

THE SILVER INSTITUTE



World Silver Survey 2011

A Summary

*Produced for The Silver Institute
by GFMS Limited*

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About the Major Sponsors...

Coeur d'Alene Mines Corporation

Coeur d'Alene Mines Corporation is the largest U.S.-based primary silver producer and a growing gold producer. The Company has three new, large precious metals mines generating significantly higher production, sales and cash flow in continued strong metals markets. In 2011, Coeur will realize the first full year of production and cash flow from all three of its new, 100%-owned mines: San Bartolomé in Bolivia; the Palmarejo silver/gold mine in Mexico, and the Kensington Gold Mine in Alaska. In addition, the Company is expecting new production from its long-time flagship Rochester mine in Nevada. The Company also owns non-operating interest a low-cost mine in Australia, and conducts ongoing exploration activities near its operations in Argentina, Mexico and Alaska. Coeur common shares are traded on the New York Stock Exchange (symbol CDE) and the Toronto Stock Exchange (CDM).



Fresnillo Plc

Fresnillo Plc is the world's largest primary silver producer and Mexico's second largest gold producer, listed on the London Stock Exchange under the symbol FRES. Fresnillo has four producing mines, all of them in Mexico – Fresnillo, Cienega, Herradura and Soledad-Dipolos; two development projects – Saucito and Noche Buena; and four exploration prospects – San Juan, San Julian, Oryviso and Juanicipio as well as a number of other long term exploration prospects and, in total, has mining concessions covering approximately 1.91 million hectares in Mexico. Fresnillo has a strong and long tradition of mining, a proven track record of mining development and reserves replacement, and production costs in the lowest quartile of the cost curve for both silver and gold. Fresnillo's goal is to maintain the Group's position as the world's largest primary silver company, producing 65 million ounces of silver and over 400,000 ounces of gold by 2018.



Industrias Peñoles, S.A.B. de C.V.

Peñoles is a mining group with integrated operations in smelting and refining non-ferrous metals, and producing chemicals. Peñoles is the world's top producer of refined silver, metallic bismuth and sodium sulfate, and the leading Latin American producer of refined gold and lead. The Company was founded in 1887 and it is part of "Grupo BAL", a privately held diversified group of independent Mexican companies. Peñoles' shares have traded on the Mexican Stock Exchange since 1968 under the ticker PE&OLES.

Peñoles highlights:

- Began operations in 1887 as a mining company.
- Has integrated operations in the areas of exploration, mining, metallurgy and chemicals.
- Listed on the Mexican Stock Exchange since 1968; the stock is included in the IPC index.
- One of the largest net exporters in Mexico's private sector.

Pan American Silver Corp.



Pan American Silver Corp. was founded in 1994 with the mission to be the world's largest low-cost primary silver mining company and to achieve this by constantly increasing its low-cost silver production and silver reserves. Today, Pan American owns and operates seven silver mines in Mexico, Peru, Argentina and Bolivia. In 2010, the Company's 15th consecutive year of production growth, Pan American produced a record 24.3 million ounces of silver. In 2011, the Company expects to produce 23 to 24 million ounces of silver and 76,000 to 78,000 ounces of gold.

Pan American has one of the industry's most exciting growth profiles. The Company operates the La Preciosa silver project, located in Durango, Mexico. Pan American is currently conducting additional technical work to complete a preliminary assessment for La Preciosa in mid-2011. Pan American also owns the Navidad silver project, one of the largest undeveloped silver deposits in the world, located in Chubut, Argentina. The Company recently released Navidad's preliminary assessment and is currently carrying out technical work to complete an Environmental Impact Assessment and ultimately a full Feasibility Report.

Silver Wheaton Corp.



Established in 2004, Silver Wheaton has quickly positioned itself as the largest silver streaming company in the world. Silver Wheaton has entered into a number of agreements where, in exchange for an upfront payment, it has the right to purchase, at a low fixed cost, all or a portion of the silver production from strategically selected high-quality mines. The company currently has silver streaming agreements covering 16 operating mines and three development stage projects located in politically stable regions around the world.

