

JM&B Monthly Gold & Silver Report

September 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

September saw significant price declines for gold and silver.

2. Gold

2.1 News and Fundamental Considerations

Selected News Items from the Month

Mumbai, 12th September 2014, (Reuters) – Kiran Laxman Salunkhe used to buy jewellery during religious festivals, but sliding gold prices have led the young farmer to break with his family's traditional investment.

This year Salunkhe has deposited his hard-earned savings at the bank for the first time in a decade and bought farmland.

"I bought jewellery when gold price was 32,000 rupees (per 10 grams) last year. Now jewellers won't pay me more than 27,000 rupees if I want to sell. Why should I invest in gold," said

Salunkhe, who farms 15 acres of sugar cane in Vangal, a village 250 km (160 miles) south of Mumbai.

"Nowadays it is risky to keep jewellery. Burglaries are rising," he said. "With a fixed deposit there is no risk."

A one-quarter drop in local gold prices over the past year has shaken the confidence of Indians in the precious metal as a store of value and dented demand in the world's second-biggest buyer.

The main beneficiary has been stocks, which have been clocking up records on hopes that Prime Minister Narendra Modi can deliver on the promise of "better days" ahead that swept him to power in May's general election.

Beyond short-term sentiment, a major push by Modi for every household to get a bank account, better education and living standards, and falling inflation expectations, could herald a more secular change in investing habits.

"The attachment of Indians to gold will remain," said Harish Galipelli, head of commodities and currencies at Inditrade Derivatives and Commodities Ltd., referring to gold's culturally embedded role in dowry gifts or decorating Hindu temples.

"But as the banking network expands and literacy rises, people in rural areas will explore other investment products like mutual funds or bank deposits. The mindset is slowly changing."

If the national obsession with gold does fade that would help curb India's external deficits - gold is the second biggest item on the import bill after oil - and cap world gold prices that are trading sideways in 2014.

BACK TO EQUITIES

If the crowds selling scrap gold to Kapil Parekh at his shop in Mumbai's Zaveri Bazaar are anything to go by, the shift by small-time speculators out of gold is continuing unabated.

"Many investors who came after 2008's stock market crash were short-term investors," said Parekh.

"They came when the stock market wasn't giving returns. Now, since shares are rallying, they are liquidating gold and going back to equities. They may come back."

One customer, Dinesh Jain, said he had sold 64 grams of gold bought since 2011 and was investing the proceeds - now worth nearly \$3,000 - in information technology stocks.

India's investment demand for gold slumped by 67 percent in the June quarter from a year ago to 49.6 tonnes, World Gold Council (WGC) data showed. Based on industry and WGC estimates, investment demand could nearly halve to 190 tonnes this year.

Investment demand was 37 percent of total 2013 gold sales.

Indian gold exchange-traded funds, a financial product that sophisticated investors use to gain exposure to the metal, have suffered 15 straight months of outflows.

In contrast, turnover on Mumbai's main NSE bourse is up by 61 percent, while \$50 billion has flowed into mutual funds in the financial year starting April 1 - up sixfold from the entire previous year.

Term deposits in banks have also risen but by a more modest \$3.6 billion since April, compared to a drop of \$2.9 billion last year, central bank figures show.

SHIFTING SENTIMENT

A decade-long surge in gold prices to 2013 led investment buying of bars and coins to quadruple. Over the same time, sales of traditionally more popular jewellery rose by just a quarter.

But since hitting a record high of 35,074 rupees per 10 grams in August 2013, local gold prices have fallen steadily, tracking weakness in overseas prices and a strengthening rupee.

In the past, such price falls would have attracted bargain hunters. Not now.

"The 11-year rally in gold prices created a perception that they will only go up. This price fall has broken that conviction," Prithviraj Kothari, vice president of the India Bullion & Jewellers' Association, told Reuters.

"Now people are diversifying their investments. This trend will increase in the coming years," added Kothari, cautioning that expectations of a tightening in super-loose U.S. monetary policy would weigh on gold.

"During uncertainly people chase gold. Now, since we have stability, economic growth will revive. It will ultimately push up the stock market and real estate prices."

But for some India's love affair with gold will endure.

