

# JM&B Monthly Gold & Silver Report

## December 2008

<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)

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## 1. Commentary

Both gold and silver had another positive month in December 2008.

## 2. Gold

### 2.1 News and Fundamental Considerations

#### Selected News Items from the Month

**Mendrisio, 17th December 2008, (Reuters)** – Sealed off by grey concrete walls and barbed wire, the workmen in protective glasses and steel-toed boots at this smelter cannot work fast enough to meet demand from the nervous rich for gold.

This refinery near Lake Lugano in the Alps is running day and night as people worried about recession rush to switch their assets into something that may hold its value.

"I have been in the gold business for 30 years and I have never experienced anything like this," said Bernhard Schnellmann, director for precious metal services at the refiner Argor-Heraeus, one of the world's three largest.

"Production has dramatically increased since the middle of the year. We cannot cope with demand," said Schnellman, wearing a gold watch on his wrist.

Spot gold hit a record \$1,030.80 an ounce on March 17. It fell below \$700 in late October, partly because investors sold their holdings to cover losses in equity and bond markets hit by the credit crisis, and is now around \$830 an ounce.

The trigger for the price to rise again could come from a much weaker dollar, making gold cheaper for holders of other currencies, and a renewed aversion to paper assets as governments and central banks pump large amounts of cash into the economy, stoking inflation.

Smoke billows as the molten gold, like glowing butter, is poured. To cool it, the worker drops it into water. It hisses as it hits. Once hardened in moulds, the gold bars are embossed with the refinery's seal. Workers wearing white gloves stack them into boxes like domino pieces.

Though Switzerland is not a gold miner, it is home to some of the world's largest refineries, which process an estimated 40 percent of all newly mined gold.

Argor-Heraeus is part-owned by the Austrian Mint and a subsidiary of Germany's Commerzbank. Commercial and central banks are its chief customers and it says it processes some 350-400 tonnes of gold and 350 tonnes of silver per year.

Customers buying gold bars, which can weigh more than 10 kg each, have to wait roughly a month, taking into account the year-end holiday season.

For those buying coins or ingots, which can fit into the palm of a hand, the delay is six to eight weeks. A year ago, these small products could be had within a couple of days.

Worries about the banking system globally have boosted worldwide demand for physical gold, the Gold Council said.

"Many (people) are afraid of leaving their money in banks," said Sandra Conway, managing director at ATS Bullion in London, which sells bullion and gold coins to institutions and the retail market.

"It's difficult to quantify, but I would say our turnover over the last three months has certainly doubled compared to the previous three months," she said.

## FULL CAPACITY

Other Swiss gold refiners also say business is booming.

"Since the summer we have experienced a sharp rise in demand for certain gold products. The one-kilo bar has become very popular," said Fiorenzo Arbini, in charge of health and safety at Pamp, another large Swiss refiner.

"People used to buy certificates, now they want physical gold."

Schnellmann said the Argor-Heraeus smelter is operating at full capacity, three eight-hour shifts a day. Conquering the backlog by hiring is difficult, because each candidate has to undergo a security check.

Gold refiners were established in Switzerland to supply the watch industry and, later, jewellery-makers in Italy.

Switzerland's largest banks stepped in to replace a void in gold trading while the London gold market was shut after World War Two and again during a brief closure in 1968.

The former Soviet Union, another top gold producer, chose Zurich banks to handle most of its gold sales in the 1970s and 1980s.

"Gold has an image of being the asset of last resort. This could be viewed as old-fashioned but this is how enough people with enough money to matter think," said Stephen Briggs, a metals strategist at RBS Global Banking & Markets.

## GOLD TOUCH

India, China and the Middle East remain the biggest gold importers, particularly for jewellery. But demand for physical gold has exploded also in Europe, the Gold Council said.

In Switzerland, home to the world's largest private banking industry, demand for gold bars and coins shot up six-fold to 21 tonnes in the third quarter of 2008, more than in any other European country.

Retail investment in gold rose 121 percent in the third quarter of 2008, an important contributor to the overall increase in global demand, the Gold Council said.

In that period purchases of gold bars by retail investors, who often buy through commercial banks, rose nearly 60 percent, notably in Switzerland, Germany, and the United States.

There was a surge of interest among professional investors shortly after the collapse of Lehman Brothers in September.

