

What's Hot: Can silver win the gold medal?

Pubblicato il 23 agosto 2024

Nitesh Shah

Head of Commodities and Macroeconomic Research, WisdomTree Europe

Punti chiave

- Gold has hit new highs, recovering quickly from the initial cross-asset global sell-off at the beginning of the month.
- White precious metals have been slower to recover, but silver is now gaining traction and catching up.
- Slowing global manufacturing activity may have dented silver prices, but silver's application in many more uses today and in the future, compared to the past should help it overcome the cyclical soft-patch in manufacturing.
- Related Products [WisdomTree Core Physical Silver](#), [WisdomTree Physical Silver](#), [WisdomTree Energy Transition Metals](#) Find out more

Gold recently hit a fresh new high (\$2,529.75/oz, based on LBMA PM price on 20/08/2024). The metal rebounded strongly after an initial wobble at the beginning of August that was driven by a global sell-off across all assets. As we discussed in [Gold usually dips before making substantial gains in financial crises](#), gold often falls with other assets in the initial phase of market turbulence because it is used as a source of liquidity to cover losses elsewhere. Gold's recent recovery has been speedier than in 2008 Global Financial Crisis and the COVID crisis, although it only fell by a small amount in the first place and the recent market wobble is hardly comparable to those big crises. Indeed, most risk assets have staged a recovery as well (which did not happen in the big crises this early). Nevertheless, the recent episode illustrates a behavioural trait of gold that holds even in market stresses of a relatively small magnitude. We are less than a month away from the highly anticipated US Federal Reserve (Fed) interest rate cuts, which we believe will be a boost for gold (and risk assets alike). At the moment, Fed Fund futures are pricing in five 25bps¹ rate cuts from the Fed by January 2025. Given that there are only four scheduled FOMC² meetings in that time frame, it seems a bit ambitious. OIS³ markets are pricing in three 25 bps European Central Bank rate cuts in that time frame. If the markets are right and the Fed cuts with that cadence, that could soften the US Dollar which could be a boost for gold.

While gold bounced back quickly, the white precious metals – silver, platinum and palladium - have been slower. However, silver is currently staging a robust catch-up. In the past week alone (14-21 August), silver is up 7.8%.

The gold-to-silver ratio – a gauge of relative price of the two metals has been above the long-term average since 1990 for the last few years (since July 2021), indicating that silver has been relatively cheap for some

time. The ratio is currently more than a standard deviation above that average and has been so for more than half the trading days since July 2021. However, in May 2024, after gold had hit several new highs, silver broke out and it looked the gold-to-silver ratio was trending back to long-term average levels, but it never quite got there.

