

Silver Institute

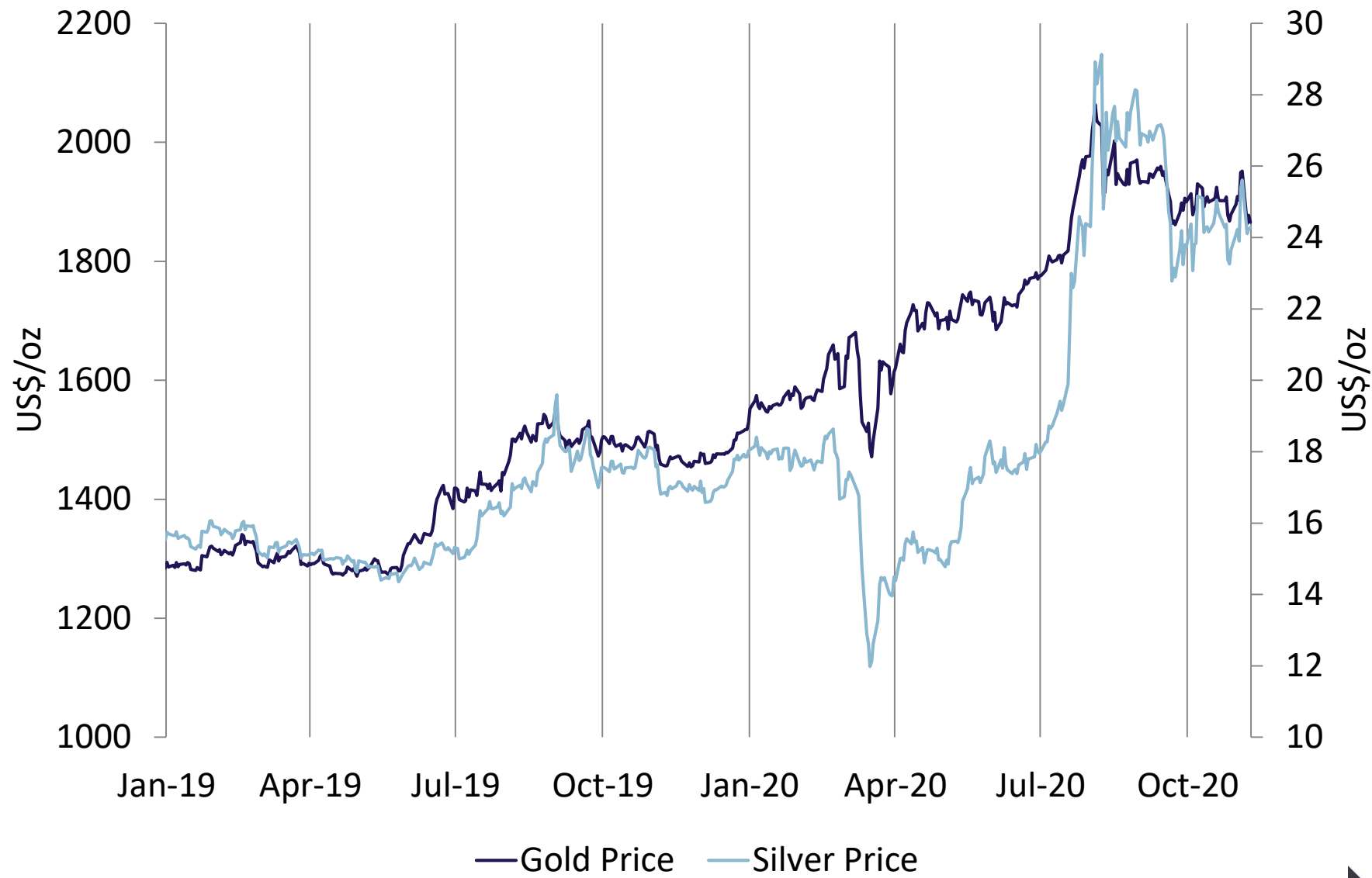
Interim Silver Market Review 2020

Philip Newman & Adam Webb, Metals Focus

November 17<sup>th</sup> 2020



# Silver now holding in a higher range, despite recent weakness



Source: Bloomberg



# Relationship with base metals has strengthened recently, but...

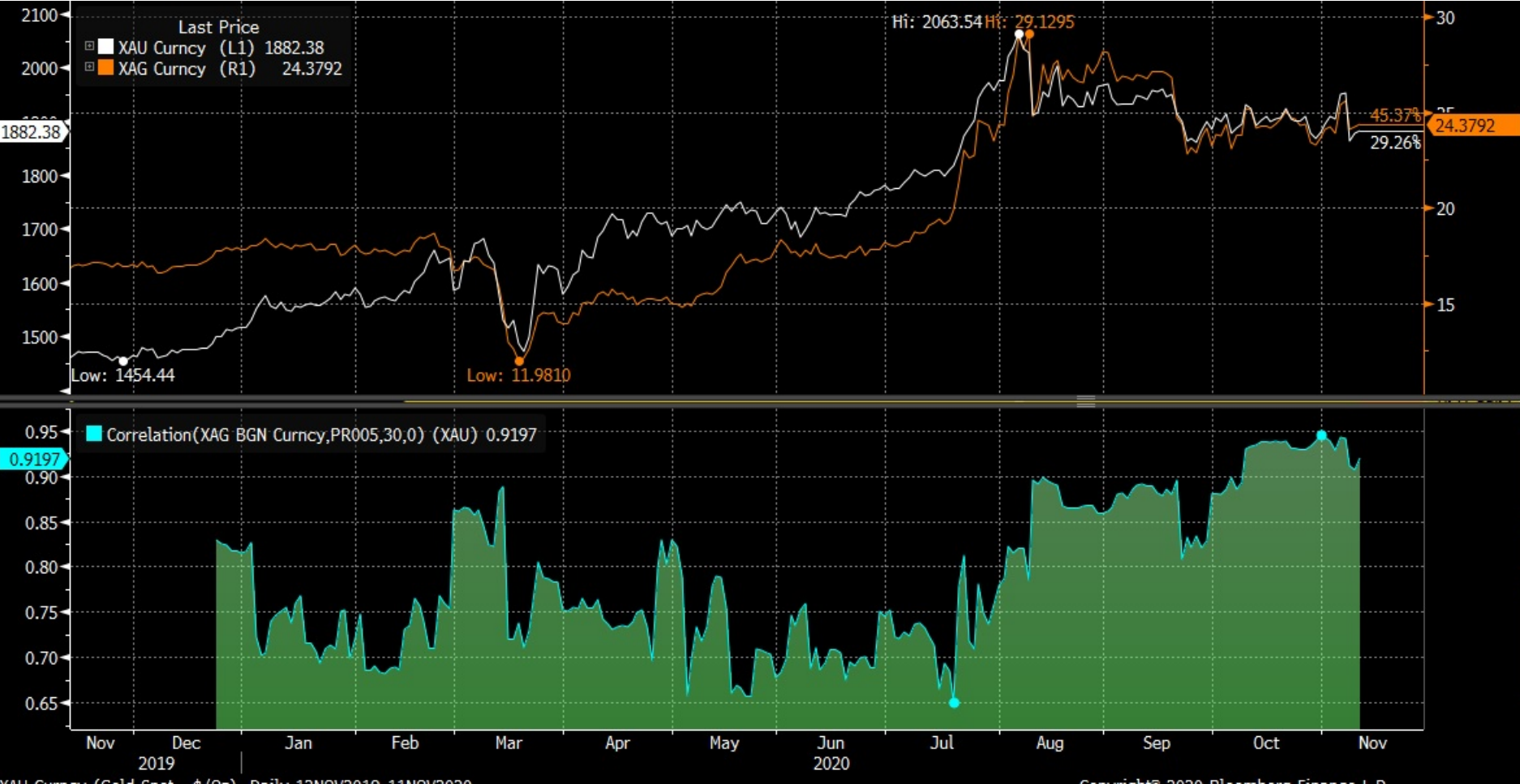


LME Index (London Metal Exchange LME Metals Index) Daily 12NOV2019-11NOV2020

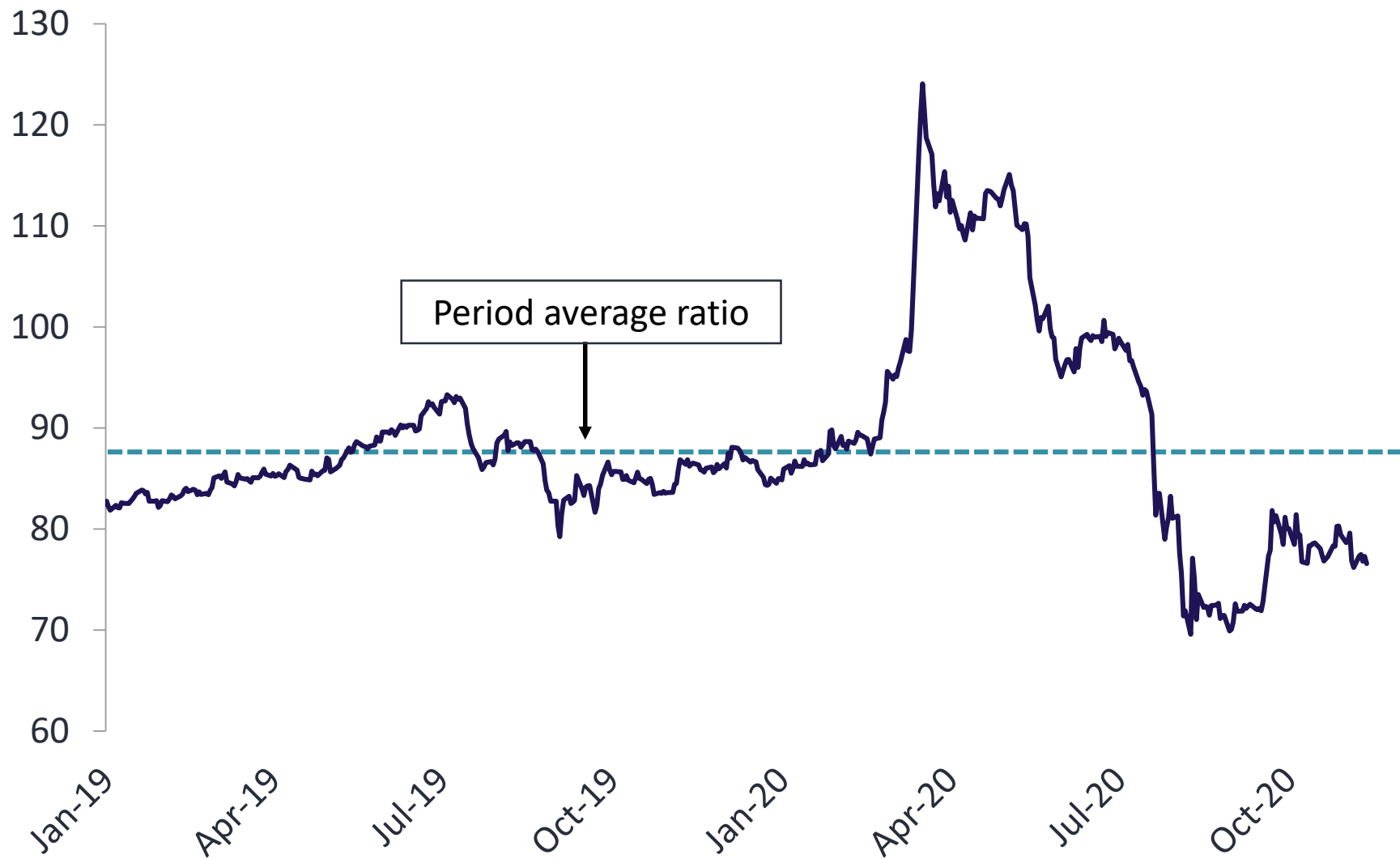
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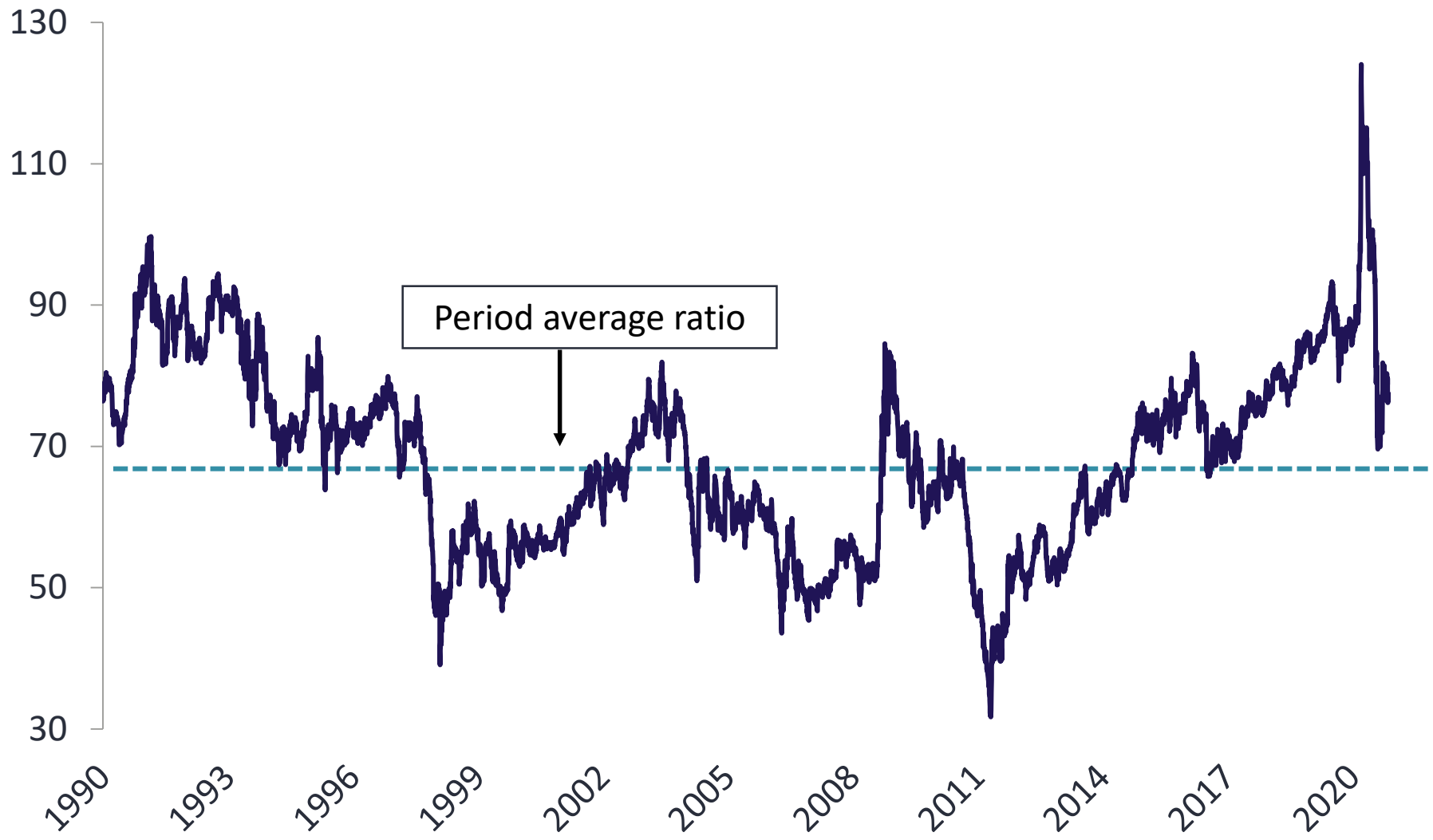
# ...the gold-silver dynamic continues to dominate



