

JM&B Monthly Gold & Silver Report

December 2003

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. Johnson Matthey plc issues reports on platinum group metals:

http://www.platinum.matthey.com/publications/price_reports.html

For more information about this report, please consult the Appendix.

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1. Gold

1.1 Fundamental Considerations

China

Gold trading moved a further step forward in December:

Shanghai, Dec. 5, 2003 -- A resident in Chengdu city of south-western Sichuan province bought five ounces of gold this week in the Chengdu branch of the Merchants Bank of China at the price of 16,647.5 Yuan (2,000 US dollars), becoming the first investor to try physical gold trade in China.

Just half a month ago, the Bank of China (BOC), one of the four major state banks in China, began selling gold-backed paper items to Chinese individuals in Shanghai. The trade was welcomed by locals with one of the largest buys reaching 2,500 grams of gold in paper.

Insiders said that from "paper" to "physical" gold trade, China is now providing more investment choices for its residents.

"The investment value of gold has long been screened owing to scarcity of investment channels," said Gu Wenshuo, general manager of the comprehensive section of the Shanghai Gold Exchange.

In the past five decades, nevertheless, the gold market was under a government monopoly with gold consumption focused on jewellery or industrial use in China. Total gold consumption is at a low level as compared with other nations in the world. In 2002, Per-capita gold consumption in China was only 0.16 grams; far lower than 1.42 grams in the United States and the world's average of 0.7 grams.

Chinese people have traditionally had the tradition of hoarding gold as a way of securing savings against disasters, natural or man-made. Shanghai was the largest gold trade centre in the Far East in the 1930s and 1940s. However, gold trade was abolished with the founding of new China in 1949.

Xia Yanlin, researcher in Guangfa Securities Development Research Center, cited gold as a ideal good risk management instrument as the trend of it comes against most financial tools.

Xia said China brings gold trade service to individuals at just the right time. Against the backdrop of gloomy stock and securities markets on its mainland and the rocketing gold price worldwide because of tension in international relations, trading in gold is expected to become a crucial investment arena for Chinese individuals.

Gold has exceeded 400 US dollars an ounce on the world market and is reasserting its powerful and some would say mystical role in the world economy. Affected by this, Shanghai Gold Exchange closed at 106.93 Yuan per gram on Thursday.

A recent questionnaire by the Beijing Gold Economic Development Research Centre in 10 major cities in China showed 70 percent of respondents said that they would invest in the gold trade if they had money and over 20 percent of securities investors would transfer part of their capital to gold trade.

Experts predicted that nearly 7.5 million investors would try the gold trade while continuing the securities trade in the future. Calculating that each one will invest 10,000 Yuan (about 1,200 US dollars) of capital, the trade will attract 75 billion Yuan (some 9 billion US dollars) of funds in total.

Astute and sharp-sighted commercial banks would never ignore potential income from the intermediate business and the huge client's resources it would bring. The other three state banks, namely, the Industrial and Commercial Bank of China, the Construction Bank of China and the Agricultural Bank of China, have all stepped up their preparations for launching gold trading.

Anti-Trust News

A good summary of the plight of the biggest gold hedger, can be found here:

<http://www.financialinsights.org/Articles/article03-1204.asp>

GATA have been busy again:

GATA consultant Reg. Howe has inspected the books of the Bank for International Settlements, the Commodity Futures Trading Commission, the U.S. Office of the Comptroller of the Currency, and other financial authorities for his new analytical essay, "Gold Derivatives: Hitting the Iceberg."

Howe's major conclusions:

"That producer hedge book reductions have had little, if any impact on total gold derivatives reported by the BIS suggests, as does the absolute data itself, that producer hedging never accounted for much more than the very visible tip of a gold derivatives iceberg consisting in major part of transactions related to the gold carry trade, which never could have grown to the size implied by the BIS data without the active support of the G-10 central banks".

"Clearing house rules require that losses to trading accounts be posted each day at settlement. Losses of the size incurred by the commercial gold shorts over the past few months beg two tough questions: What risk management system would allow losses of this magnitude to accrue without mandating the closure of losing positions and are the central banks, directly or indirectly, assuming the burden of these losses?"

