GFMS

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GFMS' Interim Silver Market Review

2011 is likely to see silver trade above $30/oz due to investors' growing appetite for the metal and also a further recovery in industrial demand.

***Fabrication demand** – projected to rise by 10% in 2010 as a strong but only partial recovery in industrial uses, record coin demand and slight growth in jewellery offtake easily counter losses in photography and silverware fabrication.*
***Supply** – forecast to rise by 5% in 2010 mainly due to ongoing modest gains in mine production and double-digit growth in scrap, plus a rise in government sales.*
***Investment** – volumes on a World Investment basis (including all coins) set to rise to a record level this year, with its net value reaching roughly $4 billion. Conditions in 2011 likely to remain conducive to high levels of investment, providing the chief support to further price gains.*
***Prices** – GFMS forecast the annual average in 2010 at $19.94, up a massive 36% year-on-year. GFMS expect the silver price to trade over $30 in 2011, with the annual average likely to easily surpass the current all time high, 1980's $20.98.*

This evening at the annual New York Silver Dinner organised by The Silver Institute, GFMS presented its interim silver market review. This review included GFMS' provisional supply and demand forecasts for 2010 and the consultancy's expectations for silver supply, demand and the price in 2011. The key points from this review are as follows:

Supply

- **Total supply** is forecast to end its three-year run of stability and rise by 5% in 2010. Much of the gains will come from higher mine production and scrap, plus a higher but still modest absolute level of government sales.

- **Mine production** should again register moderate growth, rising some 24 Moz (740 t) or over 3% in 2010. Gains centre on Mexico (mainly the ramp up at Goldcorp's Peñasquito and Coeur d'Alene Mines' Palmarejo), Argentina (chiefly the ramp up of Silver Standard Resources' Pirquitas), Chile and Australia (thanks to gains at BHP Billiton's Cannington). A key loss is a 5% decline in Peru. Globally, primary silver output is expected to grow around 3% with stronger gains for gold and lead/zinc, while copper mines look set to deliver slightly less silver.

- **Scrap supply** is forecast to expand by over 10% this year thanks to growing receipts from industrial and jewellery sources and despite the ongoing structural slide in recovery from photographic waste, the main source of silver.

- **Government sales** are projected to rise strongly this year, chiefly due to higher sales by CIS countries, although the world total reached would remain low in comparison to the average rate of sales over the past decade.

Demand

- **Fabrication demand** is forecast to grow by almost 10%, although the projected total remains some 4% down on 2008. Ongoing but more modest growth in 2011, however, should lift global demand back to earlier record levels.

- **Industrial demand** looks set to rebound by a healthy 18% this year, thanks to a recovery in underlying demand and the refilling of a heavily denuded supply pipeline. This, however, only represents a partial recovery with the 2010 figure still a little down on 2008 levels. Limited further gains from stock replenishment plus a possible slowdown in global GDP growth should mean less dramatic increases for industrial offtake next year, perhaps ruling out a return to pre-crisis levels despite the surging contribution from the photovoltaic and ethylene oxide catalyst sectors.

- **Jewellery** fabrication is expected to rise by around 3% this year, in part as a result of substitution from increasingly unaffordable gold. Further such modest gains are forecast in 2011, taking offtake to a five-year high.

- **Silverware** demand is projected to fall by 13% this year, due mainly to price focused losses in India.

- **Photographic** use of silver is forecast to continue its structural decline due to digital inroads, shedding some 11% this year, with further if less hefty losses expected next year.

- **Coin** minting is set to rise a robust 23% this year, taking the total to an all time high basis GFMS' data series.

- **Producer hedging** is currently expected to stay on the demand side this year but only at very modest levels.

Investment

- Investment demand (including all coins & medals) remains elevated, being projected to grow in 2010 to an all time high (basis GFMS' records) of over 210 Moz (6,500 t). Further gains to a new record are also projected for 2011.

- Investment earlier in 2010 owed much to confidence over world economic growth and thus industrial metals' demand. It also benefited from safe haven buying in May and June, due largely to the European sovereign debt crisis.

- After a 'summer lull', there has been much stronger growth in investor interest. Key to this have been concerns over the solidity of the US dollar and potential future inflation stemming in the main from the Federal Reserve's next round of quantitative easing. Further support has come from a positive price trend, the fact that the all-time nominal high for silver (almost $50/oz in 1980) remains a good way off and as silver's historically greater volatility but close correlation to gold continues to attract those seeking a more leveraged alternative to the yellow metal.

Prices

- Silver prices in the first 10 months of the year, basis the London fix, averaged $18.61, a rise of 32% year-on-year but that excludes early November's spike to a year-to-date high of $28.55, representing an intra-year gain of 66%.

- The main driver of the price remains investment demand and, in GFMS' view, this has elevated silver to well over fundamental equilibrium levels in the absence of such investment.

- Silver's fundamental demand (i.e. excluding investment) should continue to rise next year, chiefly due to gains in industrial uses. However, this will be outweighed by gains in total supply as mine output rises (both scrap and government sales are projected to fall). While this might appear bearish, we remain confident that investors will be of a mood to absorb the resultant, growing surplus, as key supports such as ultra-low interest rates, a weakening dollar and a buoyant gold market should remain with us, all of which should be easily enough to rally silver prices yet higher.

- In spite of what appears currently to be a substantial end-year correction in the price, GFMS still expect silver to trade over $30 in 2011. However, we are doubtful such elevated levels will be sustained throughout the year and, as a result, we see an annual average either side of $28 as more likely. We could also add that a retreat from over $30 would not necessarily imply an end to the multi-year rally in 2011.

Note to Editors about GFMS Limited:

GFMS Limited is the world's foremost precious metals consultancy. The London-based group specialises in research into the global precious metals, base metals and steel markets. For contact details and more information, please visit *www.gfms.co.uk*.