# The gold:silver ratio had fallen noticeably



# Overall though, it remains above the long-term average

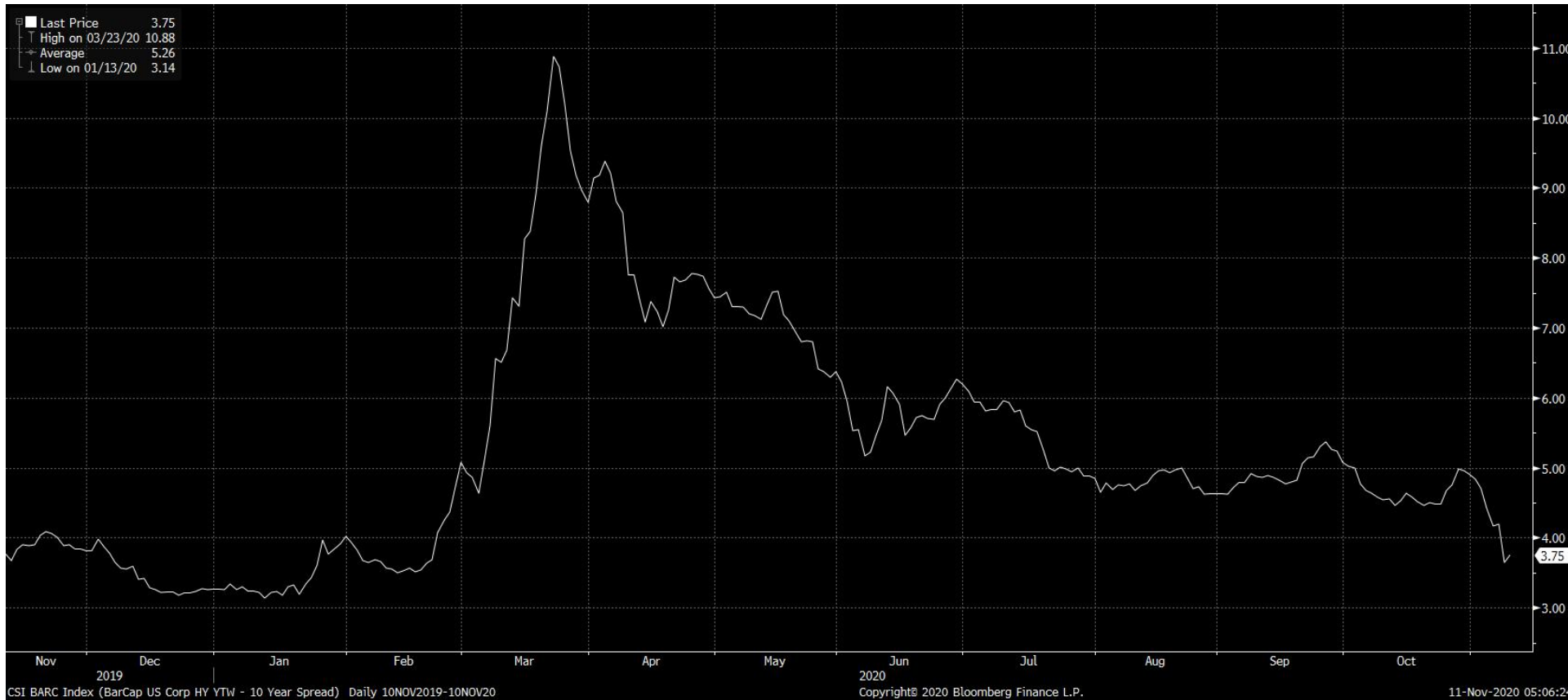


Source: Bloomberg



# The macro environment remains pivotal

“Spread between US high yield corporate debt and 10Y Treasuries”  
*Risk appetite has grown recently*





# The macro environment remains pivotal

## “10-2Y and 30-5Y Treasury Spreads”

*Interest rate expectations rising, but remain low in absolute terms*



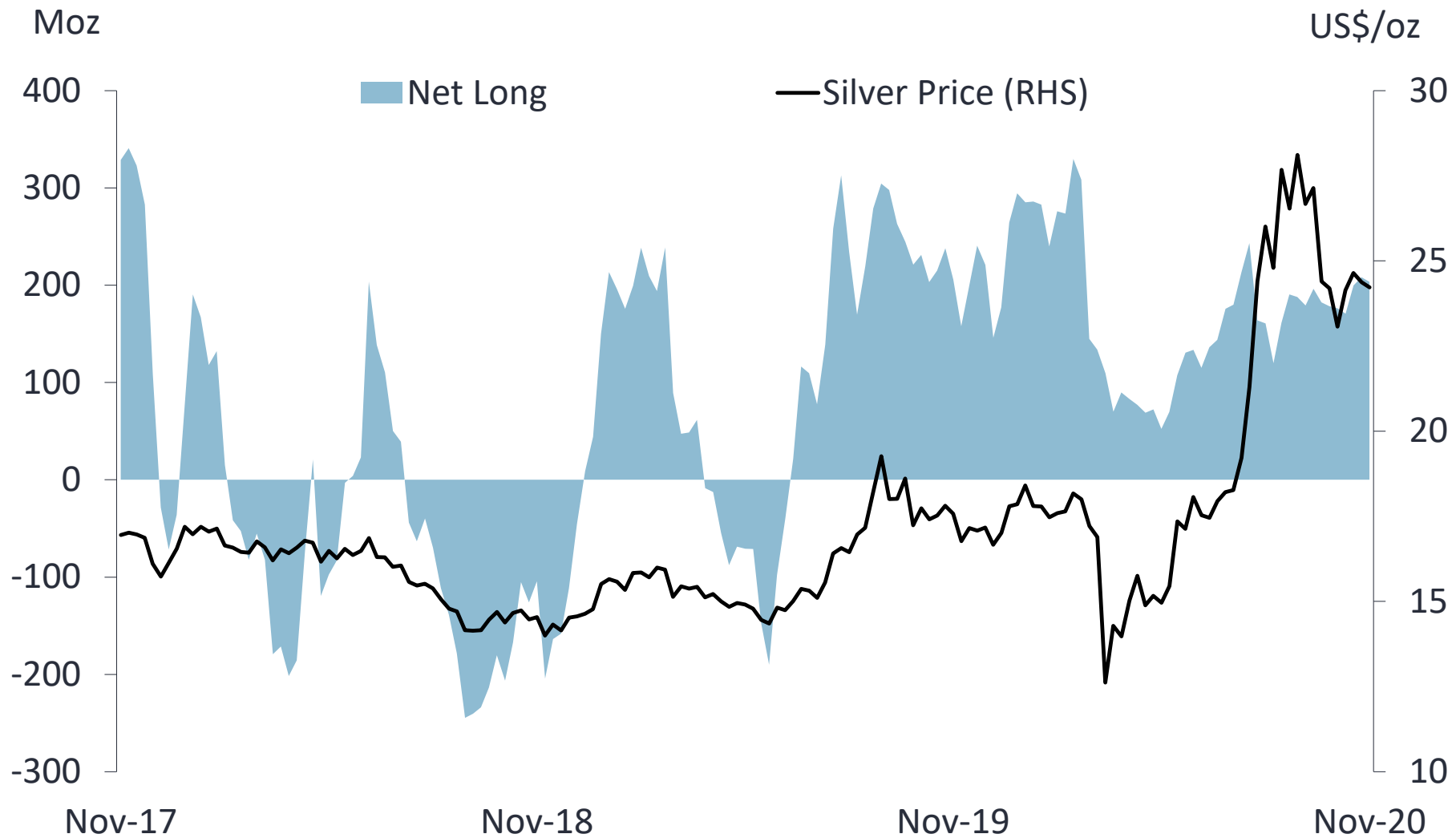


# The macro environment remains pivotal

“US 5Y Breakeven rates and CRB Index”  
*Inflation expectations have recovered from exceptionally low levels earlier in the year, but remain modest*



