

Silver Could Hit \$50 This Year, GFMS Says

By [MATT WHITTAKER](#)

NEW YORK—Silver prices will likely peak around \$50 this year on demand from investors who want a safe haven and inflation hedge, according to the chairman of an influential metals consultancy.

But reliance on such a fickle source of demand makes the metal vulnerable to a sharp price pullback, Philip Klapwijk, chairman of London-based consultancy GFMS Ltd., told Dow Jones Newswires in an interview.

"There is an element here of a bandwagon effect," he said in comments coinciding with Thursday's release of the World Silver Survey, which GFMS researches for The Silver Institute, a trade association. "If investment demand falters, you would expect to see prices come off."

For the moment, investors continue to buy the metal—which settled at a 31-year-high of \$39.387 a troy ounce Wednesday—because they see it undervalued compared with gold, which is at record highs. Investors want to hold both precious metals as a hedge against economic and political uncertainty amid fighting in Libya, a nuclear crisis in Japan and European sovereign-debt problems. They are also buying the

That type of buying could push silver to slightly above \$50 a troy ounce this year, Mr. Klapwijk said. But the relatively small silver market is notoriously volatile, and prices could pull back to just below \$30, he said.

"There's almost inevitably going to be a correction at some point," Mr. Klapwijk said.

The current rise in silver prices is building on a banner 2010, when world investment in the metal rose 40% to 279.3 million ounces, resulting in a net investment flow of \$5.6 billion, almost double 2009's investment, according to the World Silver Survey.

That boosted the average silver price to \$20.19 a troy ounce from 2009's \$14.67. Through the end of the first quarter of this year, the metal has averaged \$31.86.



Physically backed exchange-traded funds—whose shares are backed by a certain amount of silver the funds buy on the market—played a role in this type of demand. Silver holdings in these funds jumped 114.9 million ounces over 2009's total, leaving them with 582.6 million ounces, the report said.

Retail investment demand added to the buying, with coin and fabrication rising 28% to a record 101.3 million ounces. Physical bullion bars accounted for 55.6 million ounces.

In addition to investment demand, total fabrication demand rose almost 13% to a 10-year high of 878.8 million ounces in 2010, led by industrial consumption. Jewelry demand posted a gain of 5.1% to 167 million ounces.

Meanwhile, mine production rose 2.5% to 735.9 million ounces last year, boosted by new projects in Mexico and Argentina. Mexico surpassed Peru as the world's largest silver producer in 2010.

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