

THE SILVER MARKET IN 2012

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The Silver Institute - 2012 Interim Report

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GFMS



THOMSON REUTERS

THE SILVER MARKET IN 2012

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

US DOLLAR SILVER PRICES



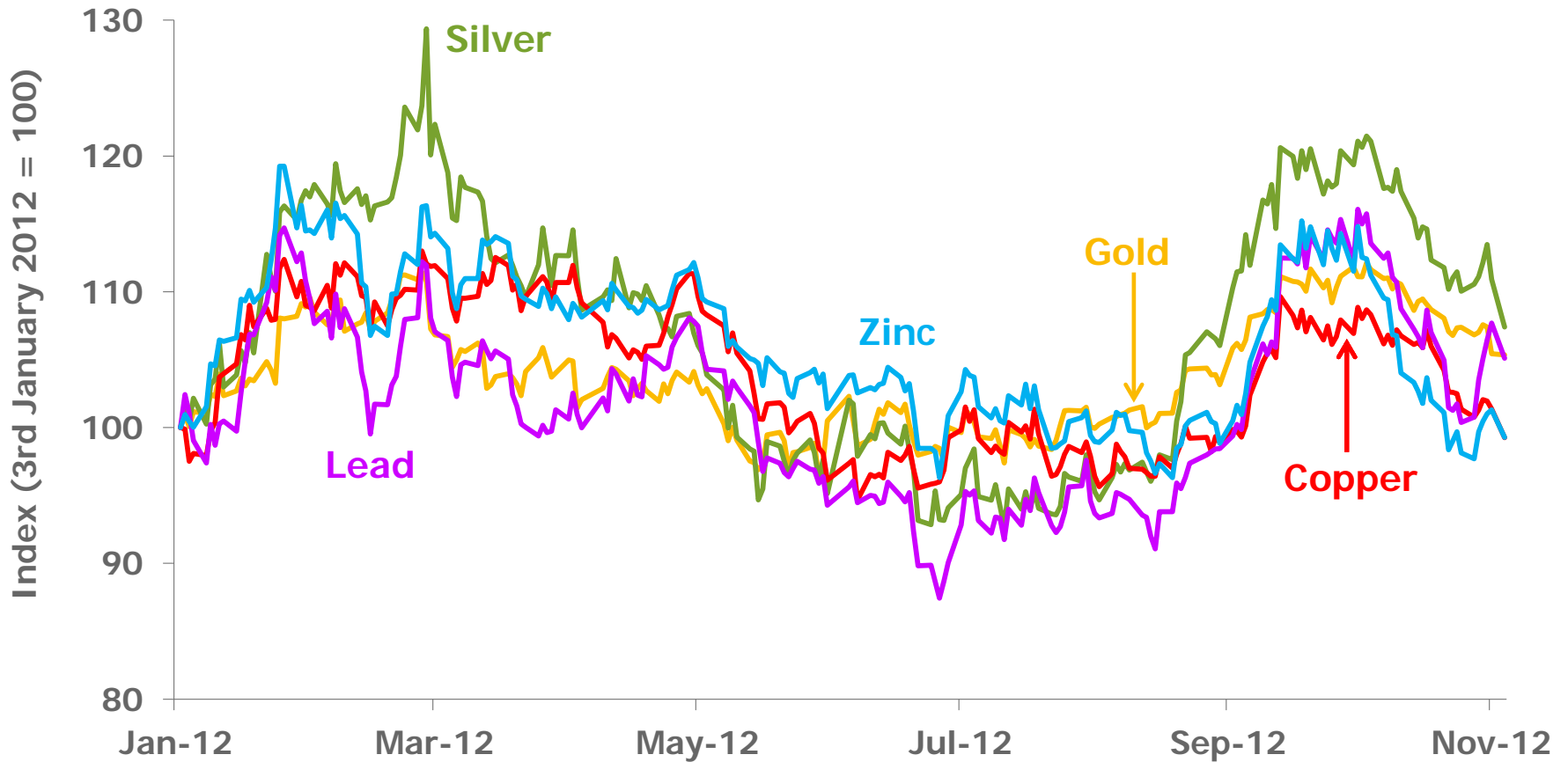
Source: Thomson Reuters GFMS

US DOLLAR AND EURO SILVER PRICES



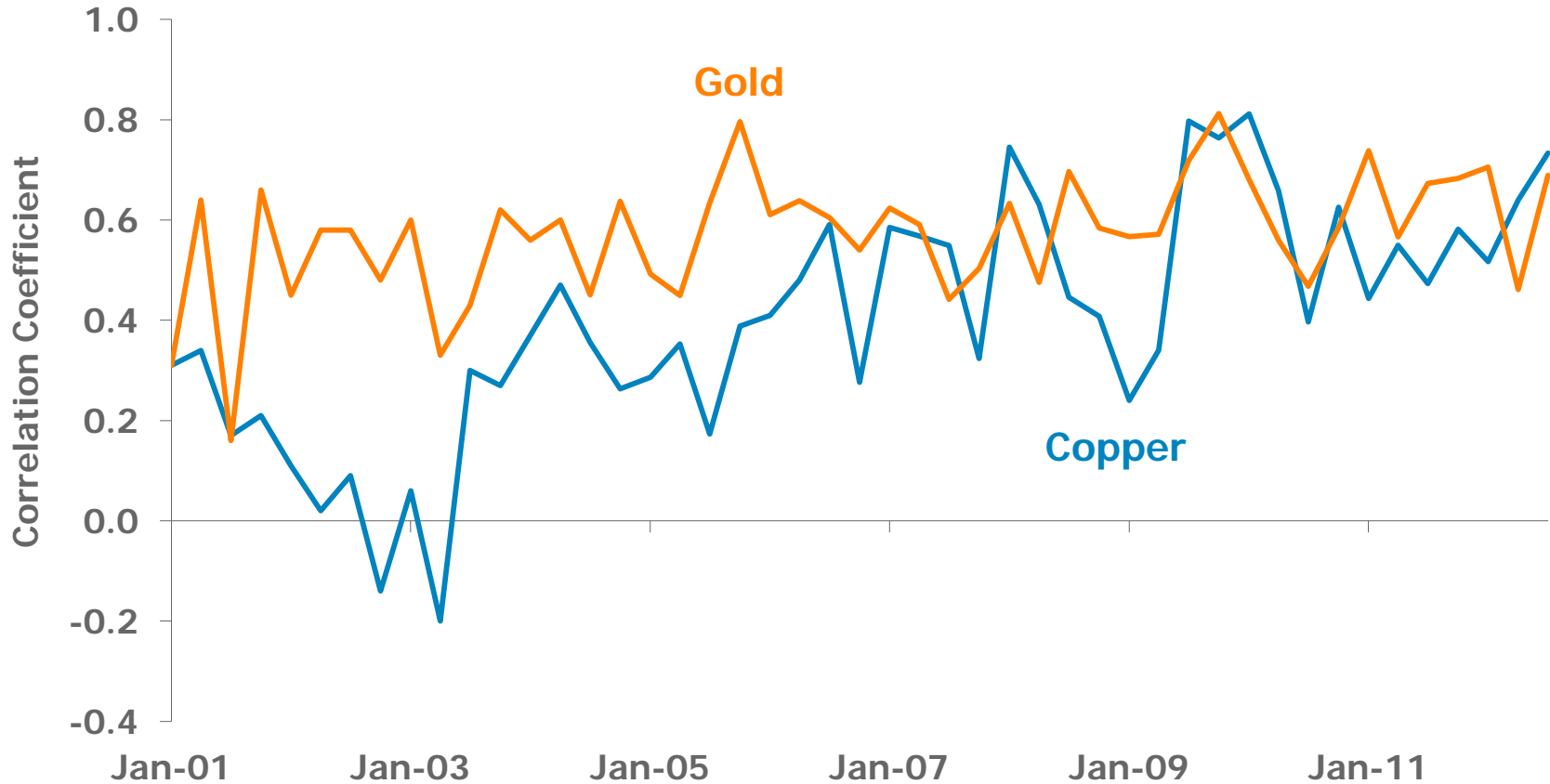
Source: Thomson Reuters GFMS