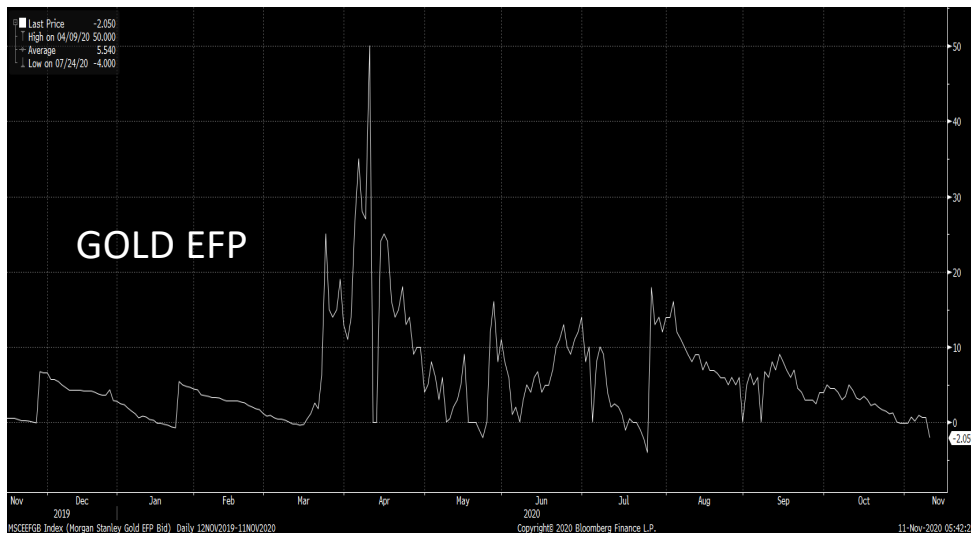
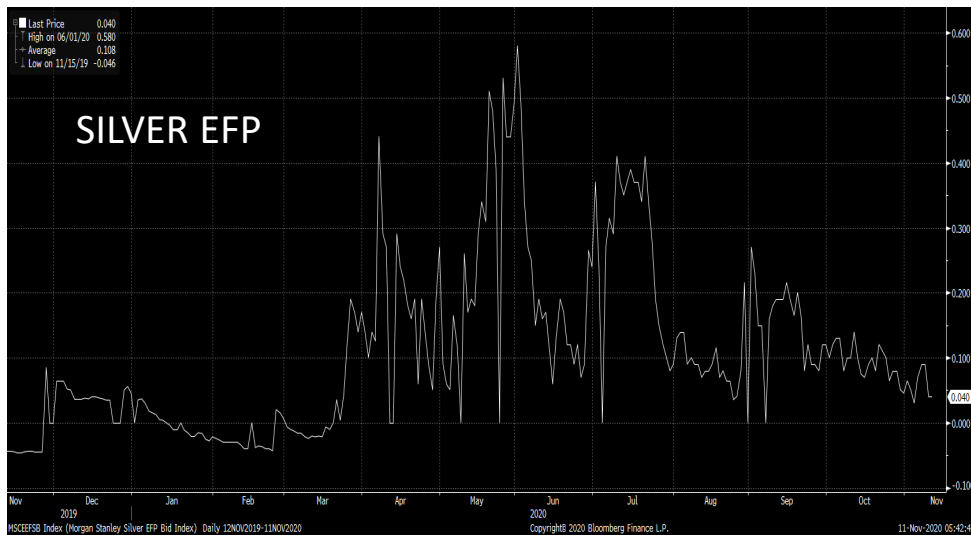
# Investor positioning constrained by EFP issues



Source: Bloomberg

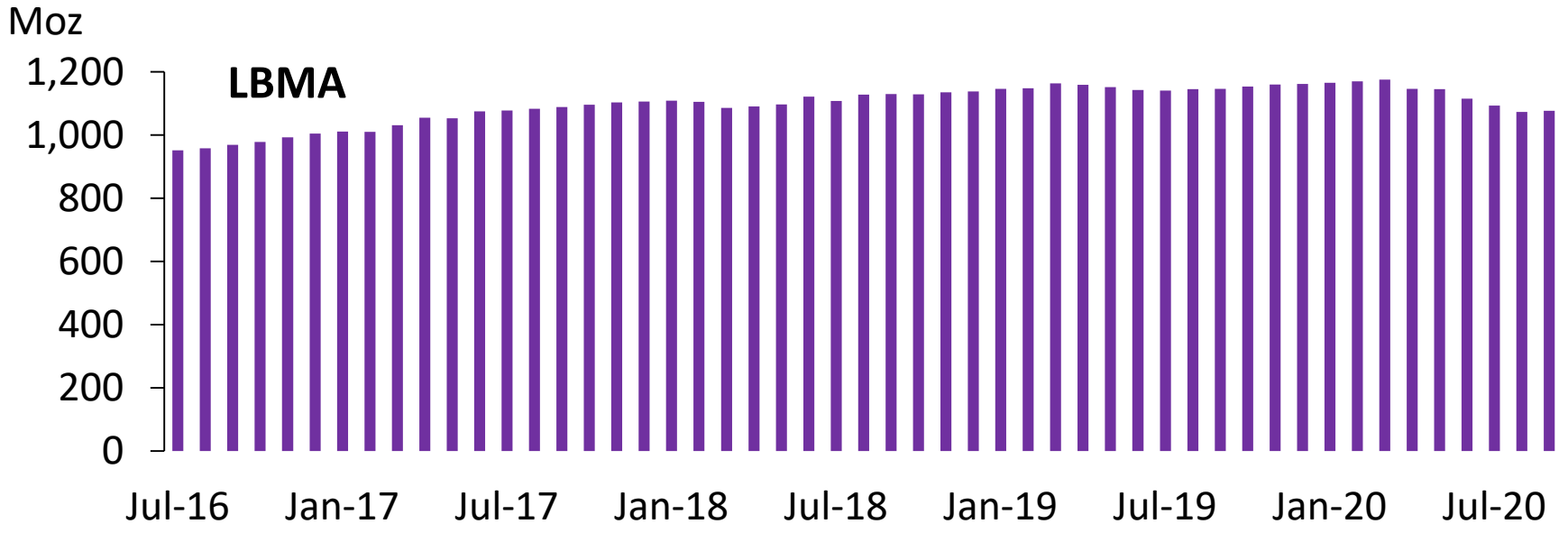
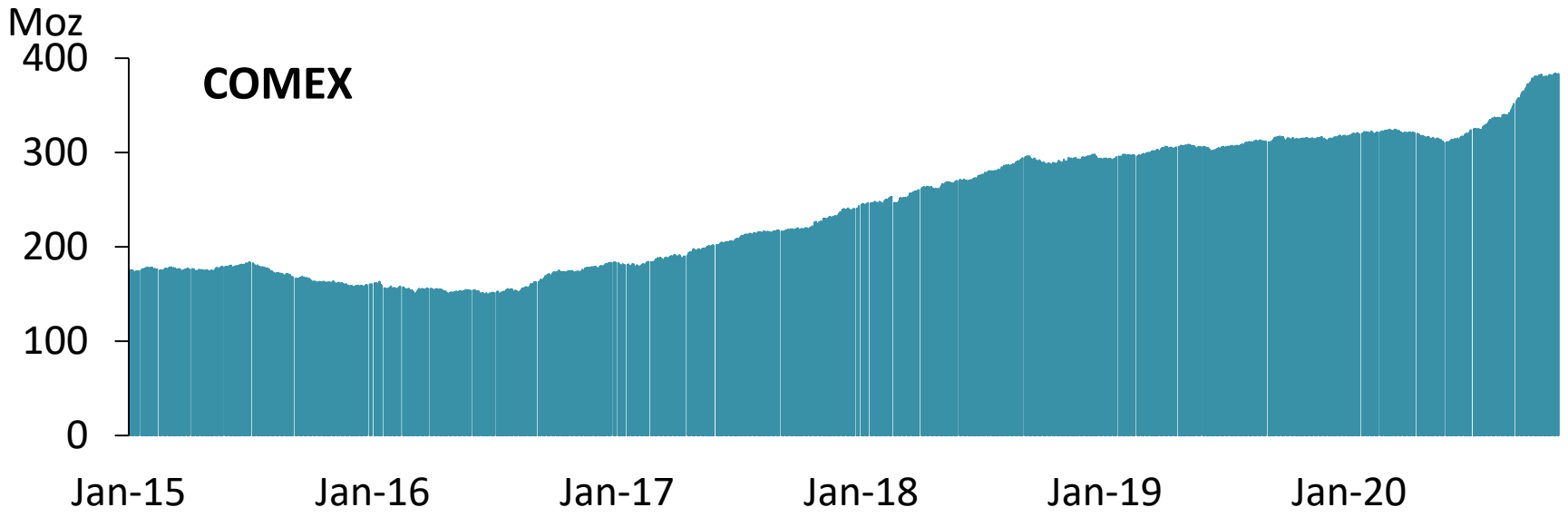


# What happened to EFPs?



- Early jump due to COVID disruptions
- Temporary closure of Swiss refineries made it hard to re-cast LGD bars to 100oz/kilobars
- Logistics bottlenecks due to limited flights
- COMEX market makers tend to hedge loco-London, while physical delivery is very rare
- Dealers who were short Comex exposed to risk that counterparties would not roll. Led to rush to buy back shorts
- High demand for EFP, effectively a long Comex/short loco-London transaction
- Position limits also added pressure
- EFPs now eased, reflecting sufficient COMEX inventories and market conditions more generally normalizing
- Jump in silver EFP in spite of Comex stocks being at record high levels

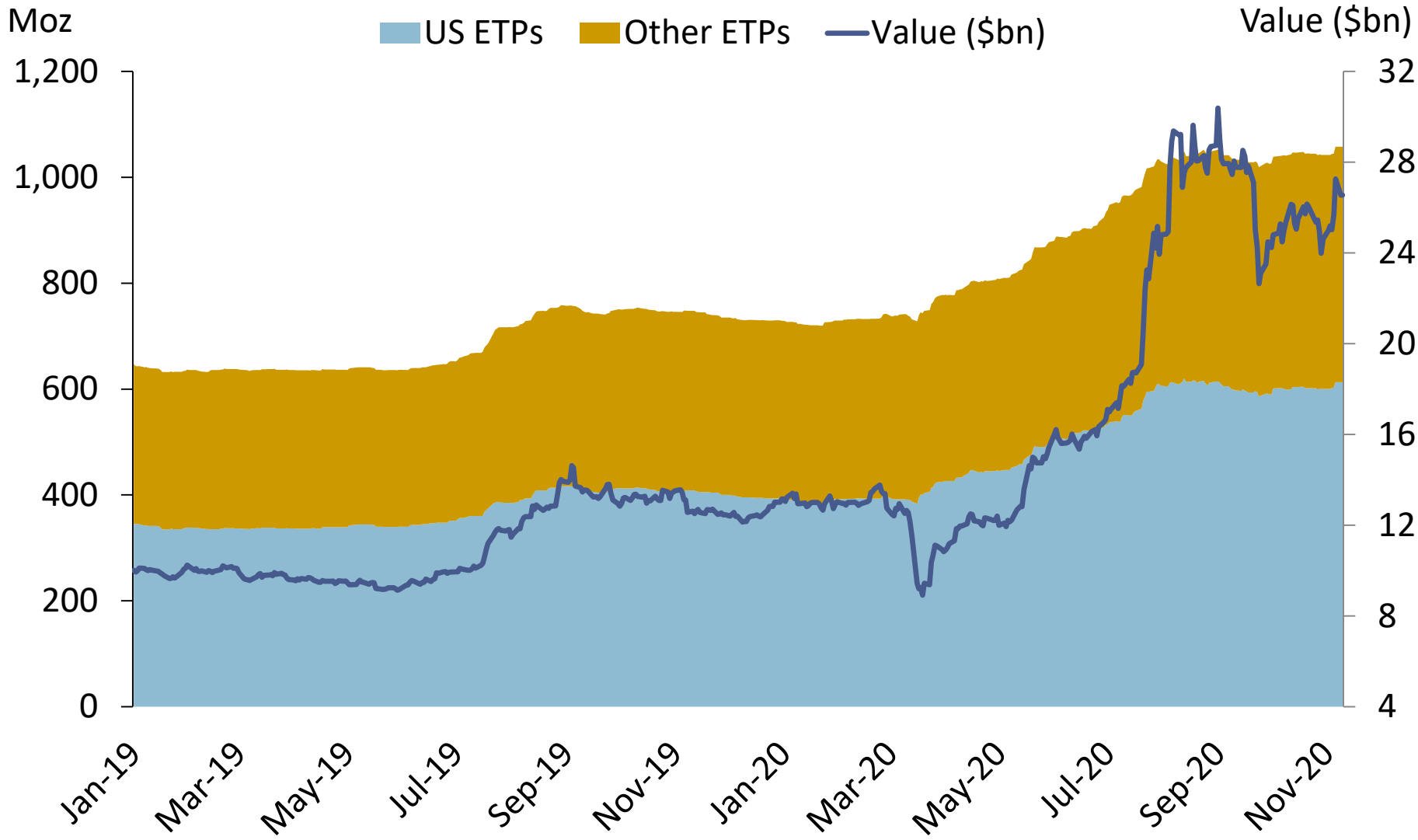
# Bullion stocks rising, but most cross-border moves reflect EFP dynamics



