

THE SILVER MARKET IN 2011

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The Silver Institute, New York, 16th November 2011

GFMS



THOMSON REUTERS

THE SILVER MARKET IN 2011

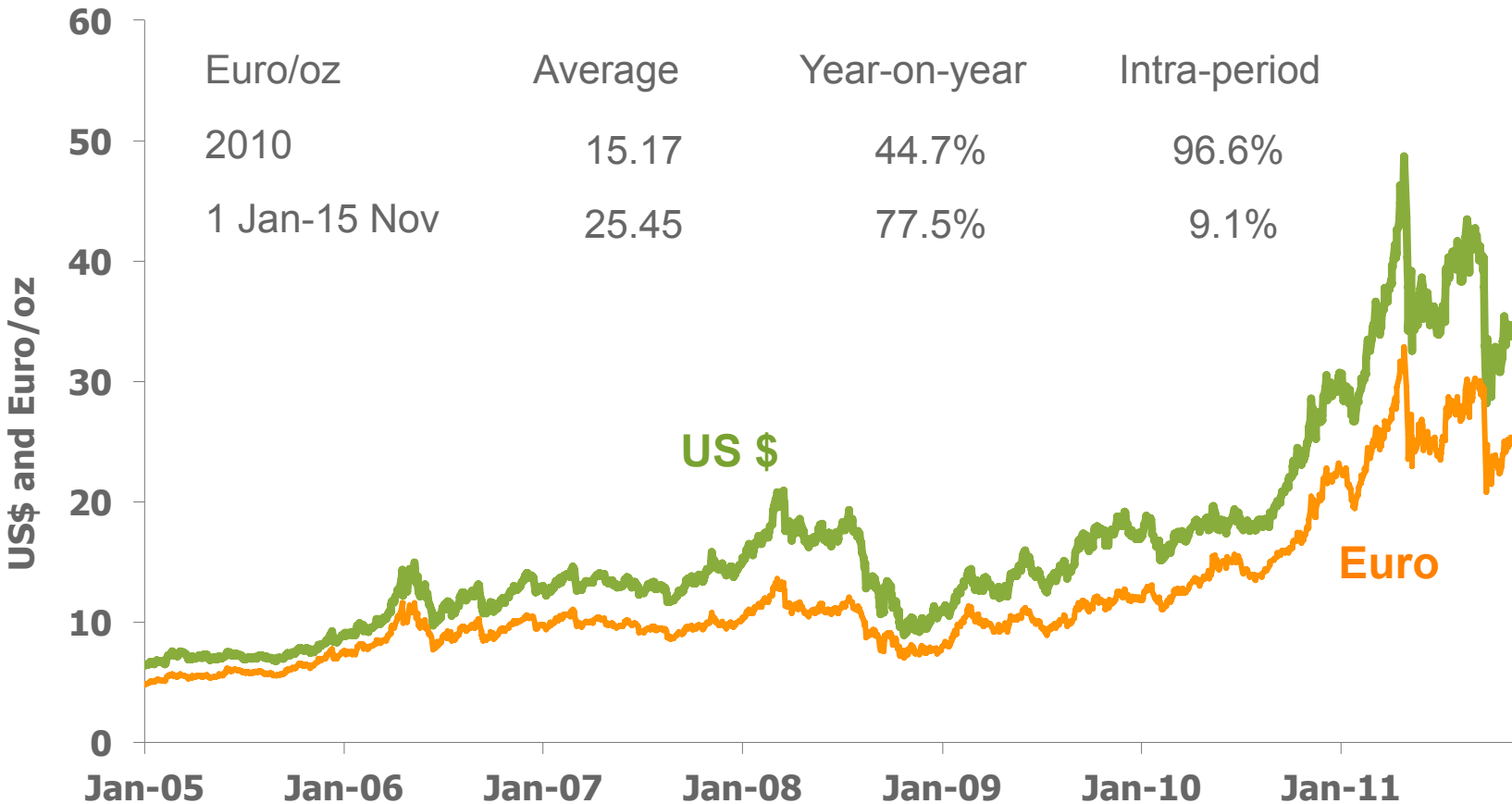
- SILVER PRICES
- DEMAND
- SUPPLY
- INVESTMENT
- PRICE OUTLOOK

THE SILVER PRICE



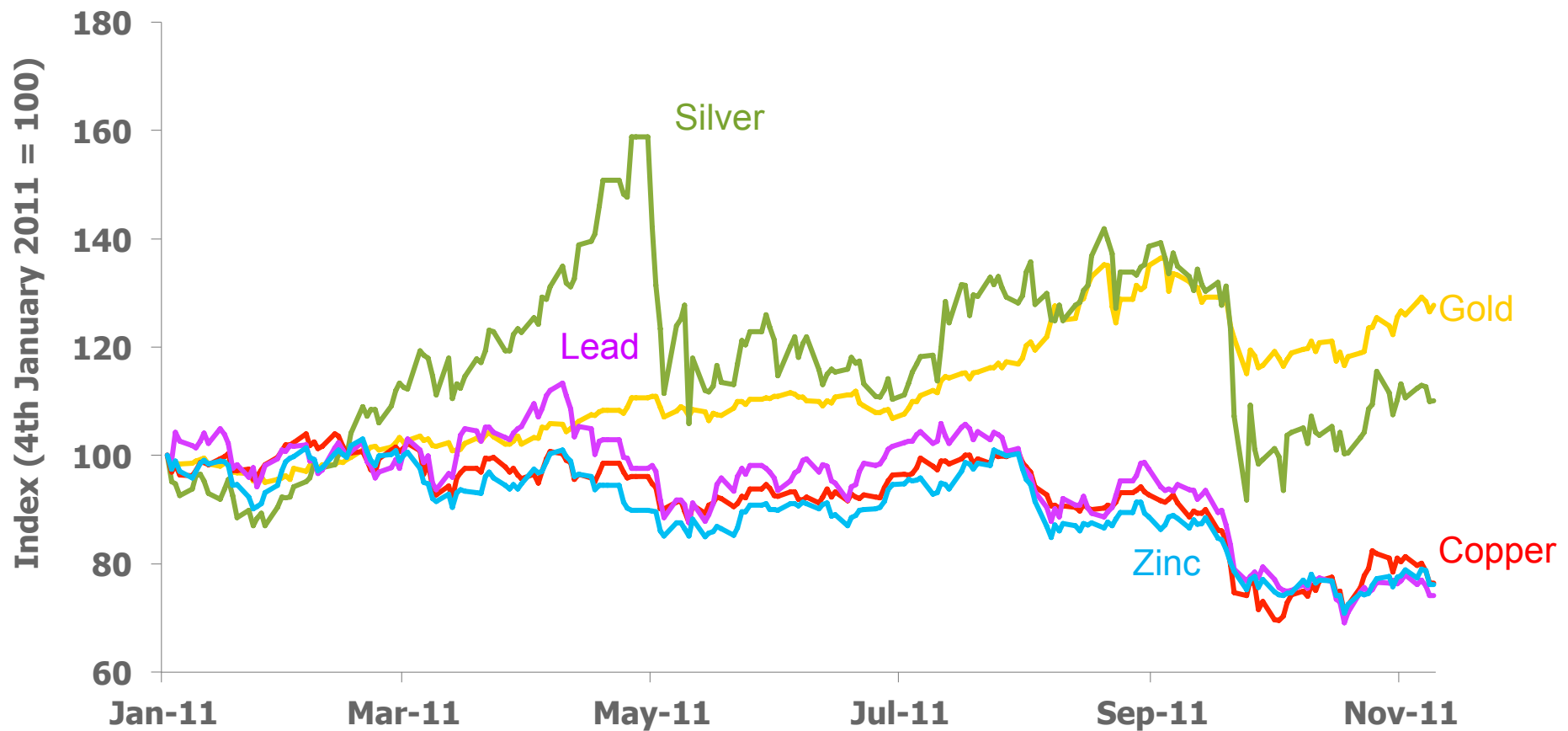
Source: Thomson Reuters GFMS

