Silver now holding in a higher range, despite recent weakness.
Relationship with base metals has strengthened recently, but...

Source: Bloomberg
...the gold-silver dynamic continues to dominate

Source: Bloomberg
The gold:silver ratio had fallen noticeably

Period average ratio

Source: Bloomberg
Overall though, it remains above the long-term average
The macro environment remains pivotal

“Spread between US high yield corporate debt and 10Y Treasuries”
Risk appetite has grown recently

Source: Bloomberg
The macro environment remains pivotal

“10-2Y and 30-5Y Treasury Spreads”
*Interest rate expectations rising, but remain low in absolute terms*

Source: Bloomberg
The macro environment remains pivotal

“US 5Y Breakeven rates and CRB Index”

Inflation expectations have recovered from exceptionally low levels earlier in the year, but remain modest

Source: Bloomberg
Investor positioning constrained by EFP issues

Source: Bloomberg
What happened to EFPs?

- Early jump due to COVID disruptions
- Temporary closure of Swiss refineries made it hard to re-cast LGD bars to 100oz/kilobars
- Logistics bottlenecks due to limited flights
- COMEX market makers tend to hedge loco-London, while physical delivery is very rare
- Dealers who were short Comex exposed to risk that counterparties would not roll. Led to rush to buy back shorts
- High demand for EFP, effectively a long Comex/short loco-London transaction
- Position limits also added pressure
- EFPs now eased, reflecting sufficient COMEX inventories and market conditions more generally normalizing
- Jump in silver EFP in spite of Comex stocks being at record high levels

Source: Bloomberg (Morgan Stanley EFP Index)
Bullion stocks rising, but most cross-border moves reflect EFP dynamics

Source: Bloomberg, LBMA
ETP holdings hit record highs, driven by US funds

Source: Bloomberg, various ETF issuers
Global supply summary

Source: Metals Focus
Mined silver production is forecast to decline 6.3% y/y in 2020 to 780 Moz. The biggest declines are expected in Peru, China and Mexico due to COVID related disruptions.
COVID disruption peaked in Q2.20

Mines in several major silver producing countries were forced to temporarily close due to **COVID-19 lockdowns** that were implemented from **mid-March**, however mining in other countries was allowed to continue as normal.

*US statistics not yet available for August
Source: Metals Focus, Country reported statistics
Costs declined year-on-year in H1.20

**Average AISC** for primary silver mines in **H1.20** was **down by 3% y/y to $11.01/oz** as higher by-product credits and the closure of some high-cost operations in 2019 offset increased costs from COVID-19 related disruption.

Note: costed production = c.80% of primary silver supply

Source: Metals Focus – Silver Mine Cost Service
Local currency weakness to the US dollar has constrained costs in many countries.

Higher gold prices have boosted by-product credits for silver miners.

Note: AUD - Australian dollar, RUB - Russian ruble, MXN - Mexican peso, PEN - Peruvian sol
Source: Bloomberg, Metals Focus
Higher prices will drive by-product credits up

**Average costs** for primary silver mines were lower q/q in Q2.20 due to higher cost operations in South America being closed, the upward pressure on costs of these mines returning to production will be offset by **higher by-product credits** in H2.20.
Global demand summary

Source: Metals Focus
Industrial demand, sharp H1 decline, but improved H2 trend

Source: Metals Focus
Photovoltaics: success in market diversity

2010: 17GW, 2 GW-Scale countries
47%

2015: 59GW, 8 GW-Scale countries
42%

2019: 115GW, 16 GW-Scale countries

Source: Metals Focus, various
Jewelry & silverware exposed to weakness in India

Source: Metals Focus
Bar and coin investment enjoys a strong recovery

Source: Metals Focus
Fifth uninterrupted surplus in 2020 of 31.5Moz, vs. 26Moz in 2019

Source: Metals Focus
Silver bullion stocks continue to rise

Source: Bloomberg, LBMA
Gold Forecast, 2020: $1,780, +28%

Source: Metals Focus
Silver Forecast, 2020: $20.60, +27%

Source: Metals Focus
For information about our products and services please contact;

**Address**
Unit T, Reliance Wharf
2-10 Hertford Road
London N1 5ET
UK

**Tel:** +44 20 3301 6510
**Email:** info@metalsfocus.com
**www.metalsfocus.com**
Bloomberg Metals Focus
Launch Page: MTFO
Bloomberg chat: IB MFOCUS

**Disclaimer & Copyright @ Metals Focus Ltd, 2020**
Although every effort has been made to undertake this work with care and diligence, Metals Focus Ltd cannot guarantee the accuracy of any forecasts or assumptions. Nothing contained in this presentation constitutes an offer to buy or sell securities or commodities and nor does it constitute advice in relation to the buying or selling of investments. It is published only for informational purposes. Metals Focus Ltd does not accept responsibility for any losses or damages arising directly or indirectly from the use of this presentation.