

Silver Investment Demand Up by 10 Percent in First Half of 2020

Investors Flocked to Silver-backed Exchange-Traded Products and Silver Bullion Coins

(Washington, D.C. – July 9, 2020) Silver's role as a valued investment was broadly on display during the first half of 2020, as investors actively accumulated silver in the first six months of the year, leading to a 10 percent gain in investment demand. Paving the way was remarkably strong growth in silver-backed exchange-traded products (ETPs), which have posted successive all-time highs this year, together with solid silver coin and bar investment.

The silver price averaged US\$16.65 through to the end of June. Having fallen sharply in mid-March, the silver price has since recovered strongly, rising by 56 percent to reach US\$17.84 at end-June; it has since broken through the US\$18 barrier. The gold:silver ratio -- the quantity of silver ounces needed to buy an ounce of gold -- fell since its multi-decade high of 127 in March, and at end-June stood at 97.8, which is still very high by historical standards, and may signal that silver is undervalued relative to gold.

Silver Investment

Retail and institutional inflows into silver ETPs have been impressive this year. As of June 30, global holdings reached a fresh all-time high of 925 million ounces (Moz), which is roughly 14 months of mine supply. The ETP growth in the first half 2020 of 196 Moz comfortably surpassed the highest annual inflow of 149 Moz set in 2009. North American listed funds accounted for some 90% of the ETP inflows since March.

Retail bullion coin sales jumped by an estimated 60 percent year-on-year. Silver bar and coin sales surged in response to a deteriorating economic outlook linked to the global COVID-19 pandemic, leading to some supply-chain disruptions. This saw dealer stocks for several silver investment products quickly depleted, resulting in extended delivery lead times and higher premiums.

The recovery in professional investor activity in May and June reflected improving sentiment towards silver amongst these investors particularly as a leveraged play on gold. This trend was clearly reflected on COMEX. Although net managed money longs ended June at 176 Moz, posting a 40 percent decrease compared with end-December 2019 levels, this hides a marked improvement within the first six months, with net longs improving quite sharply between early May and end-June.

In China, improving price expectations and a rise in price volatility has also revived investor interest. Silver trading volumes on the Shanghai Futures Exchange recorded their highest monthly total for the year in May, while turnover on the Shanghai Gold Exchange remained elevated after hitting record levels in March.

Industrial and Jewelry Demand

Not surprisingly, the COVID-19 crisis negatively impacted silver fabrication demand in the opening half of the year. After a sharp contraction in the March-April period, silver industrial demand has shown signs of improvement from May onwards after many key economies gradually lifted lockdown measures. However, weak consumer confidence and a sharp rise in unemployment weighed on demand in many end-user applications such as automobiles and consumer electronics. Going forward, some of this consumer drag could be mitigated by flow through from various governments' recently announced infrastructure investment programs, thereby lifting silver industrial demand.

Looking ahead, silver jewelry is expected to weather the storm far better than other precious metals this year. This is due to the relative affordability and greater suitability to online selling of silver jewelry. Metals Focus, the independent precious metals consultancy, forecasts an annual decline for global silver jewelry fabrication of just 7 percent against a projected 25 percent slump for gold. That has certainly been illustrated already by US import statistics, where its imports of silver jewelry (in US\$ terms) have improved from -65% y/y in April to -41% in May, whereas gold jewelry imports slumped by 91% in April and have barely recovered to -81% in May.

Michael Barlerin, Director of the Silver Promotion Service (SPS), an arm of the Silver Institute focused on stimulating demand for silver jewelry in major international markets, stated, "In June, we commissioned a consumer research survey where respondents were asked to evaluate pent-up consumer demand due to the COVID 19 pandemic. The results were very positive, with 64 percent of consumers surveyed saying they were planning to purchase belated jewelry gifts and over 50 percent indicating it would be silver jewelry."

Silver Mine Supply

Global silver mine supply is expected to continue its decline, given the temporary production stoppages of mining operations in several significant silver mining countries due to the Covid-19 outbreak. Even with most of the mining operations now back online, global silver mine production is forecast to dip by 7 percent in 2020.

Silver Price in Second Half of 2020

Investment inflows into silver are likely to continue in the second half of 2020. This is primarily a result of its safe-haven status, a widespread belief among investors that silver is undervalued in absolute terms in comparison to gold, exceptionally low interest rates (reducing the opportunity cost of carrying gold and silver), and unprecedented liquidity injections by central banks. As a result, the silver price is anticipated to surpass the US\$21.00 mark in late-2020, with a fall in the gold:silver ratio to below 90.

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The Silver Institute is a nonprofit international industry association headquartered in Washington, D.C. Established in 1971, the Institute's members include leading silver producers, prominent silver refiners, manufacturers, and dealers. The Institute serves as the industry's voice in increasing public understanding of the value and many uses of silver, including its role in numerous green technologies. For more information on the Silver Institute, please visit www.silverinstitute.org