Silver Wheaton's industry-leading growth profile is driven by its portfolio of world-class assets, including silver streams on Goldcorp's Peñasquito mine in Mexico and Barrick's Pascua-Lama project straddling the border of Chile and Argentina. With low fixed cash costs and unhedged silver sales, the company's unique business model creates significant shareholder value by providing considerable leverage to increases in the silver price while reducing many of the risks faced by traditional mining companies. Silver Wheaton's shares are traded under the symbol SLW on the Toronto Stock Exchange and the New York Stock Exchange.



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The **World Silver Survey** has been published annually by The Silver Institute since 1990. Copies of previous editions can be obtained by contacting The Silver Institute at the address and telephone number on the front cover. For copies outside of North America, contact GFMS at the address on the front cover.

Notes

Units used:

supply and demand data are given in units of million troy ounces (Moz) rounded to one decimal place.

1 Moz = 31.103 t (metric tons)

1 ton = 32,151 troy ounces

1 ton = 1,000,000 grams (g)

Terminology:

"-" = not available or not applicable

0.0 = zero or less than 0.05

"dollar" refers to the US dollar unless otherwise stated.

Implied Net Investment = the residual from combining all other GFMS data on silver supply/demand as shown in the table on page 6. As such, it captures the net physical impact of all transactions not covered by the other supply/demand variables.

Prices:

Unless otherwise stated, US dollar prices are for the London Silver Market fixing.

Table Rounding:

Throughout the tables and charts, totals may not add due to independent rounding.

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This report is a summary of *World Silver Survey 2011*. The *World Silver Survey (WSS)* is an annual review of the international silver market. It contains the only truly global analysis of the world's silver markets and has been produced by GFMS Limited, the London-based analysts of global precious metals markets, on behalf of the Silver Institute in Washington DC since 1994. The WSS is a unique source of silver supply and demand statistics for more than sixty countries. It contains a comprehensive analysis of investor activity, worldwide silver stocks and bullion flows as well as a lucid and concise account of the financial, economic and social factors underlying market trends. Details on how to order the full 100-page survey can be found on Page 5.

1. Review & Outlook

The silver price recorded an astounding 78% intra-year gain last year, stemming from two key developments on the demand-side of the equation. The tremendous rise in investor interest, proxied by the near 40% leap in our World Investment figure to 279.3 Moz (8,689 t), was the principal driver of this outcome. Together with the surge in fabrication demand, led by the recovery in the dominant industrial segment, the two comfortably offset a quite marked increase in supply.

Looking at the supply-side, total silver supply rose by 15% to 1,056.8 Moz (32,870 t) in 2010. While all segments registered substantial growth, the increase was led by the return of producer hedging, followed by government sales and recycling. Mine production expanded by a relatively modest 2.5%, although this still posted a record high of 735.9 Moz (22,889 t), as a result of new production capacity driven increases from the primary silver and lead/zinc sectors. A dramatic swing to producer hedging generated 61.1 Moz (1,901 t) of supply, ending a four year run of net de-hedging. Net government sales rebounded strongly after three consecutive years of decline, mainly driven by a rise in Russian disposals. Finally, scrap supply achieved a record high as the decline in photographic scrap was countered by a rise in industrial, jewelry and silverware recycling.

Total fabrication, meanwhile, rose by an impressive 13% to 878.8 Moz (27,333 t) last year, falling not far short of the record level set in 2000. The 21% rebound in industrial demand was the main force behind this outcome. This was compounded by gains in jewelry and coin offtake, the latter registering a 28% rise. These increases countered the structural losses in silverware and photography.

Turning to investment, implied net investment rose by a healthy 47% last year to an all-time high of 178.0 Moz

World Silver Supply and Demand (Moz)		
	2009	2010
Supply		
Mine Production	718.3	735.9
Net Government Sales	15.5	44.8
Old Silver Scrap	188.4	215.0
Producer Hedging	-	61.1
Implied Net Disinvestment	-	-
Total Supply	922.2	1,056.8
Demand		
Fabrication		
Industrial Applications	403.8	487.4
Photography	79.3	72.7
Jewelry	158.9	167.0
Silverware	58.2	50.3
Coins & Medals	79.0	101.3
Total Fabrication	779.2	878.8
Net Government Purchases	-	-
Producer De-Hedging	22.3	-
Implied Net Investment	120.7	178.0
Total Demand	922.2	1,056.8
Silver Price (London US\$/oz)	14.674	20.193

(5,537 t). Investor activity remained relatively quiet for most of the year, with action heavily skewed to the final four months. Much of the investment in these months took place in ETFs, the OTC market and physical bars, and less so on the Comex. After the initial interest linked to silver's industrial demand as the world economic outlook improved, investors sought the white metal for its safe haven properties on the back of further quantitative easing in the United States and Japan and concerns over European sovereign debt.

