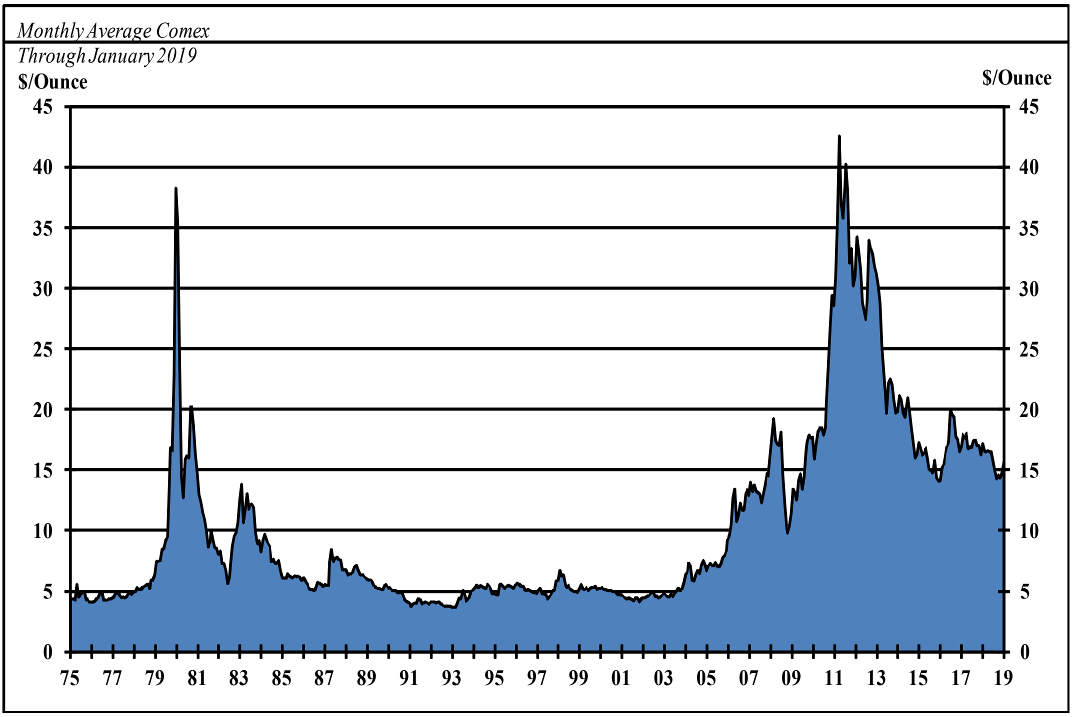
Silver

CPM GROUP



Silver had a challenging 2018, with prices averaging $15.71 during the year basis the near-by active Comex contract. This average was down 8.5% from the average price of 2017. Strong global economic growth helped silver fabrication to continue rising for the sixth consecutive year during 2018, but this healthy global economic growth also was what deterred investors from buying the metal aggressively. While silver fabrication demand is an important market fundamental, investment demand has a more significant impact on prices.

During 2018 the gold:silver ratio reached near historical highs. In November 2018 the ratio stood at 85.5, the highest level that the ratio had reached since September 1993. The increase in the ratio highlights how much silver has lagged gold in 2018.

The same macroeconomic factors that influence gold in a positive way also affect silver prices in a positive fashion. Based on this observation, the silver price has a lot to catch up. There are several economic, political, and financial market concerns that concern investors that presently are not fully reflected in the price of gold and are reflected to an even lesser degree in silver prices. These risks are forecast to drive gold higher going forward. They also are expected to drive silver prices up, even more strongly at some point as silver prices catch up with gold. This has been observed to a degree over the course of December 2018 and January 2019, when the prices of both metals was rising and the ratio slipped from 85.5 in November to 82.3 in January.

Silver prices are forecast to average $15.80 during 2019, up 0.6% from 2018 levels. Continued growth in fabrication demand coupled with increased interest from investors is expected to be supportive of prices during the year.