SILVER, GOLD & BASE METALS PRICES



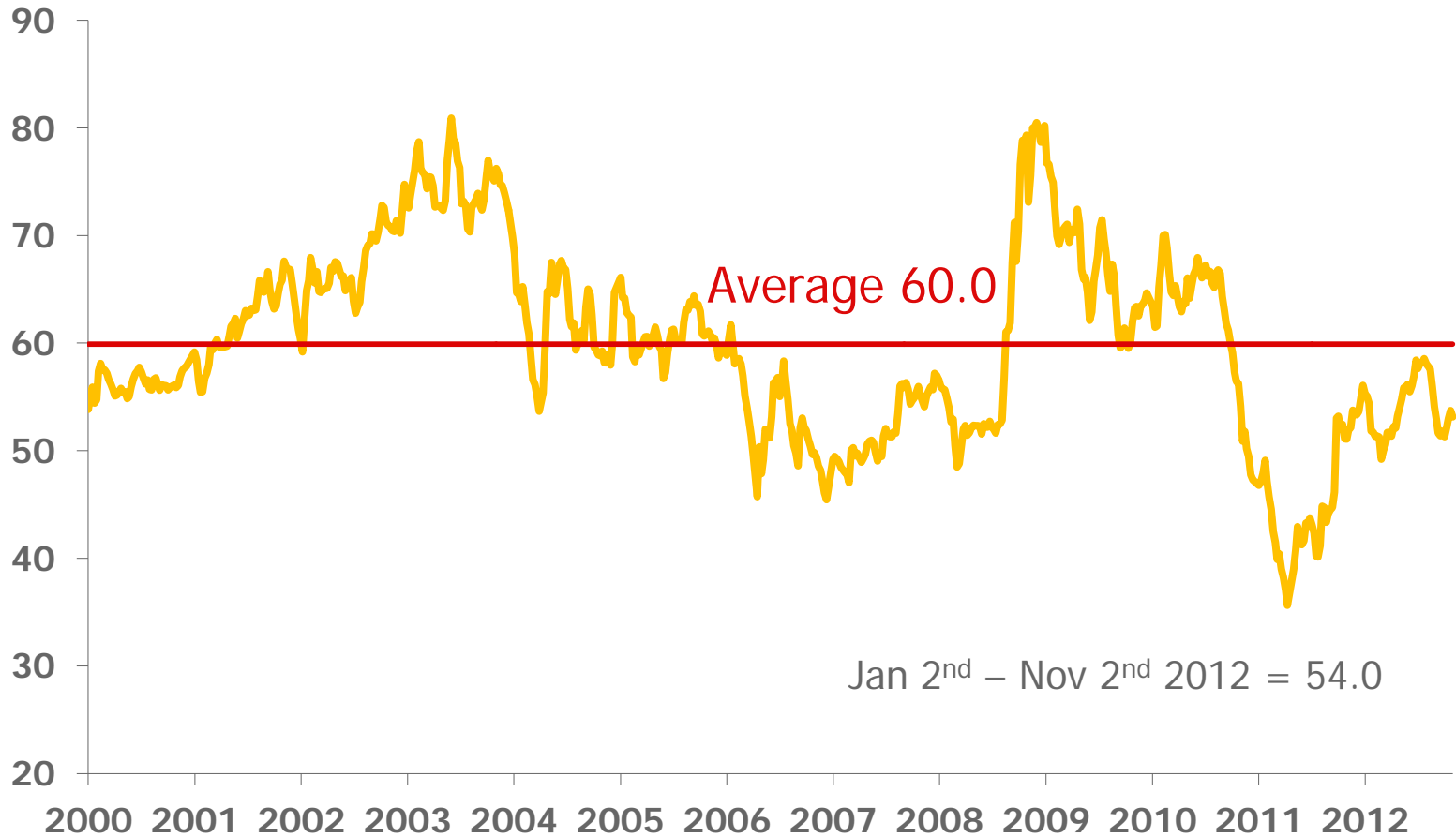
Source: Thomson Reuters GFMS

QUARTERLY CORRELATION OF DAILY SILVER PRICE WITH GOLD & COPPER PRICES



Source: Thomson Reuters GFMS

GOLD/SILVER RATIO, 2000 – 2012 TO-DATE (BASIS WEEKLY AVERAGE PRICES)



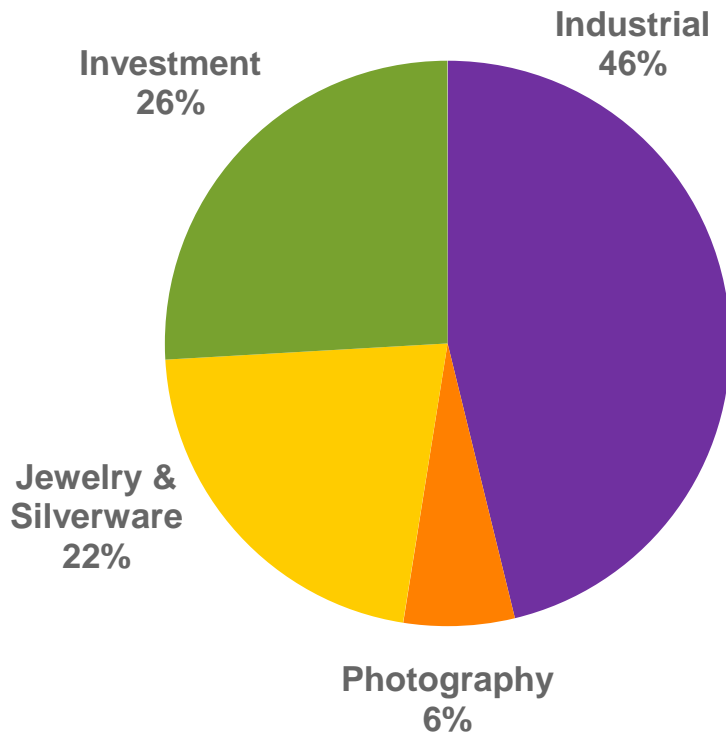
Source: Thomson Reuters GFMS

THE SILVER MARKET IN 2012

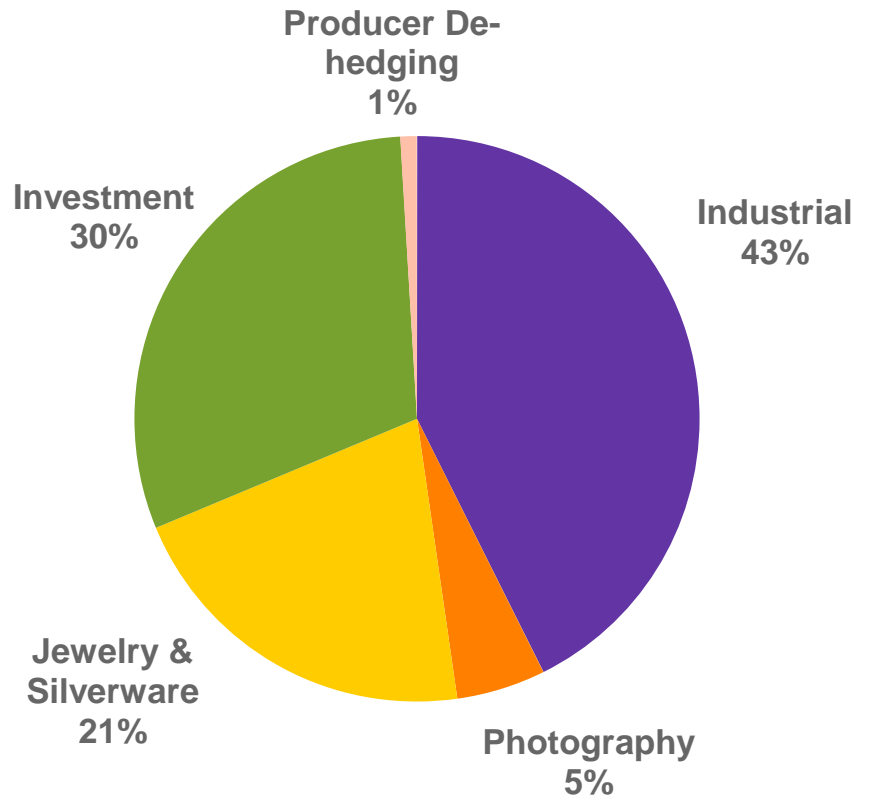
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WORLD SILVER DEMAND

