JM&B Monthly Gold & Silver Report
September 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

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1. Commentary

Both gold and silver fell in price in September.

2. Gold

2.1 News and Fundamental Considerations

Selected News Items from the Month

Singapore, 23rd September 2013, (Reuters) – Gold fell on Monday after sharp losses in the previous session on renewed fears that the U.S. Federal Reserve will begin tapering its bullion-friendly stimulus measures later this year. Weak buying from major consumer China, which was back from the mid-autumn festival holiday, also weighed on prices. After a surprise decision by the Fed last week to stick to its bond-buying stimulus, St. Louis Fed President James Bullard said on Friday that the U.S. central bank could still scale back the stimulus at an October meeting should data point to a stronger economy.

Gold, often seen as an inflation-hedge and a safe-haven investment, is highly sensitive to the fate of the stimulus which propelled it to record highs in 2011. A Reuters poll of economists

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showed that many expected the Fed to taper bond purchases only in December. Forty-two of 61
economists said the Fed would now taper in December, the last chance for policymakers to follow through on Fed Chairman Ben Bernanke's earlier guidance. "The Fed will not reduce immediately considering they downgraded their views about the economy in the (September) meeting," said Chen Min, precious metals analyst at Jinrui Futures in Shenzhen. "The next possible window is in December." "Because of the risk that has increased recently, investors in the gold markets should focus on holdings in exchange traded funds and speculative holdings to understand market thinking." Traders said silver fell sharply due to technical selling. Strong China PMI data, which usually provides some support for the metal used for industrial purposes, failed to lift prices.

Hedge funds and money managers slashed bullish bets in futures and options of U.S. gold and silver markets, a weekly report by the Commodity Futures Trading Commission showed on Friday. Holdings in SPDR Gold Trust, the world's largest gold-backed exchange-traded fund, fell 0.2 percent, or 1.81 tonnes, to 910.19 tonnes on Friday - not too far from its four-year low.

WEAK CHINA
Traders in Hong Kong and China said there was not much buying interest from China, the second-biggest gold consumer after India. "We can see some buying interest from them only if prices fall below $1,300 and stay above $1,250," said one dealer. In India, importers were set to start buying gold again after a two-month gap as the government and banks agreed on how new rules on imports should work, easing prices in the domestic market and helping supplies just as seasonal demand kicks in

Carlsbad, 24th September 2013, (Sprott) – Steve Todoruk joined Sprott Global Resource Investments Ltd. as an Investment Executive in 2003. He has argued that the recent wave of write-offs might help the market for exploration and mining stocks.

But the pain before the possible upside is still coming: Alaska’s “Pebble” deposit just bit the dust. Steve talked me through these events and what it means for shareholders in mining stocks.

“The Pebble deposit is one of the largest discoveries of a copper-gold deposit in the last 10 years. A well-known Canadian exploration company called Northern Dynasty Minerals (run by the Hunter Dickenson Group) made the original discovery. In 2007, Anglo American PLC, based in London, entered as a joint venture partner to provide capital for the very expensive ongoing development work.”

Northern Dynasty and Anglo American had discovered a total of 81 billion pounds of copper, 107 million ounces of gold and 5.6 billion pounds of molybdenum at the Pebble deposit.[2]

He continues: “For comparison’s sake, during the same time frame, another giant deposit was discovered in Mongolia called the Oyu Tolgoi copper-gold deposit.” According to the website of Turquoise Hill Resources, which owns 66% of the Oyu Tolgoi project, this deposit contains total resources of 101 billion pounds of copper and 62 million ounces of gold.[3]

“Today, Rio Tinto Plc. is building this into a new mine which is costing them approximately $6 billion. Early stage production at Oyu Tolgoi has just begun.”

"Deposits as big as Pebble or Oyu Tolgoi are very rare. Finding these massive deposits and developing them in a timely fashion – say less than ten years-- is a primary goal of big mining companies."

