

JM&B Monthly Gold & Silver Report December 2004

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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

Contents

- 1. Overview
- 2. Gold
 - 2.1 News and Fundamental Considerations
 - 2.2 Technical Comments
- 3. Silver
 - 3.1 News and Fundamental Considerations
 - 3.2 Technical Comments
- Appendix More about this report

1. Overview

Gold and especially silver corrected significantly in price in December. This report contains lots of news from the gold market.

2. Gold

2.1 News and Fundamental Considerations

Selected News Items from the Month

Investment Demand

Hong Kong, 10th December 2004, (Greater China News) – Following its successful debut on the New York Stock Exchange, a gold exchange traded fund (ETF) is expected to be launched in Hong Kong in the coming 12 months.

The World Gold Council, the gold mining association, which was behind the New York listing, is tight-lipped about an impending gold ETF in Asia. The only comment that could be extracted

from the Council was, 'We are looking at a number of exchanges around the world, including Hong Kong.'

But despite the reticence, the betting in the gold market is that Hong Kong will be the next exchange that will be listing a gold ETF. Tokyo, Singapore and Zurich could follow at some future date, provided gold ETF's take off. Most ETFs are indices of stocks that are listed on stock exchanges and fluctuate with the value of an index.

The World Gold Council first sponsored a gold ETF in Australia, followed by the London Stock Exchange, Johannesburg, and more recently on the New York Stock Exchange.

StreetTracks Gold Shares, the gold ETF, launched on the New York Stock Exchange last month, trades like any share. Investors can buy the shares, which are listed as GLD on the ticker, through their stockbrokers.

The shares represent one tenth of an ounce of gold bullion and are currently priced at US\$43.75, down from its recent peak of US\$45.4. The shares are backed by 2.9 million ounces of gold following a primary issue of shares to institutions and wealthy individuals.

Since the shares track gold, a purchase is very much a bet on bullion, which in recent months, has almost entirely reflected the fortunes of the US dollar. GLD thus soared after listing when the dollar tumbled and plunged on Wednesday when the dollar revived. In New York, the daily volume of trade of GLD was initially around 11 million, but has since slipped to three million to six million a day.

Andy Smith, commodities analyst at Mitsui Bussan, cautions investors that they should not be deluded, by the volume of gold ETFs traded on New York and London stock exchanges. The important statistic is the amount of physical gold which investors are prepared to purchase, he said.

Since listing late November the amount of gold backing the ETFs has fallen to around 2.9 million ounces from 3.3 million ounces. The amount of gold backing ETFs in New York, London, Australia and Johannesburg is only 4.7 million ounces, which is less than 4 per cent of global gold demand.

The future of gold ETFs will very much depend on new primary issues of ETFs that will raise the quantity of gold and number of shares that can be traded on the secondary market, Mr Smith believes.

New York, 31st December 2004, (Bloomberg) – A fund created last month to invest in gold bullion has attracted \$1.29 billion from investors, making it the most successful start for an exchange-traded fund since the securities were created in 1993.

StreetTracks Gold Trust, the first fund traded on the New York Stock Exchange to invest in the commodity, enables investors to invest in gold without purchasing the metal or futures contracts. About \$227 billion is invested in exchange-traded funds, the biggest of which are linked to stocks in the Standard & Poor's 500 Index and the Nasdaq-100 Index.

Demand for the new gold fund, started Nov. 18, has been spurred by fund managers barred from owning physical commodities who want to bet that this year's rally will continue. Gold prices

reached a 16-year high of \$458.70 an ounce in October. Some investors also buy gold as a hedge against a decline in the dollar.

"We use it as a parking place for money," said Gregory Orrell, president of Livermore, California-based Orrell Capital Management Inc., which has 7 percent of its \$76 million in cash and gold-backed shares. "Instead of holding cash, we can put it there."

Since its creation, the fund has grown faster than any other exchange-traded fund, according to Santa Rosa, California-based TrimTabs Investment Research. The previous record was held by the iShares Lehman 1-3 Year Treasury Bond Fund, a short-term debt fund that raised \$610 million in 30 days.