US DOLLAR AND EURO PRICES



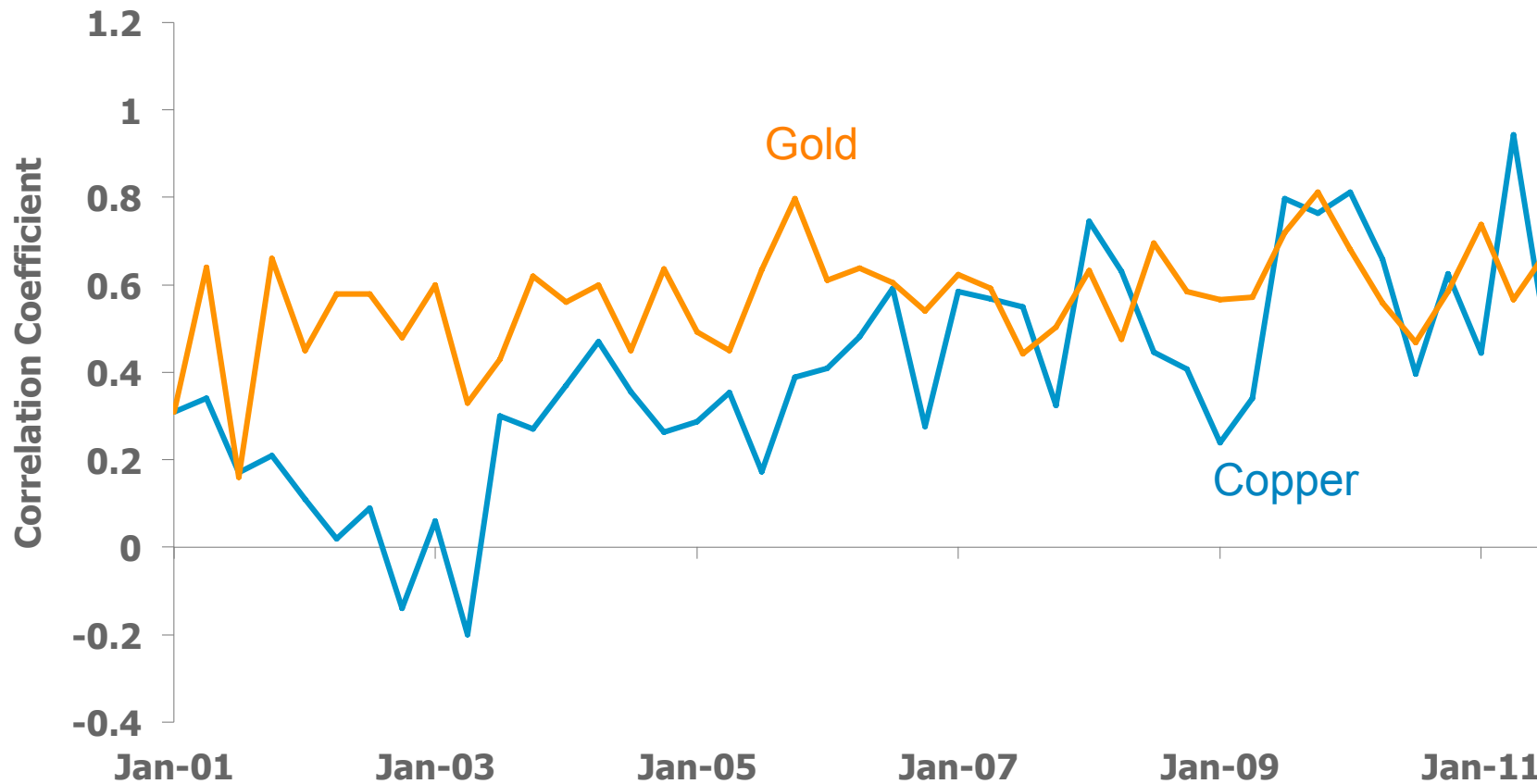
Source: Thomson Reuters GFMS

SILVER, GOLD & BASE METALS PRICES



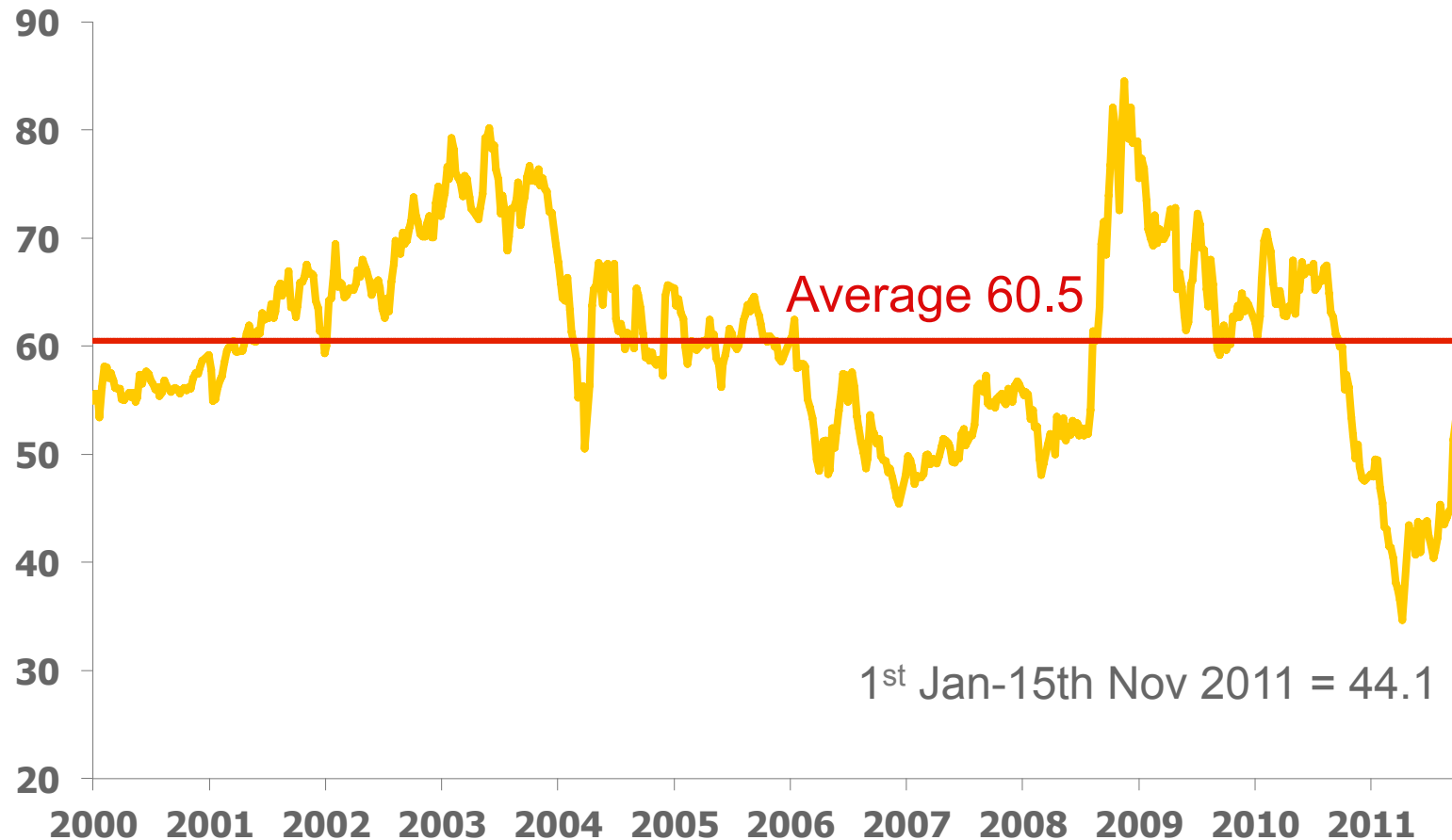
Source: Thomson Reuters GFMS

QUARTERLY CORRELATION OF DAILY SILVER PRICE WITH GOLD & COPPER PRICES



Source: Thomson Reuters GFMS

GOLD/SILVER RATIO 2000 – 2011-TO DATE (BASIS WEEKLY AVERAGE PRICES)