That's why the recent news from Anglo American shocked the investment community. "On September 16, Anglo American announced it was giving up on the Pebble deposit. Anglo had spent $541 million since 2007 on this high profile deposit. They would have had to spend about another $1 billion to meet the terms of their agreement with Northern Dynasty."

Anglo American probably attempted to restructure the joint venture deal with Northern Dynasty, Steve believes, but Northern Dynasty would likely have said no to any such renegotiation.

"Like many other major mining companies, Anglo American is making very hard decisions to get their costs under control and improve their cash flow numbers. Anglo's new CEO has announced that he intends to cut in half the $17 billion earmarked to build new mines; walking away from the Pebble project is part of that process."

"Anglo American decided that their money was better spent on other more profitable-looking projects," says Steve. "They only have so much money to go around and as a result, the Pebble project got the axe."

What will happen to the Pebble project now that Anglo American has left the joint venture?

"Northern Dynasty will regain a full interest in the deposit. With $541 million already spent on it in exploration, this may be somewhat positive for Northern Dynasty shareholders. I believe that one of the other bigger, more financially sound majors will enter into a new joint venture partnership with them to develop this giant deposit."

"Rio Tinto currently owns, and has owned for the past six years, 17.7% of the shares in Northern Dynasty. That makes them the most obvious joint venture partner."

The Pebble deposit is one of several high-profile deposits that have been let go recently (another major example was discussed here).

"We recently talked about a similar case involving a high-profile project that was abandoned. Kinross Gold Corp. gave up on their world-class gold deposit in Ecuador -- called 'Fruta del Norte' – after failing to reach a deal with the political authorities in Ecuador on taxes and royalties on the mine."

"Kinross had paid $1.5 billion to acquire the Fruta del Norte deposit in 2009, but walked away from it empty-handed. They took the 10 million ounce, high grade gold deposit as a write-down."

"Part of the reason for Anglo American's decision to walk away from Pebble – though not necessarily the ultimate reason – was the presence of very loud and prominent NGOs who opposed mining of the Pebble deposit."

Big mining companies expect this type of opposition, he says. "That is just part of doing business in today's world. Anglo American likely believes they will face less opposition to their other new mining projects in Chile and Peru." Major mining companies like Anglo may increasingly avoid certain jurisdictions altogether (Steve also discussed this topic here).

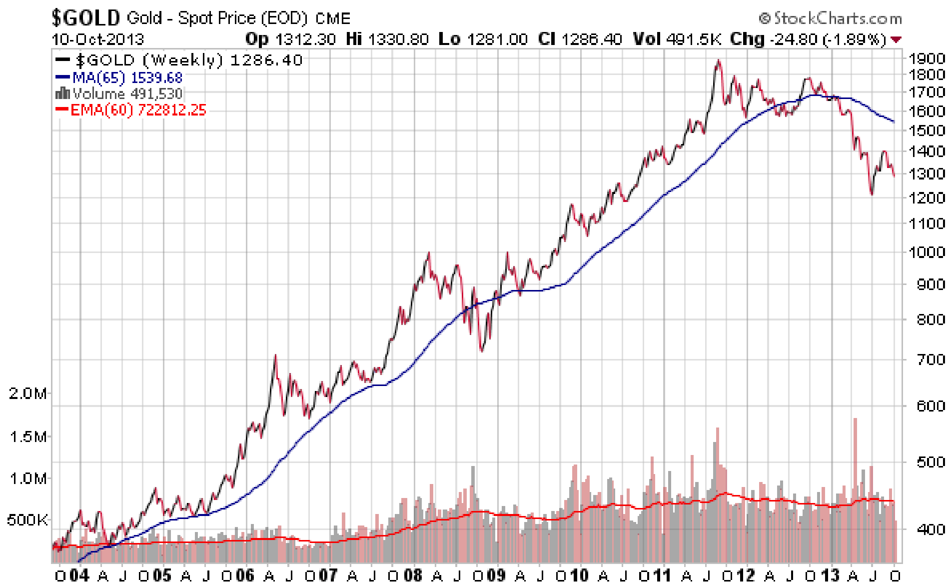
Although write-offs tend to negatively affect stocks, the fact that new management teams are willing to cut their losses is a good sign, says Steve, and investors could benefit from the savings -- and possibly higher earnings -- this produces.

