

Weekend Top Story: 'Decisive break-out to the upside' for silver forecast

Silver bulls may be surprised to learn from GFMS' "World Silver Survey 2010" that the average silver price fell in 2009 for the first time in eight years.

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Posted: Friday , 28 May 2010

RENO, NV -

GFMS' short-term forecast for silver "is that through to July silver will trade between \$16.40-\$19.50, broadly shadowing gold," GFMS Chairman Philip Klapwijk predicted today.

In a presentation of "The World Silver Survey 2010" Thursday morning to the Silver Institute in New York City, Klapwijk predicted that before the end of this year, "a more decisive break-put to the upside is probable, with a fair chance that 2008's London-high of \$20.92 will be exceeded."

The "World Silver Survey 2010" noted that, in spite of a strong rally in silver prices last year, "the annual average price in 2009 fell for the first time since 2001, slipping 2% to \$14.67."

"Despite the significance of the supply/demand fundamentals, we would still regard investment as the prime driver of silver prices last year, with the steady gains for the silver ETFs and the more volatile upward path in the net investor long on Comex both being critical," GFMS said.

INVESTMENT

Last year, implied net silver investment recorded its highest levels in GFMS's 20-year data set, "motivated by safe haven purposes and 'bargain hunting' early in the year," the report noted.

"ETFs and retail investment were key vehicles for silver investment in the first quarter of the year, the rally in the latter part of 2009 being more focused on the Comex."

In fact, GFMS research showed commodity investments had "an outstanding year in 2009."

Total silver ETF holdings rose by nearly half or 132.5 million ounces in 2009 ending the year at 397.8 million ounces. In fact, the strong demand for silver ETFs was the primary driver of the silver price in the first quarter of last year.

The iShares Silver Trust saw its holdings rise by 87.5 million ounces over the year to 305.9 million ounces at year-end 2009, making it the largest silver ETF by far.

CFTC data showed that aggregate positions across commodities reached new highs in the fourth quarter of last year. The report also discovered the nature of commodities investment has also changed, including a "growing interest in actively managed funds."

Silver ETF holdings have shown some resilience, but still dropped 12 million ounces in the first four months of this year.

Trading volumes in Comex silver futures fell by 10% last year to just over eight million contracts, the survey said.

In 2009, investment in physical silver bullion was at very high levels, "as the grave prognosis for the global economy and the financial sector in particular drove investors toward hard assets," the survey noted.

Nonetheless, the Indian physical silver market saw net disinvestment of around 41 million ounces last year, the first time net disharding has been recorded in GFMS' 20-year data series.

So far this year, GFMS says "silver investment has been notably lower year-on-year."

"Looking ahead, investor interest in silver is set to remain positive, bolstered by the sovereign debt crisis," the survey said. "This may continue to trigger 'shocks' which should attract safe haven investment. Industrial demand should also continue improving, which should further boost silver investment."

DEMAND

The World Silver Survey noted that tough times economically took their toll on silver industrial fabrication in 2009, which sharply dropped 20.6% to a six-year low of 352.2 million ounces. Total global silver fabrication demand dropped 11.9% in 2009 to a 17-year low of 729.8 million ounces.

Klapwijk said all regions except the Indian Sub-Continent "suffered double-digit losses, with the heaviest in percentage and absolute terms being East Asia's." He noted the loss was apparent in most sectors of end use, although some continue to show growth.

Nevertheless, GFMS forecasts "a strong recovery" for industrial silver demand this year, "reflecting stock replenishment and higher GDP growth."

Two new uses of silver in industrial applications are gaining momentum including silver oxide batteries and silver conductive inks used in electronics.

Although the quantity of silver used in medical applications remains modest due to the lead times in adopting new technology, silver nano-technology is gaining. "Indeed, there are few areas in the medical field where the use of silver cannot be beneficial," GFMS suggested.

Demand for silver is rising in households as new anti-bacterial uses are being introduced.

However, demand for silver in photographic applications continues to plummet to less than half the level seen five years ago, falling 21% in 2009 to million ounces. "Looking ahead, the future of silver use in photographic applications looks set to decline even further," GFMS predicted.

Meanwhile, jewelry demand only declined slightly in 2009 by 1.1% to what was, nonetheless, an 11-year low of 156.6 million ounces "due to weaker consumption in western markets and destocking at the trade level," said Klapwijk. Jewelry is expected to be down again marginally this year, primarily due to losses in the Indian market.

In contrast, however, coin and medal silver off take rose strongly, while silverware bucked the trend of recent decade and posted an increase of almost 5% to 59.6 million ounces last year.

Global coins and medals fabrication jumped 21% in 2009 to a new record of 78.7 million ounces. Every leading producer of bullion coins saw total minting rise last year with the U.S. Mint leading the way with an 8.8 million ounce increase.

MINE SUPPLY

Mine production was up 4% in 2009 to achieve a new record of 706.9 million ounces of silver. Primary silver mine supply was significantly higher, while silver produced as a by-product of gold mining increased 21% to 15.2 million ounces.

However, primary silver supply is anticipated to only increase marginally this year with the bulk of growth instead coming from the gold mining sector with an estimated 25% increase in silver production.

The world's top silver producer was Peru with 123.9 million ounces of output last year, followed by Mexico with 104.7 million ounces of silver production. China ranked third at 89.1 million ounces of mined silver.

The top silver-producing company was BHP Billiton with 42 million ounces of silver output last year, followed by Poland's KGHM Polaska Miedz with 38.7 million ounces, and Mexico's Fresnillo at 37.9 million ounces of production.

GFMS expects silver mine supply to increase this year, reaching another successive record high "with a strong contribution from the by-product gold sector."

The survey found silver mine cash costs were almost flat year-on-year with a global average cash cost of \$5.23/oz last year.

Silver Wheaton entrenched itself as the top silver streaming company, partly by securing 25% of the life-of-mine silver production by Barrick's massive Pascua-Lama gold/silver mine.

Meanwhile net supply from above-ground silver stocks dropped an astounding 86% last year to just 20.2 million ounces. GFMS said the decline was driven "by a surge in net investment, higher de-hedging, lower government sales and a drop in silver scrap supply."

Klapwijk said scrap supply will continue to decline this year, "although the scale of losses is likely to be more modest."

The World Silver Survey 2010 was sponsored by 18 companies and organizations involved in most aspects of the global silver industry. Washington, D.C.-based Silver Institute publishes the report.

For further information about the survey, go to www.silverinstitute.org