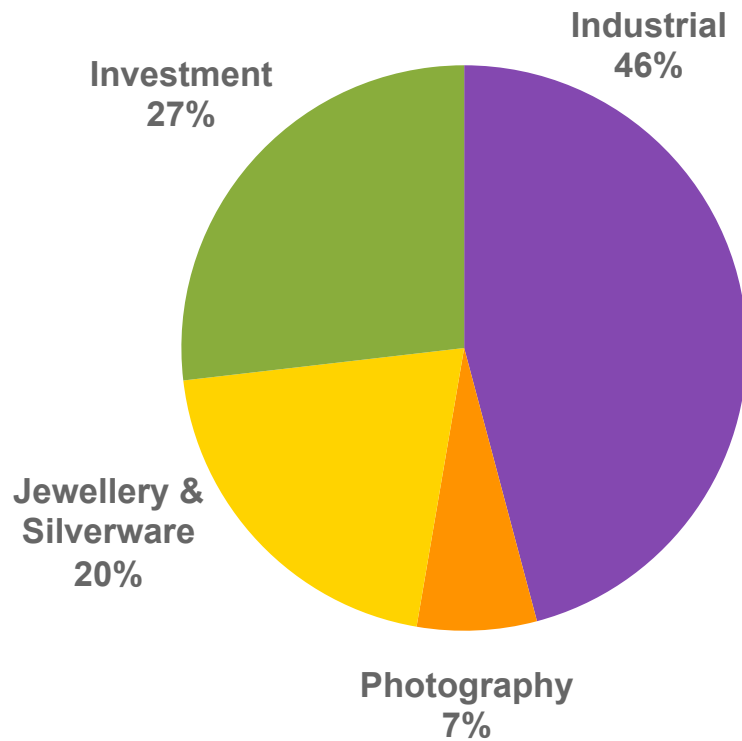
Source: Thomson Reuters GFMS

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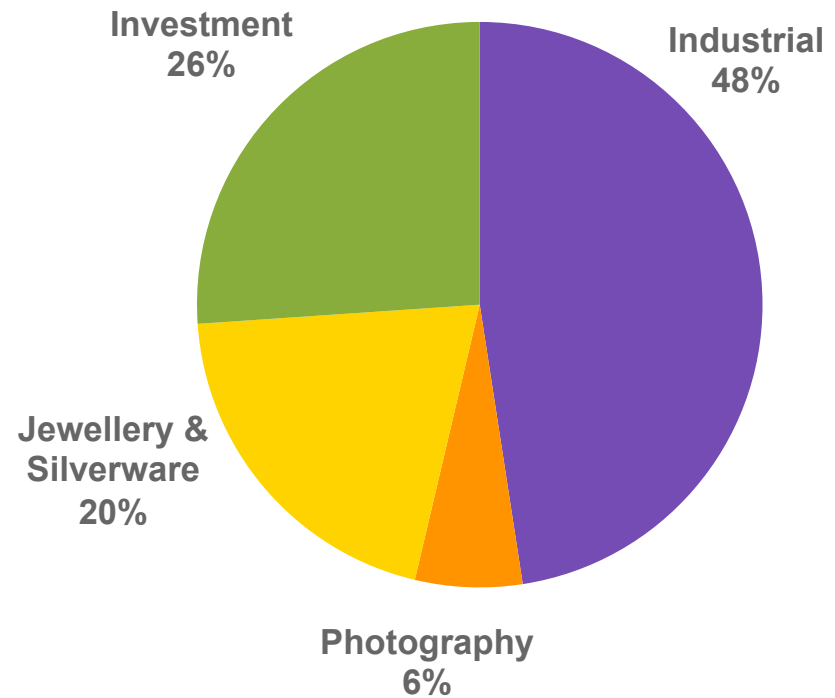
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WORLD SILVER DEMAND