Global economic growth is expected to slow during 2019, relative to 2018, but the decline in growth is not expected to be sufficient to drive fabrication demand for the metal into

Monthly Gold/Silver Price Ratio

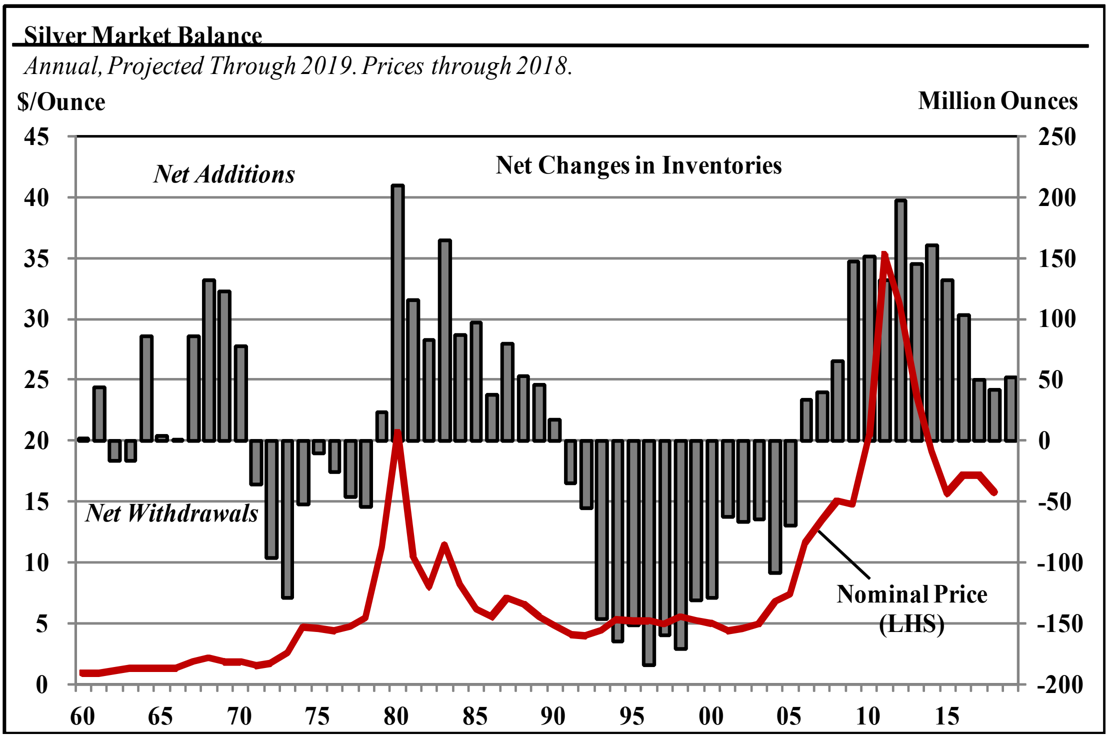
January 2019

negative territory. Furthermore, some of silver's fabricated uses such as electronics and photovoltaics are expected to see healthy demand during 2019.

In addition to ongoing growth in fabrication demand during 2019, investors are also expected to pay greater attention to silver this year. The metal is not only undervalued relative to gold but some of the other asset classes such as stocks, bonds, and real estate are looking richly valued at this time, making silver a relatively compelling investment as a relatively price-depressed investment in an over-valued general market.

While investors are expected to begin rekindling their interest in silver, they are not expected to become excessively aggressive in building silver positions, which could make breaking through critical resistance levels and holding onto important support levels a challenging task for silver during 2019.

While silver prices are expected to strengthen this year on an annual average basis, they are not expected to run away on the upside, which continues to provide investors with an opportunity to build their medium to longer term positions in silver.



