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Release of Thomson Reuters GFMS Interim Silver Market Review

A Rebound In Investment Demand Stemming From Continuing Loose Monetary Policies Expected To Drive Silver Prices Towards And Possibly Over $50 during 2013

November 16, 2012: Today, Thomson Reuters GFMS launched its Interim Silver Market Review. The following details some of the highlights from the report and includes additional commentary from Philip Klapwijk, Global Head of Metals Analytics at the consultancy, arising from an associated presentation in Hong Kong.

The report devotes much space to the critical area of investment demand, as the consultancy sees this as the prime driver of the silver price this year, being integral, for example, to both the rally to over $37 in late February and the fall in prices to below $30 from March to May. Much of these moves were driven by factors similarly influencing the gold market, such as the sell-off being initially triggered by a reduced hope of an imminent QE3 announcement. However, the consultancy highlights key differences between the two markets, noting that, while the gold:silver ratio fell to below 32 during the April 2011 rally, it only briefly traded below 48 during the early 2012 rally. One explanation cited behind this was the broad industrial metals complex coming under marked pressure, as weak economic data in the United States, the Eurozone crisis and concerns of a hard landing in China at times raised fears of poor industrial demand. Additionally as Klapwijk added, "some investors got badly burned by the price slide last May and many appeared reluctant to get back into silver". Some areas of investment were also singled out for specific weakness, with coin demand, for example, forecast to fall by around a quarter from 2011's record high. The report nonetheless points out that investment demand for silver has recovered since mid-August, highlighting growing interest in precious metals, especially gold, as a hedge against possible high future inflation and currency debasement, following a series of announcements of monetary loosening from the major central banks. Nevertheless, the consultancy feels that the new wave of investment remains somewhat smaller than in early 2011 because of residual caution and going concerns over silver's fundamentals.

The unsupportive nature of the fundamentals was felt mainly to concern the demand side. The consultancy estimates that silver used in industrial applications will fall by 6% this year, primarily due to sluggish economic activity in the industrialised world, which was felt to have resulted in heavy destocking right the way down the supply chain. Pressure from thrifting and substitution was also said to have remained significant, and programmes to reduce the metal's use that were adopted or investigated earlier are beginning to hit offtake. However, their impact is constrained in some fields by the technical difficulty of moving away from silver. With silverware and photography continuing their secular downtrends, the only bright spot was jewellery demand, which is projected to rise slightly this year, as consumption losses in western countries on weak consumer spending and down-shifting to non-precious alternatives are more than offset by rising sales in emerging markets, China in particular. Overall demand weakness was exacerbated by a small increase in total supply. Mine production in 2012, for example, is expected to rise for the tenth successive year. Meanwhile, the consultancy expects scrap supply to rise by a small amount to a fresh all-time high, as higher jewellery and silverware recycling in India outweighs losses in most other countries, in part linked to the fall in silver prices.

The fundamental 'surplus' is therefore set to increase this year and, with limited scope for de-hedging by producers, this gap between supply and demand will have to be filled by investors, highlighting the metal's vulnerability to a change in investor sentiment. Looking ahead, Thomson Reuters GFMS cautioned that sentiment could prove volatile and that there was still scope for downside as regards the price in the short term, as the bleak economic outlook in developed countries may well see investors shy away from so-called risky assets, particularly in light of the looming "fiscal cliff" in the United States and European stagnation.

Nevertheless, it was felt that silver should now be well supported in the low $30s by bargain hunters, before the white metal then embarks on a new powerful upward trend as investor interest is rekindled by such factors as a rejuvenated gold market, on-going monetary loosening across major economies, the persistence of ultra-low short-term interest rates and rising fears about high inflation in the long run. Klapwijk added, "we wouldn't be surprised also if silver's gains outpaced gold's, not only as the usual result of lower liquidity but also as memories of early 2011's painful losses continue to fade". This process would be further aided by some tentative improvement in the global economic outlook and its implicit message of better prospects for industrial fabrication. In the consultancy's view, this and the growth expected, especially in value terms, of investment would be sufficient to drive the silver price to around the $36 mark before end-2012, although the attainment of a level similar to or just above its all-time high is unlikely to take place until some way into 2013.

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WORLD SILVER SUPPLY AND DEMAND (MILLION OUNCES)

	2011	2012E
Supply		
Mine Production	763.8	797.0
Net Government Sales	12.0	8.4
Old Silver Scrap	256.9	260.7
Net Producer Hedging	10.9	-
Total Supply	**1,043.6**	**1,066.0**
Demand		
Fabrication		
Industrial Applications	481.9	454.4
Photography	66.1	54.2
Jewellery	176.5	178.7
Silverware	48.5	45.1
Coins & Medals	118.3	89.7
Total Fabrication	891.5	822.1
Net Producer De-hedging	-	10.0
Implied Net Investment	152.2	233.9
Total Demand	**1,043.6**	**1,066.0**
Silver Price		
(Average London US$/oz)	35.12	31.40

Source: Thomson Reuters GFMS

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