2010 Actual



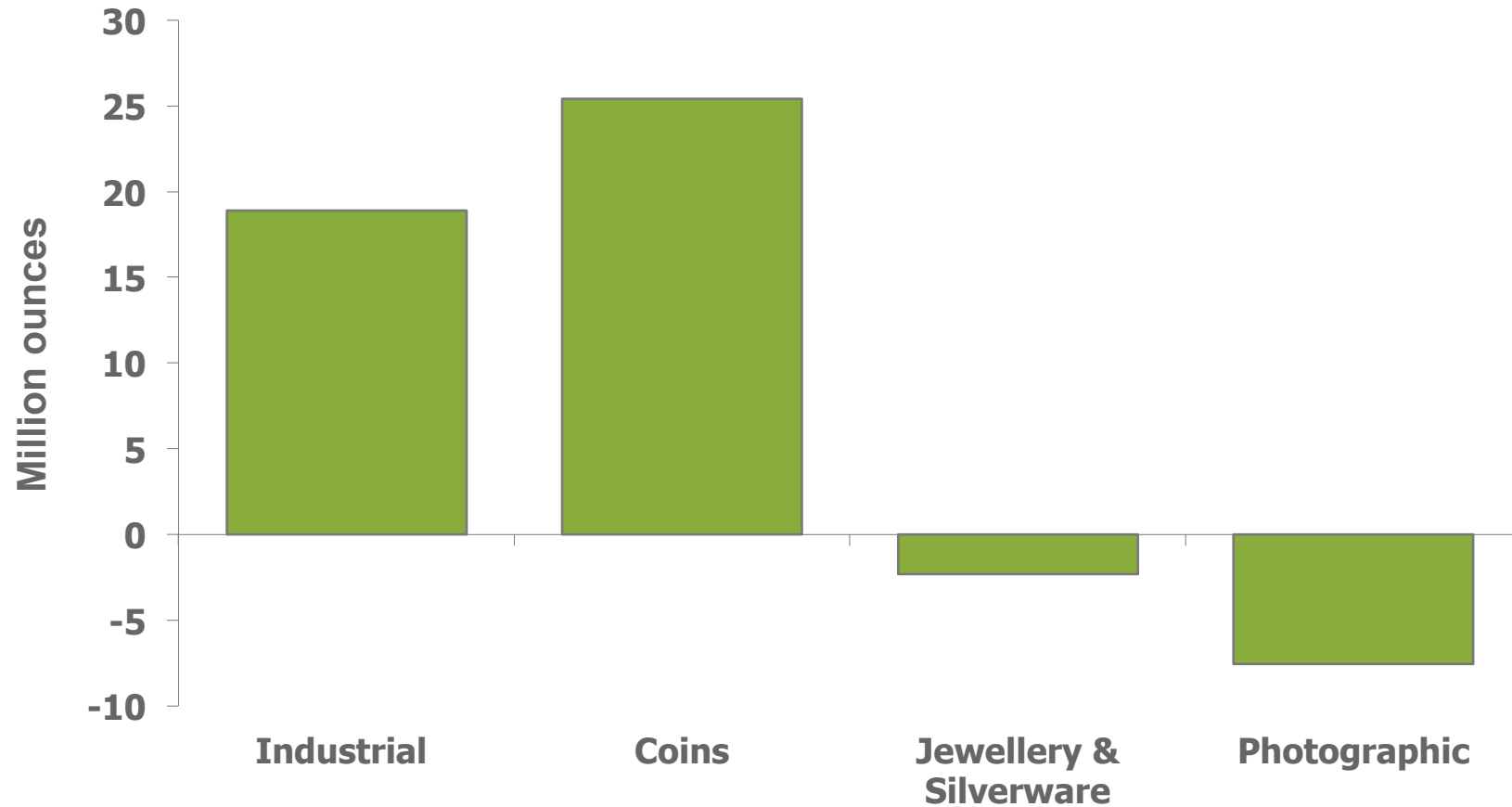
2011 Forecast



Source: Thomson Reuters GFMS

WORLD SILVER FABRICATION

FORECAST ANNUAL CHANGES: 2011 LESS 2010



Source: Thomson Reuters GFMS

DEMAND SUMMARY

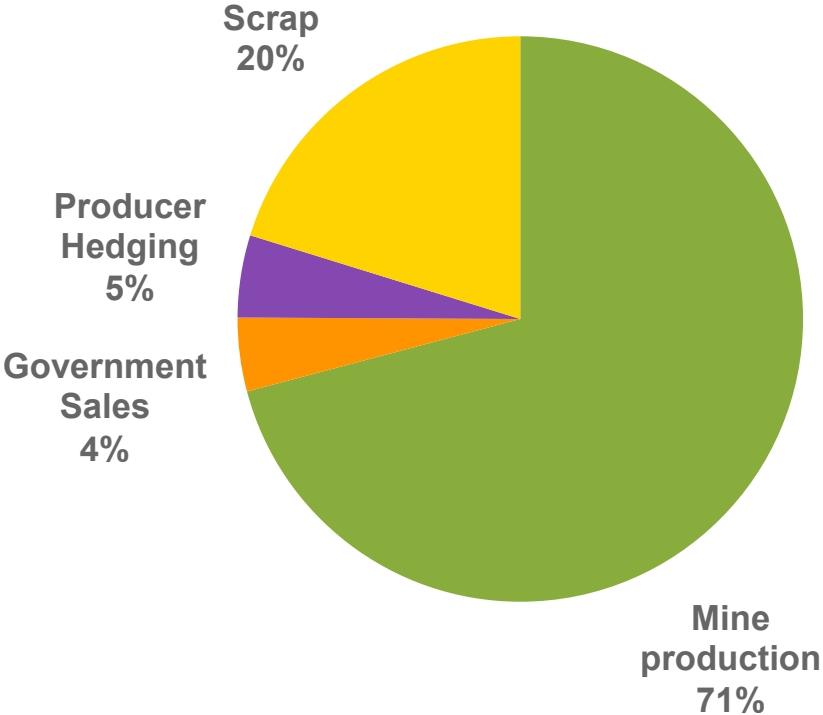
- Total fabrication demand forecast to rise by 4% in 2011
- After 2010's stellar rise, growth in industrial offtake has slowed, on the back of the tragedy in Japan, the end of stock replenishment and, more recently, slower economic growth
- Despite higher prices, jewellery up a little in 2011, due to ongoing market penetration in the youth demographic and substitution at the expense of gold
- Both silverware and photographic demand maintain their long term trend of decline, with this exacerbated by high prices
- Coin demand will rise to a new record level this year, reflecting strong investor interest.

THE SILVER MARKET IN 2011

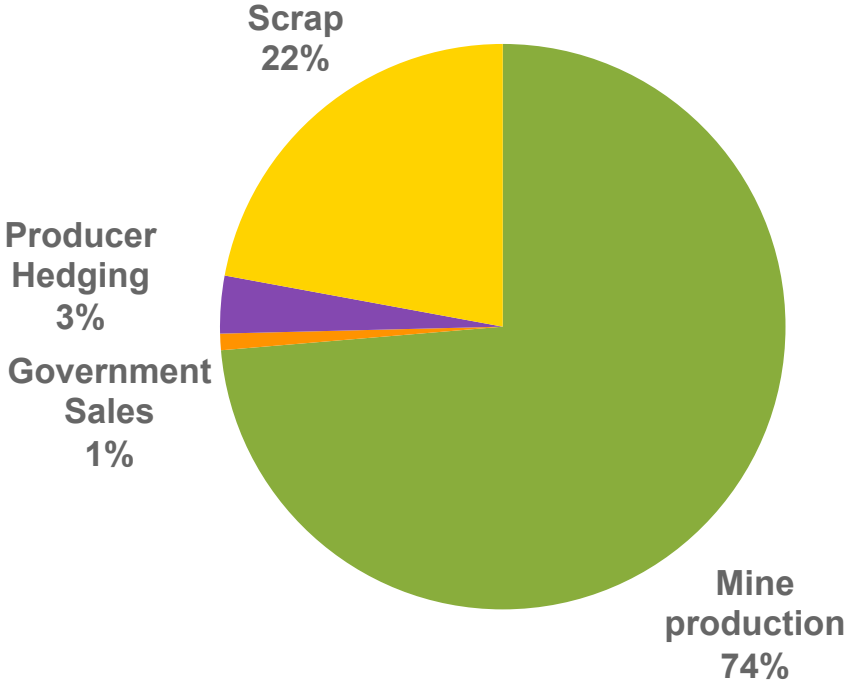
- PRICES
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WORLD SILVER SUPPLY