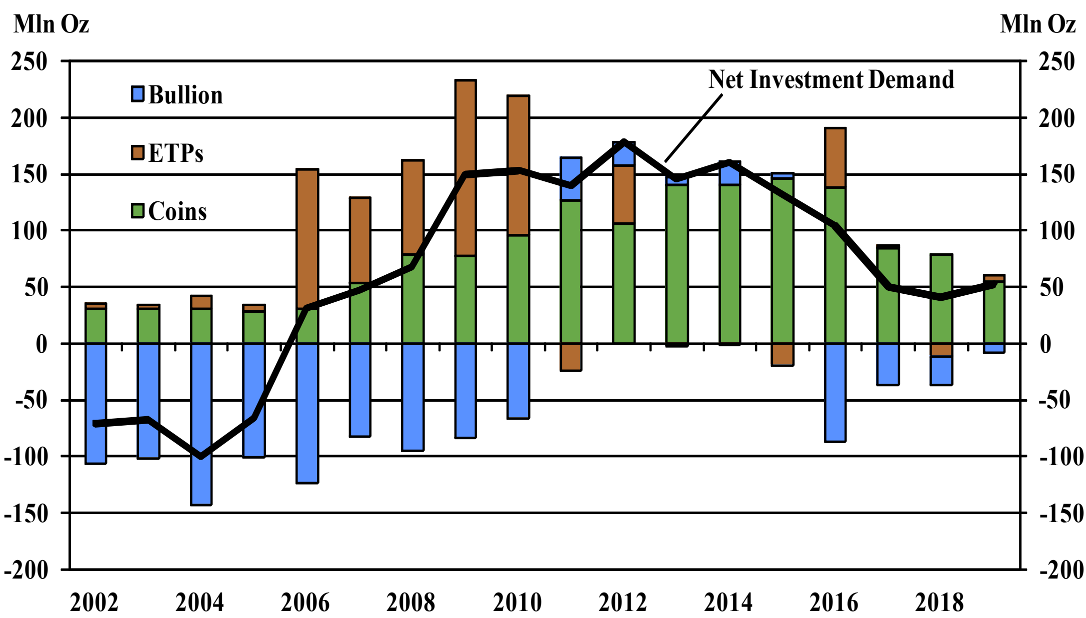
The market surplus (the difference between total supply and fabrication demand), most of which often is absorbed by investors, was being and is expected to be absorbed and held by longer term investors who see numerous macroeconomic, financial market, and political risks on the horizon and see value in holding the metal as insurance against these risks.

While these investors are interested in holding silver as long-term investments they are not interested in bidding up the price of metal in the process. Their recent participation in the market has therefore been one that helps support prices rather than drive prices up sharply.

Risks in the debt market, in real estate and housing, in equities, interest rates, and other segments of the economy are being under-priced and under-appreciated at present. A fuller realization of risk would be required to drive both shorter and longer term investors into the market in a way that they would be willing to bid up the price of silver.

Silver needs both longer term and shorter term investors to come together and purchase the metal forcefully to drive silver prices higher. While both types of investors have been active in the market both types of investors have shown price sensitivity. Both shorter term and longer term investors have shown interest in buying when prices have declined but shorter term investors have sold at the slightest sign of weakness when prices have moved higher, locking in profits. For their part longer term investors have retracted from making fresh purchases when prices have risen. Both investors seem to be lacking confidence in a sustained upward move in silver prices. Healthy economic conditions and strong equity markets had further reduced any urgency on part of both types of investors to bid up the price of silver. This could change to some degree during 2019.

