand for photovoltaic applications rose 7 percent in 2014 while silver demand for ethylene oxide (EO) grew 6 percent. On the latter, GFMS estimates that 128.6 million ounces (Moz) of silver resided in EO plants around the word at year-end, equivalent to 15 percent of last year's total mine production. Additionally, brazing alloy and soldering demand increased by 3 Moz in 2014. Photography demand slid by 5 percent in 2014, experiencing its slowest pace of decline since 1999.

Globally, silver jewellery fabrication had a second consecutive year of growth, increasing 1.5 percent to achieve a new record.

This was a reflection of high levels of restocking and a strong performance from India, which surged 47 percent from 2013 levels. Gains were also noted in Europe, up 9.3 percent, and North America, up 2.2 percent. Total silverware fabrication rose 3 percent to levels not seen since 2006, primarily due to a 20 percent increase in demand from the Indian Subcontinent.

World Silver Supply and Demand (million ounces)
(Totals may not add due to rounding)

Supply	2013	2014
Mine Production	835.3	877.5
Net Government Sales	7.9	-
Scrap	192.7	168.5
Net Hedging Supply	-35.4	15.8
Total Supply	1,000.5	1,061.8

Demand	2013	2014
Jewellery	212.1	215.2
Coins & Bars	243.6	196.0
Silverware	58.8	60.7
Industrial Fabrication	597.9	594.9
…of which Electrical & Electronics	266.2	263.9
…of which Brazing Alloys & Solders	63.1	66.1
… of which Photography	48.0	45.6
… of which Photovoltaic	55.8	59.9
… of which Other Industrial	164.7	159.4
Physical Demand	1,112.4	1,066.7
Physical Surplus/Deficit	-111.9	-4.9
ETF Inventory Build	1.6	1.4
Exchange Inventory Build	8.8	-8.9
Net Balance	-122.3	2.6

Silver Investment & Price

In 2014, silver coin and bar purchases remained at historically high levels, primarily due to growth in silver coin demand in several key markets. Growth was experienced in the United States, Canada, India and Spain. Silver coins and medals demand was 107.6 Moz last year.

Holdings by silver-backed exchange traded funds remained sturdy, growing by 1.4 Moz, to record their highest year-end level at 636 Moz. In contrast, gold ETF holdings ended 2014 at 53.1 Moz, 8.8 percent lower than their year-end 2013.

Identifiable investment demand, which includes physical bar investment, coins and medals and exchange traded funds (ETF) inventories, stood at 197.4 Moz last year. Demand for physical bullion bars reached 88.4 Moz. India experienced a 4 percent growth in silver bar demand last year, but that was countered by losses in the United States, China and Europe when compared to the prior year.

A combination of a slowdown in Chinese growth, a move away from commodities as an asset class, a stronger U.S. dollar, and a challenging year for most precious metals in general, led to a lower average annual silver price at $19.08 for 2014.

Silver Supply

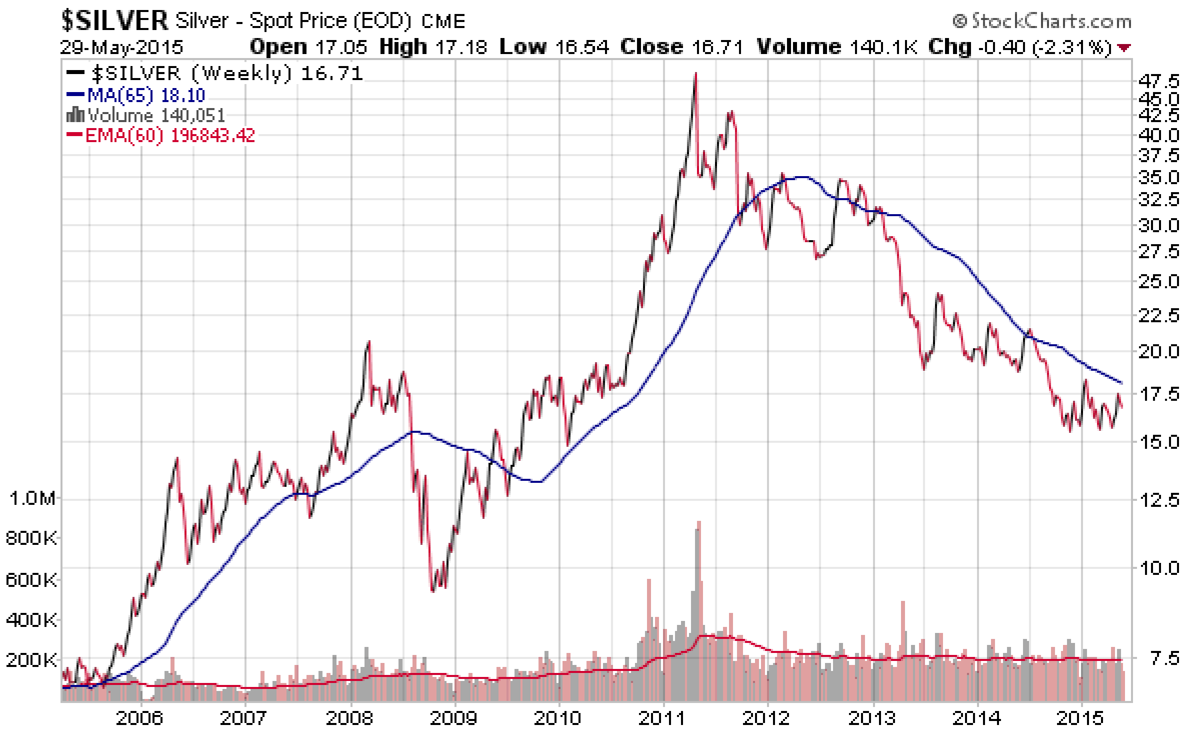
Silver mine production grew by 5.0 percent to reach 877.5 Moz. This growth is attributable to stronger output from the primary silver and copper sectors, new projects that came online last year and significant production gains in Central and South America. Primary silver mine production grew 8 percent, and accounted for 31 percent of global silver mine supply. Mexico was the world's leading silver producer, followed by Peru, China, Australia and Chile. Primary silver mine cash costs dropped 16 percent to US$7.74 an ounce, while the producer silver hedge book grew by 15.8 Moz in 2014.

Government sales of silver were essentially non-existent last year. Scrap supply was down 13 percent at 168.8 Moz, the lowest volume level recorded since 1996 and the third consecutive year of decline. As a proportion of total silver supply, scrap remained just above 15 percent, down from 25 percent in 2011 and 2012.

3.2 Technical Comments

Long Term Technical Comments

Silver moved sideways in May:



Daily/Weekly Technical Comments

London fix in USD/toz:

Open	High	Low	Close
01.05	18.05	01.05	29.05
16.17	17.7	16.17	16.67

London fix in €/toz:

Open	High	Low	Close
01.05	19.05	01.05	29.05
14.34	15.52	14.34	15.21

Although silver closed well off its highs, prices increased somewhat during May.

John Fineron, 1st June 2015.

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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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