2010 Actual



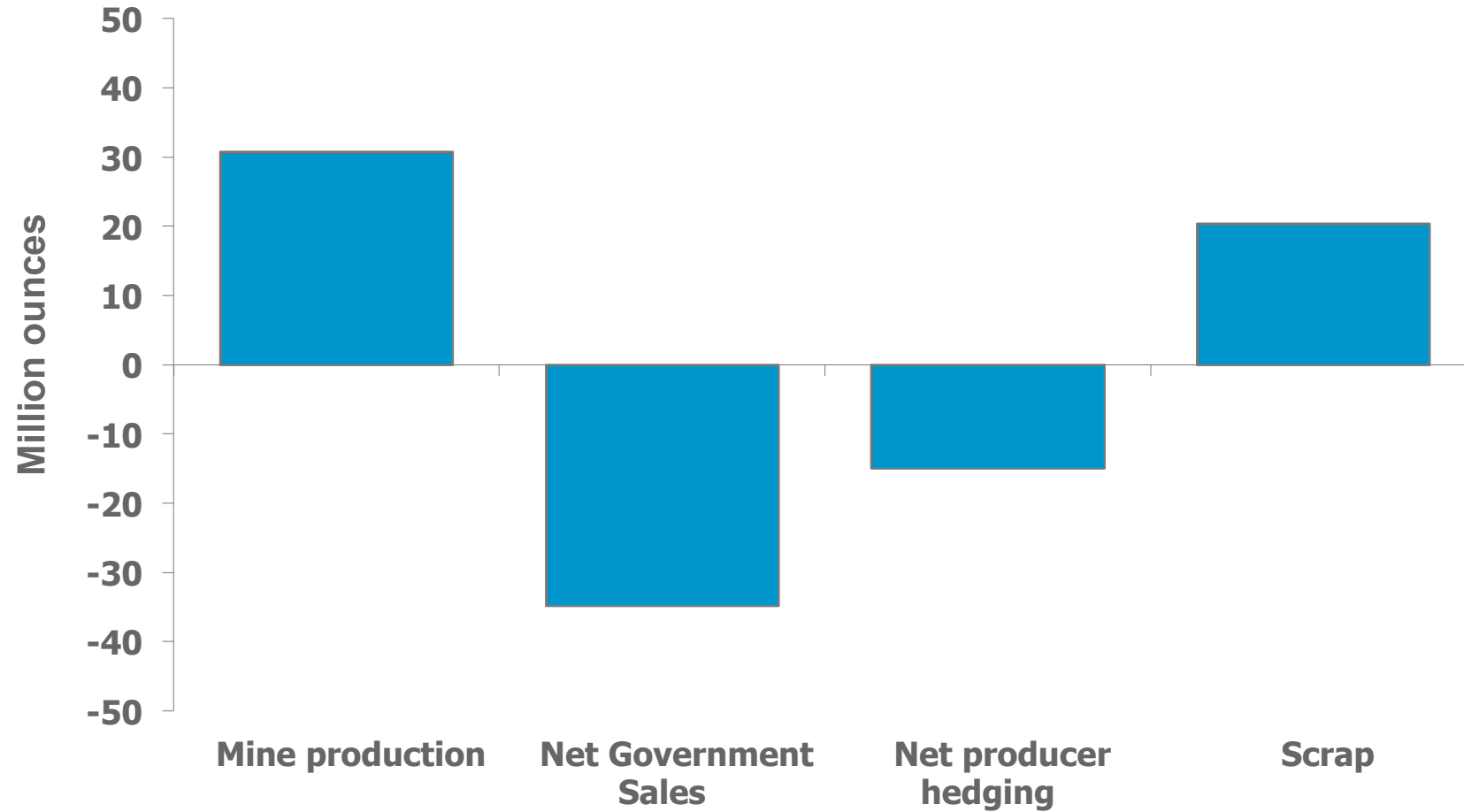
2011 Forecast



Source: Thomson Reuters GFMS

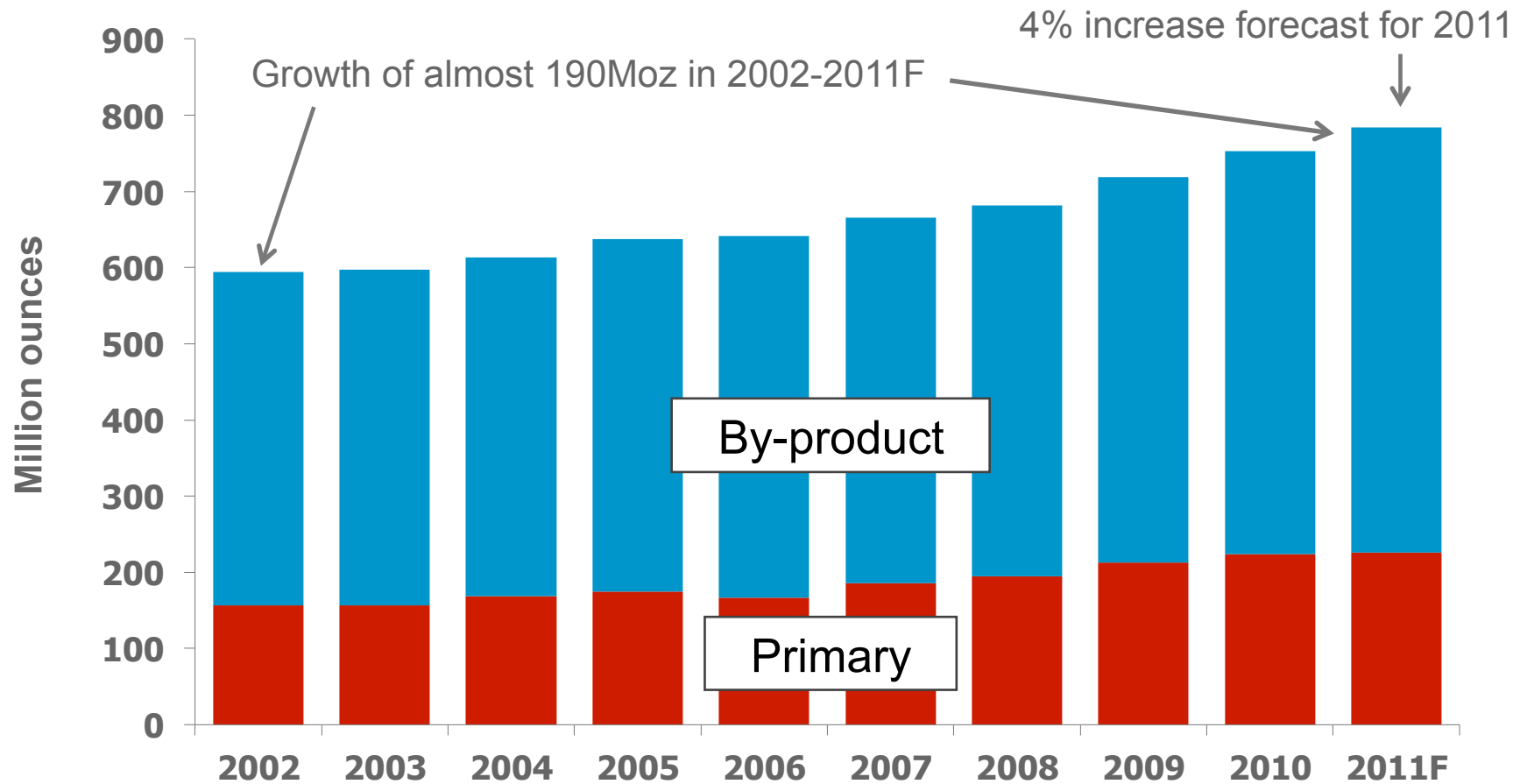
WORLD SILVER SUPPLY

FORECAST ANNUAL CHANGES: 2011 LESS 2010



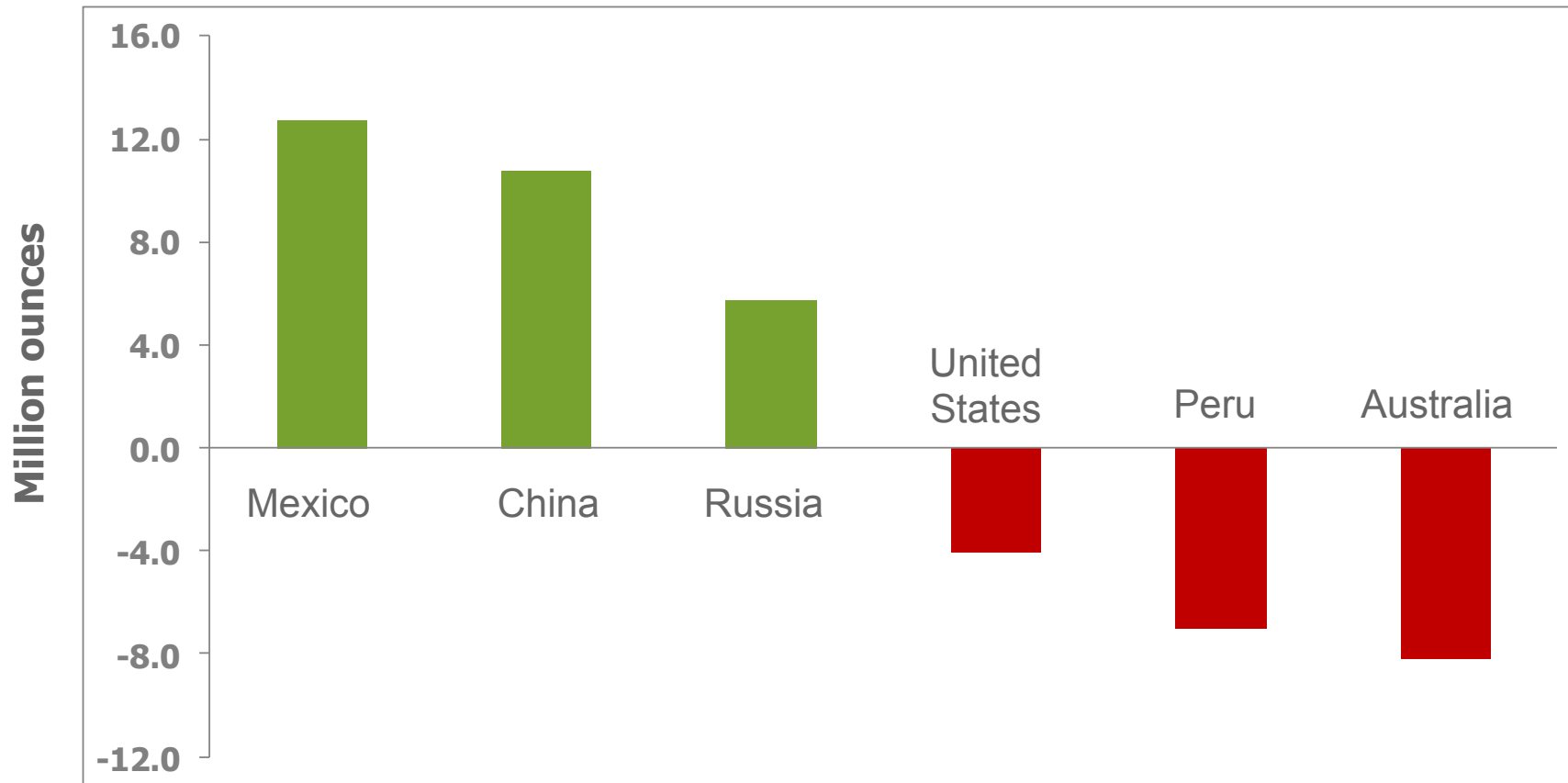
Source: Thomson Reuters GFMS

WORLD SILVER MINE PRODUCTION



Source: Thomson Reuters GFMS

MINE PRODUCTION: WINNERS AND LOSERS IN 2011*



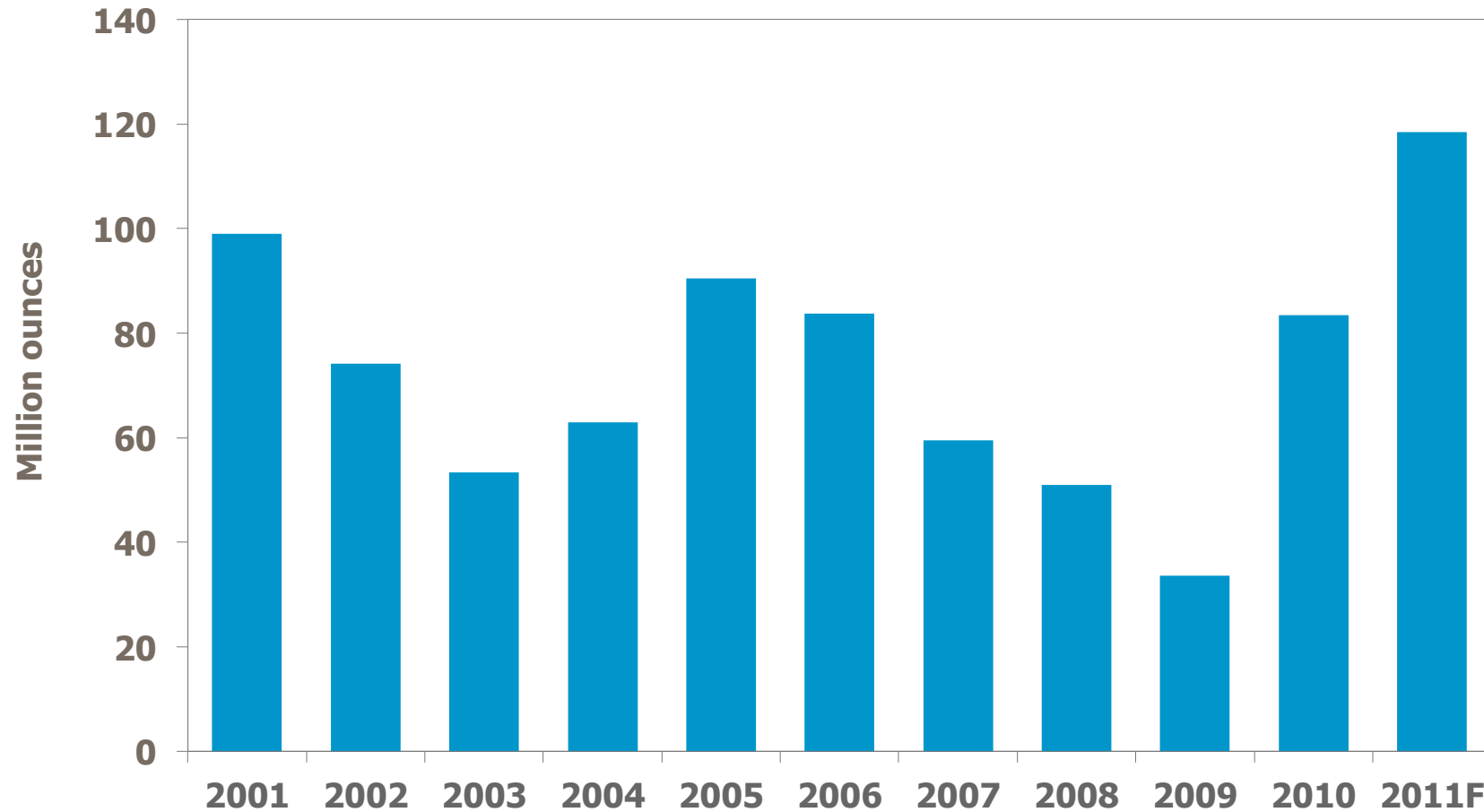
* Figures represent year-on-year change, i.e. 2011 less 2010

Source: Thomson Reuters GFMS

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OUTSTANDING DELTA ADJUSTED PRODUCERS HEDGE POSITION



