

JM&B Monthly Gold & Silver Report

May 2017

<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>

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1. Commentary

After dipping in price mid-month, gold and silver recovered to end the month essentially unchanged.

2. Gold

2.1 News and Fundamental Considerations

Selected News Items from the Month

Mumbai, 4th May 2017, (Reuters) – Gold demand in India could be muted in the second half of 2017, as the rollout of a new national sales tax from July is expected to dent appetite in the world's second-biggest consumer, the World Gold Council (WGC) said on Thursday.

But sales are likely to be robust during the first six months of the year, the WGC said.

Gold consumption in the first quarter of 2017 rose 15 percent to 123.5 tonnes on pent-up demand from jewellers as retail consumers ramped up purchases for weddings, the WGC said in a report published on Thursday.

The WGC kept its forecast for India's full-year demand at 650 tonnes to 750 tonnes, lower than a 10-year average of 845 tonnes, but just above last year's level.

In 2016, gold demand fell 22 percent from a year earlier to 666.1 tonnes, the lowest in seven years.

"With the implementation of GST, we are expecting some kind of disruption in demand in the second half," Somasundaram PR, Managing Director of WGC's India operation, told Reuters referring to a Goods and Services Tax (GST) that will be implemented from July 1.

The long-awaited GST is hailed as India's biggest tax overhaul since independence in 1947. The GST will replace a slew of federal and state levies, transforming Asia's third largest economy into a single market for the first time.

But small jewellers, who account for nearly two-thirds of the gold industry, could face operational issues in transitioning to the GST, Somasundaram said.

Gold is a mainstay of Indian culture, serving as the primary vehicle for household saving for hundreds of millions of people.

The government of Prime Minister Narendra Modi has tried to curb costly bullion imports and put restrictions on cash transactions.

Indians buy more than two-thirds of gold with cash.

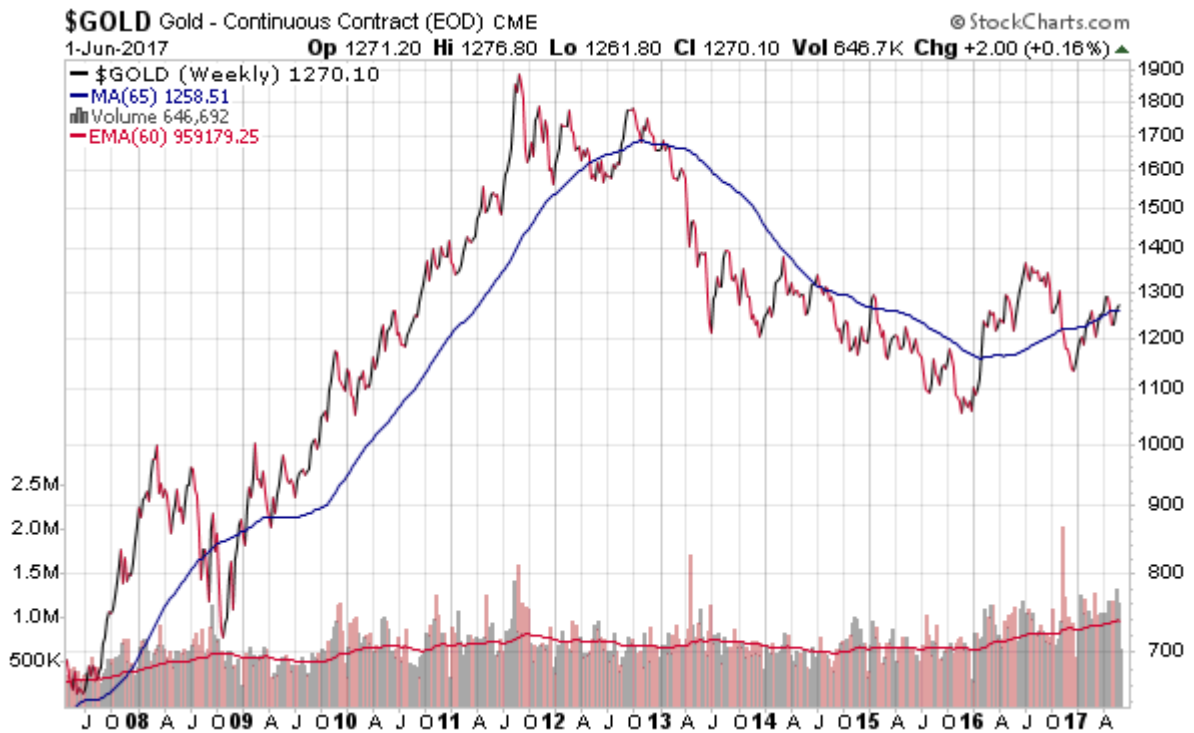
To cut down unofficial trading, under the GST, gold should be taxed substantially lower than the existing duty of 12 percent, Somasundaram said.