"There has been nothing like this in the history of ETFs," said Carl Wittnebert, director of research at TrimTabs.

World Gold Council

Christopher Thompson, chairman of South Africa's Gold Fields Ltd., came up with the idea for the fund in 2002. Thompson, who is also head of the World Gold Council, said the fund would help boost investor demand for the metal. The council is funded by the world's biggest gold producers including Denver-based Newmont Mining Corp.

"It's as good a time for the gold business as it has been in a long time, and the outlook is quite promising from the perspective of investment demand," Thompson said in an interview in September.

Higher Prices

Gold prices have climbed 73 percent from a 20-year low in 1999 as prospects for inflation boosted demand as a hedge against declines in fixed-income assets. Hedge funds and other large speculators have also boosted purchases of gold futures as protection against declines in the dollar.

Gold, which averaged \$410 an ounce in 2004, is expected to rise to an average \$430 an ounce in 2005, Australia & New Zealand Banking Group Ltd. forecast in a Dec. 20 report. Prices have climbed for four years in a row, gaining 5.4 percent in 2004. Gold prices gained even as gold equity shares fell, with the Philadelphia Gold & Silver Index of 12 mining company shares falling 9.17 percent in 2004. Shares of Newmont Mining, the world's biggest gold producer, dropped 8.37 percent in 2004.

"We would buy the ETF when gold has strongly underperformed gold stocks, and there's going to be a rebound in the price of gold," said Todd Scholl, a gold trader and analyst at San Antonio-based U.S. Global Investors Inc., which manages \$1.4 billion, including \$380 million in two precious-metals funds. "We would use it as a tool for managing our portfolio."

Cheaper to buy Bullion

The gold fund is an expensive way to buy gold, said Stuart Flerlage, managing principal of Brownstone Advisors LLC, a New York-based investment company that has \$100 million in

futures including gold. Investors pay a 0.4 percent fee for the fund's expenses, according to the prospectus. "It's a lot cheaper just to buy the actual bullion, or the futures," he said.

James Turk, founder of Channel Islands-based Goldmoney.com, which stores about \$24 million of gold for owners in 102 countries, says the fund is risky because the gold that backs the securities is held by a bank.

The fund's gold is mainly held by HSBC Bank USA and by so-called "sub-custodians" such as JPMorgan Chase & Co. and Bank of Nova Scotia, according to the fund's prospectus. The prospectus states that the World Gold Council "does not undertake to monitor the performance of any sub-custodian" and "may have no right to visit the premises."

"Gold is your bedrock asset; you don't want to take any risks with that," Turk said. "You're taking a risk if you buy a fund that doesn't have all of its assets audited."

Jewellers are the biggest users of gold, consuming 94 percent of the amount of gold mined each year. Investor demand uses up the rest, plus sales of gold by central banks, which are the largest owners of gold bullion.

Goldman Sachs Group recommends investors keep 3 percent of their assets in commodities, such as gold. Citigroup, by comparison, recommends investors put 60 percent of their money in stocks, 35 percent in bonds and 5 percent in cash.

More demand for gold-backed shares is expected next year, said Vaughn Francis, director of business development at Minneapolis-based TIS Group Inc., a money-management company with \$50 million in assets.

"I would anticipate looking at it very seriously in May," Francis said. "Seasonally, May to August is the low for gold usually."

China

Give Full Play to the Gold Market's Investment and Hedging Function

By Zhou Xiaochuan, Governor, the People's Bank of China

The establishment and development of China's gold market marks the basic completion of the construction of a market for major financial products in China, which will provide better micro grounds for China's macroeconomic adjustment. For further development, China's gold market should gradually realise three transformations: from commodity trade to financial product trade, from spot transactions to futures transactions, and from a domestic market to integration with the international market.

More here:

http://www.lbma.org.uk/publications/alch36_pboc.pdf

Kunming, 13th December 2004, (Xinhuanet) – Jewellery has emerged as the third leading consumption item in China after housing and automobiles, China Gem Association Secretary-General Sun Fengmin said recently.