"As a shareholder in these big mining companies, you want the management to take these steps. I believe that these write-offs are necessary to achieve stronger profits in these companies in upcoming quarters."

2.2 Technical Comments

Long Term Technical Comments

Gold was weak in September:



Daily/Weekly Technical Comments

London afternoon fix in USD/toz:

Open	High	Low	Close
2. Sept	3. Sept	18. Sept	30. Sept
1392	1400	1301	1326

London fix in €/toz:

Open	High	Low	Close
2. Sept	3. Sept	18. Sept	30. Sept
1054	1064	975	980

Gold drifted down in price in September, finding support around 1280 USD/toz.

3. Silver

3.1 News and Fundamental Considerations

Washington, 25th September 2013, (Reuters) – U.S. regulators on Wednesday closed a five-year investigation into alleged manipulation of the silver market, saying 7,000 staff hours of investigation produced no evidence of wrongdoing.

The decision by the Commodity Futures Trading Commission was a defeat for silver commentators and investors who urged the probe, saying big banks were using futures and options to hold prices down. Big traders had dismissed the investigation as a waste of time and the charges as a conspiracy theory.

The CFTC formally closed the probe six months after a U.S. District Court dismissed a class action lawsuit making similar claims against JPMorgan Chase & Co..

"Based upon the law and evidence as they exist at this time, there is not a viable basis to bring an enforcement action with respect to any firm or its employees related to our investigation of silver markets," the CFTC said.

The CFTC typically does not comment on ongoing inquiries, but made the silver case public in 2008 after receiving complaints alleging manipulation of the silver futures contracts traded on the Commodity Exchange Inc (COMEX). The agency launches dozens of such investigations each year, many of which do not result in formal charges or action.

The probe gathered urgency in 2011, as silver prices doubled to a record of nearly $50 an ounce, then collapsed nearly 30 percent in five days. That roller-coaster ride brought back memories of the Hunt Brothers silver short squeeze in 1980.

The CFTC said the allegations "asserted that because the prices for retail silver products, such as coins and bullion, had increased, the price of silver futures contracts should have also experienced an increase."

The complainants, who were not named, also cited public regulatory data on futures traders to support claims that several large short positions were depressing prices, it said.

The decision may highlight the high hurdles that U.S. regulators face in proving a case of "market manipulation", even after the CFTC was given greater powers to crack down on trading malfeasance after the 2010 Dodd-Frank financial reforms.

In the past, the CFTC has levied heavy fines for trading rule violations. Yet only once in its 36-year history has it successfully concluded a manipulation prosecution: a 1998 case concerning electricity futures prices.

U.S. REGULATORS VS WALL ST

Closing of the probe was a rare bright spot for Wall Street commodities players during a year in which the U.S. power market regulator has leveled record fines against two big banks, and the

Federal Reserve is considering whether to rein in Wall Street's ability to operate in physical markets.

But Democrat commissioner Bart Chilton, who had championed the silver inquiry, said he was disappointed.

"For me, there's not been a more frustrating nor disappointing non-policy-related matter at the CFTC," he said in a statement after the agency's announcement.

The Gold Anti-Trust Action Committee, an advocacy group that believes the Federal Reserve and banks are colluding to keep gold and silver prices artificially low, said it was not surprised by the CFTC decision.

"We believe that the U.S. government is part of the trading operation. In essence, you are not going to have the CFTC turns against its own government," GATA Chairman Bill Murphy said.

"We are not even slightly surprised and had expected this."

A JPMorgan spokesperson declined to comment.

Commodities traders said it makes no sense for banks to distort precious metals prices, since they generally earn more from trading on behalf of clients in an orderly market.