Gold to Silver Ratio



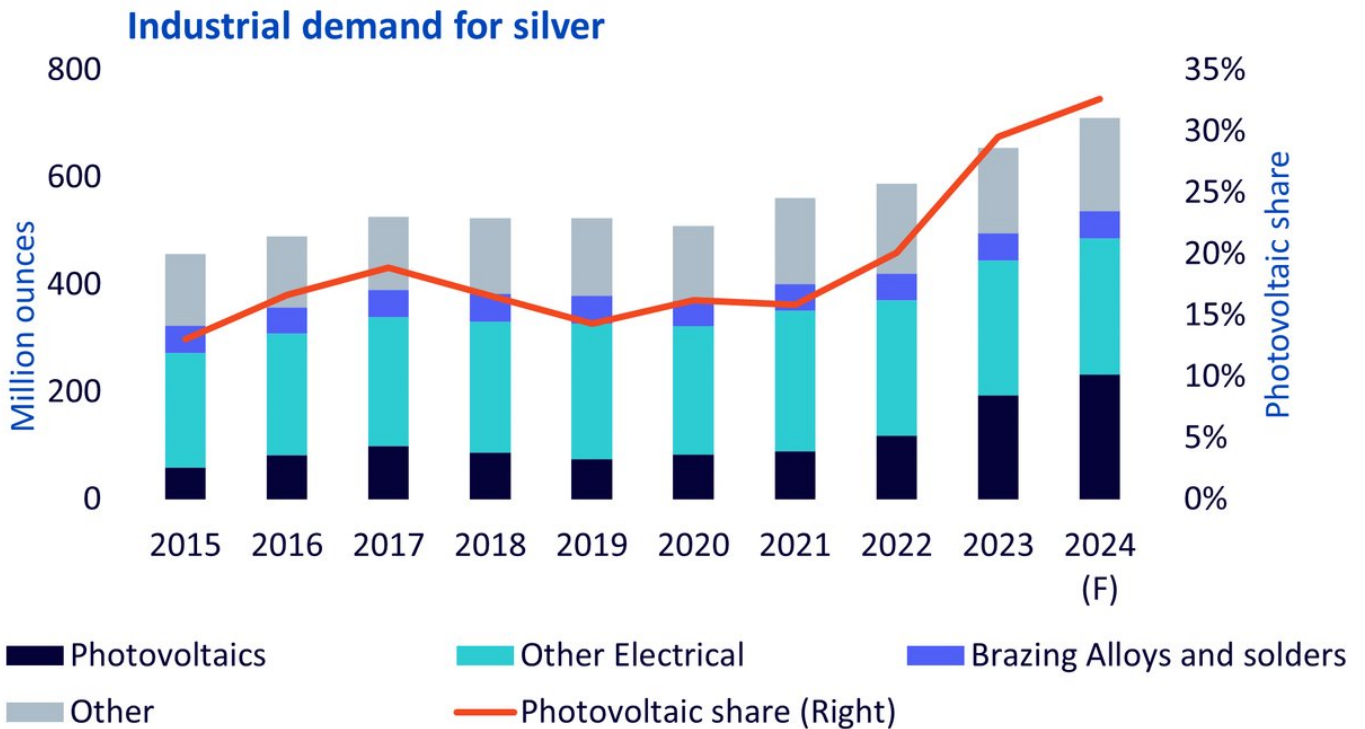
Source: WisdomTree, Bloomberg 01/06/1990 – 22/08/2024). Sd = standard deviation. **Historical performance is not an indication of future performance and any investments may go down in value.**

Silver’s price, which is more influenced by industrial demand than gold, stumbled as broad global industrial indicators softened. Notably Global Manufacturing purchasing managers indices (PMIs) have been declining for the past two months and in July fell below the 50 demarcation between expansion and contraction. We believe that PMIs are likely to rebound as interest rate cuts set in, boosting industrial activity and thus will support silver.



Source: WisdomTree, Bloomberg, S&P Global, May 2009 to July 2024. **Forecasts are not an indicator of future performance and any investments are subject to risks and uncertainties.**

Moreover, with silver’s expanding uses, demand for the metal is rising faster than you would expect from simply looking at historic macro industrial indicators. The electrification megatrend is highly supportive for silver. Photovoltaics (PVs, solar panels) are taking an increasingly large share of overall industrial demand for the metal. Between 2021 and 2023 PV demand for silver more than doubled. PV installations have been rising exponentially for the past decade, yet silver demand remained fairly flat until 2021 mainly because of thrifing of the metal. However, the latest, most solar efficient PV technologies require higher loadings of silver. That’s a trend we don’t see reversing in the near future.



Source: Metals Focus, WisdomTree, July 2024. (F) = Forecasts. **Forecasts are not an indicator of future performance and any investments are subject to risks and uncertainties.**

Silver demand is also being boosted by 5G infrastructure buildout, artificial intelligence applications and data centres. Anything that requires electrical conductivity is likely to require some silver. Vehicles – both electric and internal combustion engine – have increasingly more electrical connection points and thus have been driving silver demand higher.

As electric vehicle technology evolves, we could see a further boost for silver. Kitco reports a Samsung’s solid-state battery breakthrough, which is likely to consume more silver than competing battery technologies⁴. Admittedly Samsung has not provided any concrete numbers to judge the metal intensity, but even conservative estimates of its use once commercialised could add significant demand units to an already tight market.

As we discussed in our recent Silver Outlook, the silver market is in supply deficit when including investment demand. Even when netting investment demand out (because it can easily be mobilised as a source of supply), the surplus would be the lowest since data collection by Metals Focus began. These secular increases in demand for silver in new applications can belie the cyclical trends and we believe that the market has not really priced that in. Once they do get priced in, silver could seize the gold medal.

Implementation

[WisdomTree Core Physical Silver \(WSLV\)](#) is a newly launched, 100% physically backed silver exchange traded commodity listed on Deutsche Boerse XETRA, LSE and Borsa Italiana. With a management fee of only 0.19%, it provides an attractive access point to silver.