The jewellery industry in China recorded double-digit growth in recent years with an annual sales value of more than 100 billion Yuan (12 billion US dollars), Sun said at the first Yunnan international gem and jade expo held in Kunming, capital of southwest China's Yunnan Province.

China leads the world in the consumption of platinum, gold and diamonds. The country consumes 1.2 million ounces of platinum and 250 tons of gold annually. More than 20,000 Chinese engage in diamond polishing with a processing volume of 3 million carats each year.

The leading pearl producer in the world, China turns out more than 500 tons of pearls annually, accounting for 90 percent of the world's total. The country has become the world's largest centre for jade processing and consumption as well, selling 6,000 tons of jade per year.

The Chinese government has taken a series of measures to promote the development of the jewellery industry. It has lowered the tariff rate from 15.3 percent in 2001 to 10 percent this year, and it allowed silver, long considered a special commodity in China, to be traded on the open market in January 2000. The Shanghai diamond exchange was officially opened in October 2000. China's first gold exchange opened in Shanghai in October 2002.

China has readjusted the tax rate on diamond sales and gold imports to fulfill its World Trade Organization commitments and has promulgated a number of regulations governing gems' grading.

Beijing, 23rd December 2004, (China Peoples Daily) – Under the approval of China Banking Regulatory commission, the Bank of China will be the first Chinese commercial bank providing gold services to individuals.

A spokesman of the bank declared that BOC would soon offer both paper gold and physical gold to individual clients.

It is the first time that personal gold investment tool has been launched by domestic banks. This marks that gold becomes one of the products that Chinese investors can choose to hold for their investment behaviours.

The service, which has been available by Shanghai Branch of the BOC has gained popularity from investors. Other affiliates will follow the suit soon.

Paper gold is traded in grams. The minimum transaction in POC is 10 grams, which values about 1000 Yuan at the present prices. Clients with accounts make deals according to the bank's quotations.

The Bank of China offers physical gold business either under its own brands or as an agent. As a partner of the 2008 Beijing Olympics, the bank will launch an array of gold products carrying symbols of Olympics.

Insiders believe there is an increasingly strong motivation of collecting and investing on gold among Chinese people who traditionally tend to hold gold.

Central Banks

Frankfurt, 20th December 2004, (Bloomberg) – Germany's Bundesbank, the world's second-biggest gold holder, will sell less than 7 percent of the amount allowed under a European accord, resisting calls to use bullion to help plug the government's budget deficit.

Eight metric tons of coins will be sold, the Bundesbank said in a statement. It was permitted to sell 120 tons of gold under an agreement that took effect in September, which caps annual sales by 15 participating banks at a total of 500 tons through 2009. The other banks will be able to use the Bundesbank's quota.

“We haven't taken a decision about 2005,” Hans-Helmut Kotz, a Bundesbank board member, said today in an interview in Frankfurt. “That will happen some time next year.”

German Finance Minister Hans Eichel said last week the Bundesbank should sell some gold reserves and use interest from the sale to fill the budget gap, Bild am Sonntag newspaper reported. Germany's deficit has exceeded European Union limits of 3 percent of gross domestic product for three years.

“We don't feel that we've been put under pressure by Eichel,” Kotz said. Eichel expects this year's deficit in Germany, Europe's largest economy, to reach 3.75 percent of GDP.

Germany had 3,433 tons of bullion as of October, second only to the U.S. Federal Reserve's holding of 8,136 tons, according to the London-based World Gold Council. The International Monetary Fund has the third-largest hoard, followed by France and Italy.

The Bundesbank's board had been split over a sale, with President Axel Weber and Kotz in favor and the other six members opposed, the Financial Times Deutschland reported today, without citing anyone. The European Central Bank, the 12 euro-region central banks, the Swiss National Bank and Sweden's Riksbank participate in the accord.