The WGC has estimated that 100-120 tonnes of smuggled gold entered India in 2016. Smuggling has surged since New Delhi raised the import duty on gold to 10 percent in 2013 to narrow a gaping current account deficit.

2.2 Technical Comments

Long Term Technical Comments

Gold prices continued their up-trend in May:



Daily/Weekly Technical Comments

London afternoon fix in USD/toz:

Open	High	Low	Close
02.05	31.05	09.05	31.05
1255	1266	1220	1266

London afternoon fix in €/toz:

Open	High	Low	Close
02.05	02.05	16.05	31.05
1151	1151	1115	1127



Gold ended the month slightly higher.

3. Silver

3.1 News and Fundamental Considerations

London, 14th May 2017, (Reuters) – The 117-year-old global benchmark price for spot silver, known as the silver fix, is to be scrapped from August.

The fix is set every day at noon by three banks, who get together over the telephone to work out the price at which their customers are willing to buy and sell the metal.

That benchmark is then published in the market as a standard that can be used by producers, consumers and traders in setting their contracts, buying and selling silver.

The fix, along with other commodity benchmarks, has come under increasing regulatory scrutiny over the last year or so, since the scandal over manipulation of the Libor interest rate.

That has intensified since Deutsche Bank, which was involved in both the silver and gold fixes, said in January that it was putting its seat at the process up for sale, potentially leaving only two banks on the silver fix.

It has since announced it will quit both fixes.

HOW IT WORKS

The process began in 1897, predating the gold fix by 22 years. At that time, the cash price of silver was 27-9/16 pennies.

At the opening, the chairman of the fix announces an opening price based on the prevailing spot price in U.S. dollars.

Each of the fixing members then determines buying and selling interest at that price among their clients. If interest matches, the price is declared fixed.

If not, the price is moved up or down until the fix is achieved. This type of price adjustment process, known as 'tatonnement', is often termed a Walrasian auction.

WHO IS INVOLVED

The current silver fixers are HSBC, Deutsche Bank, and Scotiabank. Scotia's head of precious metals, Simon Weeks, chairs the process.

Deutsche Bank announced late last month that it was quitting the fix without finding a buyer for the seat at the fixing table that it put up for sale at the start of the year.

That led to speculation within the market that the silver fix would struggle to continue with only two members, especially after a senior official at the Financial Conduct Authority (FCA) said the watchdog could intervene if there were too few participants to set commodity benchmarks.

WHO USES IT?

In a 24-hour rolling market like spot silver which does not have a 'close', the fix gives a daily set snapshot of the price that producers and consumers can use as a reference.

Silver miners like Poland's KGHM, one of the world's largest producers, use the fix to set their contracts to refine and sell the metal.

End-users, such as Belgian imaging group Agfa-Gevaert, and others in the chemical, electrical and photovoltaic sectors, use the benchmark in contracts to buy.

Silver, an excellent electrical conductor, is widely used in electronics manufacturing and various other industrial processes, as well as in photography, jewellery, and coin smelting. It is also a popular investment, especially at the retail end of the market.

WHAT NOW?

Users say that once the fix ceases to be produced on August 14, they will have to negotiate a new way of finding a benchmark price with their contractual partners.

The London Bullion Market Association (LBMA) said it is consulting with market participants over the way forward for a London silver daily price mechanism.

Some other pricing mechanisms already exist. The London Metals Exchange (LME) currently distributes gold and silver spot prices and forward rates on behalf of the LBMA.

At 1700 hours, the eight market makers of the LBMA contribute closing spot prices and forward rates to the LME via an automated data collection system. A forward curve is produced based on the spot price and forward rates between one week and three years.

This data reflects the daily close of the London bullion market, the LME said.

The CME Group, the world's largest futures exchange, also carries data on silver prices through its Comex futures trading platform. Market sources say a snapshot of the Comex price, or a price based on it, could be used as an alternative to the fix.

3.2 Technical Comments

Long Term Technical Comments

Silver moved sideways to up in May:



Daily/Weekly Technical Comments

London fix in USD/toz:

Open	High	Low	Close
02.05	31.05	09.05	31.05
16.95	17.31	16.22	17.31

London fix in €/toz:

Open	High	Low	Close
02.05	02.05	09.05	31.05
15.53	15.53	14.88	15.43



After an initial fall, silver rallied to close slightly higher.

John Fineron, 2nd June 2017.

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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