Source: Bloomberg, LBMA



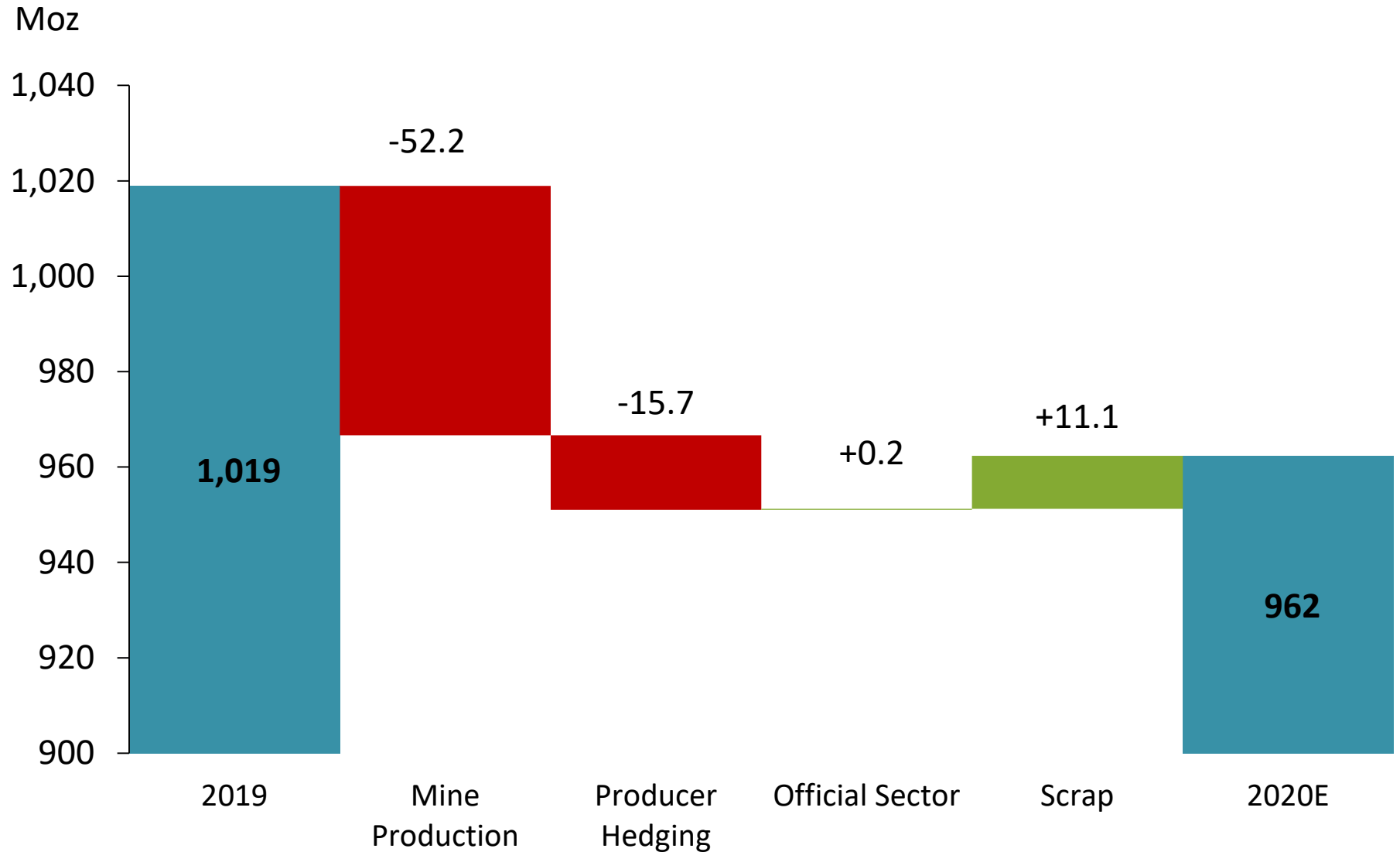
# ETP holdings hit record highs, driven by US funds



Source: Bloomberg, various ETF issuers



# Global supply summary

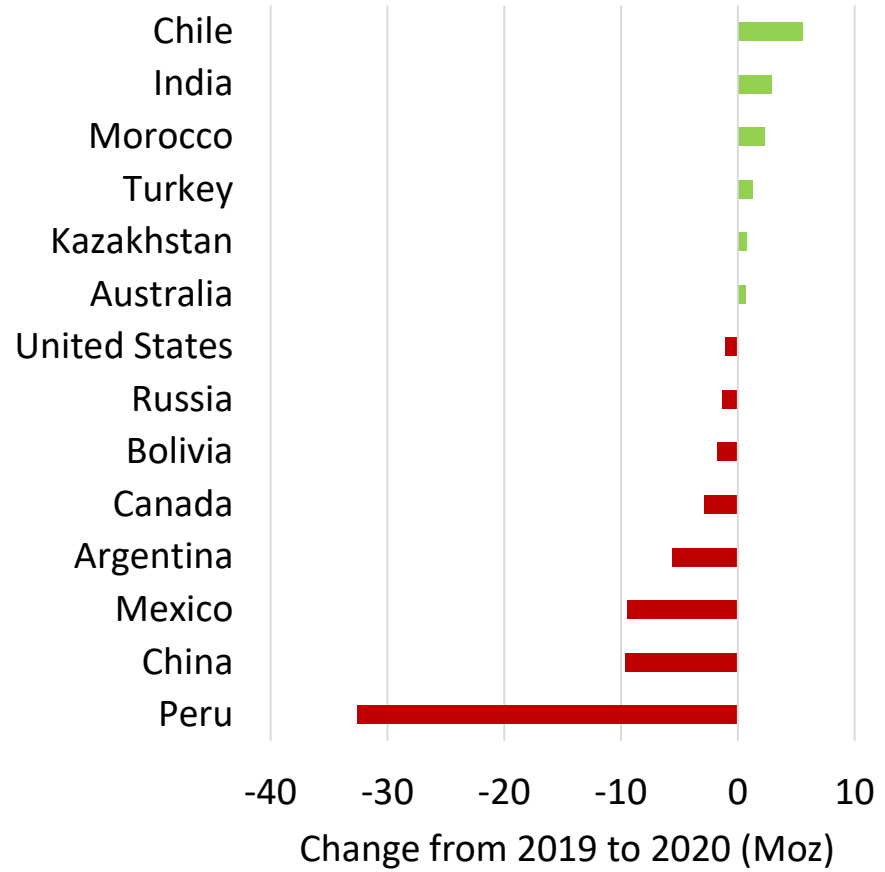
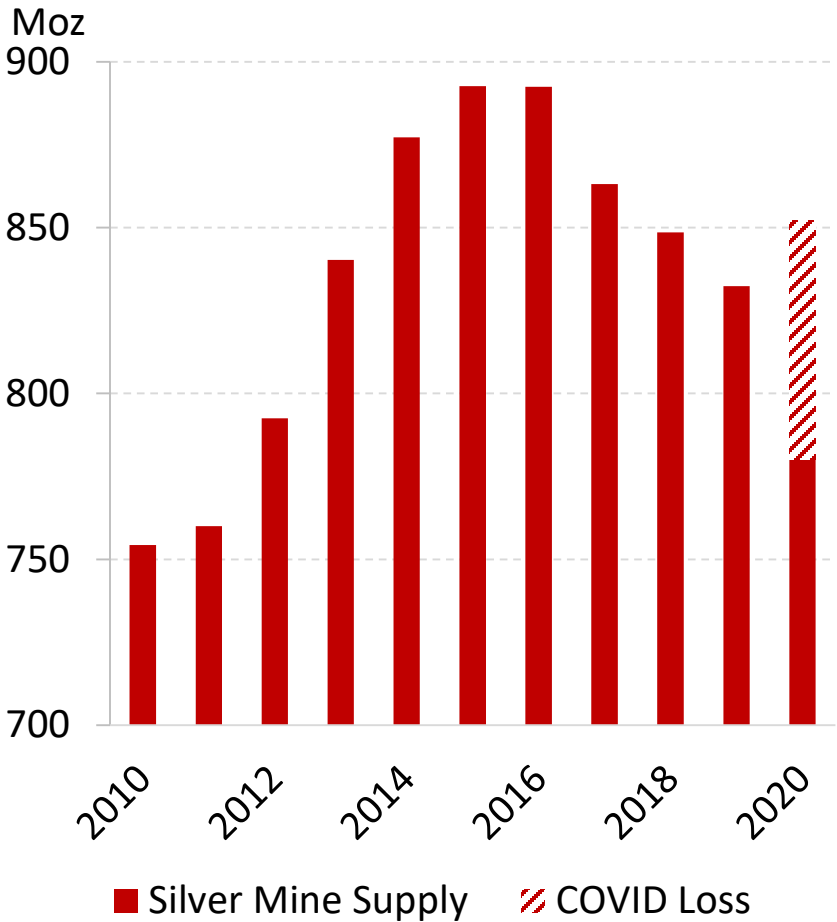




# Mined silver production in 2020 lower due to COVID

Mined silver production is forecast to decline **6.3% y/y** in 2020 to **780Moz**.

The biggest declines are expected in **Peru, China** and **Mexico** due to COVID related disruptions.

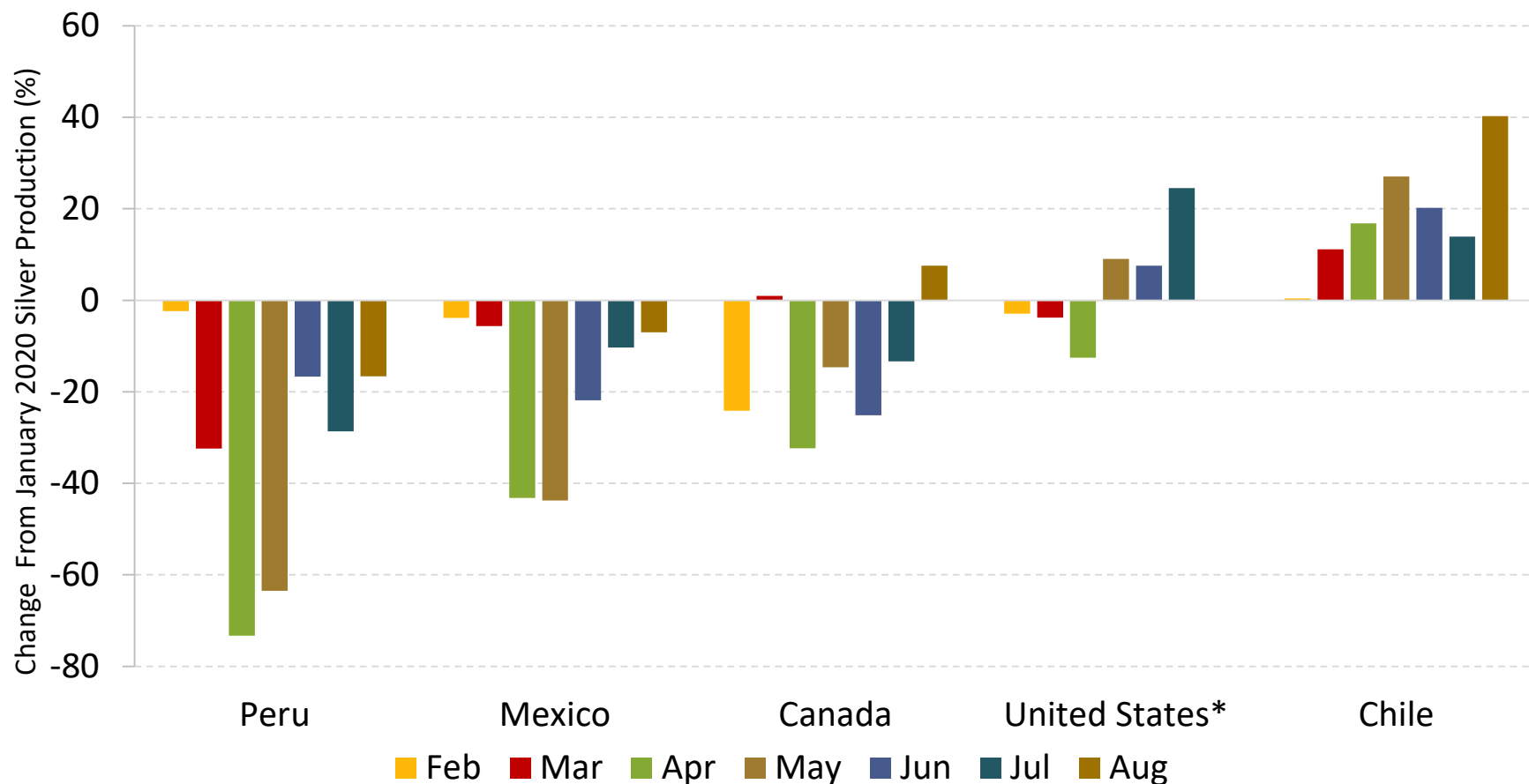


Source: Metals Focus



# COVID disruption peaked in Q2.20

Mines in several major silver producing countries were forced to temporarily close due to **COVID-19 lockdowns** that were implemented from **mid-March**, however mining in other countries was allowed to continue as normal.