2011 Actual



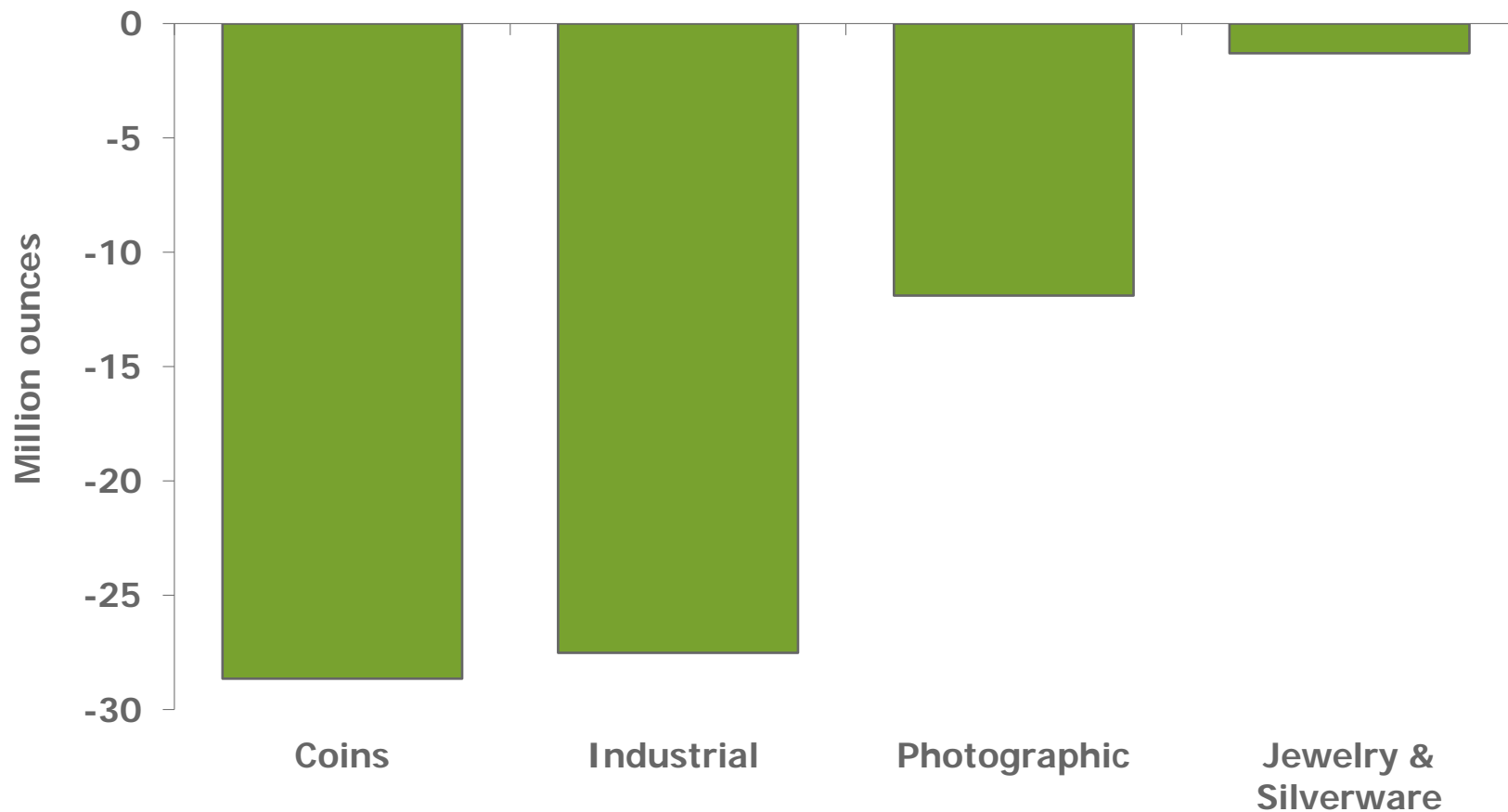
2012 Forecast



Source: Thomson Reuters GFMS

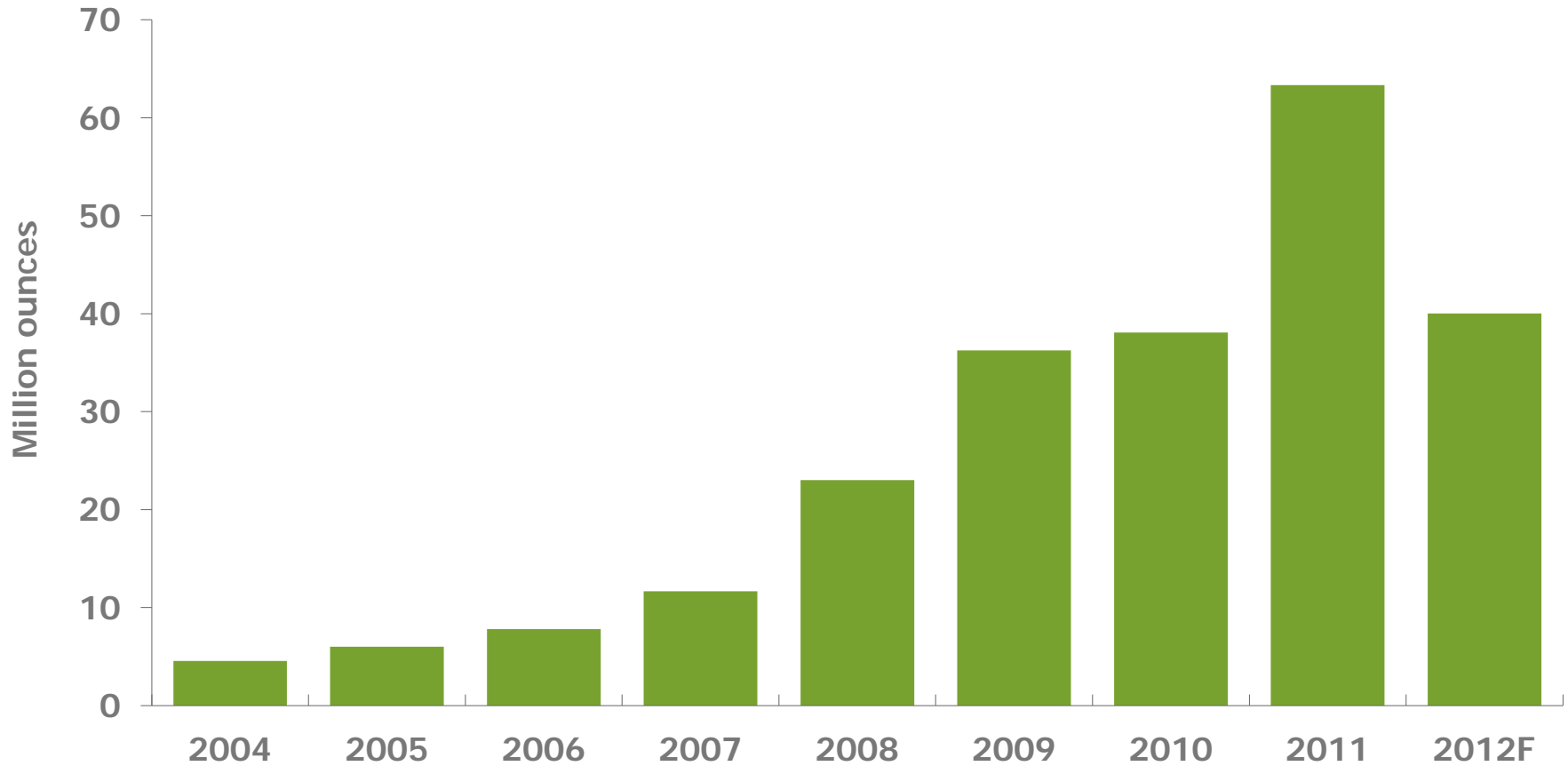
WORLD SILVER FABRICATION

FORECAST ANNUAL CHANGES: 2012 LESS 2011



Source: Thomson Reuters GFMS

PHOTOVOLTAIC SILVER DEMAND



Source: Thomson Reuters GFMS

DEMAND SUMMARY

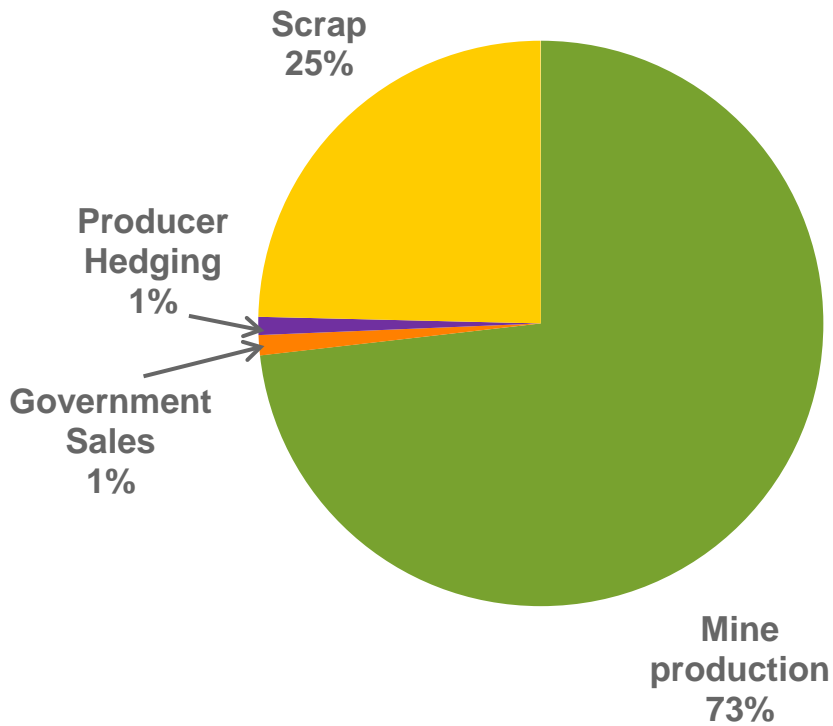
- Total fabrication demand forecast to drop by 8% in 2012.
- Industrial offtake expected to fall for the second consecutive year in 2012 on the back of slower world economic growth.