Investment Demand by Major Investment Vehicle

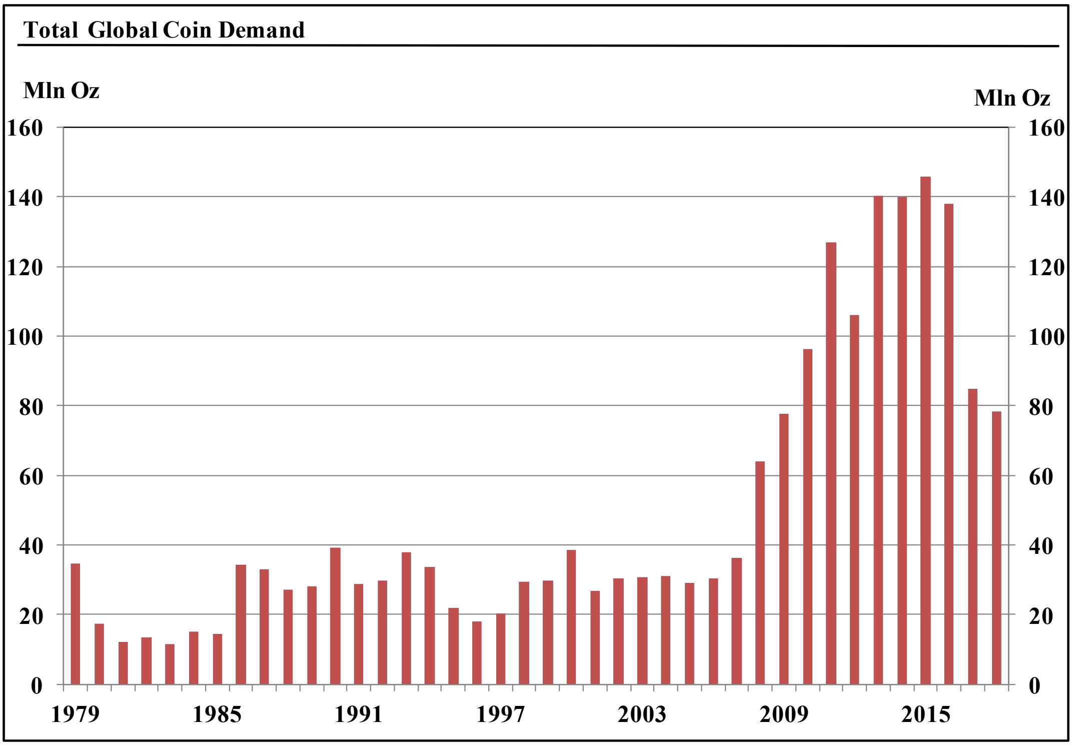


Note: Bars represent gross investment demand.

In 2018, investors were net buyers of 41.3 million ounces. This was a decline from 2017's 50.2 million ounces in net investor purchases.

These levels of investment are at the lower end of recent levels of investment demand since 2006 and are not sufficient to drive the price of silver strongly higher. They are sufficiently high to be important in keeping silver prices supported. While the annual net additions to investor silver investments have declined in recent years, it is still a better place for the silver market than the net reductions that were seen in the 1990s and early 2000s, when investors were net sellers of the metal as a group.

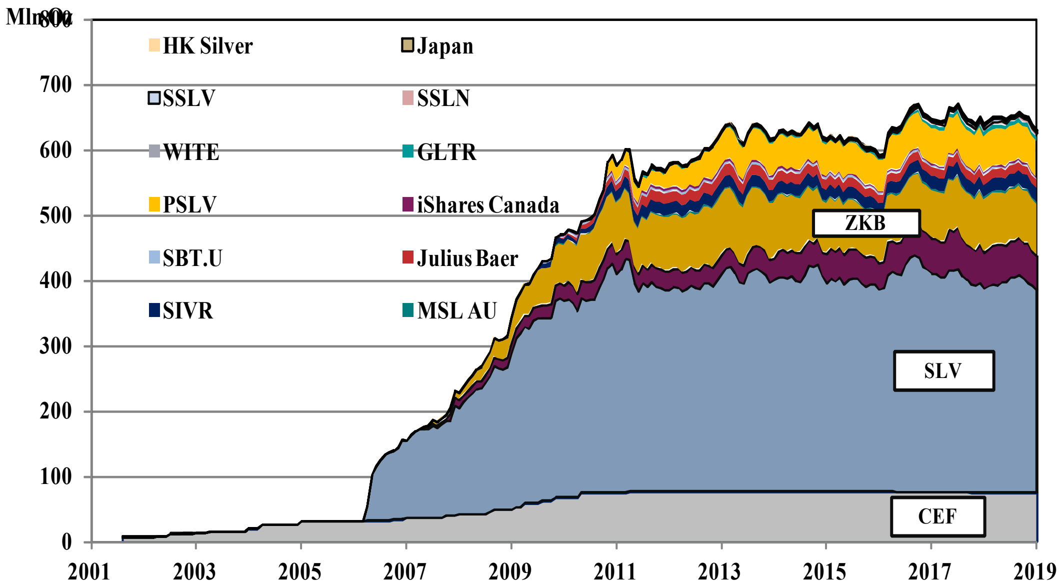
Investor interest in silver is expected to rise during 2019, which should help carry silver prices higher during the year. Silver's underperformance relative to gold makes the metal an attractive undervalued safe haven and hedge against various political and macroeconomic uncertainties. Slowing global economic growth and reduced monetary and fiscal stimulus from major economies are likely to increase the probability of various economic and financial market risks. Total net investment demand is forecast to reach 52.2 million ounces during 2019.



