

JM&B Monthly Gold & Silver Report

December 2009

<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

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1. Commentary

Gold and Silver corrected in price in December.

2. Gold

2.1 News and Fundamental Considerations

Selected News Items from the Month

London, 1st December 2009, (GFMS) – GFMS released its Global Hedge Book Analysis for Q3/2009:

Key Points

Net producer de-hedging accelerated in the third quarter, with 3.18 Moz (99 t) removed from the global hedge book. This left the global book, at end-Q3, standing at 11.55 Moz (359 t) in delta-adjusted terms.

A significant announcement came from Barrick Gold, who initiated a campaign to eliminate the entirety of its gold hedge book within a twelve-month timeframe.

The marked-to-market liability of the producer book contracted to negative \$4.5 billion at end-Q3, an improvement of \$1.7 billion from Q2.

Producers' weighted average realised prices kept pace with the increase in the period average spot price, rising by 4% in Q3, to \$943.81/oz for the subset of hedged producers studied.

Summary and Overview

The most important event with regard to the global producer hedge book in recent months was the announcement by Barrick Gold that it would be eliminating the entirety of its fixed price gold sales contracts within a 12-month timeframe. The third quarter represented the first three months of this period and consequently the company removed 2.50 Moz (78 t) of contracts. Barrick has also removed the balance of 2.9 Moz (90 t) in the fourth quarter to date. In combination with a cut from AngloGold Ashanti of 0.48 Moz (15 t), and smaller deliveries from producers, global de-hedging was recorded at 3.18 Moz (99 t). This left the global hedge book standing at 11.55 Moz (359 t) at end-September. Interestingly, during the quarter we observed an episode of strategic options hedging by Sumitomo Metals & Mining. The company secured collar options positions, covering half its projected production from the Hishikari and Pogo mines, out to 2012 and 2014. These options do, however, carry low delta, resulting in only a 0.27 Moz (8 t) addition to the delta-adjusted hedge book.

As a consequence, the actual number of contracts on the book, expressed as the nominal hedge book volume, contracted by a lesser amount, as an increase in the number of recorded options contracts dampened the overall cut to the forward sales position. At end-September there were more options contracts recorded on the book than forward sales and gold loans.

The marked-to-market value of the book improved by \$1.7 billion during the quarter, attributable to the reasonable reduction in the delta-adjusted book volume, while producers' weighted average realised prices rose by \$40.22, closely in line with the rise in the period average spot gold price.

Given the activity seen in the first nine months of the year, and currently available information regarding the fourth quarter, GFMS estimates that during the fourth quarter the global hedge book volume will continue to be pushed lower, towards the 8.00 Moz (249 t) level. We caution, however, that even though the ever-decreasing volume of the book makes sustained strong de-hedging increasingly unlikely, it currently does not render it impossible, and we expect de-hedging to remain on the demand side of the market in 2010.

Moscow, 4th December 2009, (Bloomberg) – Russia's central bank picked up the pace of gold purchases in November, diversifying reserves as a weaker dollar boosts the appeal of bullion, according to Renaissance Capital.

Russia's gold reserve probably rose by \$790 million to \$23.1 billion in the week ended Nov. 27, Anton Nikitin, an analyst at Renaissance Capital in Moscow, wrote in a research note today. Bank Rossii increased gold holdings by almost 130 million metric tons in the last year, according to the report. The bank's holdings equalled \$23 billion on Dec. 1, a gain of 13 percent in the month, the regulator said on its Web site today.

The bank "is successfully managing its assets via reallocating them to different classes," Nikitin wrote. "Gold amounts in the reserves have been increasing since December 2008 and we think the amount" rose in November.

Russia plans to increase gold holdings and diversify the structure of its reserves, seeking alternatives to a weakening dollar. The country's reserves, the world's third-biggest stockpile, advanced \$5.9 billion last week to \$449.7 billion, the highest this year, the central bank said yesterday. The holdings were at \$447.8 billion on Dec. 1.