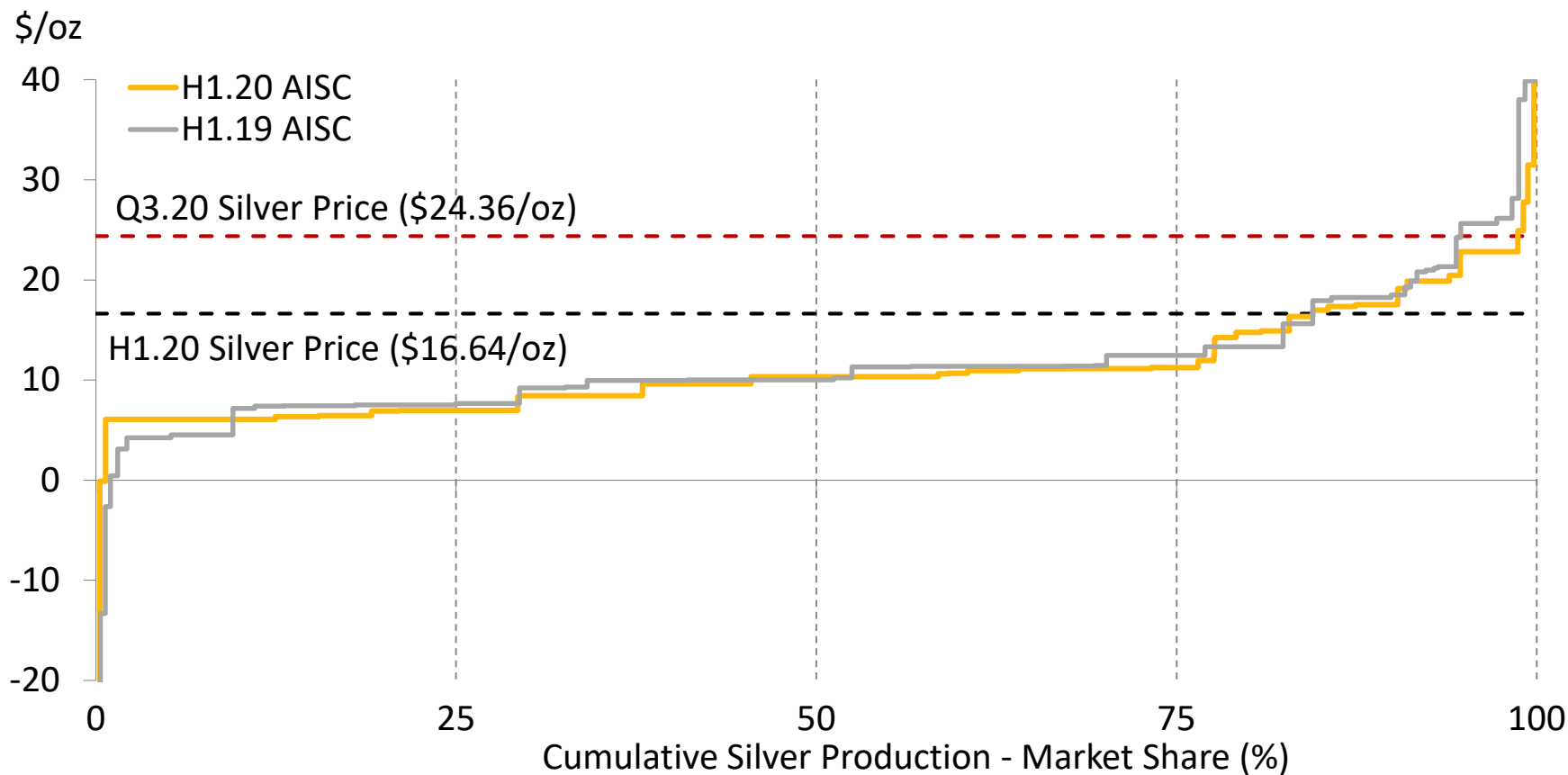


\*US statistics not yet available for August

Source: Metals Focus, Country reported statistics

# Costs declined year-on-year in H1.20

**Average AISC** for primary silver mines in **H1.20** was **down by 3% y/y** to **\$11.01/oz** as higher by-product credits and the closure of some high-cost operations in 2019 offset increased costs from COVID-19 related disruption.

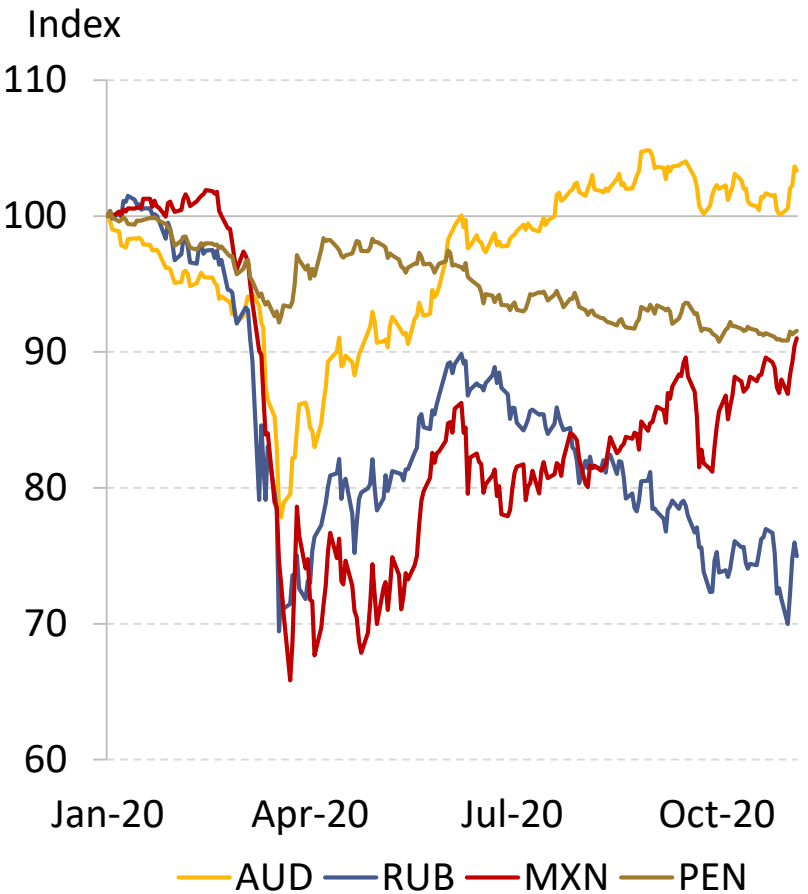


Note: costed production = c.80% of primary silver supply

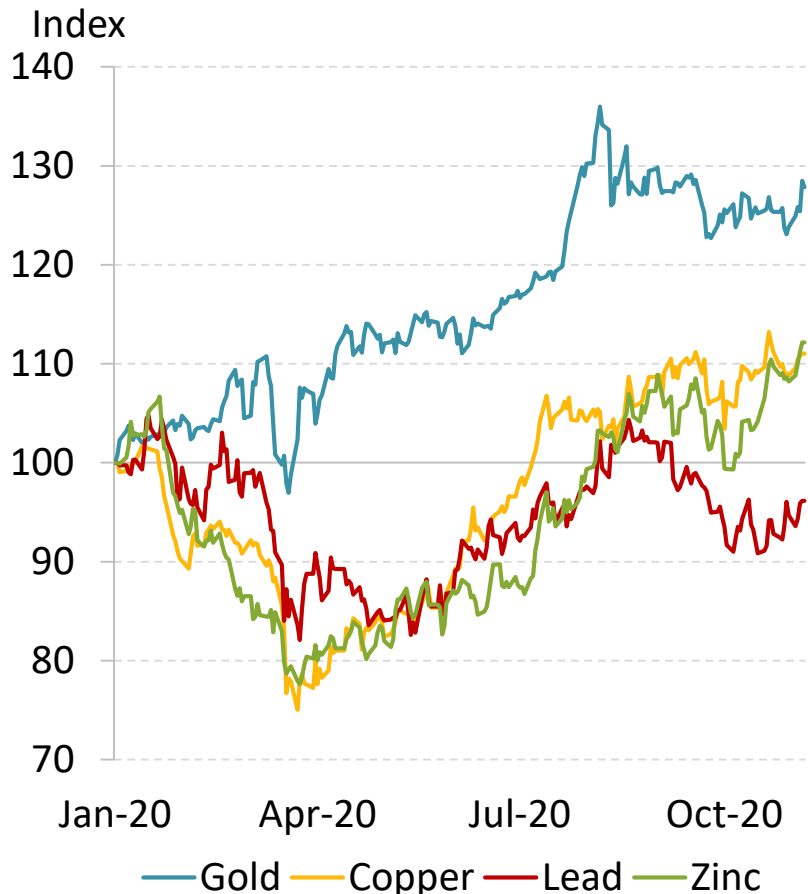
Source: Metals Focus – Silver Mine Cost Service

# FX rates and metal prices push costs lower

**Local currency weakness to the US dollar has constrained costs in many countries.**



**Higher gold prices have boosted by-product credits for silver miners.**

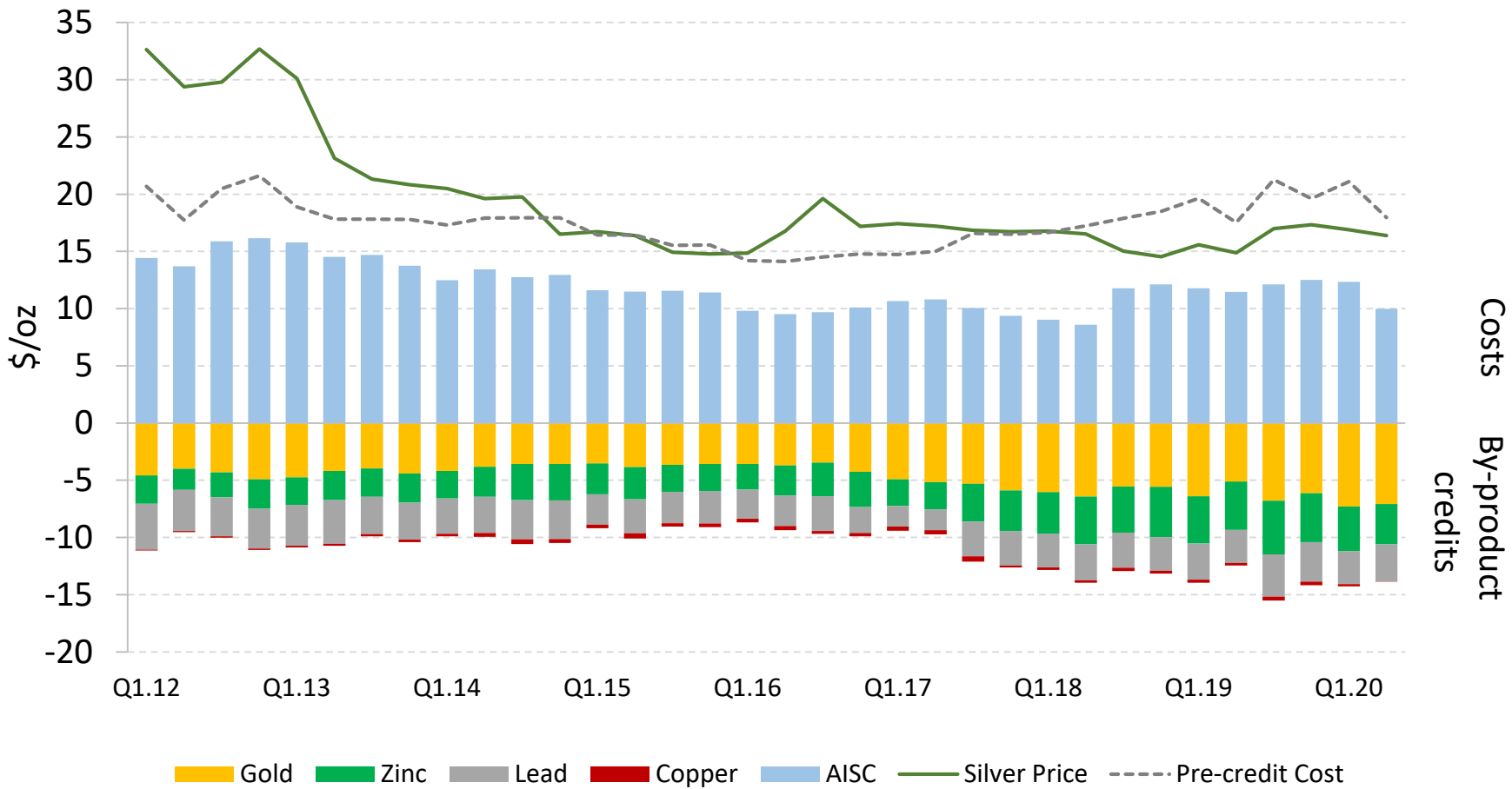


Note: AUD - Australian dollar, RUB - Russian ruble, MXN - Mexican peso, PEN - Peruvian sol  
Source: Bloomberg, Metals Focus