"Last year, despite a premium of over \$100 (per ounce over London prices), buyers were crowding my counter," said a Mumbai-based dealer at a state-run bank.

"Now, the premium is just \$5. The peak festive season is ahead. But I am waiting for customers. There is no hysteria."

Beijing, 16th September 2014, (Bloomberg) – China may join other emerging countries in boosting gold reserves as the precious metal makes up a smaller share of its foreign-exchange holdings compared with developed economies, said a London-based researcher.

The country hasn't announced any changes to state gold reserves since authorities in 2009 said holdings totaled 1,054.1 metric tons. While China holds the world's biggest foreign-exchange reserves, bullion accounts for 1.1 percent of the total, compared with about 70 percent for the U.S. and Germany, the biggest gold holders, World Gold Council data show.

"It is clear that western central banks over time will be reducing their reserves and China and other Asian countries will be increasing," David Marsh, managing director at the Official Monetary and Financial Institutions Forum, said in a Sept. 11 interview in Beijing. "Gold will become more traded amongst central banks in the next 30 years because there are colossal imbalances in world gold holdings as a percentage of overall asset reserves."

Central banks, net buyers of gold for 14 straight quarters, helped limit bullion's losses last year that were the most since 1981 and may increase purchases to as much as 500 tons this year after adding 409 tons last year, the London-based council said Aug. 14. The precious metal rose 3 percent this year as geopolitical tensions boosted demand for a haven.

Bullion for immediate delivery climbed 0.3 percent to \$1,237.04 by 10:44 a.m. in Beijing, according to Bloomberg generic pricing. The metal fell 28 percent last year, the biggest annual decline in more than three decades, and is down 36 percent from a record \$1,921.17 reached on Sept. 6, 2011.

China's Hoard

Russia is among nations that added gold to reserves this year, boosting holdings to the highest in at least two decades and surpassing China's hoard to become the fifth-largest by country, data from the council show.

"I don't know if China has been boosting their official gold reserves," said Marsh, who co-founded the group that tracks economic and monetary policies. "But I'd rather think over the past six or seven years the Chinese authorities probably have been adding to their holdings in different ways."

Foreign-exchange reserves of China, the second-biggest economy, have nearly doubled to \$3.99 trillion since April 2009 when the nation last announced changes to bullion holdings, according to State Administration of Foreign Exchange data. Last year the country, also the biggest bullion producer, overtook India as the top gold user after price declines spurred buying.

The U.S. holds 8,133.5 tons of gold in reserves, while Germany keeps 3,384.2 tons and Italy has 2,451.8 tons, World Gold Council data show. Russia keeps 1,105.3 tons, or 9.8 percent of its total holdings, according to the data.

Beijing, 19th September 2014, (Bloomberg) – China will give foreign investors direct access to its gold market for the first time today as the biggest-consuming nation seeks to exert more influence over prices while boosting the yuan's global use.

The Shanghai Gold Exchange will start trading contracts in the city's free-trade zone that will be linked to its domestic spot market and available to about 40 international members including Goldman Sachs Group Inc. and UBS AG. Access was previously limited to some Chinese units. Gold in China this year cost as much as \$31 an ounce more and \$42 less than the London spot price, according to data compiled by Bloomberg.

China, which overtook India as the biggest bullion buyer in 2013, wants to establish a benchmark price in Asia by opening up trading to a larger pool of investors. It's also pushing to

reduce controls over the movement of capital across its borders after policy makers pledged last year to carry out the widest expansion of economic freedoms since the 1990s.

The Rise and Fall of Gold

"It's indicative of the ambition to move the gold market more to where the consumption is," Victor Thianpiriya, commodity strategist at Australia & New Zealand Banking Group Ltd., said by phone from Singapore. "It makes sense that price discovery occurs in the center of consumption."

Premier Li Keqiang toured the free-trade zone today, days before its one-year anniversary. The FTZ started as a testing ground for liberalizing interest rates and boosting the yuan's role in global transactions.

Goldman Sachs

The gold market, which can diversify the financial market, must avoid systemic risks, Zhou Xiaochuan, governor of the People's Bank of China, said at the opening ceremony today.