Source: Thomson Reuters GFMS

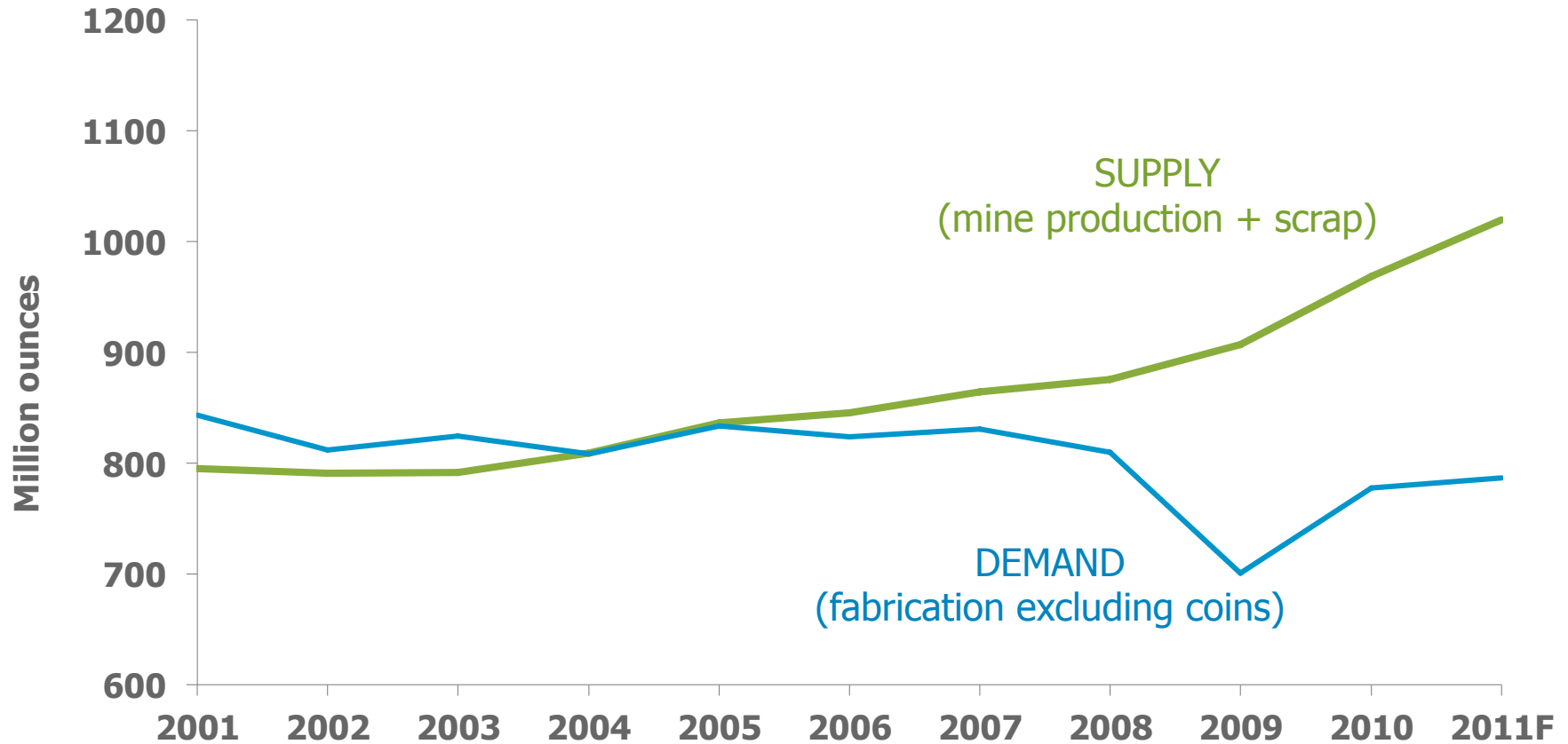
SUPPLY SUMMARY

- Total supply forecast to be marginally higher year-on-year
- Mine production expected to rise by 31Moz or 4% in 2011, driven by a strong project pipeline, much higher precious metal prices and a healthy performance by the base metals sector
- Producer hedging will remain an important source of supply in 2011, albeit slightly lower year-on-year
- Scrap supply forecast to rise by 20Moz or 9% in 2011, despite ongoing declines from the photographic sector
- Government sales largely unpredictable but estimated to have fallen sharply in 2011 to-date.

