

Silver: the great retail vs institutional divide

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In 2022, silver created a big divide in the commodities world: retail investors loved the metal, while institutional investors loathed it.

Source: World Silver Survey 2023, The Silver Institute, Metals Focus: 2014-2022. ETP = Exchange-Traded Product.

Historical performance is not an indication of future performance and any investments may go down in value.

Despite initial enthusiasm for the metal among both investor segments immediately after the Ukraine war, investment became bifurcated as the year progressed. Investment in bar and coin (net physical investment ex-exchange-traded product (ETP)), which was mainly retail investment, rose to new highs of 332.9 million ounces (10,356t), a 22%¹ rise over the year and the fifth consecutive year of gain.

In sharp contrast, ETPs saw their largest net outflows since 2011, down 11% year-on-year². Silver ETP investing is still very much driven by the institutional community.

Corroborating these trends, we saw large outflows from London vaults, with silver falling to the lowest levels since the London Bullion Market Association (LBMA) started collecting the data. London-vaulted silver is once again dominated by ETPs and institutional flows.

Source: London Bullion Market Association. July 2016 – April 2023.

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Silver stock decline was not unique to London though. Silver held in New York-based CME COMEX vaults (to meet the needs of the silver futures), also fell sharply. Registered inventory³ has fallen to the lowest levels since 2017, and considerably below the elevated levels reached during the COVID-19 pandemic when the CME deliberately increased available inventory to assuage market concerns about metal stocks at a time when transporting them was under stress. Eligible inventory⁴ has also fallen back to 2018 levels but remains more than double 2016 levels.

Source: Bloomberg, WisdomTree, January 1996 – May 2023.

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Where did all the silver go?

The silver in institutionally dominated markets went to retail dominated markets.

US retail demand for bar and coin rose to a new high (134 million ounces), up from an average of 93 million ounces between 2010 and 2020⁵. These flows appear quite sticky, with little indication of selling so far this year.

Building on the rally in 2021, which followed 2020's heavy liquidations, Indian physical investment saw a staggering 188% jump last year and touched 79.4 million ounces (2,470t), its highest since the 2015 record. Importantly, while investment demand was lower than previous highs, it was still 40% higher compared to the pre-pandemic levels of 2019⁶.

Export data from the UK shows considerable flows to India to satisfy the country's retail markets. Exports to Canada were also elevated and CPM Group indicates that metal was delivered there from the US to meet demands from its retail markets.

Silver exports from United Kingdom to top countries, January 2022 to December 2022

Sources: CPM Group, UN Comtrade, May 2023.

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Will institutional money rediscover silver this year?

Speculative positioning in silver futures has been choppy in 2023, with the market being net short in early March. However, the onset of banking woes, triggered by the collapse of Silicon Valley Bank (SVB), not only lifted gold futures demand, but boosted silver futures demand from non-commercial users seeking to hedge their portfolios. The initial short covering sent silver prices considerably higher, from US\$20.05/oz in early March to US\$25.99/oz in early May. Silver prices, however, have pulled back since then to US\$23.54/oz⁷.

With a number of financial, economic and geopolitical risks underpinning gold, and by extension silver, we believe investors will refrain outright bearish bets against the metal.

It's yet to be seen if institutional investors will move meaningfully into silver ETPs. Given that economic headwinds harm silver where they support gold, we suspect investors seeking hedges will prefer the yellow metal. That being said, silver is often viewed as a leveraged play on gold, so may see more interest especially as gold [reaches fresh highs](#).

Source: Bloomberg, March 1995 to May 2023.

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1 World Silver Survey 2023, The Silver Institute, Metals Focus: 2014-2022.

2 World Silver Survey 2023, The Silver Institute, Metals Focus: 2014-2022.

3 Registered inventory is where a warrant has been assigned for delivery.

4 Eligible inventory meets all the specifications for delivery, in terms of size, quality etc, but has not been assigned a warrant, that is, the owner has not made it available for futures market delivery.

5 World Silver Survey 2023, The Silver Institute, Metals Focus: 2014-2022.

6 World Silver Survey 2023, The Silver Institute, Metals Focus: 2014-2022.

7 Bloomberg, 5 June 2023.

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