

# JM&B Monthly Gold & Silver Report

## March 2004

[www.johnson-matthey.ch](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](http://www.platinum.matthey.com/publications/price_reports.html)

### Contents

- 1. Gold
  - 1.1 News and Fundamental Considerations
  - 1.2 Technical Comments
- 2. Silver
  - 2.1 News and Fundamental Considerations
  - 2.2 Technical Comments
- Appendix More about this report

## 1. Gold

### 1.1 Fundamental Considerations

#### ECB PRESS RELEASE

Joint Statement on Gold  
8 March 2004

European Central Bank  
Banca d'Italia  
Banco de España  
Banco de Portugal  
Bank of Greece  
Banque Centrale du Luxembourg  
Banque de France  
Banque Nationale de Belgique  
Central Bank & Financial Services Authority of Ireland  
De Nederlandsche Bank  
Deutsche Bundesbank  
Oesterreichische Nationalbank  
Suomen Pankki  
Schweizerische Nationalbank  
Sveriges Riksbank

In the interest of clarifying their intentions with respect to their gold holdings, the undersigned institutions make the following statement:

Gold will remain an important element of global monetary reserves.

The gold sales already decided and to be decided by the undersigned institutions will be achieved through a concerted programme of sales over a period of five years, starting on 27 September 2004, just after the end of the previous agreement. Annual sales will not exceed 500 tons and total sales over this period will not exceed 2,500 tons.

Over this period, the signatories to this agreement have agreed that the total amount of their gold leaseings and the total amount of their use of gold futures and options will not exceed the amounts prevailing at the date of the signature of the previous agreement.

This agreement will be reviewed after five years.

European Central Bank

Our comments on the new agreement:

There are no real surprises here. The gold market had been expecting an announcement regarding the sale of 400 to 500 tonnes per year for five years. Some of the signatories have **not yet** even decided if they want to sell gold or not. This means 500 tonnes per year from the signatories could be a maximum. Readers should also be aware that there are other non-signatories, who want to purchase gold and yet others who wish to sell. Further, the agreement (or at least the press release) fails to mention certain types of derivatives such as swaps which at the end of the day, if executed, are effectively sales!

All in all, it is very difficult to estimate the net level of official sales going forward. Who knows, should the price of gold begin to rise in all currencies and there are signs that this may now be happening, central banks may start to question the wisdom of selling an asset, which is rising in price in exchange for paper obligations?

We remain firmly of the opinion that the price of gold over the next few years will be determined by investment demand and not the whims of central banks, who were, by the way, selling in the seventies when gold moved from 35 to 800 USD/oz.

## India

NEW DELHI, March 8 - Indian farmers, flush with cash after a good harvest, are likely to shop for more gold over the next two months despite volatility in prices, dealers said on Monday.

Gold demand in India, the world's largest consumer where people buy the yellow metal both as an investment and adornment, had fallen over the past few months as prices hit a 15-year peak of \$430.50 an ounce on January 6.

"We have already seen a pick up in demand at a price level of around \$400 per ounce," said Girish Kumar Choksi, a bullion dealer in Ahmedabad.

But Choksi said rural demand for jewellery was likely to be strong with farmers harvesting good oilseed, cotton and grains crops, after excellent weather.

Farmers in western India have nearly finished their cotton and groundnut harvests while wheat and mustard crops in northern India will be ready by the end of March.

Nearly two-thirds of India's billion plus population depend on agriculture for a livelihood.

Jewellers and investors, who had held back purchases over the past few weeks because of a sudden rise in prices, have stepped up buying after gold prices fell below \$400 an ounce.

Domestic prices follow global trends due to dependence on imports, with India buying an average 1.6 tonnes of gold a day to meet more than two-thirds of its annual needs of about 800 tonnes.

"Imports into Ahmedabad have risen to 600-700 kg per day from 250-300 kg when prices ruled above \$400 per ounce," Choksi said.

Pansare said apart from harvests, demand for gold will also grow ahead of federal elections in April and May.

"We have seen lots of gold buying during previous elections," said Pansare. "Gold can be exchanged easily because it can be bought with cash and sold for cash."

Traders estimated that India will import about 60 to 70 tonnes of gold a month until May, compared with around 55 tonnes a month a year ago.

"People who sold their holdings at level of more than \$400 are turning buyers now," said R.K. Das, general manager (forex), at Adani Exports Ltd.

Our comments:

India is the world's biggest consumer of gold and agriculture still accounts for 25% of the Indian economy. Therefore, if Indian farmers have a good year they will be buying gold and silver in abundance as they always have done.