- Jewelry demand set to post modest growth in 2012 as healthy gains in emerging markets will more than offset losses in western countries.
- In contrast, both silverware and photographic demand continue their long term trend of decline.
- Coin demand set to post a 24% decline in 2012, dropping below 90Moz.

THE SILVER MARKET IN 2012

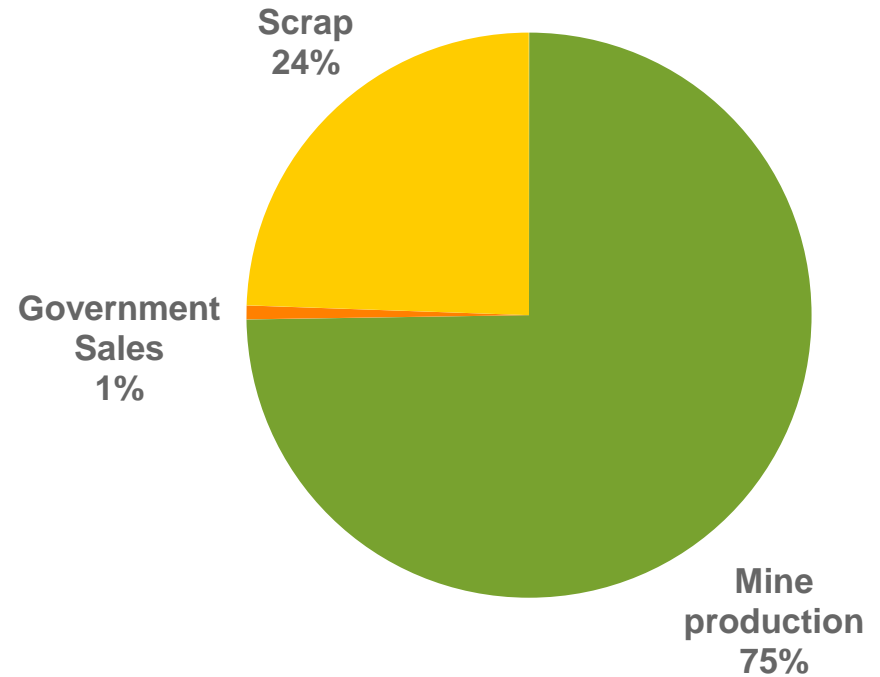
- PRICES
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WORLD SILVER SUPPLY