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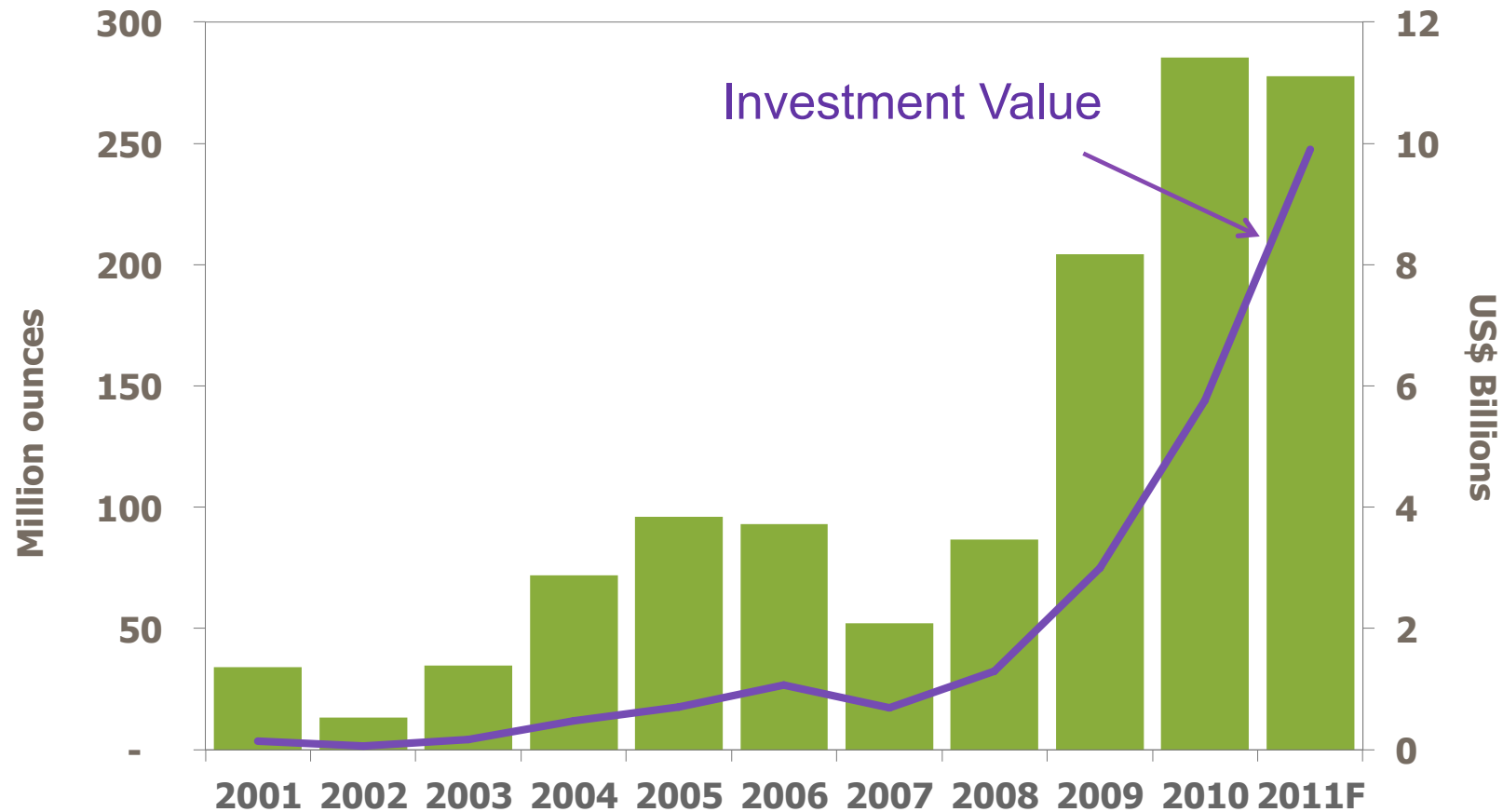
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FROM “DEFICIT” TO “SURPLUS”