Investors bought an estimated 78.4 million ounces of silver in coin form last year. This was down 7.5% from 84.8 million ounces in 2017. Much of the decline in silver coin sales came from a sharp decline in U.S. Mint silver coins. U.S Mint coin sales during the full year 2018 stood at 14.46 million ounces, down 20% over 2017 and the lowest level of annual demand since 2007, when total U.S. Mint Silver Eagle coin sales stood at 9.88 million ounces.

Global silver coin demand has been in a declining trend since 2016. Investors were purchasing coins hand over fist between 2011 and 2015. As concerns about a collapse in the financial system receded so did the demand for these coins. Furthermore, the option of ETFs allows investors to have easy access to silver and gold if they wish to carry it in their portfolio. The cost of carry and transaction costs of ETFs is significantly lower than that of coins.

Silver Exchange Traded Product Holdings
Through January 2019

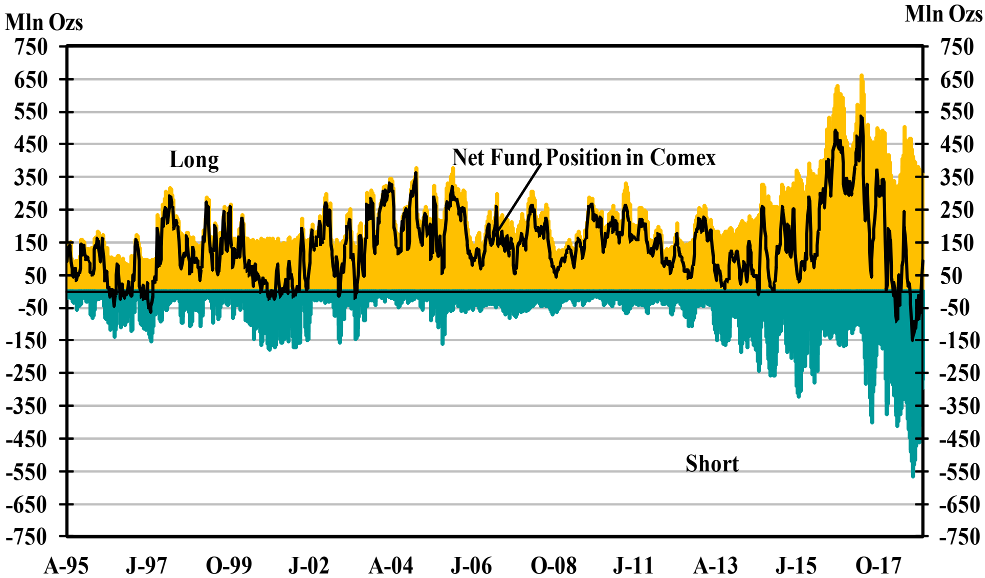


Silver held in ETFs stood at 656.88 million ounces at the end of December 2018. This was a decline of 13.08 million ounces from November 2018 and the lowest level of silver held by ETFs since November 2017. The decline in December was the largest monthly decline since November 2016, when holdings had declined 14.2 million ounces. Investors in silver ETFs were sellers throughout December 2018. For the full year, silver ETF holdings were down by 11.1 million ounces, which was the first decline in annual holdings since 2015.

Looking over a longer term historical period, silver ETF holdings have held largely steady around 650 million ounces since 2013. This contrasts with ETF holdings for other precious metals, where platinum and palladium both have experienced a decline in ETF holdings in recent years (albeit for different reasons) and gold ETF holdings peaked in 2012, declined sharply from 2013 through 2015, and have recaptured part of those losses since 2016, although not yet reaching the record high levels of 2012. While silver ETF holdings have not risen in any meaningful way since 2013 neither have they declined like their counterparts in the precious metals complex, which is a relatively better situation to be in.