As regards the outlook, the economic backdrop for investment is expected to remain supportive as monetary policy is unlikely to be significantly tightened in 2011 and sovereign debt concerns will most probably grow further. Ongoing gains in industrial demand will also provide additional support to the price.



2. Silver Price - Developments in 2010

The annual average silver price in 2010 leapt by 38% to \$20.19, a (nominal) level only ever surpassed by 1980's \$20.98. Much of this was due to the dramatic rally from September onwards that took the price to a 30-year high on December 30th of \$30.70. Prior to that, prices had rarely traded outside of \$18-\$19 for the whole of April-August. Early 2010 also featured a bearish tone, with prices slipping to a low for the year of \$15.14 in early February. The scale of the recovery from that trough is revealed in the intra-year rise of 78%. Nonetheless, last year's average remained well under half of 1980's real average of \$55.53, while the daily high of \$30.70 was a far cry from 1980's real daily high of over \$130.

Overall, silver's price performance stands in good light in comparison to gold, which managed 'only' a 26% rise in its annual average price. Much of silver's strength was arguably due to the metal's less liquid investment market, but the white metal also benefited strongly from the 21% rebound in industrial fabrication. Although the more purely industrial metal, copper, posted a stronger annual price performance of 46%, its September-December rise was far from the spectacular gains that silver enjoyed.

2010 was not uniformly bullish, as the silver price fell by \$3.70 from its January high to a low for the year on February 8th of \$15.14. This was partly the result of dollar strength, itself triggered by the Eurozone sovereign debt crisis. In addition, the announcement of further monetary tightening measures by the Chinese authorities led to a base metals sell-off that in turn undermined silver. An indication of silver's industrial characteristics was seen in the gold:silver ratio, which rose from the low 60s to over 70 in just two weeks.

The first quarter ended with silver prices recovering to \$17.50, aided by an improvement in confidence regarding the world economy. Further, the escalation of sovereign debt problems in Europe in April bolstered gold prices and this no doubt assisted silver, which rallied through to \$19.59 by May 12th, a level last surpassed in March 2008. From that point, the performance of silver and gold prices diverged quite notably. While the yellow metal continued to rally through to late June, silver prices slipped back and became largely rangebound through to late August. The recession in Europe and further

Silver - Trading Details

Silver is predominantly traded on the London Bullion Market and Comex in New York. The former, as the global hub of OTC (Over-The-Counter) trading in silver, is the metal's main physical market. Here, a bidding process generates a daily reference price known as the fix. Comex, in contrast, is a futures and options exchange. It is here that most fund activity is focused. Silver is invariably quoted in US dollars per troy ounce.

curbs on Chinese bank lending did much to undermine sentiment towards the industrial metals.

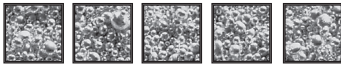
Silver's rangebound trading was then cast aside in September as the price began to rally to over \$24 by mid-October. After a brief pause, in which silver shed almost \$1.50 in around one a week, the rally soon returned pushing through to a fresh 30-year high on November 9th of \$28.55. Integral to these gains was the state of monetary policy in the United States; however this is arguably insufficient to explain all of silver's gains. Another key element was the trend among speculative investors, either actively trading the gold:silver ratio, which progressively contracted to below 50 by November, or specifically targeting silver to take expected advantage of higher geared returns in a less liquid market. Furthermore, silver's rising industrial fabrication, combined with little downward pressure from scrap supply (as occurred in the gold market), once again allowed it to outperform its yellow cousin.

The closing weeks of 2010 saw a final flourish as the price ultimately rallied to a fresh high of \$30.70 on December 30th. However, in this final phase prices were much more volatile due to the gains occurring in the face of dollar strength and healthy levels of investor profit taking.