Bank Rossii's daily foreign-currency purchases averaged between \$200 million and \$300 million last week as it used currency transactions to steer the ruble within a "floating" corridor of 35 to 38 against a target dollar-euro basket, Renaissance Capital said.

The regulator, which doesn't comment on daily or weekly interventions, last reported a 2.6 percent jump in its gold holdings to 19.5 million ounces in October from 19 million ounces the previous month.

India, Mauritius and Sri Lanka have increased gold holdings, fuelling expectations that governments, the biggest bullion holders, will make more purchases.

Gold's share in Russia's reserves increased faster in 2009 than in prior years, Bank Rossii Chairman Sergei Ignatiev said on Nov. 18.

Gokhran, Russia's state precious-metals repository, plans to sell 30 metric tons of gold to Bank Rossii by the end of the year, Finance Minister Alexei Kudrin said on Nov. 18. The bank is ready to buy all gold sold, RIA Novosti reported two days earlier, citing First Deputy Chairman Alexei Ulyukayev.

The central bank has yet to sign the documents necessary to buy gold from Gokhran, according to Ignatiev

Moscow, 11th December 2009, (Reuters) – Russia's state repository will sell 30 tonnes of gold worth \$1 billion to the central bank next week, a source at the body said on Friday, keeping the metal inside Russia after rethinking a plan to sell it on the market. Central banks worldwide are building up their gold reserves as the metal trades near record highs. Gokhran, the Russian repository, cancelled plans to sell the gold on the open market after information about the sale leaked.

"The primary aim is to make sure this gold doesn't hit the market and influence prices," said Olga Okuneva, metals and mining analyst at Deutsche Bank in Moscow. "It's also a way for the Russian central bank to diversify more into gold."

Russia had planned to sell between 20 and 50 tonnes on the open market to help plug a budget deficit incurred during its first recession in a decade. The economy has since shown some signs of early recovery, in line with a rebound in oil prices.

With gold trading at record highs of \$1,226.10 per ounce last week, boosted by a weaker dollar, analysts said Russia would be reluctant to sell the metal abroad or to push prices down by releasing a large quantity to the market.

2.2 Technical Comments

Long Term Technical Comments

In spite of a fall in the gold price in December, no change in the long-term trend:



Daily/Weekly Technical Comments

London afternoon fix in USD/oz:

| Open | High | Low | Close |
|--------------------------|--------------------------|---------------------------|-------------|
| 1 st December | 2 nd December | 22 nd December | 30 December |
| 1193 | 1213 | 1084 | 1088 |

London afternoon fix in €/oz:

| Open | High | Low | Close |
|--------------------------|--------------------------|---------------------------|---------------------------|
| 1 st December | 3 rd December | 23 rd December | 30 th December |
| 790.7 | 805.5 | 759.0 | 760.7 |



Gold corrected in price in December, but as the month ended, the correction appeared to have run its course.

3. Silver

3.1 News and Fundamental Considerations

Tokyo, 1st December 2009, (Reuters) – The world's largest silver-backed exchange-traded fund, the iShares Silver Trust, said its silver holdings rose 152.77 tonnes, or 1.7 percent, from the previous business day to a record 9,404.79 tonnes as of Nov. 30.

The holdings of the New York-based trust, which issues securities backed by physical stocks of silver, hit their previous record of 9,252.02 tonnes on Nov. 24.

3.2 Technical Comments

Long Term Technical Comments

The long-term silver chart is starting to look like an inverted head and shoulders formation:



Daily/Weekly Technical Comments

London fix in USD/oz:

| Open | High | Low | Close |
|--------------------------|--------------------------|--|---------------------------|
| 1 st December | 2 nd December | 23 rd / 30 th December | 31 st December |
| 18.72 | 19.18 | 16.92 | 16.99 |

London fix in €/oz:

| Open | High | Low | Close |
|--------------------------|--------------------------|---------------------------|---------------------------|
| 1 st December | 2 nd December | 14 th December | 31 st December |
| 12.43 | 12.71 | 11.75 | 11.80 |



At the time of writing, the correction in silver appeared to be levelling off.

John Fineron, 4th January 2010.

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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