2011 Actual



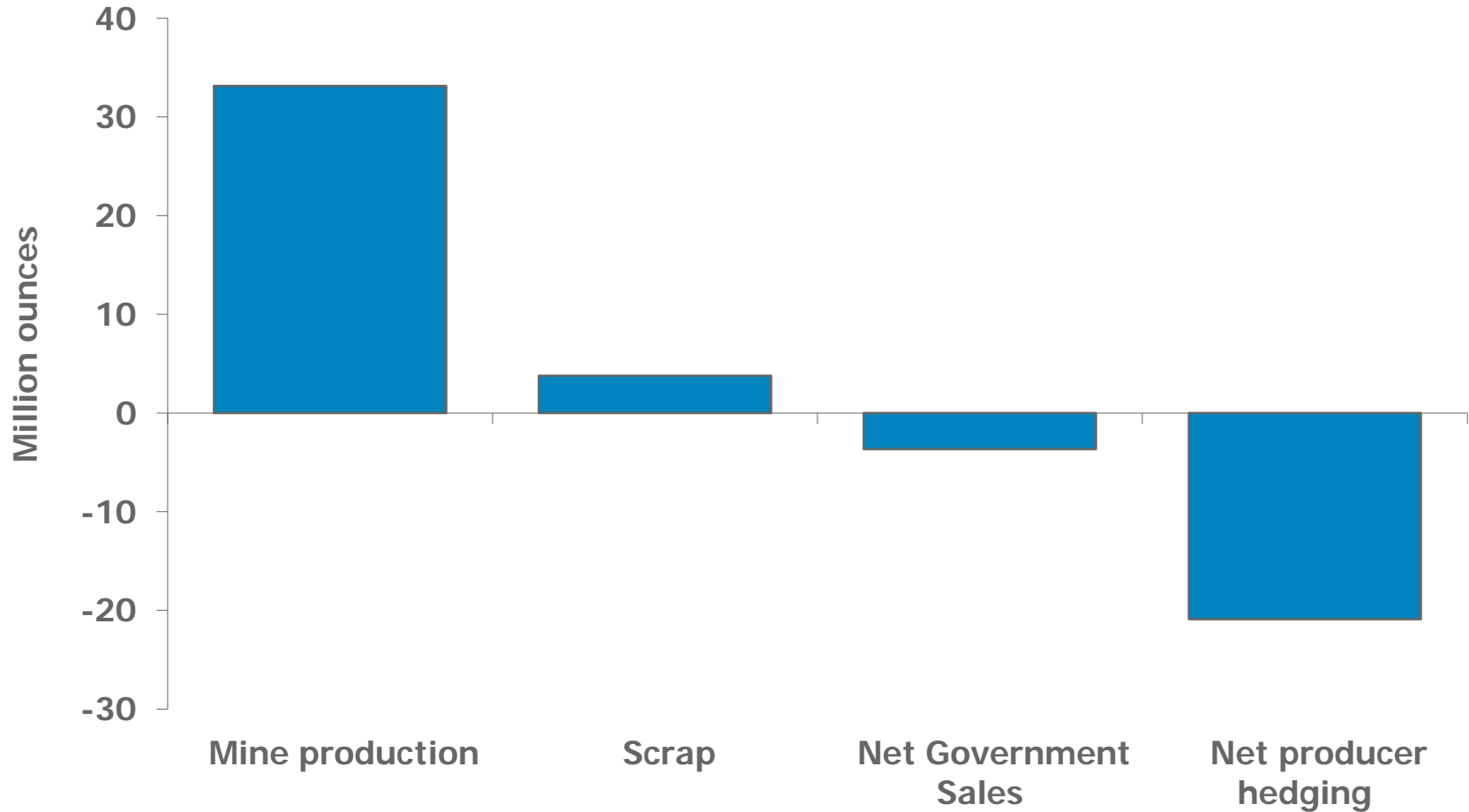
2012 Forecast



Source: Thomson Reuters GFMS

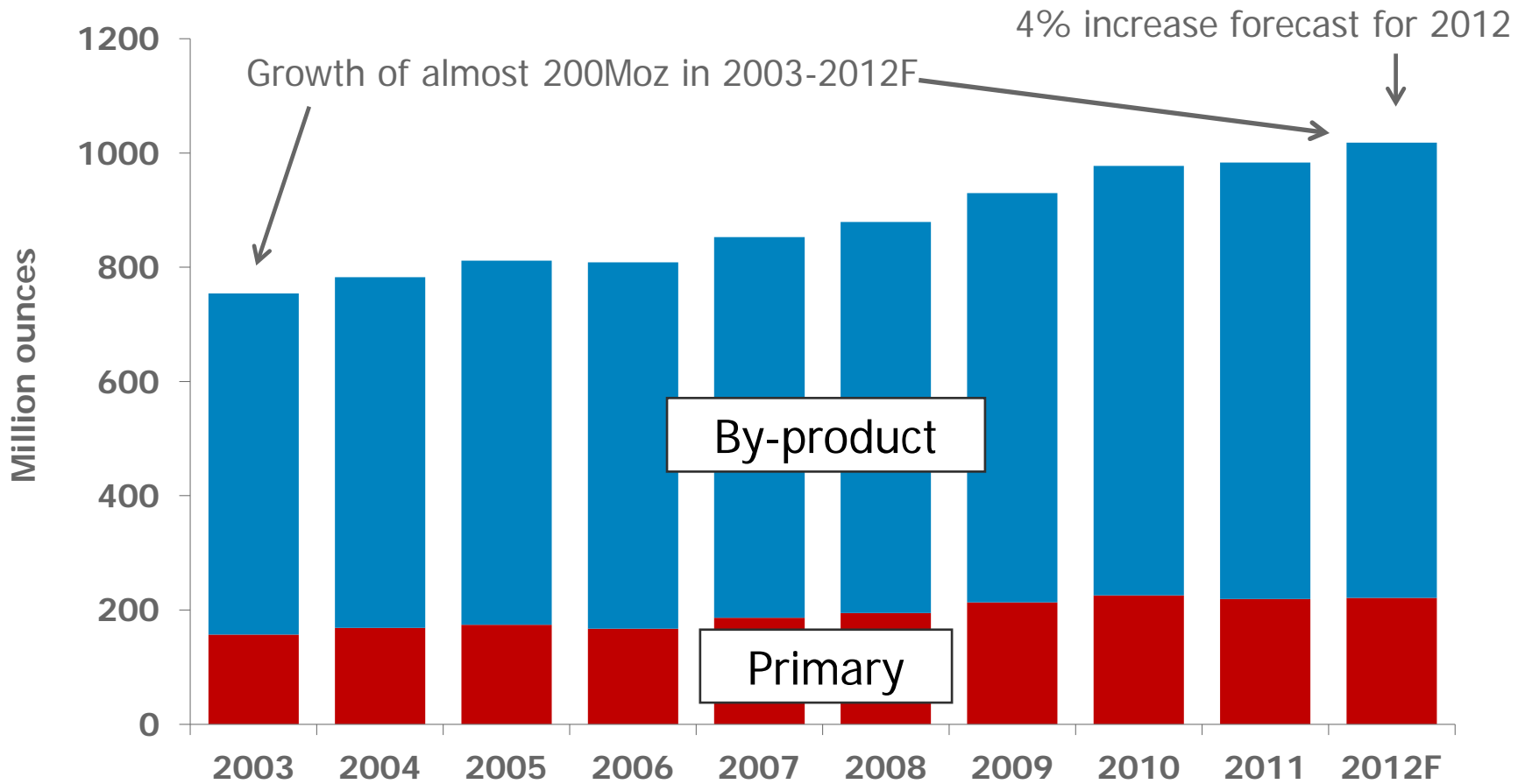
WORLD SILVER SUPPLY

FORECAST ANNUAL CHANGES: 2012 LESS 2011



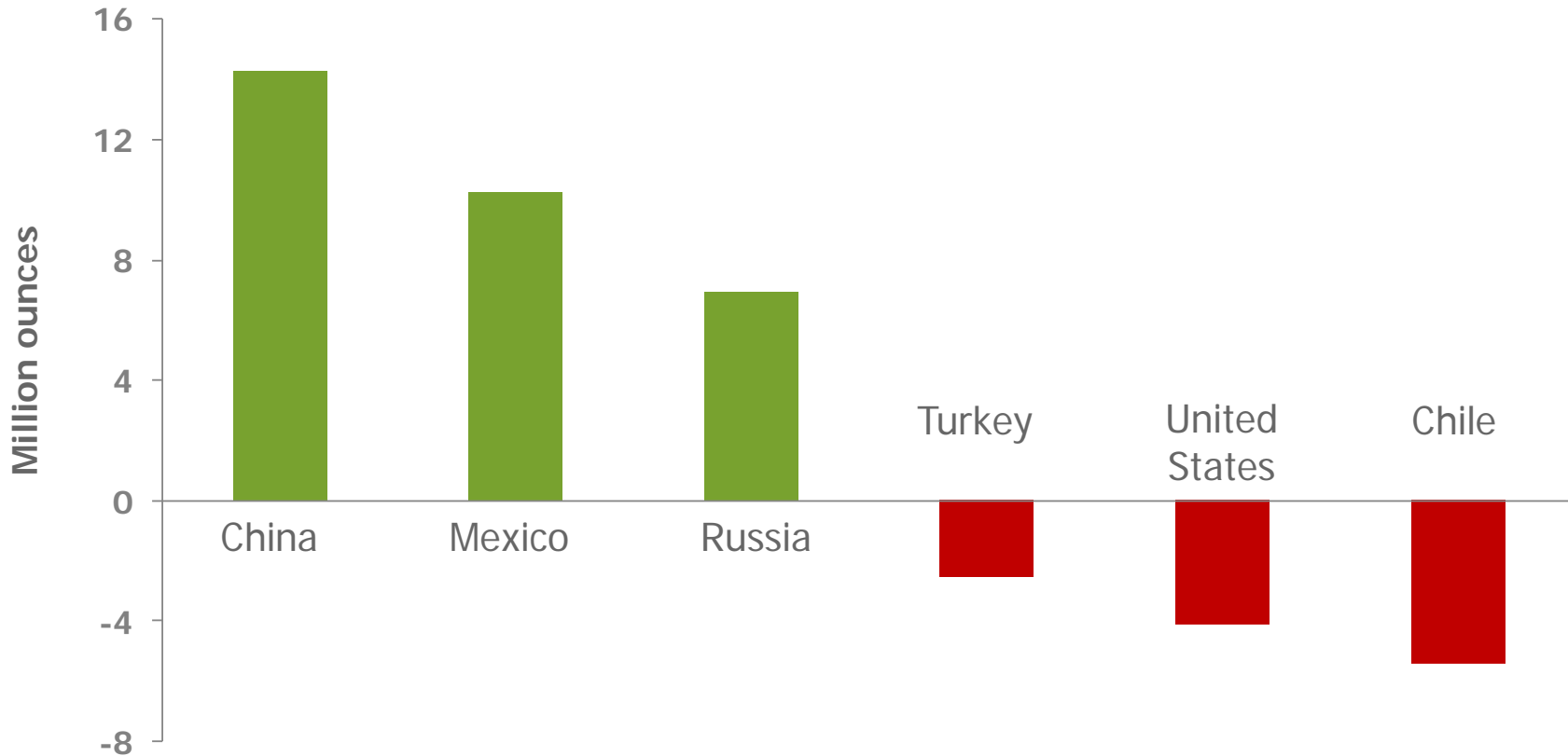
Source: Thomson Reuters GFMS

WORLD SILVER MINE PRODUCTION



Source: Thomson Reuters GFMS

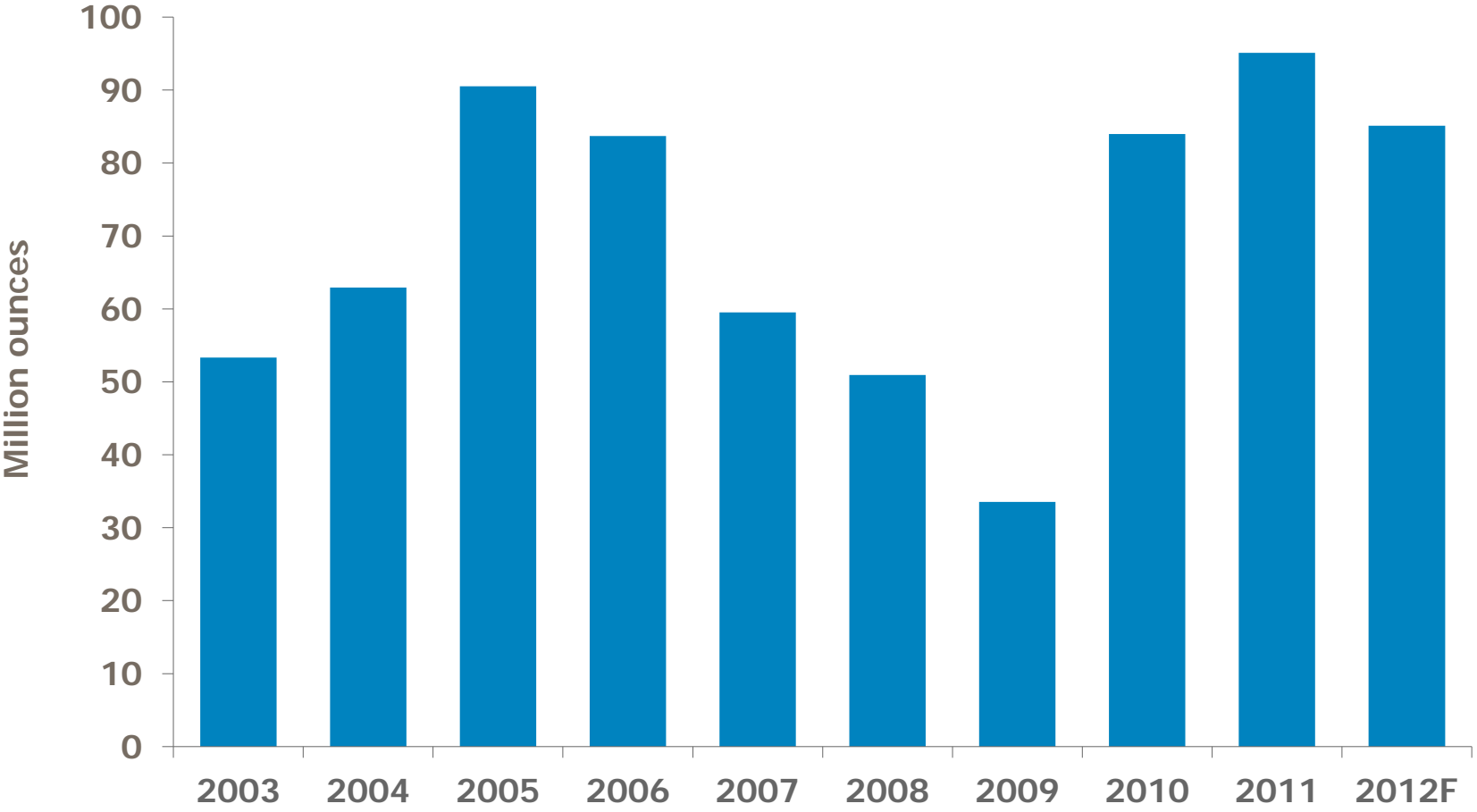
MINE PRODUCTION WINNERS AND LOSERS IN 2012*



* Figures represent year-on-year change, i.e. 2012 less 2011

Source: Thomson Reuters GFMS

OUTSTANDING DELTA ADJUSTED PRODUCERS HEDGE POSITION



Source: Thomson Reuters GFMS

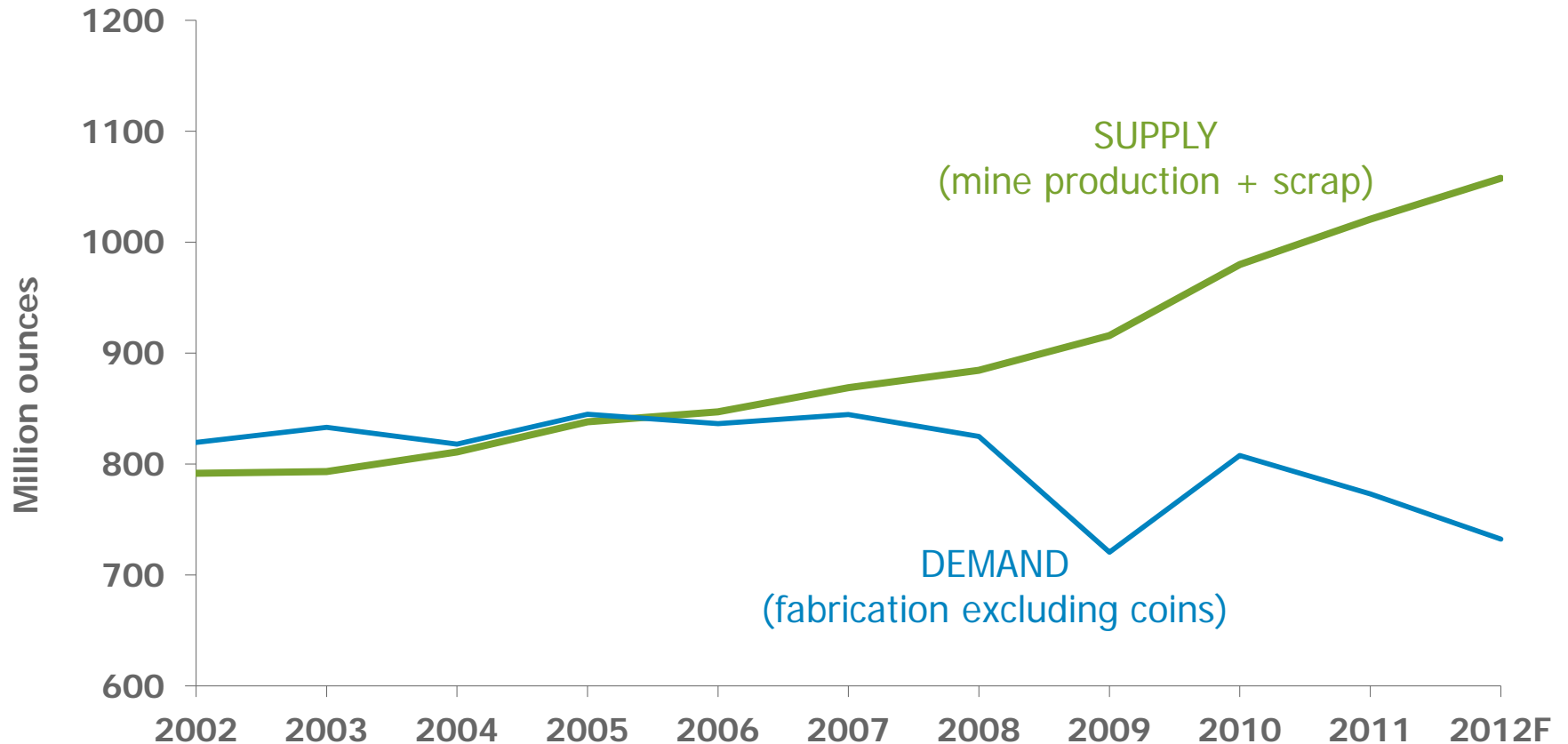
SUPPLY SUMMARY

- Total supply forecast to be marginally higher year-on-year.
- Mine production expected to rise by 33Moz or 4% in 2012, driven by a strong project pipeline, high precious metal prices and a healthy performance by the base metals sector.
- We estimate producer de-hedging of 10Moz during 2012 as producers continue to deliver into outstanding positions, faster than they are replaced.
- Scrap supply set to be marginally higher in 2012 as healthy gains in India (mainly jewelry and silverware recycling) offset losses in the United States.
- Government sales largely unpredictable but will remain subdued in 2012.