The Silver Price since January 2009



Source: Thomson Reuters



3. Supply

- **Global silver mine production rose to a fresh high in 2010 of 735.9 Moz (22,889 t).**
- **Net government sales increased last year to 44.8 Moz (1,393 t), as a result of a rebound in Russian disposals.**
- **Scrap rose by 14% in 2010 due to gains in industrial and jewelry recycling.**

Global silver mine production rose for the eighth successive year to a record 735.9 Moz (22,889 t) in 2010, after increasing by 17.6 Moz (548 t). On a country basis, the start of Peñasquito’s sulfide (zinc) operation and the ramp-up of Palmarejo (primary silver) in Mexico together accounted for almost all of the country’s 13% increase last year, promoting Mexico to the position of world’s largest producer once again. Similarly, a full year of commercial production at Pirquitas (primary silver) in 2010 was influential in Argentina’s 20% rise. Elsewhere, substantial increases were recorded for China and Australia, where the improvement was linked to higher output at established operations, including Cannington, the world’s leading silver mine last year.

Moderating these gains were heavy losses in Peru and Russia, of 7.4 Moz (231 t) and 5.4 Moz (167 t) respectively. A number of unfavorable planning issues at several of the country’s largest mines impacted Peruvian output, while Russian volumes were hit by lower silver recoveries from the base metals sector.

Silver sourced from other metals posted a mixed performance. Silver derived from lead/zinc mining rose by 5%, whilst output from the gold and copper

sectors slipped by 4% and 1% respectively. Production from primary silver mines recorded an increase of 5%, continuing to account for 30% of the total mine production in 2010.

A return to net producer hedging last year generated 61.1 Moz (1,901 t) of supply, ending a four-year run of net de-hedging. The most significant activity last year came from the diversified producer, Minera Frisco, followed by the hedges undertaken by Barrick Gold and Minera Volcan. Collectively these three companies added over 60 Moz (1,866 t) of contracts in 2010 (delta-adjusted), taking advantage of higher prices to hedge non-core revenues over multi-year periods.

Net government sales rebounded strongly after three consecutive years of decline, to 44.8 Moz (1,393 t) in 2010, up by 29.3 Moz (910 t) year-on-year. The increase was almost exclusively driven by a significant rise in disposals from Russia.

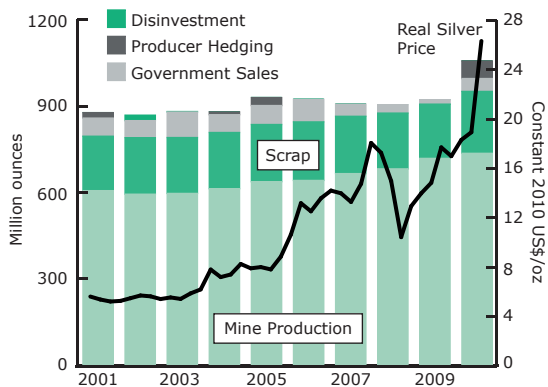
The recycling of silver increased by 14% last year, to a new record of 215.0 Moz (6,687 t). The ongoing decline in photographic scrap was countered by a sharp rise

Silver Supply - Its Components

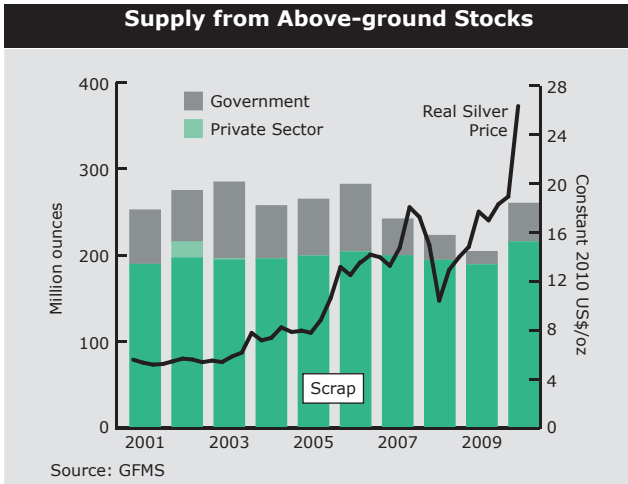
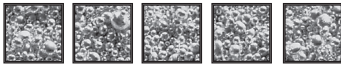
Mine production remains by far the largest component of silver supply, normally accounting for around two-thirds of the total (last year was higher at 70%). However, mine production is not the sole source; the others being scrap, disinvestment, government sales and producer hedging. Scrap, or more properly “old scrap,” is the silver that returns to the market when recovered from manufactured goods. This could include old jewelry, photographic chemicals, even discarded computers. However, it excludes silver that is returned untransformed by the manufacturing process or that never becomes an end product - so called “process scrap”. Old scrap normally makes up around a fifth of total supply.