Non-Commercial Gross Long and Short Silver Positions

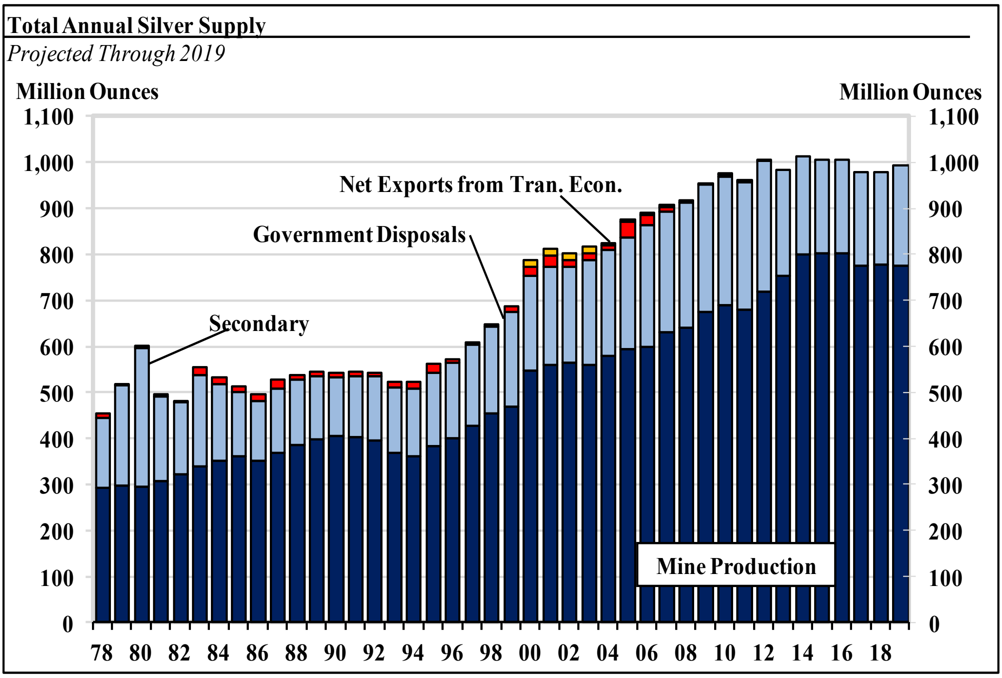
Comex Futures & Options. Weekly Data, Through 25 December 2018



The chart above shows the gross long and short positions, as well as the net positions, of large investors on the Comex silver futures and options contracts. The "Non-commercial" category in futures market data includes the full, wide range of institutional investors, ranging from commodity trade advisors and commodity pool operators to hedge funds, general investment funds, family offices, and other large investors.