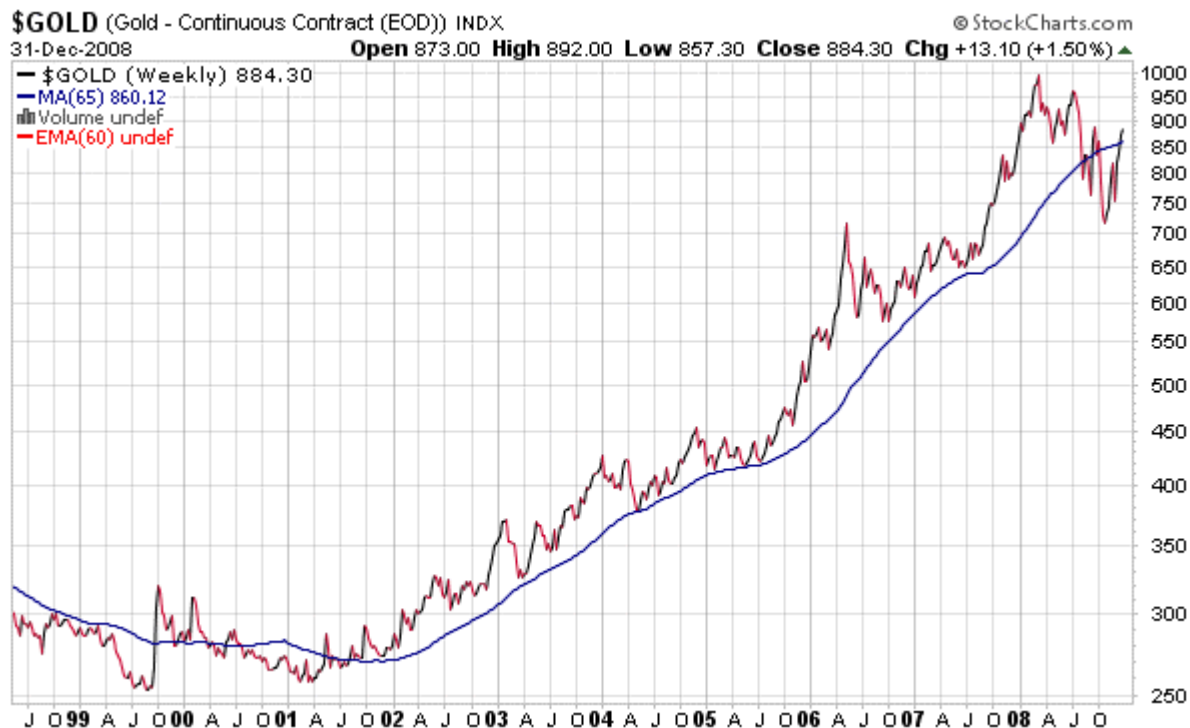
Private bank Julius Baer in October launched a fund to invest exclusively in gold bars stored in highly secured vaults in Switzerland.

"The fascination with gold has been there since the beginning of civilisation," said Schnellmann. "It cannot be explained: you can't eat gold, you cannot build anything resistant with it and yet people want to hoard it."

## 2.2 Technical Comments

### Long Term Technical Comments

Gold recovered further in December and moved above the key 65 WMA trend line:



### Daily/Weekly Technical Comments

London afternoon fix in USD/oz:

Open	High	Low	Close
1 <sup>st</sup> December	29 <sup>th</sup> December	5 <sup>th</sup> December	30 <sup>th</sup> December
778.0	880.3	749.0	869.8

London afternoon fix in €/oz:

Open	High	Low	Close
1 <sup>st</sup> December	10 <sup>th</sup> December	5 <sup>th</sup> December	30 <sup>th</sup> December
615.8	617.2	590.4	614.5



Gold had a good month in December and finished the month in a technically good position.

### 3. Silver

#### 3.1 News and Fundamental Considerations

#### 3.2 Technical Comments

##### Long Term Technical Comments

Silver had a constructive month in December:



##### Daily/Weekly Technical Comments

London fix in USD/oz:

Open	High	Low	Close
1 <sup>st</sup> December	18 <sup>th</sup> December	2 <sup>nd</sup> December	31 <sup>st</sup> December
9.91	11.29	9.41	10.79

London fix in €/oz:

Open	High	Low	Close
1 <sup>st</sup> December	11 <sup>th</sup> December	2 <sup>nd</sup> December	31 <sup>st</sup> December
7.82	7.88	7.44	7.71



Like gold, silver finished the month in a technically good position.

John Fineron, 7<sup>th</sup> January 2009

## 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)

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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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