

What's Hot: An elusive quest for a silver lining

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Silver is underperforming gold. The gold-to-silver ratio is over 1 standard deviation above the historic average since 1990. In fact, the gold-to-silver ratio has not been close to its historic average since August 2021.

Source: WisdomTree, Bloomberg. June 1990 – March 2023

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Silver falling more than gold

Gold prices in February 2023 gave back almost all its gains (-5.2%) from January 2023 (+5.8%) as the US dollar resumed an appreciation path and bond yields rose sharply¹. However, silver fared even worse in February (-11.7%), after falling in January as well (-0.9%)². As gold is often seen as a hedge for economic and financial uncertainty, it is receiving greater support than silver.

Silver, as a precious metal with more industrial uses than gold, is weighed by the uncertainty in the global economy as developed central banks are tightening monetary policy at a pace we have not witnessed in decades.

Good news is bad news

Complicating matters, today good economic news is often interpreted as bad news because markets are pricing in a reaction from central bankers that could sap economic growth from the future. Take the last Global Manufacturing Purchasing Managers Output index reading for example. The February 2023 reading rose to above 50 (50.8) for the first time since July 2022³. A reading of 50 and above should be interpreted as manufacturing in expansion. Other things being equal that report should have been positive for industrial sentiment and silver prices. However, because markets interpreted this as cue for central banks to raise rates further and delay monetary loosening, silver prices reacted negatively.

This could be a sticking point for silver this year: being flanked by falling gold prices when Dollar and bond yields rise, being hurt by expectations of a delayed pivot by central banks, but not sharing enough of the upside for gold when markets are looking for defensive hedges.

Mixed picture in physical markets

Macroeconomic considerations aside, some silver fundamentals look strong. Photovoltaic (solar panel) installations are expected to grow by more than 25% this year according to Metals Focus. In 2022, photovoltaic demand accounted for 11.5% of total silver demand (up from 5.6% in 2012)⁴. Meanwhile jewellery demand is likely to be sluggish as silver in Rupee terms remain elevated (India is a large silver jewellery market).

Most silver supplies come as a by-product of mining for other metals. MMG Ltd's Las Bambas copper mine in Peru was put on maintenance in February 2023, following violent protests in the country. A short-lived truce allowed for production to resume, but Andean communities in Peru restarted blockades this week⁵. The mine produces an estimated 5.7 million ounces of silver as a by-product annually. Lower silver supplies could support prices.

Conclusions

Macroeconomic headwinds have set silver prices back this year and may continue to do so as markets price in tighter monetary policy for longer. Silver may have a hard time catching the same defensive bid gold enjoys. Despite strength in photovoltaic demand, jewellery demand may be soft. Tighter mine supply may be price supportive but overcoming the macro headwinds will be key to silver breaking out of its current lull.

1 Spot gold prices from Bloomberg

2 Spot silver prices from Bloomberg

3 <https://www.pmi.spglobal.com/Public/Home/PressRelease/cd93b7b0f36c4fd096045b4b93dd0fbc>

4 World Silver Institute, 2022

5 <https://www.reuters.com/world/americas/peruvian-communities-resume-blockade-crucial-mining-corridor-2023-03-04/>

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