Goldman Sachs and UBS are among the first international members that also include Australia & New Zealand Banking Group, HSBC Holdings Plc, Standard Chartered Plc, JPMorgan Chase & Co., Deutsche Bank AG, Standard Bank Group Ltd. and Bank of Nova Scotia, according to a statement from the Shanghai Gold Exchange. Citigroup Inc., Societe Generale SA, Barrick Gold Corp., Newmont Gold Co. and Perth Mint are among the almost 30 institutions that may become members in the second batch, according to the statement.

Three new contracts will allow foreigners to deliver to and from the zone's vaults. They are for bullion of 99.99 percent purity weighing 100 grams and 1 kilogram, and bars of 99.95 percent purity weighing 12.5 kilograms, according to the exchange.

The contract for the 99.95 percent purity traded at 259.6 yuan per gram on the exchange today. The bourse set the price for the contracts at 245.28 yuan a gram, according to a statement on the website. They will trade within 6 percent of the price, with the band widening to 30 percent tomorrow, according to the statement. One kilogram of gold of 99.99 percent purity traded today on the mainland at 242.90 yuan.

Overseas companies will also be allowed to trade eight contracts that already exist on the domestic market at the same price and time as investors on the mainland for cash settlement only.

Currency Liberalization

Foreign investors will trade the gold in offshore yuan while those on the mainland will use the onshore currency. While the two rates typically diverge because of controls over the flow of capital, the government is testing the possibility of convergence, implying parity between the rates, according to Shi Chenbing, chief investment officer at Everbright Prestige Capital Management Co. in Beijing.

“Gold trading is seen by many as the latest attempt by the Chinese authorities to test currency liberalization,” Shi said. “This is the first time offshore yuan and onshore yuan will be treated as the same currency trading in the same pool and at parity.”

The Shanghai Gold Exchange is China’s biggest physical bourse for the metal. Bullion of 99.99 percent purity, the benchmark contract, has risen 2.4 percent in 2014 compared with a 1.9 percent advance in London prices.

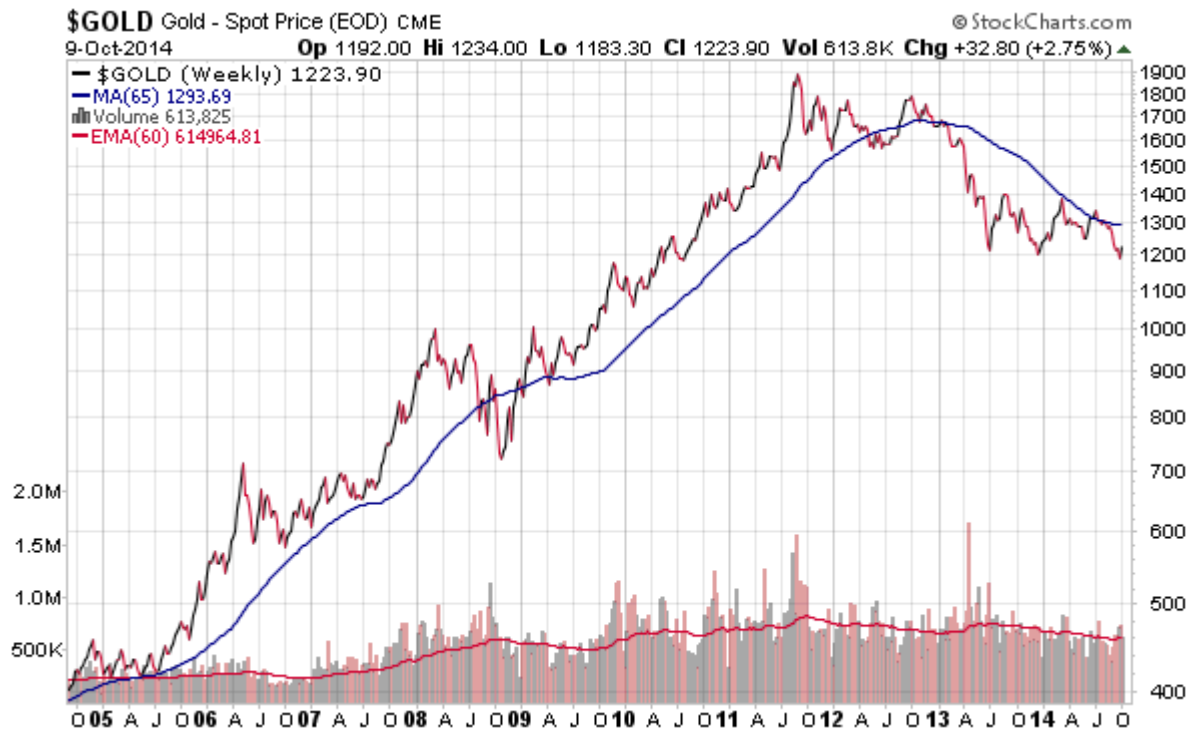
Yuan-denominated gold already trades in Hong Kong. While daily average trading volumes increased to 40,494 kilograms (1.3 million ounces) in April compared with 11,282 kilograms a year earlier, they are much lower compared with London, where 19.6 million ounces changed hands on the London Bullion Market Association, according to exchange data.