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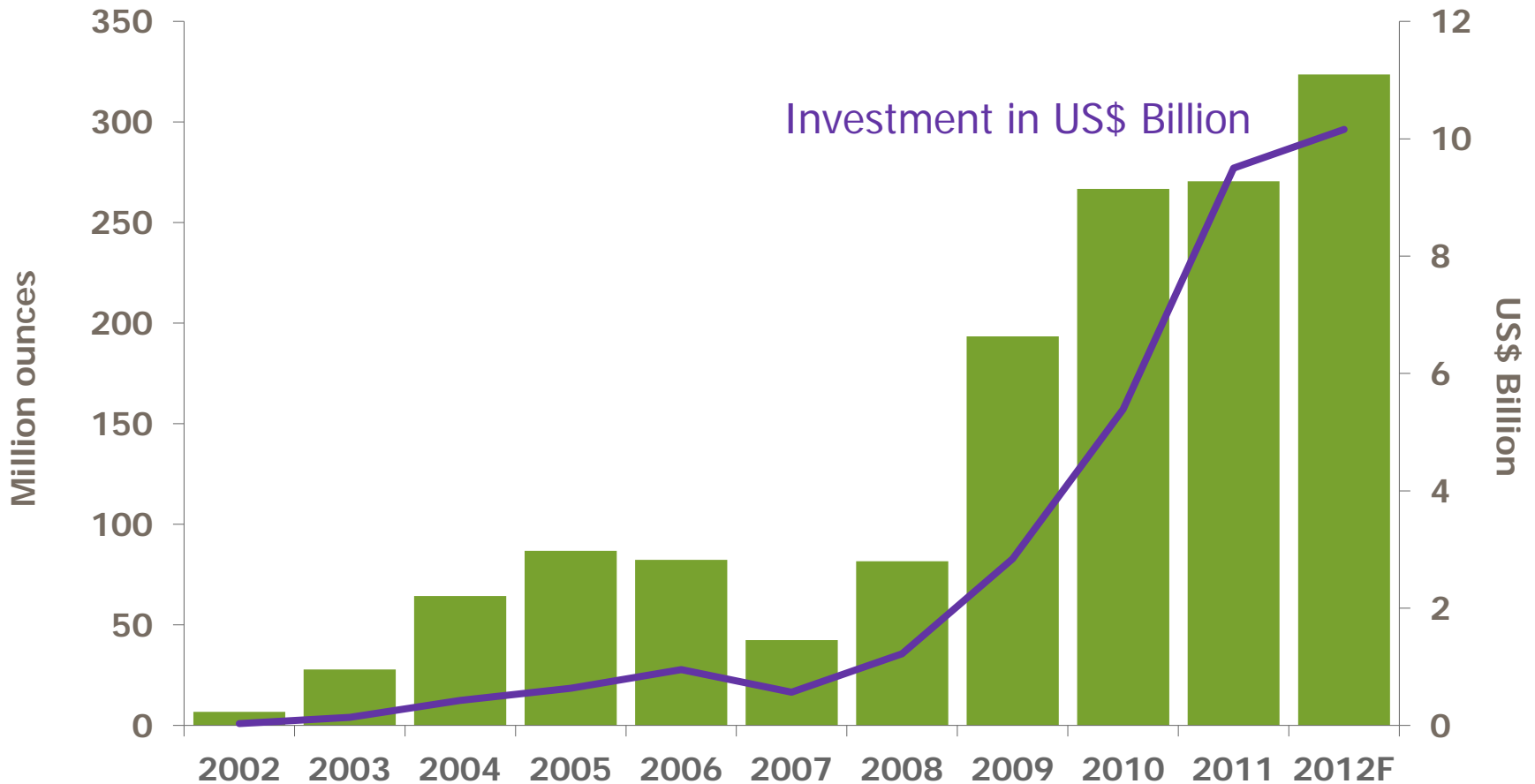
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FROM "DEFICIT" TO "SURPLUS"



Source: Thomson Reuters GFMS

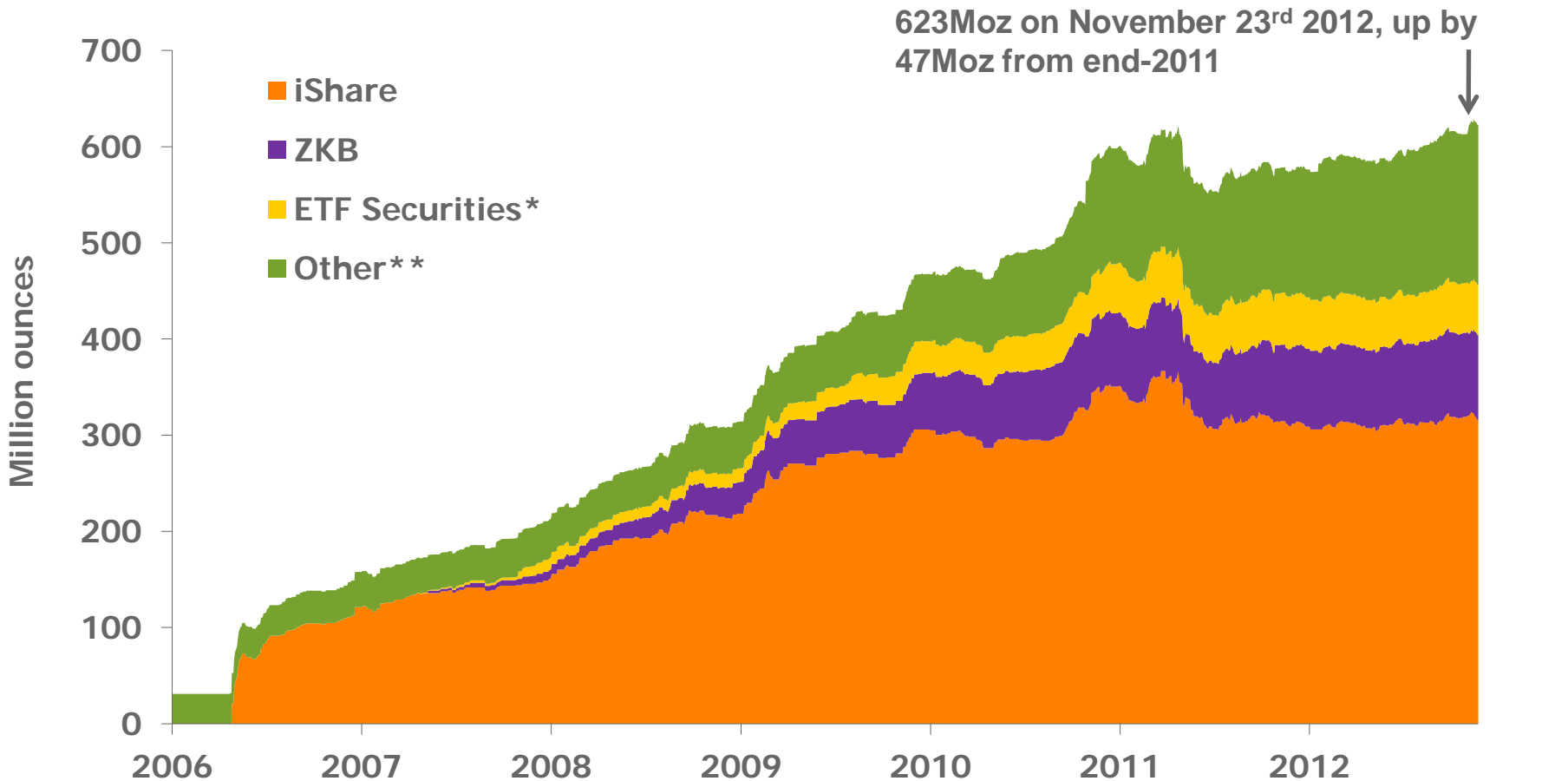
WORLD SILVER INVESTMENT* VOLUME AND VALUE