## **China**

BEIJING, March 4 - China's policy makers are currently looking at plans to scrap the 5 per cent consumption tax on gold jewellery, a move which could provide a great fillip to the nation's gold processing industry.

The China Gold Association proposed to the State Administration of Taxation last November that the tax should be scrapped.

In an encouraging development, it has been reported that the administration has attached great importance to the issue, and delivered it to the State Council, China's cabinet.

Association Vice-Secretary-General Xu Shouxin was unequivocal about what the State Council should do.

"The consumption tax on gold jewellery should be scrapped, to further the development of the industry," said Xu.

The association made its proposal to the administration after conducting an investigation into gold processing enterprises and gold jewellery traders in major processing areas like the Pearl River Delta and big gold jewellery consuming cities including Beijing and Shanghai.

Xu said there was the "great possibility that the central government will abolish the consumption tax this year."

China began to levy a 10 per cent consumption tax on gold jewellery in 1993. The tax was reduced to 5 per cent and transferred from consumers to retailers in 1994.

Gold jewellery was a luxury at that time for most Chinese people, and the special tax severely limited sales of gold jewellery, Xu said.

"However, the consumption tax is unnecessary today, as gold jewellery has become a common commodity for most Chinese families, with the country's rapid economic development and rising living standards," Xu said.

And the consumption tax is even more of an anachronism, given that the central government began to speed up its reform of the gold market management system in 2001.

The State had a monopoly on the purchasing and allocation of gold for over 50 years.

This situation changed in 2002 with the establishment of the Shanghai Gold Exchange.

In addition, the State Council further liberalized the gold jewellery market in early 2003 by abolishing more than 100 administrative approval procedures.

"With the opening up of the gold market, taxation is a major factor affecting the development of the industry," Xu said.

The levying of the consumption tax put a relatively heavy burden on gold jewellery processing and trading enterprises.

Statistics show that the profit margin in the gold jewellery sector is less than 2 per cent, compared with a gross profit of as high as 30 to 40 per cent for diamond and gem products.

With meagre profits, some small and non-standard traders tried to avoid the tax payment and lure more consumers with cheaper prices, leading to unfair competition in the industry.

"One of the reasons we put forward the proposal is to help create a comparatively fair competitive environment for enterprises," Xu said.

Scrapping the consumption tax will also mean that gold jewellery processing enterprises will be able to earn higher profits, and improve their designing and manufacturing technology.

"It will be good news for the business, as better-designed and elaborately processed products will attract more consumers," Xu said.

However, whether consumers can benefit from the likely new policy will be determined by both enterprises and retailers, he added.

He suggested that gold jewellery enterprises should make good use of the policy to improve their competitiveness, rather than using it to simply cut the price of gold jewellery.

Luo Pengfei, an industry analyst at CITIC Securities, said prices are likely to come down, but this would be limited.

"The 5 per cent tax cut is small for enterprises in terms of marginal utility," Luo said.

The better way to develop the industry is to increase the added-value of the products and to change Chinese consumers' attitudes towards gold and increase consumption, Luo added.

**Per capita gold consumption in China is just over 0.7 grams a year, compared with 11 grams in the United States and Europe, although China has become the third largest country in terms of gold consumption, standing at more than 200 tons last year.**

Our comments:

It is clear to us that the Chinese government are preparing the ground for not just a gold industry from mines to jewellery manufacture, but that they also desire their citizens to purchase more gold and gold jewellery. The long-term implication for gold prices is bullish.

## 1.2 Technical Comments

### Long Term Technical Comments

The correction in the gold price, which began in January, drew to a close in early March:



### Weekly/Monthly Technical Comments

London afternoon fix in USD/oz:

Open	High	Low	Close
400.00	423.70	390.50	423.70
1 <sup>st</sup> March	31 <sup>st</sup> March	3 <sup>rd</sup> March	31 <sup>st</sup> March

Gold finished the month at the monthly-highs and looks set to attack the highs of January at 428 to 430 USD/oz within the next two weeks. Should the January peaks be exceeded, the path to significantly higher gold prices will be open. We would caution however, that nothing moves in a straight line. So for buyers it will be a question of buying the dips and sellers should sell the peaks if they have to sell!



Before we move on to silver we would like to show you a chart, which caught our attention. Until recently the price of gold had only really been rising in USD. In other currencies the price had, in general, only risen slightly. The following chart shows that this may be about to change. It may be that the price of gold is on the verge of breaking out in EUR, CAD and YEN.



## 2. Silver

### 2.1 Fundamental Considerations

Nothing to report in March!