Our comments on the above

Events are unfolding in the gold market along the lines we have been suggesting they would for a long time:

- Investment in gold is increasing and is becoming ever-simpler due to the availability of exchange traded funds market by market
- The Chinese are rapidly opening their economy and financial markets to gold – which will ultimately create higher investment demand, in a country which has traditionally saved a very high proportion of income
- European Central Banks are starting to give clear indications that they will sell less gold than they optioned to do under the latest agreement

What's next (within 12 months): - Asian and other Central Banks will start to increase their gold reserves.

What does this mean: - Irrespective of any price corrections in the weeks and months ahead, ultimately we will see much higher prices for gold and not just in USD/oz!

2.2 Technical Comments

Long Term Technical Comments

After briefly exceeding 450 USD/oz, gold started a correction in December:



Daily/Weekly Technical Comments

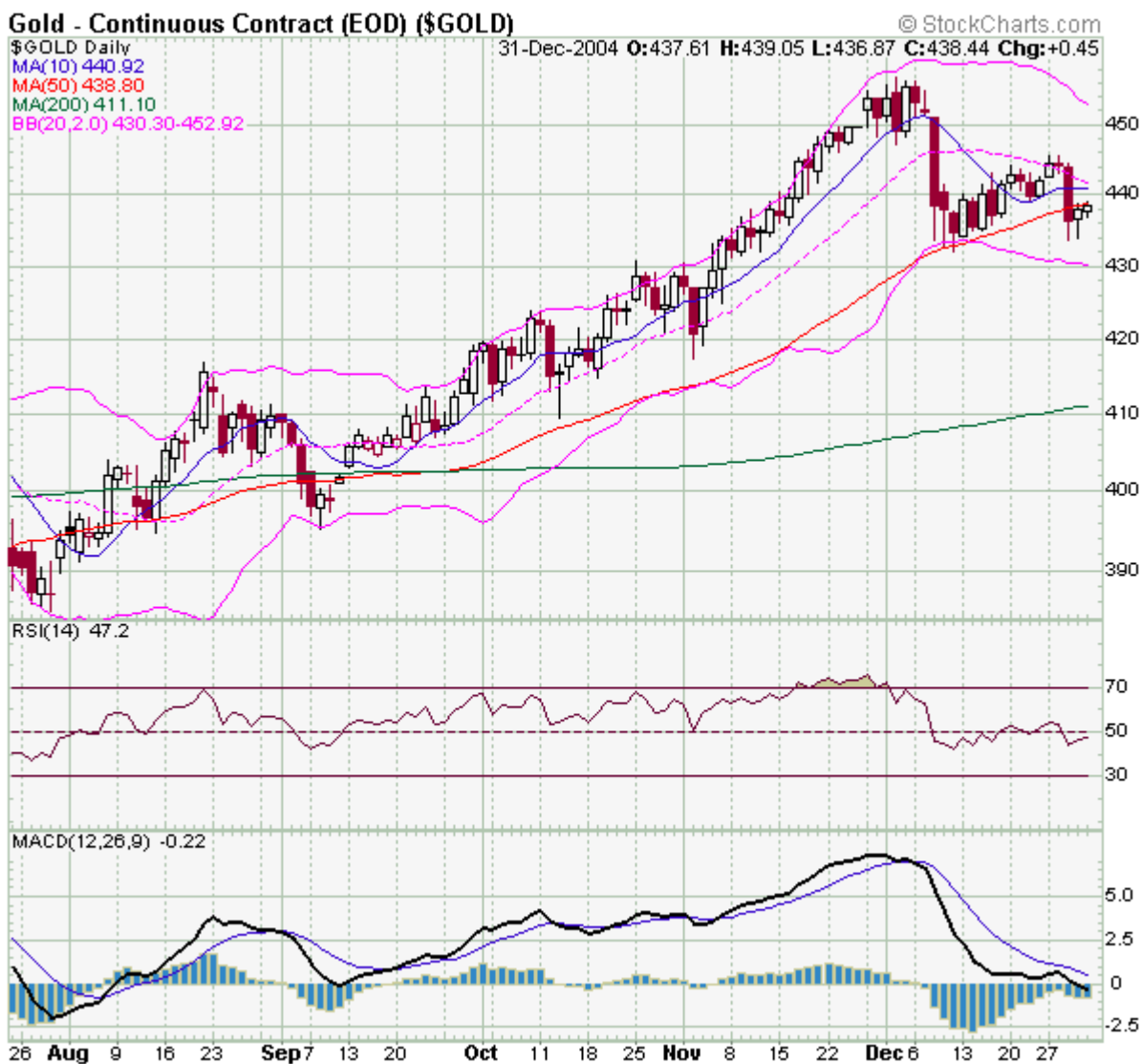
London afternoon fix in USD/oz:

Open	High	Low	Close
452.85	454.20	434.00	438.00
1 st December	2 nd December	10 th December	31 st December

London afternoon fix in €/oz:

Open	High	Low	Close
340.25	340.53	320.25	321.14
1 st December	2 nd December	30 th December	31 st December

So far, the correction in gold has been short and mild with price support around the 50 DMA holding for the time being. During the current bull-market, corrections have usually taken gold at least down to the 200 DMA (currently 411.1 USD/oz) and lasted several months; therefore, this correction may not be over yet. Having said that, if prices hold around the current level, new highs for the current bull-market may not be far away. Much will depend on the USD versus other currencies.



3. Silver

3.1 News and Fundamental Considerations

New York, 8th December 2004, (Business News) – The London-based Argentium Silver Co. today announced the launch of a new sterling silver that keeps its shine indefinitely without the need for polishing. Argentium(TM) Sterling Silver is the first highly tarnish-resistant sterling available in all the traditional forms needed for wide scale manufacture. This new silver is set to replace up to 50% of the total worldwide silver market (*30 billion dollars) share from traditional sterling silver and be worth a total of 15 billion dollars as early as the year 2010.

Some of the world's leading retailers, including Tiffany and Gucci, as well as leading manufacturers and designers have already made products with Argentium(TM) Sterling Silver. Mass-market distribution will increase steadily as partnerships like these continue to be formed and developed. Consumers will easily be able to identify a genuine Argentium(TM) Sterling Silver product by the Argentium silver mark stamped on all its products.

An independent test published today by CATRA (The Cutlery and Allied Trades Association) in the UK lends weight to Argentium(TM) Sterling Silver's highly tarnish-resistant claim. Argentium(TM) Sterling Silver was tested alongside standard sterling silver in an accelerated tarnishing test, using the most aggressive and corrosive conditions that can be created. These conditions represent a tarnishing atmosphere vastly greater than would be experienced in the average American household and a time frame of many years

Renowned silver expert Charles Allenden says, "Argentium(TM) Sterling Silver is the most tarnish-resistant sterling silver that has ever been developed. Extensive testing in independent laboratories, using atmospheres at least 20,000 times more aggressive than in the typical home, have shown that if standard sterling silver tarnishes in two weeks, then Argentium(TM) Sterling Silver will still be tarnish-free after two years. This does not rely on plating or coatings that will degrade or be washed off over time. Indeed, Argentium(TM) Sterling Silver is guaranteed to exceed the minimum silver content required by law for any sterling silver article. "

Argentium(TM) Sterling Silver builds and increases its tarnish resistance over time and has the ability to constantly regenerate its anti-tarnishing properties.

The introduction of Argentium(TM) Sterling Silver has tremendous business, manufacturing, and distribution implications. Argentium(TM) Sterling Silver provides a myriad of industry-changing benefits for alloy manufacturers, designers, retailers and consumers.

Beyond the obvious consumer benefit of high tarnish-resistance, Argentium(TM) Sterling Silver offers a wide range of benefits including:

- It is fire scale-free when heated, which eliminates processes that use hazardous materials needed to strip firescale from standard sterling silver materials. Therefore, it's environmentally safer in the workplace and for the community.

