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Silver headed for \$50, consultant says

By Shirley Won
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But beware of 'savage' corrections,' GFMS warns

Silver SI-FT could hit its all-time high of \$50 (U.S.) per ounce this year as investors pour into the metal amid concerns about inflation and devalued currencies, suggests the executive chairman of a precious metals consulting firm.

"I am pretty bullish on prices," said Philip Klapwijk of London-based GFMS Ltd. "It is based on momentum that we are seeing at the moment, and on growing amounts of money coming into the market from investors...Investors are also buying silver because they think there is scope for price appreciation."

While institutional investors were behind silver's rally that began last fall, individual investors are now jumping on the bandwagon, Mr. Klapwijk said. "There has been a tremendously strong demand for silver coins, and a lot of it is more average investors who are motivated to buy silver."

This demand is coming not only from North America, but also from Europe and China as silver's momentum has outpaced gold, trading at a more lofty \$1,460 an ounce, he said in an interview. "We think the Chinese investors bought about 155 tonnes of silver bars last year."

A report released Thursday and prepared by GFMS for the U.S.-based Silver Institute, a global trade association, indicates that the price of silver surged 78 per cent last year, driven mainly by investor interest and industrial demand as the global economy began recovering.

The price of silver averaged \$31.86 an ounce in the first quarter of this year - a sharp increase from the average of \$20.19 in 2010, and an average of \$14.67 in 2009. Silver, which has traded recently at the highest levels since 1980, closed Wednesday at \$39.63 an ounce.

Global investment demand for the white metal rose 40 per cent last year through securities like exchange-traded funds (ETFs) like iShares Silver Trust SLV-N, and closed-end funds like Canadian-listed Sprott Physical Silver Trust PHS.U-T.

In the United States, there were 34.6-million U.S. Silver Eagle coins minted last year, outpacing the previous record of almost 29 million in 2009. The Canadian Maple Leaf was among other silver coins that posted record high demand.

A price of \$50 an ounce would lead to "quite a significant selling pressure" from profit-taking and worries about rising interest rates that would not be positive for gold and silver as investors seek alternative securities, Mr. Klapwijk warned.

But he doesn't expect interest rates to rise in the United States or Japan this year, and only sees limited increases in Europe.

"Loose monetary policy combined with quantitative easing and massive fiscal deficits is certainly encouraging inflation expectations and concerns about the value of government paper," he said. "This is also a supportive factor that is not going to go this year."

Still, he cautioned that silver has a long track record of price volatility. "When and if you do get corrections, they can be pretty savage ones," he said.

"The mostly unlikely scenario in my view is that silver rises to \$50, and then flat lines at \$50 for six months. That is not going to happen. It either keeps on going, or suffers a major correction."

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