Disinvestment and government sales are similar in that both comprise the return to the market of old bars and coins by the private sector and governments. It is worth bearing in mind that these sources may not add to supply every year on a net basis. In some years, individuals have been net investors (as was the case in 2008) and governments net buyers. The final, though normally minor, component of supply is producer hedging or the early sale by mining companies of future production. Hedging may also not appear every year on the supply side on a net basis as it can form part of demand as de-hedging (as occurred last year).

World Silver Supply



Source: GFMS



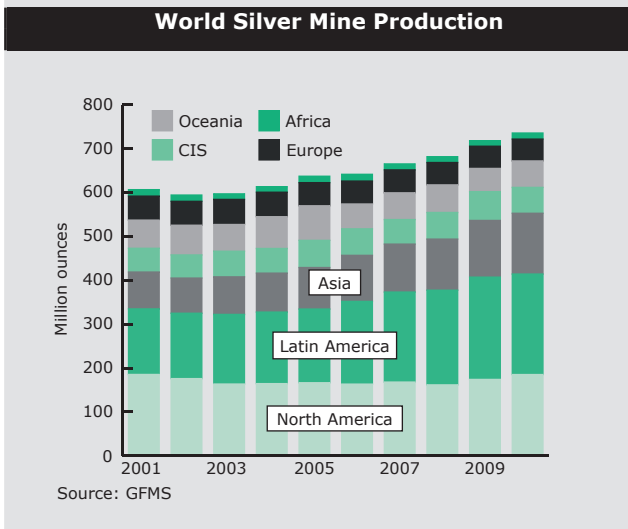
in receipts from the industrial sector. The latter has been rising for some time due to tighter environmental legislation. There was also a lift in jewelry and silverware recycling, stemming in the main from the 38% rise in the annual dollar price. Marked rises from these sectors were registered in most markets but it was in the price sensitive developing world, particularly in India and Thailand, where the gains were the greatest.

Silver Output by Source Metal

(million ounces)

	2009	% of	2010	% of	Change
	Output	Total	Output	Total	y-o-y
Primary	212.7	30%	223.4	30%	5%
Gold	86.2	12%	82.6	11%	-4%
Lead/Zinc	252.1	35%	263.8	36%	5%
Copper	164.8	23%	162.8	22%	-1%
Other	2.5	0%	3.3	0%	33%
Total	922.2		1,056.8		3%

Source: GFMS



4. Demand

- **World fabrication rebounded by 12.8% in 2010, taking the total to 878.8 Moz (27,333 t), the highest recorded level in over a decade.**
- **Industrial offtake accounted for the bulk of the rise in absolute terms, and almost entirely recouped its losses from the economic downturn of 2009.**
- **The long-term decline in the use of silver in photographic applications continued. However, it recorded the slowest rate of decline in five years.**
- **Jewelry demand expanded by 5.1% last year, with much of the increase concentrated in East Asia, where silver emerged as a viable alternative to its more expensive rival, gold.**
- **Silverware offtake fell by 13.5%, led by a steep fall in the Indian market due to higher prices.**
- **Coins & medals offtake posted a robust increase of 28.3% to reach a record high, propelled by surging investor demand.**
- **Implied net investment rose by 47% to 178.0 Moz (5,537 t), with the bulk of the demand concentrated in ETFs and physical bullion bars.**

Industrial demand grew by a hefty 20.7% to 487.4 Moz (15,160 t) last year. This result was driven by the return to growth in the industrialized world, the restocking of supply pipelines and ongoing buoyant emerging market GDP gains. Most end-uses benefited from these developments, with photo voltaics, ethylene oxide catalysts and the automotive industries worthy