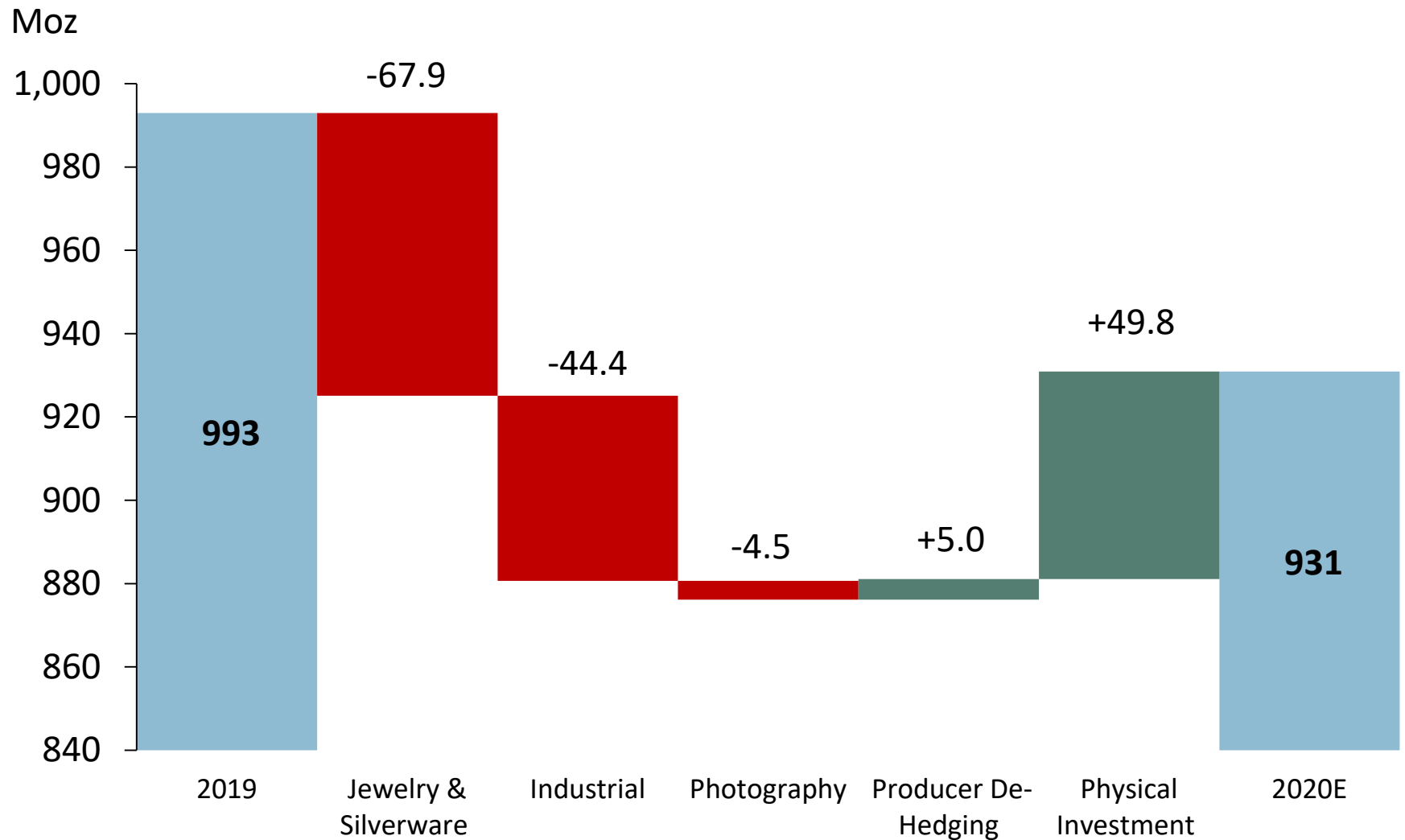


# Higher prices will drive by-product credits up

**Average costs** for primary silver mines were **lower q/q** in **Q2.20** due to higher cost operations in South America being closed, the upward pressure on costs of these mines returning to production will be offset by **higher by-product credits** in **H2.20**.

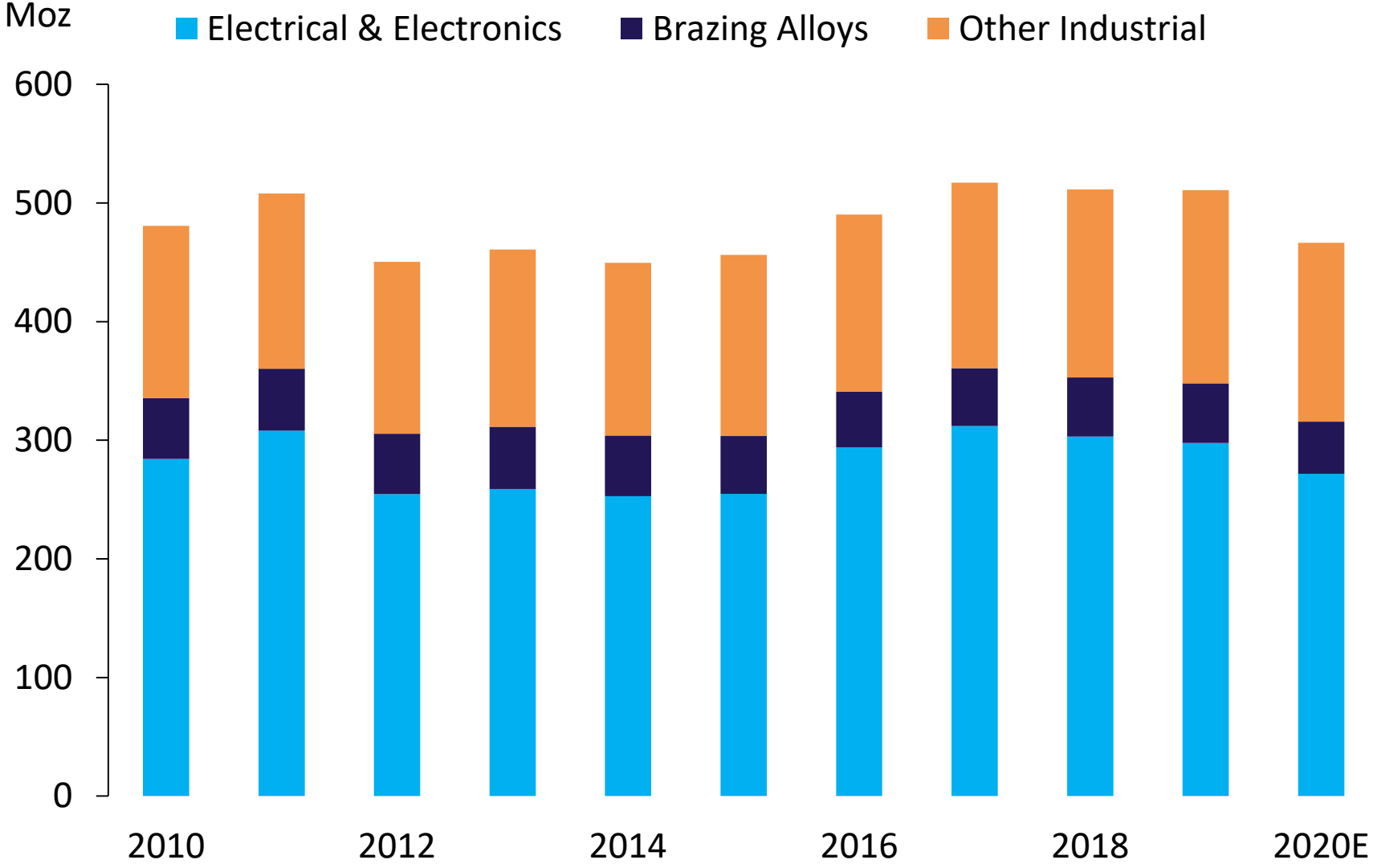


# Global demand summary





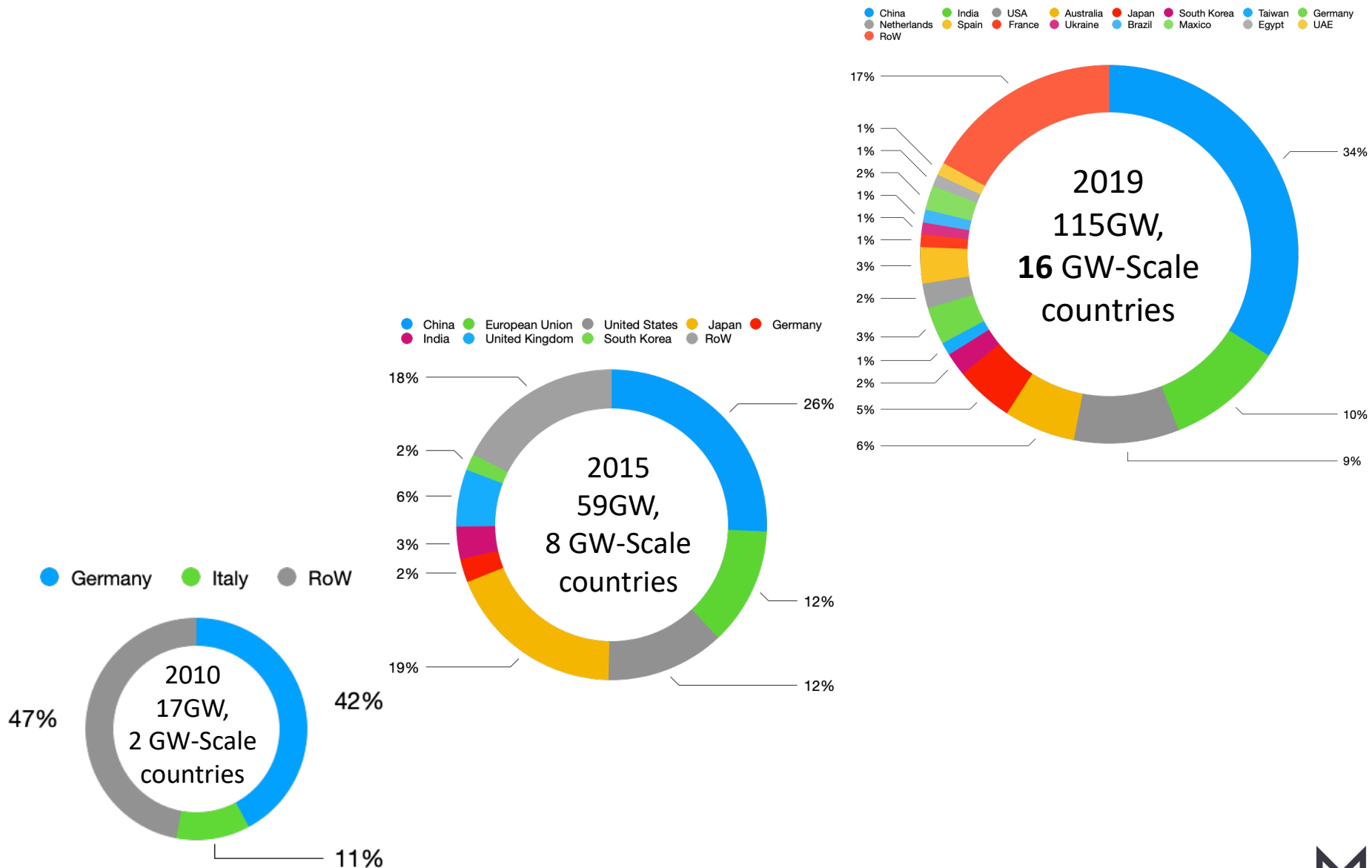
# Industrial demand, sharp H1 decline, but improved H2 trend



