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Silver still has plenty of upside



Hitting US\$40 an ounce could signal a strong upward move to US\$50 for silver.

Lisi Niesner/Reuters

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Could silver really hit US\$50 an ounce in the near-future? The world's foremost precious metals consultancy thinks it's possible.

"If US\$40 an ounce is comfortably breached, all eyes will be on US\$50," Philip Klapwijk, executive chairman of GFMS Ltd., said in an interview.

"It's achievable, but just as easily, you could imagine significant downside if the rally falters and you see a wave of profit-taking."

On Thursday, The Silver Institute released its annual silver market survey, which is prepared by London-based GFMS. Given the phenomenal run that the silver price has been on (up 78% in 2010 and another 29% so far in 2011) there is more interest in the document than usual. Silver is now just below US\$40 an ounce, the highest level since the Hunt Brothers tried to corner the market in 1980.

The survey showed that investment demand continues to be a key driver of silver, with total silver investment rising 40% in 2010 to 279.3 million troy ounces. Yet at the same time, soaring prices have not choked off industrial demand, which is very strong in areas like the electronics and photovoltaic sectors.

Mr. Klapwijk said there will be some substitution for silver if prices stay around US\$40 an ounce for a long period. But he noted that in many cases, substitutions are not feasible because they compromise performance.

Of course, there is no real substitution for investment, which is key to keeping the market tight. The survey showed that silver supply continues to rise substantially; in 2010, it climbed 14.6% to slightly above one billion ounces. It is up to investors to mop up any surplus supply, which they have eagerly done.

Despite the belief that US\$50 is achievable, GFMS's own view on the market is fairly cautious. Mr. Klapwijk said simply that the

rapid increase in the price of silver, during which there has been little movement in gold, suggests silver could be exposed to downside pressure. "Now if gold prices suddenly move to US\$1,500, I think that would remove some concerns," he said.

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