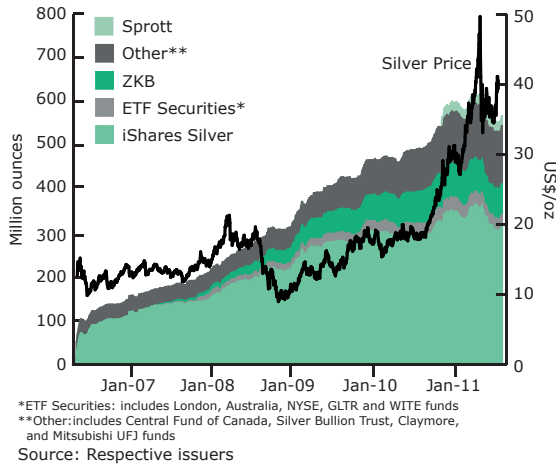
Silver Mine Production - Where It Comes From

Geographically, just over half of mined silver comes from the Americas. Indeed six of the ten largest producing countries are in this region including the two biggest, Mexico and Peru. Of greater market relevance however, is the type of mine that silver comes from – most silver emerges as a by-product of the mining of other metals. Most substantially silver production comes from lead/zinc operations.

Only around 30% of output comes from so-called primary silver mines, where silver is the main source of revenue. This is noteworthy given that the impact of the price of silver is most acute on primary silver production, whereas by-product silver production is in large part a function of the price of the other metals, with which silver is mined.



Silver ETF Holdings



of mention. The only main area that disappointed was construction in the industrialized world. At a country level, Japan saw the greatest rise as its demand returned to 'normal', while sizable volume increases were also seen for China and the United States and then Germany and South Korea. The only country of note to see losses was India, as a result of an adverse price elastic response in its quasi-industrial segments.

World jewelry fabrication rose by 5.1% in 2010 to 167.0 Moz (5,194 t), its first rise of substance since 2003. The improvement was due to strong GDP gains in many emerging markets driving expenditure higher on silver jewelry, together with a rebound in industrialized world consumption through substitution from gold. Higher silver prices, however, somewhat trimmed demand, the impact of which was felt most keenly in India, which was the only major country to see losses in 2010.

Silverware offtake fell a hefty 14% to 50.3 Moz (1,566 t) last year, resuming its downtrend of over a decade after a small rise in 2009. Every region, aside from China and the CIS, saw its output fall, either as a result of the long-term secular decline in many western countries, or as a result of the jump in silver prices in the price sensitive markets, particularly in India.

Silver's use in photography fell by 6.6 Moz (204 t) or 8.3% to 72.7 Moz (2,261 t), its smallest loss in nine years. This was mainly due to only a slight drop in the output of traditional X-rays. Faced with significant budgetary constraints, it was not uncommon for medical centers to defer the conversion to digital systems, thereby prolonging their use of silver halide products.

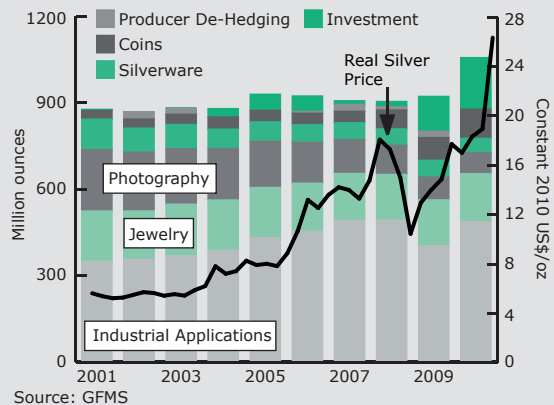
Coin minting reached a record high, increasing by over 28%, to 101.3 Moz (3,151 t). A substantial rise in retail investment demand for silver bullion coins, principally in Europe and the United States, was the main driving force behind the robust increase. Every significant producer of bullion coins registered higher minting last year, with the US Eagle, Canadian Maple Leaf, Austrian Philharmoniker and the Australian Kookaburra coins each achieving record highs.

Implied net investment hit a record high, in GFMS' 21-year data series, of 178.0 Moz (5,537 t), jumping by a hefty 47% last year. Investor interest began to build early on the back of silver's industrial links, as sentiment towards the world economic outlook improved. Silver's precious credentials then brought forth greater investment inflows, due to the spill-over from gains in the gold market, stemming chiefly from the European sovereign debt crisis.