Source: Metals Focus



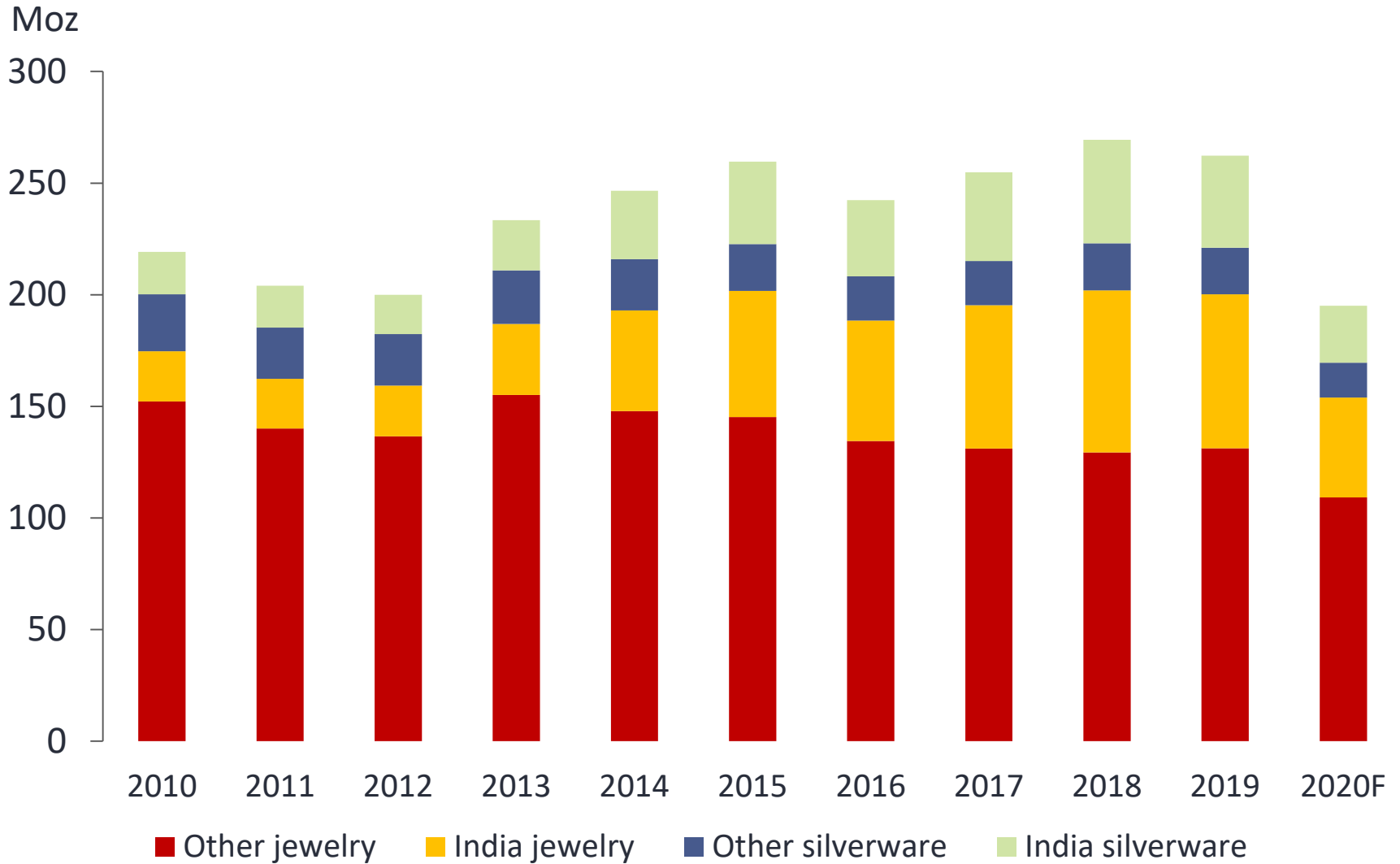
# Photovoltaics: success in market diversity



Source: Metals Focus, various

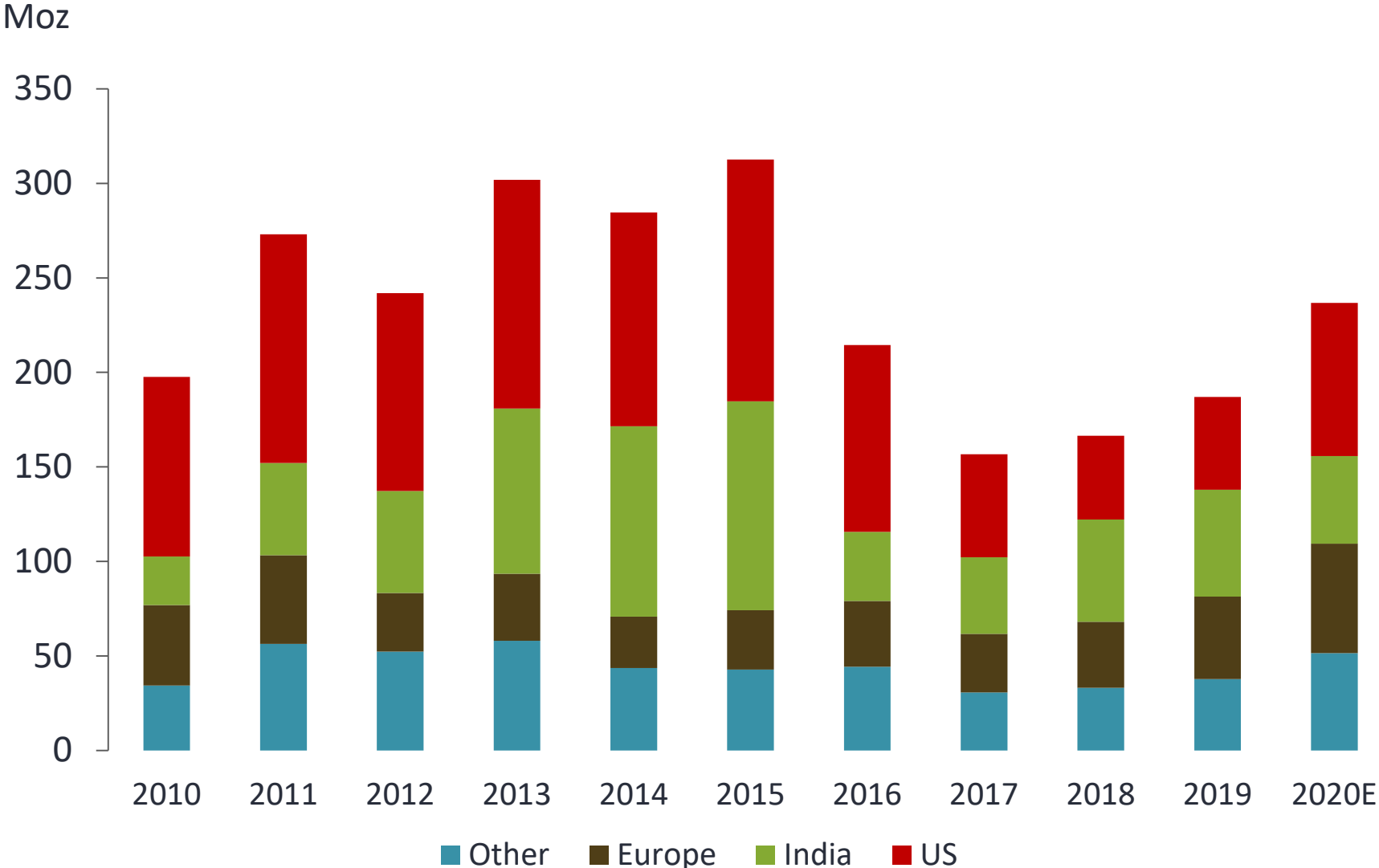


# Jewelry & silverware exposed to weakness in India



Source: Metals Focus

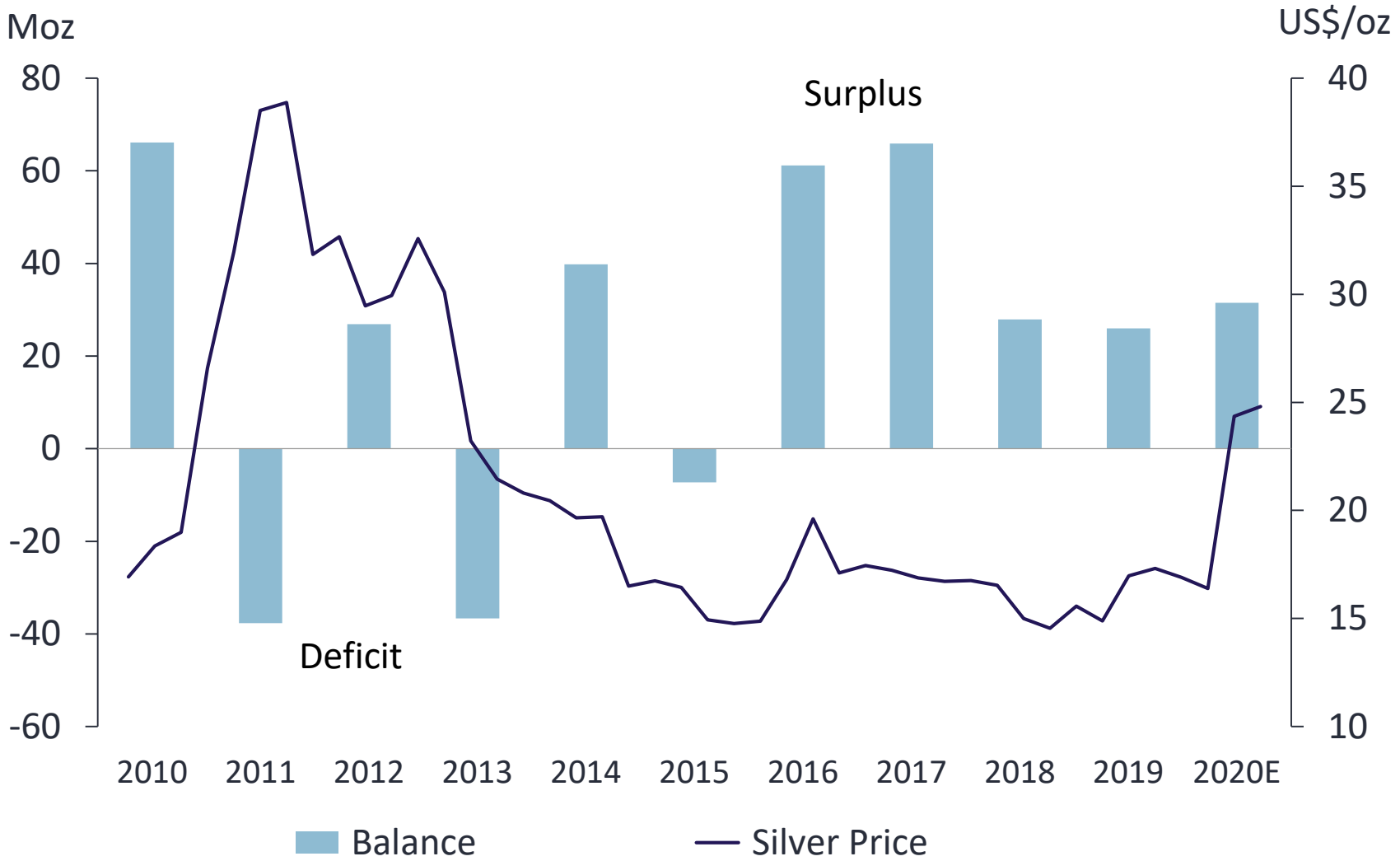
# Bar and coin investment enjoys a strong recovery