- It is the first sterling silver to be laser-welded in a manufacturing context

- It is capable of achieving hardness levels twice those of standard sterling silver

- It affords increased ductility, which assists in the forming processes including spinning and stamping

Ken Mannering, Director of Marketing for Argentium Silver Co, said, "Because of its extensive benefits, Argentium(TM) Sterling Silver has immediately been accepted by leading industry figures and organizations. Our new silver overcomes many problems that traditional sterling silver has. This is how silver was meant to be."

Michael DiRienzo, Executive Director and Secretary for The Silver Institute, says, "One of the core missions of The Silver Institute is to report and highlight innovations in the silver market, and we are pleased that the Argentium Silver Co. has launched its highly tarnish-resistant silver. We wish them much success and look forward to following their progress."

Michael Merolla, Executive Vice President of Sales & Marketing for Stern-Leach - the leading manufacturer of silver alloy and fabricated silver in the U.S. - says, "Argentium(TM) Sterling Silver will open a host of new opportunities for our customers. By using Argentium(TM) Sterling Silver, our customers can develop new and innovative products that have the prestige of sterling

silver without the limitations associated with traditional sterling silver. Because of its unique properties, Argentium(TM) Sterling Silver is poised to replace up to 50% of the total North American silver market."

Cynthia Eid, a Lexington, Massachusetts-based jewellery designer and metal smith who has been working with the alloy for several years, says, "This is a major breakthrough for silver. I was thrilled to find out that Argentium(TM) Sterling Silver does not firescale, and that it is more ductile than any other sterling silver alloy out there. It is also extremely tarnish-resistant - I have not seen any of the pieces I've worked with tarnish whatsoever. Argentium(TM) Sterling Silver has everything going for it, and it's been a huge hit with my clients."

Initial testing of Argentium(TM) Sterling Silver with consumers has caused an incredibly high interest in the product because of its highly tarnish-resistant capabilities. For products made out of Argentium(TM) Sterling Silver, consumers no longer have to worry about the beauty of their products. Argentium(TM) Sterling Silver remains bright without the need to polish it. Dust, grease and finger marks can be easily wiped away using a soft polishing cloth.

For designers, the unique properties of Argentium(TM) Sterling Silver - particularly because it can be made both harder and more ductile - creates an extended range of design capabilities and space for experimentation not possible with standard sterling silver.

For example, any product requiring spring properties or memory, either components or finished pieces, cannot be made successfully in standard sterling silver. Argentium(TM) Sterling Silver possesses the necessary properties to solve this problem, and because it is stronger and more dent-resistant, it allows for bolder, bigger and unique designs that are lighter and do not sacrifice quality.

Argentium(TM) Sterling Silver also benefits retailers as it increases shelf life of products without the need to re-polish on a regular basis. Simple dusting with a soft cloth will remove finger marks and maintain the original, bright condition of the product. A typical standard sterling silver piece requires re-polishing after two weeks of exposure to normal air conditions, and must continue to be maintained at very frequent intervals.

Argentium(TM) Sterling Silver was invented at Middlesex University, in the UK. Argentium Silver Co has partnered with Stern-Leach, the leading American manufacturer of silver alloy and fabricated silver, to make Argentium(TM) Sterling Silver available today to silversmiths, designers and retailers.

3.2 Technical Comments

Long Term Technical Comments

Silver corrected significantly in December and moved down to the 200 DMA:



Daily/Weekly Technical Comments

London fix in USD/oz:

Open	High	Low	Close
7.715	8.040	6.685	6.815
1 st December	2 nd December	17 th December	31 st December

London fix in €/oz:

Open	High	Low	Close
5.796	6.032	4.978	4.996
1 st December	2 nd December	30 th December	31 st December

Although December's price correction was severe, it was only half of that seen in spring 2004 and silver found price support at the 200 DMA. Over the next few weeks, silver will probably follow gold price movements.

Silver - Continuous Contract (EOD) (\$SILVER)

© StockCharts.com



J. Fineron/1st January 2005

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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