Silver Demand - Its Components

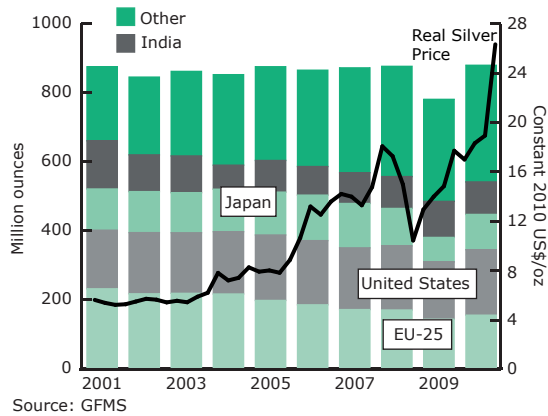
Demand is dominated by the industrial offtake category, which for the last two years has accounted for just over half the total. The second most important areas are the relatively price sensitive segment of jewelry (18% of total demand) and photography (12%), whose share has been falling greatly due to digital technology. The rest of fabrication is made up of coins (7%) and silverware (6%). The other elements of demand (government purchases, producer de-hedging and investment) are alike in that, on a net basis, they may not feature every year on the demand side. The official sector, for example, has not generated net purchases since 1997. Investment, as noted previously, was the main driver of last year's rally and this stands in contrast to the sustained net disinvestment seen in the 1990s.

World Silver Demand





World Silver Fabrication (by region)



After a late spring/summer lull, investment demand for silver exploded from September onwards, on the back of further quantitative easing in the United States and Japan, a weak dollar, the return of acute concerns over European sovereign debt and increasing anxiety concerning the outlook for inflation. This was not mere gold shadowing in this period, as the gold:silver ratio contracted sharply. Key to this was silver having yet to match historic highs and its less liquid market, which attracted growing speculative interest. In addition, investor sentiment was boosted by silver's more robust fundamentals, in particular its firm industrial base. Much of the investment in these months took place in ETFs, the OTC market and in physical bars, but less on the Comex.

Silver's Fabrication Uses

Industry: Silver is the best electrical and thermal conductor of all metals and so is used in many electrical applications, particularly in conductors, switches, contacts and fuses. Contacts provide junctions between two conductors that can be separated and through which current can flow, and account for the largest proportion of electrical demand. The most significant uses of silver in electronics are in the preparation of thick-film pastes, in multi-layer ceramic capacitors, in the manufacture of membrane switches, silvered film in electrically heated automobile windshields and in conductive adhesives. Silver used in the fabrication of photo voltaic cells is seen as an area of rapid growth in the short to medium term. Other industrial uses for silver include as a coating material for compact disks and digital video disks, mirrors, glass coatings and cellophane and batteries.

Jewelry and Silverware: Silver possesses working qualities similar to gold, enjoys greater reflectivity and can achieve the most brilliant polish of any metal. Consequently, the silversmith's objective has always been to enhance the play of light on silver's already bright surface. Pure silver (999 fineness) does not tarnish easily but to make it durable for jewelry, it is often alloyed with small quantities of copper. It is also widely used with base metals in gold alloys. Sterling silver, at a fineness of 925, has been the standard of silverware since the 14th century, particularly in

the manufacture of "hollow-ware" and "flatware". Plated silverware usually has a coating of 20-30 microns, while jewelry plating is 3-5 microns.

Photography: The photographic process is based on the presence of light sensitive silver halide crystals, prepared by mixing a solution of soluble silver, usually silver nitrate, with a soluble alkali metal halide such as sodium chloride or potassium bromide. These grains are then suspended in the unexposed film. The effect of light on the silver halide disturbs the structure of this compound, rendering it selectively reducible to metallic silver by reducing agents called developers. The resulting negative image is converted to the positive by repeating the process under specific conditions. Photographic film is used in radiography, the graphic arts and in consumer photography. Photographic film manufacturers demand very high purity silver.

Coins: Historically, silver was more widely used in coinage than gold, being in greater supply and of less value, thus being practical for everyday payments. Most nations were on a silver standard until the late 19th century with silver coin forming the main circulating currency. But after the gold rushes, the silver standard increasingly gave way to gold. Silver was gradually phased out of regular coinage, although it is still used in some circulating coins and especially in American, Australian, Canada, Mexican and Austrian bullion coins for investors.