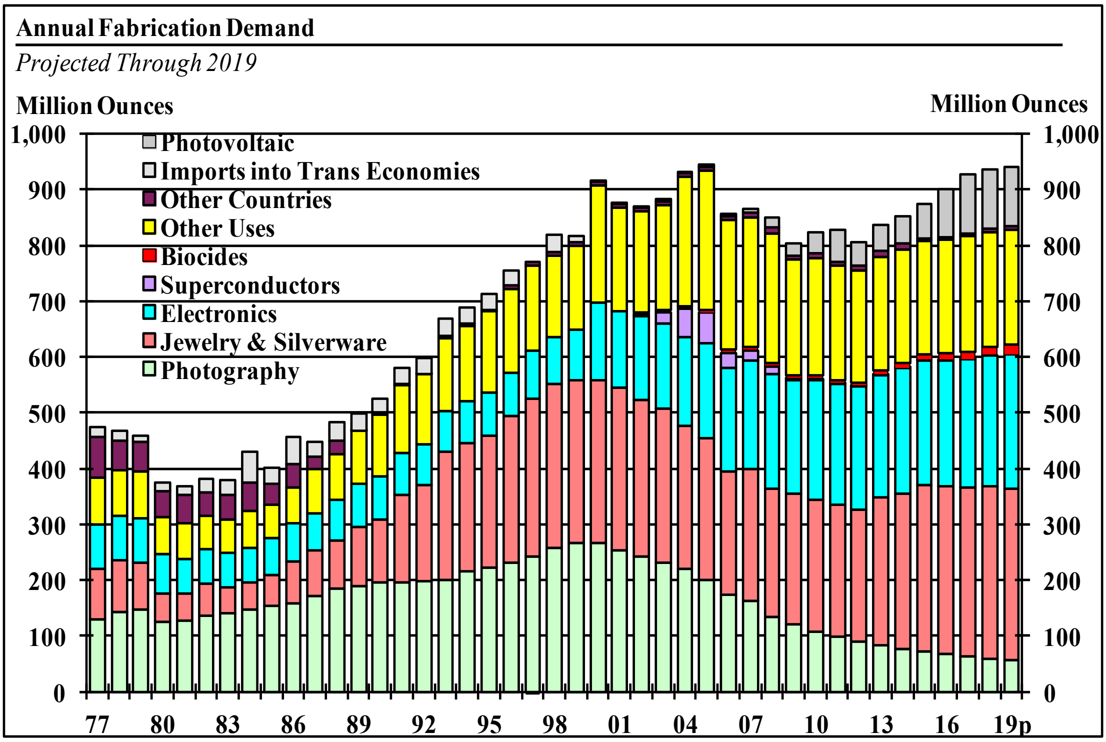
On several occasions over the course of 2018 net positions held by institutional investors turned net short for an extended periods of time. This was the first year since the early 2000s that this occurred. The increase in net short positions was primarily the outcome of a sharp expansion in gross short positions, which reached record high levels over the course of 2018. Gross short positions reached 565.7 million ounces in September 2018, which was a record high for these positions. While gross short positions rose, gross long positions largely moved around 350 million ounces during the year. The flat gross long position and the expansion of gross short positions highlights the near term negative investor sentiment toward silver.

Net long positions held by institutional investors on the Comex stood at 124.2 million ounces at the end of December 2018. This was the highest level of net positions since the end of June 2018 when these positions stood at 168.2 million ounces. The increase in net long positions during December was driven by both a decline in gross short positions and an increase in gross long positions. While gross short positions shrank during December they still remained high by historic standards. Meanwhile, gross long positions remained at average levels observed since 2011. This set up leans more towards the negative for prices.



Total silver supply stood at 978.1 million ounces in 2018, essentially flat from 2017 levels. Total supply during 2017 and 2018 were at their weakest levels since 2011. The suspension of the Escobal mine during 2017 has resulted in taking offline around 20 million ounces of silver supply. Secondary supply of the metal has also been flat over the past couple of years with relatively softer prices weighing on this segment of supply being offset by improved recovery of the metal from electronics. The reduction in total supply is a supportive fundamental of silver prices.

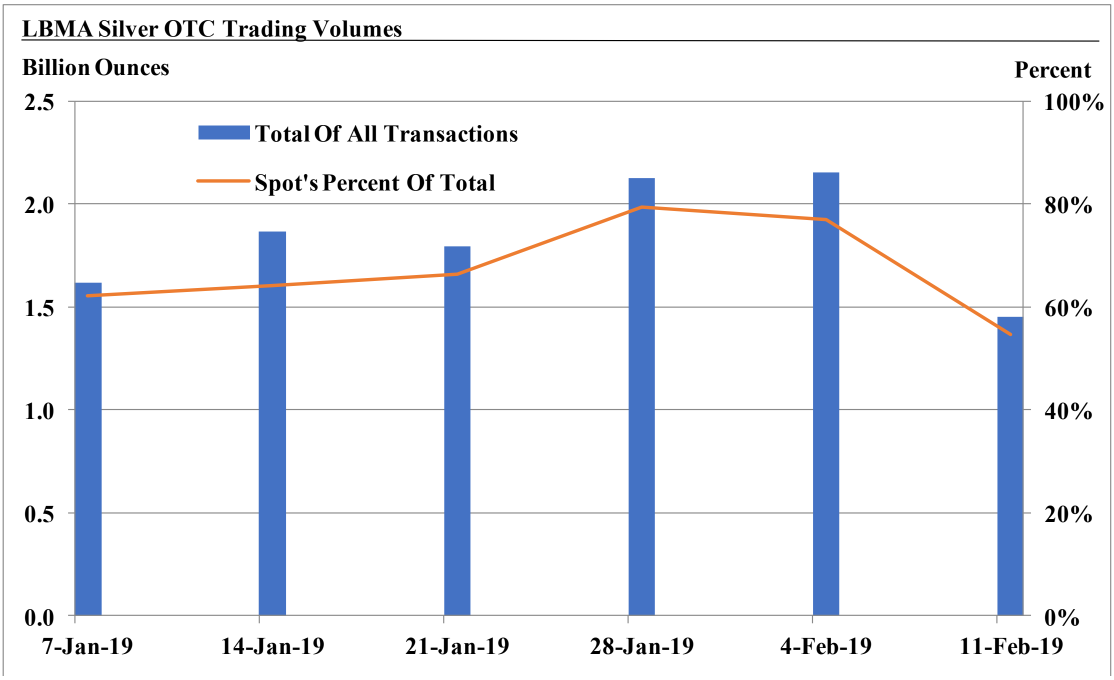
Total supply is expected to rise during 2019 to 993 million ounces, higher than 2018 levels but lower than levels seen prior to 2017. The increase is expected to be driven primarily by an increase in scrap supply, which is expected to rise in response to the stronger silver prices and the ongoing effort to better recover the metal from the electronics sector. Mine supply, meanwhile, is forecast to decline slightly during the year.