“It’s going to be a challenge in terms of being able to entice traders,” Thianpiriya said. “Liquidity has always been the big challenge.”

2.2 Technical Comments

Long Term Technical Comments

For the current correction, gold may have put in a triple bottom in September:



Daily/Weekly Technical Comments

London afternoon fix in USD/toz:

Open	High	Low	Close
1 st September	1 st September	22 nd September	30 th September
1287	1287	1213	1217

London afternoon fix in €/toz:

Open	High	Low	Close
1 st September	1 st September	22 nd September	30 th September
979.4	979.4	945.3	964.4



Gold fell for most of the month, closing a little above the low.

3. Silver

3.1 News and Fundamental Considerations

Washington D.C., 10th September 2014, (Silver Institute) – Silver is playing an important, if not critical role in the growing world of wearable technology.

At the new intersection where fashion and biometrics meet, silver provides the conduit in innovative athletic clothing that transmits sought-after biometric data, such as the wearer's real time heartbeat, to a sensor that displays the data.

The fashionable Polo Tech Shirt, introduced by Ralph Lauren at the just-completed 2014 U.S. Open Tennis Championship in New York City, and worn in its public debut by the ball boys and girls, has bio-sensing silver fibers woven directly into the core fabric of the nylon shirt. The high conductivity of silver, intertwined with the fiber of the form-fitting shirt, is a key to the technology that tracks and transmits the wearer's heart rate, stress level, distance and breathing data in real time and streams the biometric data directly to a smart phone or other device. The Polo Tech Shirt is a forerunner of a line of athletic shirts and tech-enhanced dress shirts that the company said will be available from Ralph Lauren next year.

Ralph Lauren designed and produced the high-styled Polo Tech Shirt, emblazoned with the designer's polo pony brand symbol on the front, in collaboration with OMSignals, a Canadian company pioneering the development, production and marketing of biometric sportswear, designed for athletes and others involved in intense exercise programs. OMSignal's shirt also makes use of silver's bacteria fighting properties. The shirt is made with moisture wicking fibers that keep the wearer comfortably dry. In addition to the silver blended yarns that report heart rate and breathing, the shirt's fibers are treated with an anti-microbial, silver-based solution that destroys odor-causing bacteria.

Integrating technology into everyday wear – with the invisible silver threads – is high on the Ralph Lauren company agenda. They expect these tech-fashion products to represent a significant slice of a projected multi-billion dollar business in contemporary street wear.

"It's yet another example of silver's versatility," said Michael DiRienzo, Executive Director of the Silver Institute. "Silver is the crucial component in so many of today's technologies — from computers and smart phones to medical applications, solar energy, and automobiles, to name a few. Now it's at the leading edge of wearable technology," he said.

3.2 Technical Comments

Long Term Technical Comments

Silver fell again in September:



Daily/Weekly Technical Comments

London fix in USD/toz:

Open	High	Low	Close
1 st September	1 st September	30 th September	30 th September
19.49	19.49	17.11	17.11

London fix in €/toz:

Open	High	Low	Close
1 st September	1 st September	30 th September	30 th September
14.84	14.84	13.60	13.60



A more than 10% price decline for silver in September.

John Fineron, 10th October 2014

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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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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