"The fact that the CFTC couldn't prove any illicit activities in the silver market is enough to let people feel more at ease trading there," said Miguel Perez-Santalla, a veteran precious metals trader for more than 20 years and now vice president of online precious metals market BullionVault.

"The silver market is much greater than the sum of the players," he said.

NO STRANGER TO SCANDAL

Although silver is most visibly used in jewellery, it has wide industrial uses, including in electrical switches, circuit breakers and solar panels. The metal has also featured prominently in modern commodity market scandals.

In the most memorable case, the Hunt brothers of Texas hoarded the precious metal, aiming to corner the market and control global prices starting in the late 1970s.

But the silver market collapsed in 1980 and the Hunt brothers declared bankruptcy. Their losses grew and in 1989 they were convicted of conspiring to manipulate the market.

In 2004, the CFTC had published an open letter to silver investors telling them that the existence of a long-term manipulation was not plausible and that an analysis of activity in the silver futures market at that time did not support the conclusion that the market was being manipulated.

In October 2010, JPMorgan and HSBC, two of the world's largest banks participating in precious metals derivative contracts, were hit with lawsuits accusing them of conspiring to drive down silver prices by amassing huge silver shorts, a trading position designed to profit from a fall in prices.

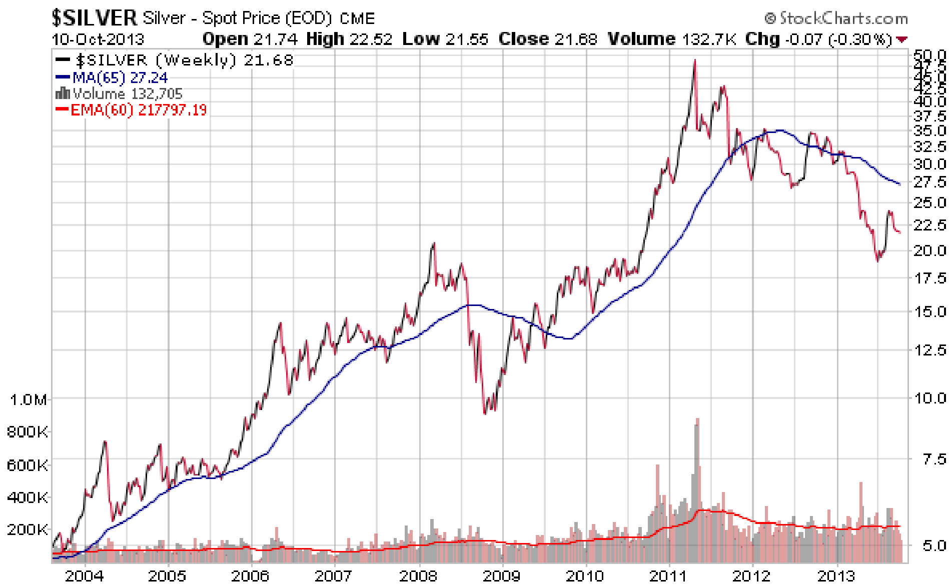
HSBC was later dropped from the complaints, which had alleged the firms reaped up to hundreds of millions of dollars of illegal profits, and a judge dismissed the consolidated lawsuit in March.

The District Court judge said that while the investors showed that JPMorgan had the ability to influence prices, a fact the bank did not dispute, they failed to show that the bank "intended to cause artificial prices to exist" and acted accordingly.

3.2 Technical Comments

Long Term Technical Comments

Silver slipped in price in September:



Daily/Weekly Technical Comments

London fix in USD/toz:

Open	High	Low	Close
2. Sept	3. Sept	18. Sept	30. Sept
23.97	24.21	21.47	21.68

London fix in €/toz:

Open	High	Low	Close
2. Sept	3. Sept	24. Sept	30. Sept
18.13	18.38	15.90	16.06

Although silver had a poor month in September, it found price support around 21.5 USD/toz.

John Fineron, 10th October 2013

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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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