"While gold derivatives reported by the BIS declined slightly in this year's first half, the gold derivatives of U.S. commercial banks, including J.P Morgan Chase, rose in the second and third quarters by nearly 1,000 tonnes. These increases, which came at the same time that the commercial shorts on the COMEX were raising their open positions to record levels notwithstanding eye-popping mark-to-market losses, lend further support to the hypothesis that the commercial shorts consist primarily of bullion banks with both heavy exposure to the gold carry trade and substantial official support."

Together with GATA consultant Mike Bolser's recent study, "Government Intervention: Gold and Long-Term Interest Rates," which can be found here --

<http://www.gata.org/Bolser121803.htm>

Howe concludes:

"The gold community has prospered more than most over the past year and having endured years of oppression by government, not to mention ridicule by establishment figures of all stripes and colours, gold bugs have earned the right to enjoy their good fortune. But real gold bugs are not profiteers. They are freedom fighters. For them, securing their own financial survival and that of their families is important but not sufficient, for they dream of a world in which gold is again the international monetary numéraire and where all peoples and nations meet on a level

economic playing field characterized by free markets and an absence of malignant government intervention.

You can find Howe's "Gold Derivatives: Hitting the Iceberg" at his Golden Sextant Internet site here:

<http://www.goldsextant.com/commentary26.html#anchor25233>

1.2 Technical Comments

Long Term Technical Comments

Due to its strong performance in December, gold touched the upper boundary of its up-trend channel:



Weekly/Monthly Technical Comments

London afternoon fix in USD/oz:

Open	High	Low	Close
400.25	416.25	400.25	416.25
1 st December	30 th December	1 st December	30 th December

Gold had a strong month in December, quickly breaking through the psychological 400 USD/oz barrier, which provided good support on price dips. Gold moved steadily upwards, staying between the mid- and upper Bollinger-Band boundaries and did not become overbought. Although many are calling for a correction, which could in theory, take gold down to around 360 USD/oz, we currently doubt that this will take place unless of course the USD suddenly strengthens.



2. Silver

2.1 Fundamental Considerations

The following report provides further news on silver's entry into performance textiles in an anti-bacterial fibre:

Tokyo, Dec 26, 2003 -- Japanese fabric manufacturer Japan Exlan has announced that it will start to market a new acrylic fibre using silver "Ginsekai: Silvery World" in spring 2004.

Based on a photo catalytic function derived from the combination of acrylic fibre and silver, the new fibre can effectively kill germs and discourage bacterial proliferation.

The company is aiming for sales of 1 billion yen in 2004 and 3 billion yen in 2006.

More silver industry news:

<http://www.silverinstitute.org/news/4thq03.pdf>

2.2 Technical Comments

Long Term Technical Comments

Like gold, silver also moved to the upper boundary of its up-trend in December:



We would like to draw reader's attention to a technical article on silver:

http://www.gold-eagle.com/editorials_04/eidetic010104pv.html

Some very good points are made in this article, with which we fully agree:

- The Gold/Silver Ratio, which is nothing more than the price of gold on USD/oz divided by the price of silver, is now falling. Should this trend continue, the implication is that the price of silver will rise relative to gold. Conversely, should the price of gold fall, the price of silver should fall less.
- A long-term price cycle for silver of 127 months is identified. This taken together with price swing ratios, both point to the lows for silver being in place.
- A break of a long-term downtrend at 6.10 USD/oz could lead to prices of around 10 USD/oz.
- Only prices below about 5 USD/oz would lead the authors to abandon their bullish scenario.

The price appreciation of silver in USD has until now had limited effect on the silver price in EUR and CHF. Although we expect the decline of the USD to continue, the time may be near when silver, precious and base metal prices start to appreciate in European currencies, leading to so-called commodity price inflation.

Weekly/Monthly Technical Comments

London fix in USD/oz:

Open	High	Low	Close
5.360	5.965	5.360	5.965
1 st December	31 st December	1 st December	31 st December

Silver had an excellent month in December, taking out major long-term resistance in the 5.50 to 5.60 USD/oz range. At the current price level silver is beginning to look overbought, therefore a correction back to 5.50 USD/oz would not surprise us. Nonetheless, we would remind readers that silver is now in a bull-market and in bull-markets things can stay overbought for quite some time before correcting!



J. Fineron/4th January 2004

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

This document is supplied in PDF format. To view, you may need to download the free Adobe Acrobat Reader:

<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/What/index.html>

and the terms used:

<http://stockcharts.com/education/Resources/Glossary/index.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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