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

Source: Thomson Reuters GFMS

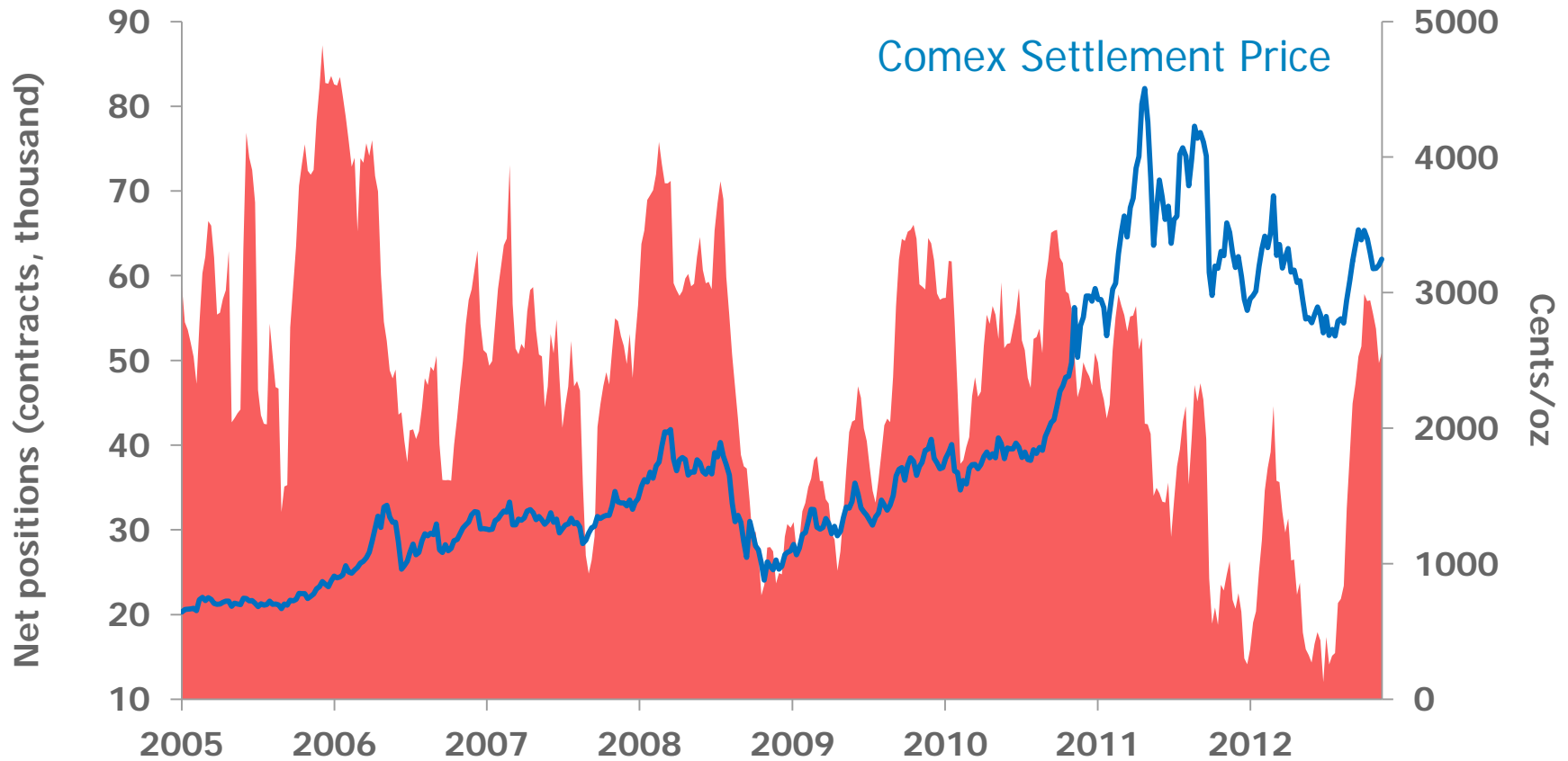
SILVER ETF HOLDINGS



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

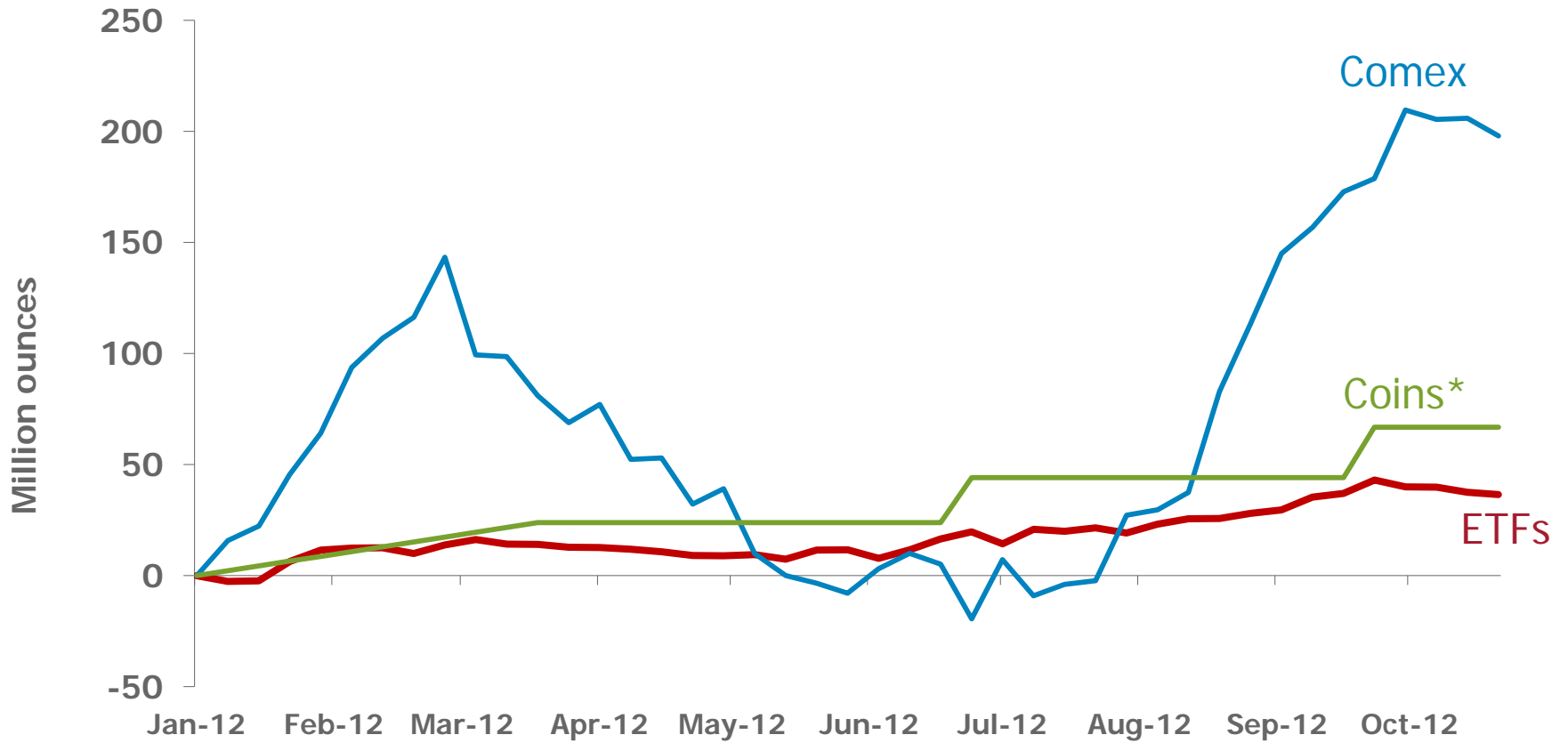
Source: Respective issuers

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 above \$37/oz in late February and renewed price strength from mid-August onwards.
- 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 (~54 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 (+200Moz in 2003-2012F).
- Ongoing secular decline in photography (though mainly offset by lower photo scrap) and silverware.
- Sovereign debt concerns and slowing economic growth put pressure on industrial demand for silver.
- Large and growing fundamental market surplus (over 300 Moz forecast for 2012).

Positives:

- Strong investment demand (in a small market), higher gold prices on the back of monetary easing, rising inflation expectations, and the persistence of ultra-low interest rates.
- Little threat to prices from higher government sales or gains in scrap supply.

Price forecasts:

- We now forecast an average price of \$31.40 in 2012 (1st Jan – 31st Oct average \$30.92).

Our short-term forecast is that through to year-end silver will trade between \$30.90 - \$36.00.

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