1 Basis points

2 Federal Open Market Committee

3 Overnight Index Swaps

4 <https://www.kitco.com/news/article/2024-08-19/silver-set-soar-samsungs-solid-state-battery-break-through-analysts>

Important Risks Related to this Article

IMPORTANT INFORMATION

Marketing communications issued in the European Economic Area (“EEA”): This document has been issued and approved by WisdomTree Ireland Limited, which is authorised and regulated by the Central Bank of Ireland.

Marketing communications issued in jurisdictions outside of the EEA: This document has been issued and approved by WisdomTree UK Limited, which is authorised and regulated by the United Kingdom Financial Conduct Authority.

WisdomTree Ireland Limited and WisdomTree UK Limited are each referred to as “WisdomTree” (as applicable). Our Conflicts of Interest Policy and Inventory are available on request.

For professional clients only. Past performance is not a reliable indicator of future performance. Any historical performance included in this document may be based on back testing. Back testing is the process of evaluating an investment strategy by applying it to historical data to simulate what the performance of such strategy would have been. Back tested performance is purely hypothetical and is provided in this document solely for informational purposes. Back tested data does not represent actual performance and should not be interpreted as an indication of actual or future performance. The value of any investment may be affected by exchange rate movements. Any decision to invest should be based on the information contained in the appropriate prospectus and after seeking independent investment, tax and legal advice. These products may not be available in your market or suitable for you. The content of this document does not constitute investment advice nor an offer for sale nor a solicitation of an offer to buy any product or make any investment.

An investment in exchange-traded products (“ETPs”) is dependent on the performance of the underlying index, less costs, but it is not expected to match that performance precisely. ETPs involve numerous risks including among others, general market risks relating to the relevant underlying index, credit risks on the provider of index swaps utilised in the ETP, exchange rate risks, interest rate risks, inflationary risks, liquidity risks and legal and regulatory risks.

The information contained in this document is not, and under no circumstances is to be construed as, an advertisement or any other step in furtherance of a public offering of shares in the United States or any province or territory thereof, where none of the issuers or their products are authorised or registered for distribution and where no prospectus of any of the issuers has been filed with any securities commission or regulatory authority. No document or information in this document should be taken, transmitted or distributed (directly or indirectly) into the United States. None of the issuers, nor any securities issued by them, have been or will be registered under the United States Securities Act of 1933 or the Investment Company Act of 1940 or qualified under any applicable state securities statutes.

This document may contain independent market commentary prepared by WisdomTree based on publicly available information. Although WisdomTree endeavours to ensure the accuracy of the content in this

document, WisdomTree does not warrant or guarantee its accuracy or correctness. Any third party data providers used to source the information in this document make no warranties or representation of any kind relating to such data. Where WisdomTree has expressed its own opinions related to product or market activity, these views may change. Neither WisdomTree, nor any affiliate, nor any of their respective officers, directors, partners, or employees accepts any liability whatsoever for any direct or consequential loss arising from any use of this document or its contents.

This document may contain forward looking statements including statements regarding our belief or current expectations with regards to the performance of certain assets classes and/or sectors. Forward looking statements are subject to certain risks, uncertainties and assumptions. There can be no assurance that such statements will be accurate and actual results could differ materially from those anticipated in such statements. WisdomTree strongly recommends that you do not place undue reliance on these forward-looking statements. Jersey ETCs The products discussed in this document are issued by WisdomTree Metal Securities Limited (the "Issuer"). The Issuer is regulated by the Jersey Financial Services Commission. Investors should read the prospectus of the Issuer before investing and should refer to the section of the prospectus entitled »Risk Factors¼ for further details of risks associated with an investment in the securities offered by the Issuer.

WisdomTree Metal Securities Limited Securities issued by the Issuer are direct, limited recourse obligations of the Issuer alone and are not obligations of or guaranteed by any of HSBC Bank plc and JP Morgan Chase Bank, N.A. any of their affiliates or anyone else or any of their affiliates. Each of HSBC Bank plc and JP Morgan Chase Bank, N.A. disclaims all and any liability whether arising in tort, contract or otherwise which it might have in respect of this document or its contents otherwise arising in connection herewith.