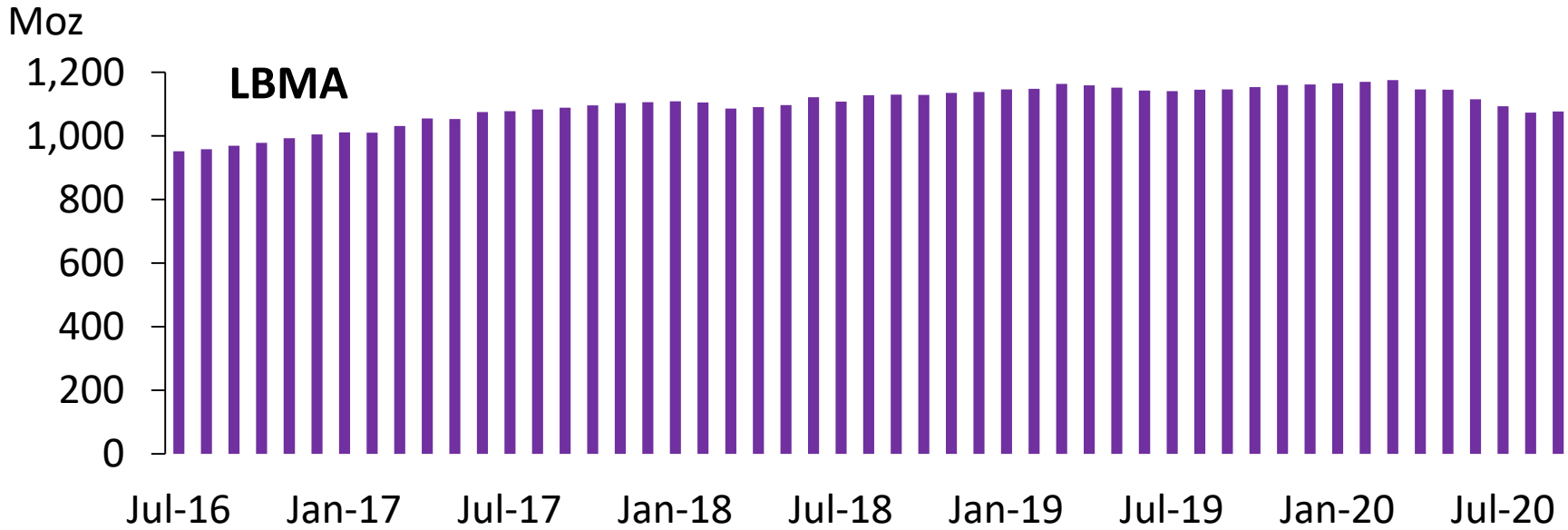
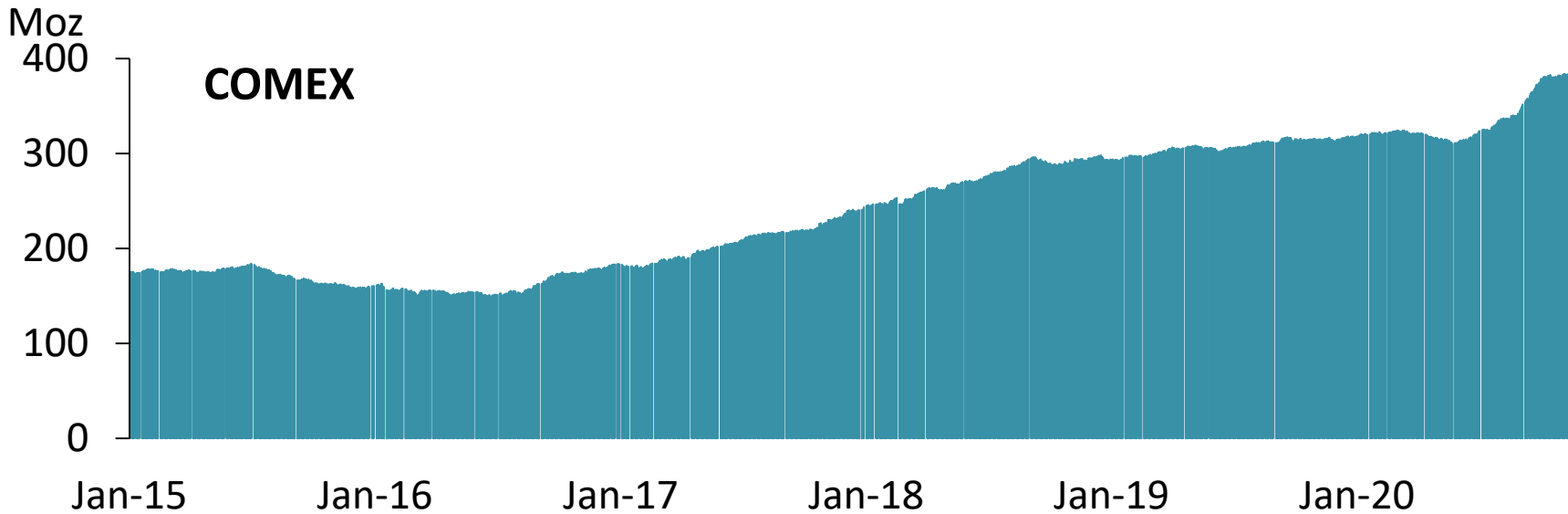
Source: Metals Focus



# Fifth uninterrupted surplus in 2020 of 31.5Moz, vs. 26Moz in 2019



# Silver bullion stocks continue to rise

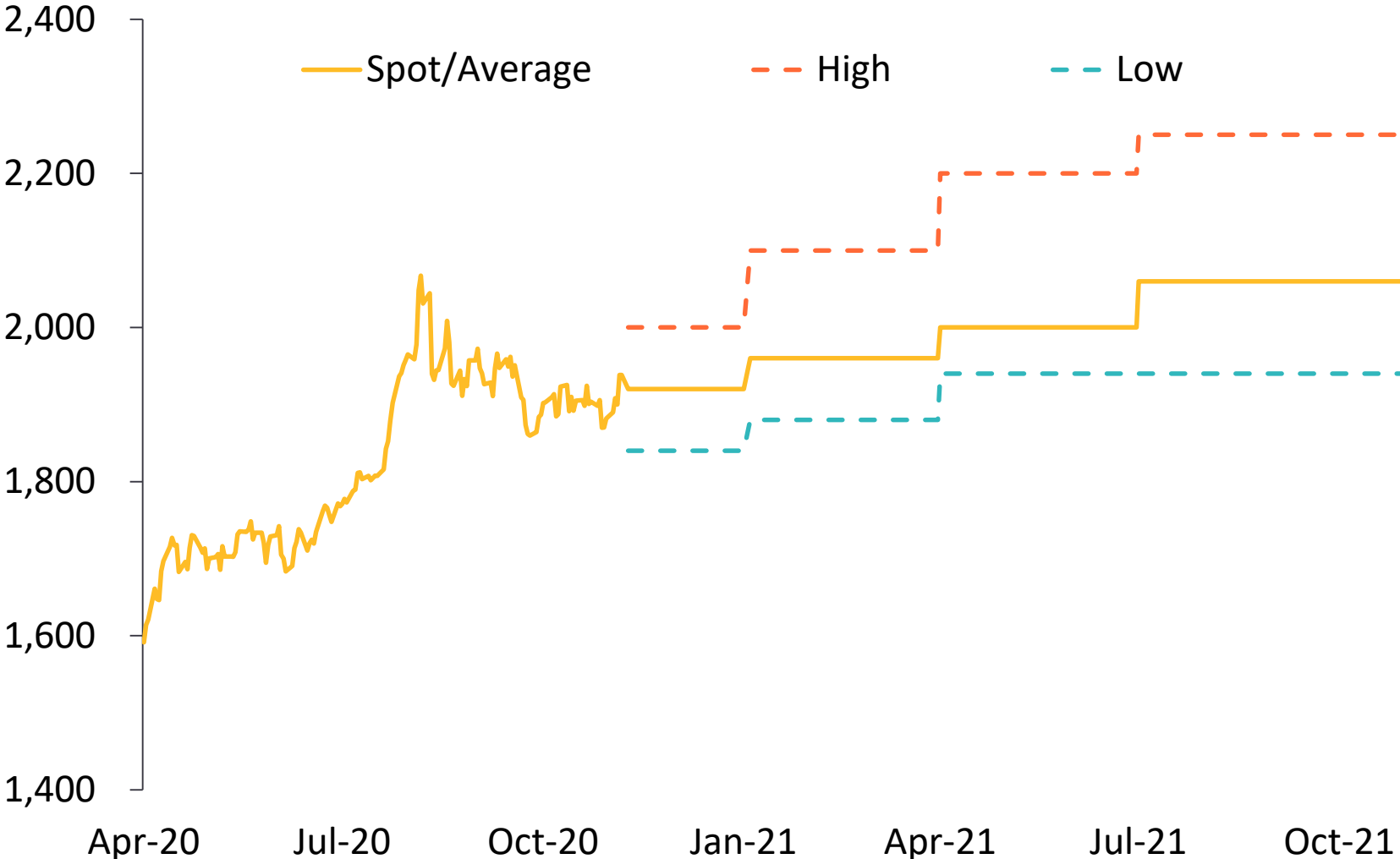


Source: Bloomberg, LBMA

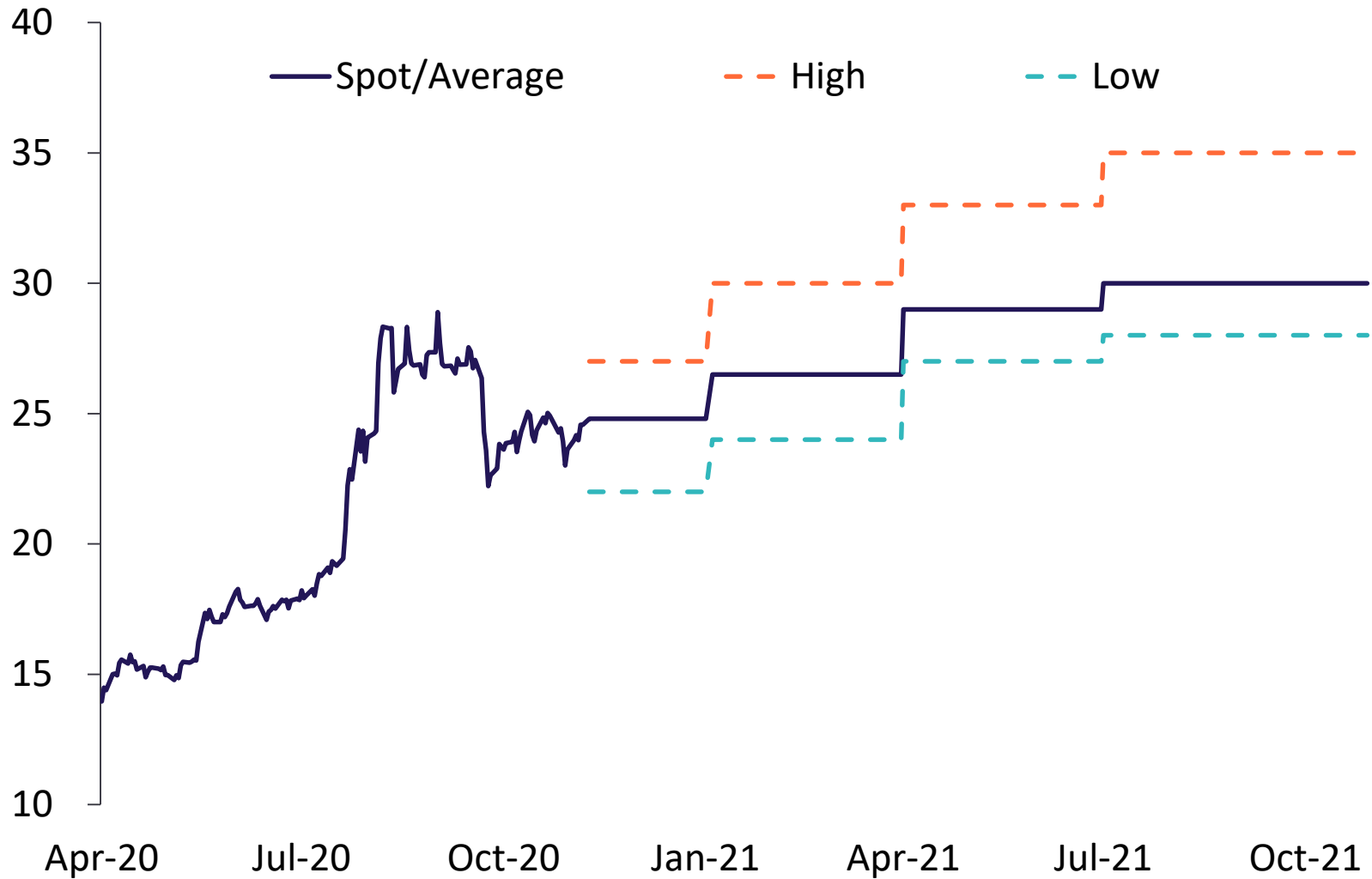




# Gold Forecast, 2020: \$1,780, +28%



# Silver Forecast, 2020: \$20.60, +27%



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