

THE SILVER INSTITUTE

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Silver Investment Demand Surges in 2004

Leading Factor in Driving Prices to a 17-Year High

NEW YORK (May 25, 2005) – The silver price in 2004 staged a dramatic rally, rising a robust 36 percent to average \$6.66 per ounce, according to *World Silver Survey 2005*, released here today by the Silver Institute and GFMS Limited, the authors of the report. This stunning price performance reflects fundamental changes in silver's supply/demand balance. Last year also saw a boom in investor activity, mainly driven by funds operating on futures exchanges and considerable buy side interest from high net-worth individuals.

Another key highlight in 2004 was the strength of fabrication demand (industrial demand in particular) especially in light of the higher silver price. Coupled with other factors, such as a decline in scrap supply and a dramatic decrease in government bullion sales, this could well herald a period of reduced pressure on the price compared to that seen in previous years. In fact, through the first four and a half months of 2005, the price is averaging \$7.00 per ounce.

Total scrap supply is estimated to have provided the market with 181.1 million ounces (Moz) of silver in 2004, representing a four-year low and a 2.5 Moz decrease over 2003 figures. For the 16th consecutive year, a structural deficit was recorded in the market. This gap between fabrication demand and conventional supply (mine production and recycled scrap) stood at 21.2 Moz.

World Silver Supply and Demand (million ounces) (totals may not add due to rounding)		
	2003	2004
Supply		
Mine Production	611.2	634.4
Net Government Sales	88.2	61.7
Old Silver Scrap	183.6	181.1
Producer Hedging	–	2.0
Implied Net Disinvestment	–	–
Total Supply	883.1	879.2
Demand		
Fabrication		
Industrial Applications	350.5	367.1
Photography	192.9	181.0
Jewelry & Silverware	274.2	247.5
Coins & Medals	35.8	41.1
Total Fabrication	853.4	836.7
Net Government Purchases	–	–
Producer De-hedging	21.0	–
Implied Net Investment	8.7	42.5
Total Demand	883.1	879.2

Mine Production, Above-ground Stocks and Government Sales

Overall mine production registered a 4-percent increase, to 634.4 Moz. In 2004, silver generated at primary mines increased by 9 percent, to reach 188.5 Moz, representing 30 percent of global silver production. The

higher output at primary mines accounts for the overall mine production increase in 2004. Mexico, Peru, Australia, China and Poland were the top five silver mining countries in 2004.

Supply of silver from above-ground stocks decreased by a dramatic 39.8 Moz to 202.3 Moz. Net government sales fell by 30 percent, to 61.7 Moz in 2004. The share of total supply accounted for by government sales fell from 10 percent in 2003, to 7 percent last year. The fall in government sales was almost exclusively led by a decline in the amount of silver released from Chinese official stocks. Chinese official sales totaled an estimated 34 Moz in 2004, compared to 61.7 Moz in 2003. The fact that Chinese sales declined this much in spite of the higher silver price may be an indication that government stockpiles are no longer abundant.

Fabrication Demand

An important foundation for the rally in the silver price in 2004 was the strength of fabrication demand. Even though fabrication demand slipped by a modest 2 percent in 2004, this was an outstanding result in light of the increase in silver prices. Furthermore, excluding the one key price sensitive area of demand, Indian jewelry and silverware fabrication, offtake of silver actually rose last year. Total fabrication demand stood at 836.7 Moz in 2004.

Last year's acceleration in global gross domestic product growth resulted in a solid 5-percent increase in industrial fabrication, to 367.1 Moz, only a fraction under its peak in 2000 at the height of the 'tech bubble.' Much of the overall growth in industrial fabrication was driven by a buoyant electronics sector, whose demand rose by almost 14 percent to 166.5 Moz. This was the third successive year of growth, with offtake surpassing the previous record level set in 2000.

Jewelry and silverware fabrication slipped to 247.5 Moz. The decline was overwhelmingly due to the 32.7 Moz slump in Indian offtake, itself a product of the 30-percent rise in the local price and a poor monsoon season. Indeed, if India were excluded, global jewelry and silverware fabrication would have actually risen by 3 percent in 2004. East Asia saw some significant gains, with China posting a 19-percent rise and Thailand a 10-percent increase in jewelry and silverware offtake over 2003.

Coins and medal fabrication rose by an impressive 15 percent last year, to 41.1 Moz. Much of that dramatic increase was due to increased minting of commemorative coins in Portugal, Spain and Canada, plus higher U.S. proof coin set demand.

Photographic demand, in 2004, slipped to 181 Moz, a 6-percent decline. Despite widespread reports of the demise of this sector, certain areas within the category saw only modest falls, paper consumption for example. Some areas in this sector saw growth. Kodak reported last year that origination and print films for the motion picture industry saw value increases of 12 percent. China experienced an overall 6-percent growth in traditional photographic demand in 2004. Additionally, growth of digital camera sales in Japan slowed in 2004. This may be a sign that the amateur digital market in Japan is maturing.

The 2005 edition of the *World Silver Survey* was independently researched and compiled by London-based GFMS Limited, the metals research company. The Silver Institute has published this annual report on the global silver market since 1990, to bring reliable supply and demand statistics to market participants and the public at large.

Founded in 1971, the Silver Institute is an international industry association. Its members include the leading primary silver producers, the industry's premier refining companies, manufacturers, dealers and bullion banks.

The *World Silver Survey 2005* was sponsored by 18 companies and organizations from North and South America, Europe and Asia. These firms are involved in most aspects of the global silver industry, from mining and refining to trading and manufacturing.

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Copies of *World Silver Survey 2005* are available to the media upon request, and may be purchased by the public for US\$195 from the Silver Institute, 1200 G Street, NW, Suite 800, Washington, DC 20005, 202/835-0185; fax 202/835-0155, or from the Institute's website at www.silverinstitute.org. For copies outside North America, please contact GFMS at +44 (0) 20 7478-1777, or at www.gfms.co.uk. You can also e-mail your request to the Silver Institute at info@silverinstitute.org and GFMS at info@gfms.co.uk.

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