In 2018 silver fabrication demand rose to 936.9 million ounces, up 1% from 2017 levels. Two of the largest silver uses, jewelry and silverware and electronics, rose by 1.8% and 2.0%, respectively. Growth in jewelry demand was driven in part by the healthy global economic growth which aided discretionary purchases like jewelry. Silver is used as an alloy in both gold jewelry and white gold. The relatively stronger growth in gold prices and the strong increase in the price of palladium during 2018 also is expected to have benefited the use of silver in jewelry alloys.

Silver demand from the electronics industry continued to be supported by a healthy economic landscape, increased electrification and computerization of the world, and the resultant strong demand for computer chips. Demand from the solar panel industry grew at a slower pace during 2018; there continued to be growth from the sector, nonetheless. Silver demand from the sector reached a record 107.3 million ounces during 2018, up 1.2% from 2017 levels. Solar panel manufacturers continued to work on ways to reduce the silver content per solar panel, but these efforts were offset by the ongoing increase in demand for solar panels.

Silver fabrication demand is forecast to continue rising during 2019, making it the seventh consecutive year that the metal's fabrication demand will rise. The rate of increase is expected to slow relative to the preceding six years, however. The primary drivers of growth are expected to be the electronics and solar panel industry. The slightly higher silver price and somewhat slower global economic growth are expected to weigh on jewelry demand. Total fabrication demand during the year is forecast to reach 941 million ounces during 2019, the highest level of demand since 2005.



Note: The data represents the total weekly volume of silver traded in the London OTC market, as represented by all LBMA Market Makers and some Full Members, broken down by the volume in spot, forward, options and leases.

The London Bullion Market Association has begun publishing data on reported trading volumes of gold and silver in the London over the counter market, for the first time. Since 1997 the LBMA has published volumes of gold and silver cleared in these markets.

Some observers have speculated that trading volumes might have been four or five times greater than clearing volumes. The new data indicate that in fact trading volumes are not much greater than clearing volumes, although there are only a few weeks' data so far and there are a range of questions about what the data actually represents.

The trading volume statistics cover spot trades, forwards (which also are sometimes called swaps and other things), options, and leases. As was believed in the absence of concrete data, most of the trades are spot trades. In the first six weeks of 2019 spot trades accounted for more than 50% of the volumes each week, and sometimes nearly 80% of the volumes.

As more data are collected and clarity is derived as to what is being reported, there should be some further interesting revelations about the nature of the OTC precious metals market in London, as well as confirmation of several long-held tenets about the nature of the OTC markets. The first data and initial review of it suggests that much of what was said about the OTC market by CPM and others is in line with the realities of the market, and that the data do not support many of the wild speculations, allegations, and statements of the nature of the OTC trading of precious metals in London.

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