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Silver Prices Will Hit \$50 as Investment Demand Pops

Alix Steel

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NEW YORK ([TheStreet](#)) -- World [investment demand](#) drove [silver prices](#) higher in 2010 and the trend is on track to continue in 2011, according to the World Silver Survey by GFMS Research Group.

Silver investment popped 40% to 279.3 million troy ounces in 2010, or \$5.6 billion, while silver prices surged 80%. Net investment demand was led by a 24% increase in ETF holdings to 582.6 million ounces, followed by coins and metal demand which rose 28% to 101.3 million ounces, and rounded out by 55.6 million ounces worth of bullion bars.

"The biggest news was the significant growth in investment demand," says Philip Klapwijk, executive chairman of GFMS, "something that has continued, of course in the first quarter of 2011."

Investors piled into the silver exchange-traded fund, **iShares Silver Trust(SLV)**, which added 1,428.6 tons in 2010, and has added more than 280 tons so far in 2011.

"There's been a significant move into silver," says Klapwijk, "and for the time being it looks like that investment demand is still remaining very strong."

Klapwijk thinks silver will hit \$40 relatively soon and that \$50 is a realistic price target for 2011.

But the fun stops there. "One would expect to see fairly significant profit-taking at \$50 an ounce," says Klapwijk, "because I do think that is a target for ... early investments in the metal. That could lead to a lot of volatility."

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Although industrial demand grew 20.7% in 2010, which many experts point to as the lynchpin for higher silver prices even if investment demand wanes, there were two bearish indicators in the silver survey.

Silver mine production rose 2.5% to 735.9 million ounces as miners capitalized on high silver prices by ramping up production at big silver mines. **Goldcorp(GG)** is the perfect example bringing Penasquito on stream in the fourth quarter. The mine produced 4.6 million ounces of silver and has proven and probable silver reserves of 1.1 billion ounces.

Although supply and demand has never been a huge underlying factor for silver prices, whereas with gold it's a fundamental thesis, more silver means more demand needed to mop up the excess.

Silver hedging also reared its ugly head in 2010. Hedging means that a silver producer sells silver at a fixed price as insurance in case the price falls. The culprits were those companies who mine silver as a byproduct, not primary silver producers, but the move is usually viewed as a bearish signal.

"In the long run they may have bearish implications," says Klapwijk, "but ... the large amount of producer hedging that came into the market in the fourth quarter of last year and the first quarter of this year was absorbed and it didn't stop the price from eventually trending higher."

The strongest demand came from North America and Europe, despite the value added tax for silver products. Germany is the only country without a VAT.

Nigel Moffatt, head of treasury at Gold Corp., owner of the Perth Mint, has said that the biggest shift in silver demand over the last year has been amped up silver consumption by Germany.

Michael Haynes, CEO of American Precious Metals Exchange, noted in a recent interview that "silver physical right now is pretty challenging." The bullion dealer gets its coins from the U.S. Mint and is actually buying only 30% to 40% of its weekly sales, forcing the American Precious Metals Exchange to tap the secondary market for more supply. The dealer shipped 7.5 million items in 2010 and is expecting to ship more than 10 million items in 2011. Haynes didn't report any gold supply issues.

Klapwijk did note one more party buying silver and that is China. Klapwijk estimates that "private investors [are] ... looking to load up on bullion bars." Unlike gold, Klapwijk says the People's Bank of China does not appear to be gobbling up silver, the demand is purely investment driven.

According to Patricia Cauley, director of metal products at the CME, open interest in contracts for silver grew 9.2% in 2010 versus 8.6% for gold. Open interest contracts illustrate the new buyers in the market signaling that the rush into silver touches all areas of trading.

Average daily trading volume was 76,000 contracts for silver in the fourth quarter of 2010, which doubled from the third quarter and is up 82% from the same period a year earlier. Cauley says this points to a "renewed interest in silver ... as we see the price of gold keep going up. The poor man's gold has come back."

Silver stocks are feeling the love of this renewed interest. **Coeur D'Alene Mines(CDE)** has risen 31.8% year to date while **Silver Wheaton(SLW)** and **Silver Standard(SSRI)** have popped 18.61% and 23.90%, respectively. Silver prices are up 28%.

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-- Written by [Alix Steel](#) in New York.

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