Source: Thomson Reuters GFMS

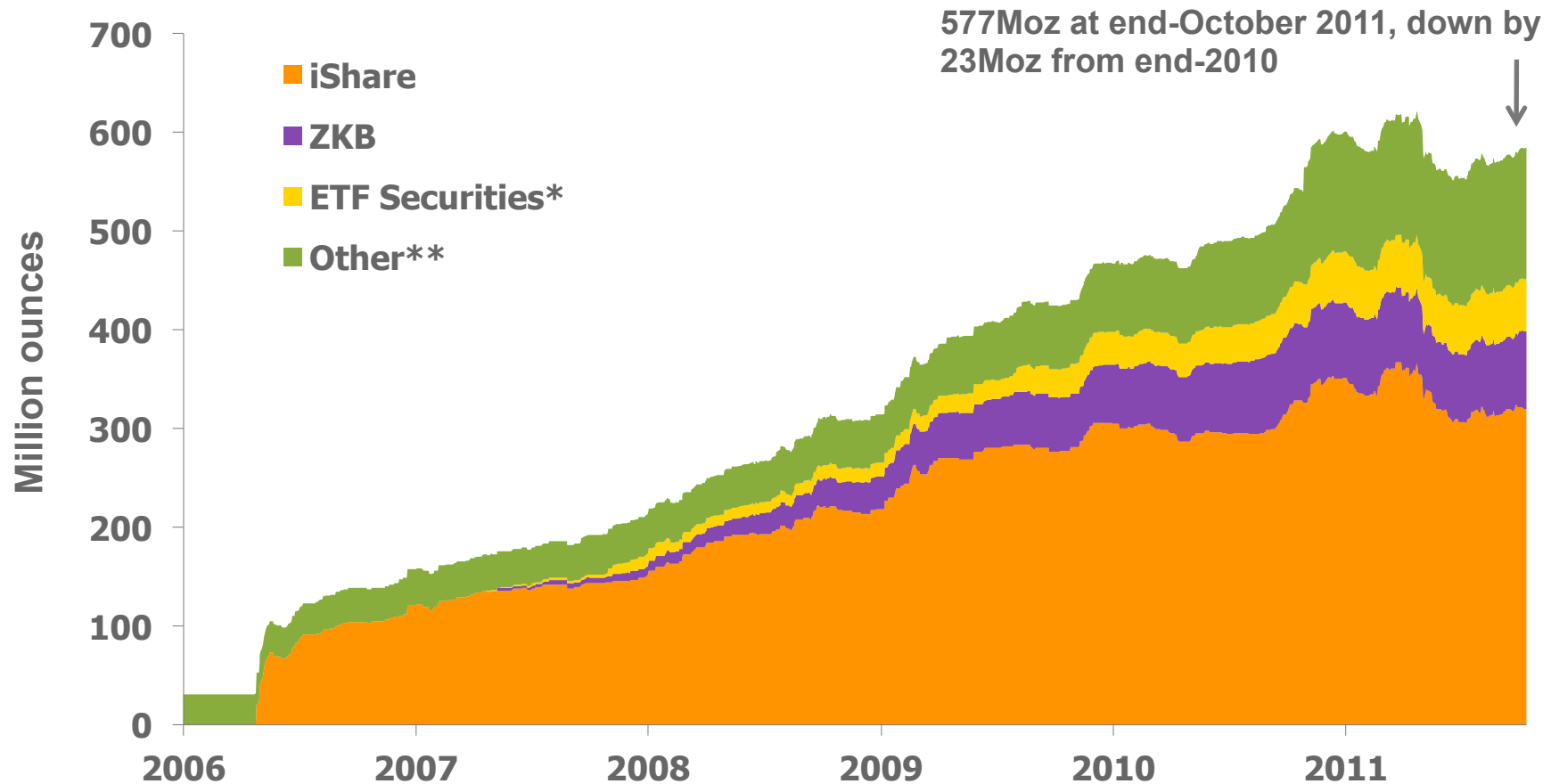
WORLD SILVER INVESTMENT* AND VALUE



*World Investment is the sum of implied net investment and coins & medals

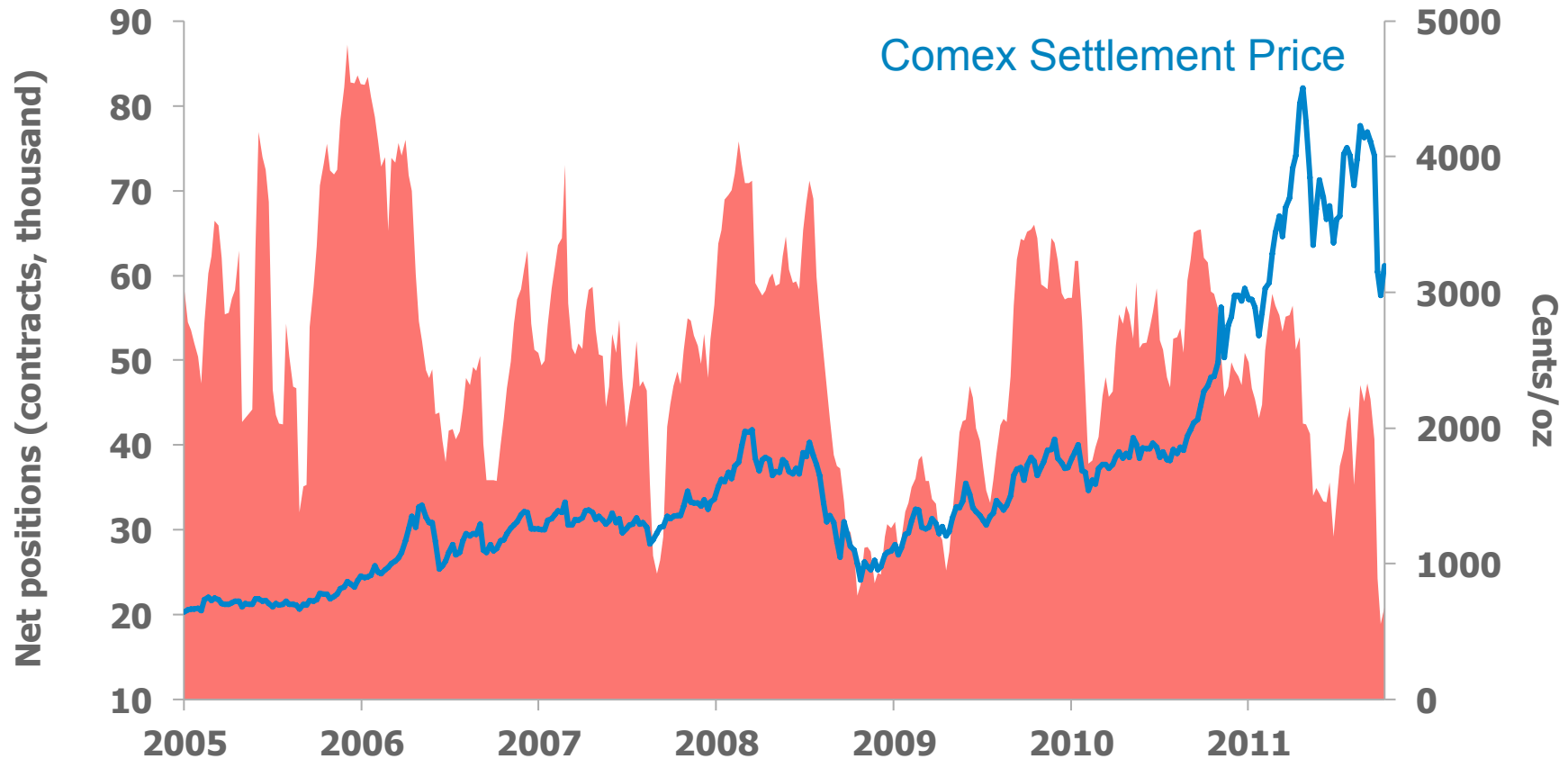
Source: Thomson Reuters GFMS

SILVER ETF HOLDINGS



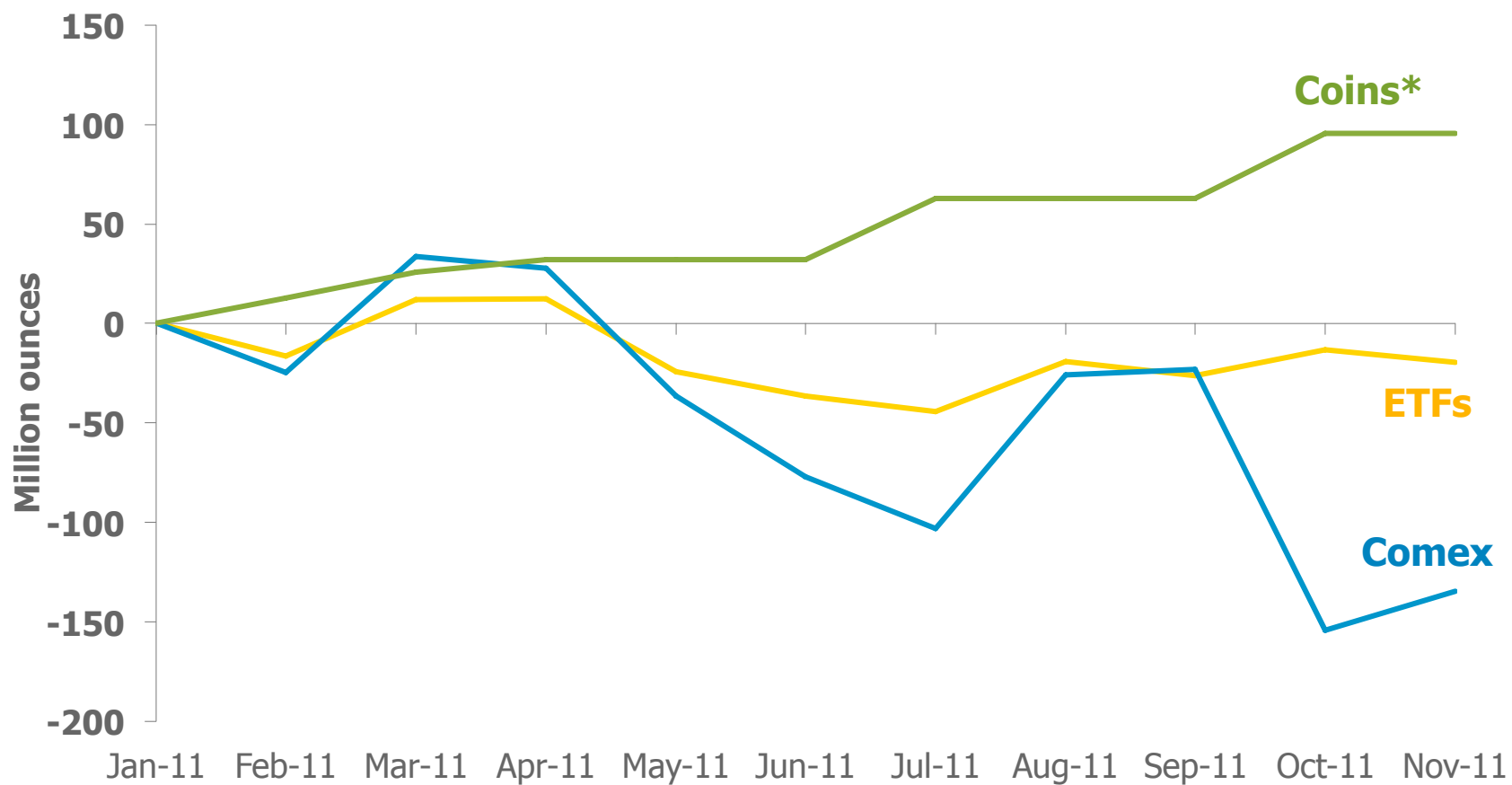
*Includes ETFS London, Australia, NYSE, Glitter and WITE ** Includes Julius Baer, Mitsubishi, Sprott, Claymore, Central Fund of Canada, Silver Bullion Trust, DB Physical Silver, iShare ETC, Source: Respective issuers

INVESTORS'* NET POSITIONS IN COMEX SILVER FUTURES



* non-commercial & non-reportable net positions in futures taken as proxy for investors' positions; Source: CFTC

MONTHLY CHANGES IN SILVER INVESTMENT



*Excludes medals & some coins

Source: Thomson Reuters GFMS

INVESTMENT SUMMARY

- Investor activity the main factor behind rally in price to \$50/oz in late April and sharp corrections in early May and late September
- Silver benefits from gains in gold, with similar 'precious metal' motivations at work, namely the sovereign debt crisis, inflation fears, loose monetary policies, weak US dollar etc.
- Copper also an influence, with silver often regarded as an 'industrial metal'; lately therefore the white metal facing downside pressure, given increasingly bearish economic outlook
- For some, silver is a more 'economical' alternative to gold (~45 x lower unit price)
- Silver's greater volatility and trading range than gold makes it attractive to certain investors.

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PRICE OUTLOOK

Negatives:

- Mine production continues to grow (+190Moz in 2002-2011)
- Ongoing secular decline in photography (though mainly offset by lower photo scrap) and silverware
- Sovereign debt concerns and liquidity constraints could hit 'real economy' and industrial demand
- Large and growing fundamental market surplus (+/- 230 Moz forecast for 2011)

Positives:

- Investor interest remains strong due to favourable financial backdrop and in spite of two major sell-offs this year
- Underlying secular growth in industrial demand continues, with much of this relatively price-insensitive, particularly in the short-run
- Little threat to prices from higher government sales or even gains in scrap supply

Price forecasts:

- We now forecast an average price of \$35.66 in 2011 (1st Jan - 15th Nov average \$35.70).

Our short-term forecast is that through to year-end silver will trade between \$31-\$38.

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