### 2.2 Technical Comments

#### Long Term Technical Comments

Silver continued upwards in March, without a significant correction:



### Weekly/Monthly Technical Comments

London fix in USD/oz:

Open	High	Low	Close
6.730	7.825	6.730	7.825
1 <sup>st</sup> March	31 <sup>st</sup> March	1 <sup>st</sup> March	31 <sup>st</sup> March

Silver moved upwards and onwards in March, exhibiting only small corrections, which were, with one exception all held by the 10 DMA. This means buyers were waiting just below current market prices and sellers were in no hurry to sell. A major correction to the 50 or 200 DMA has still not taken place. It will, but the important question is, from what level? We offer some hints below. Technically, by moving above the weekly closing high of 1998, silver could move significantly higher before a major correction takes place. Here we will repeat our previous comment, that in a bull market, price consolidation (or sideways price movement) can often take the place of deeper corrections. Therefore buyers beware, if you need silver now it may not be a good idea to wait for lower prices, they may be a long time coming!



## Gold:Silver Price Ratio

We would like to present a different view of silver prices by comparing the gold price to the silver price. To do this we will use the ratio of gold to silver prices, which is simply nothing more than the price of gold in USD/oz divided by the price of silver in USD/oz.

We may shock you when we tell you that for much of recorded history, this ratio was about 16. The ratio was also at 16 at the end of the last bull market in silver in 1980! This means with gold at 420 USD/oz, using the historical ratio, silver would be around 26 USD/oz. As the following chart shows, the ratio is currently at 54 and was generally between 50 and 90 during the last ten years. Why? In our opinion this was due to de-stocking of silver from various sources, keeping the price of silver artificially low. Some believe that this process will soon come to an end and silver prices will move up further, such that supply and demand will come to equilibrium. Others believe that a large part of the rise in silver prices is due to speculative demand, which at some stage will leave the market and lead to lower prices. We'll save this discussion for another day and stick with the chart for now. The chart shows that recently silver prices have been moving up faster than gold, hence the price ratio of the two has been falling.



What we do know is that speculators often use technical analysis to provide buy and sell points. Therefore, on the above chart two sell points would be ratio values of 47 and 34. In the past, price direction changed at these two points. The table below shows the silver prices at these two ratio values for various gold prices:

Gold:Silver Price Ratio	Gold Price USD/oz	Silver Price USD/oz
47	530	11.3
	480	10.2
	450	9.6
	420	8.9
	400	8.5
32	530	16.6
	480	15.0
	450	14.1
	420	13.1
	400	12.5

Even if a bounce occurred at one or both of the two price ratios suggested, meaning the price of silver were to fall, relative to gold, it still would not necessarily signal the end of the upward trend in the price of silver, rather may just have been a correction in this up-trend.

J. Fineron/1<sup>st</sup> April 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](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>

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.

### **Special Legal Notice/Disclaimer concerning this report**

This report represents the views of Johnson Matthey & Brandenberger AG, which may be materially different from those of Johnson Matthey plc and other group companies.

### **General Legal Notice/Disclaimer**

Information and images contained within the web pages published by Johnson Matthey & Brandenberger AG ("JM&B") are copyright and the property of JM&B.

JM&B authorises you to copy documents or pages published by JM&B on this Web site for your non-commercial use only. Copies may be made for others for their personal information only. Any such copy shall retain all copyrights and other proprietary notices, and any disclaimer contained thereon.

None of the content of these pages may be incorporated into, reproduced on, or stored in any other Web site, electronic retrieval system, or in any other publication, whether in hard copy or electronic form. You may not, without our permission, 'mirror' this information on your own server, or modify or re-use text or graphics on this system or another system.

Certain links on this Web site lead to resources located on servers maintained by third parties over whom JM&B has no control. JM&B accepts no responsibility for the information contained on such servers.

The information, text, graphics and links contained in these pages are provided for information purposes only. JM&B does not warrant the accuracy, or completeness of the information, text, links, and other items contained on this server or any other server.

JM&B accepts no responsibility for loss, which may arise from reliance on information contained in this site.

No warranty of any kind, either expressed or implied, is made as to the information contained in these pages, including, but not limited to any implied warranty of merchantability, fitness for a particular purpose or non-infringement of third party intellectual property of or by JM&B products. Some jurisdictions do not allow the exclusion of implied warranties, so the above exclusion may not apply to you.

JM&B may make changes to the information contained in these pages, or to the products described in them, at any time without notice but JM&B makes no commitment to update the information given in these pages.