

Global Silver Market Forecast to Shine in 2020

Higher Silver Prices Projected This Year, Supported by Expanded Physical Investment and Industrial Demand

(Washington D.C. – February 12, 2020) The Silver Institute believes that macroeconomic and geopolitical conditions will remain broadly supportive for precious metals, encouraging investors to stay net buyers of silver overall, a development that should lift silver prices higher this year. Additionally, we see continued growth in physical silver investment, and forecast silver's use as an industrial metal will rise in 2020.

However, there will be times when silver will have to contend with issues, such as the current health crisis in China, which could hit that country's economy hard.

As such, the Silver Institute provides the following insights on 2020 silver market trends.

Silver Demand

Growth in silver industrial offtake (accounting for just over half of total demand in 2019) is expected to resume in 2020, reversing two years of marginal losses. While weak economic conditions, particularly in China, remain a headwind to industrial output, a repeat of last year's de-stocking along the supply chain (as a result of the trade war) is unlikely. The refiling of this pipeline should offer an additional boost to demand this year. We foresee a 3 percent increase in silver industrial demand, which would be broadly in line with the International Monetary Fund's forecast of 3.3 percent for global GDP growth this year.

Demand from the electrical and electronics sector should account for the bulk of the gains. Silver use in the automotive industry, for instance, is expected to enjoy impressive growth. Despite weaker global car sales, silver demand should benefit from vehicles' rising sophistication and electrification. Silver use in 5G-infrastructure and upcoming intelligent electronics is also likely to fuel demand gains.

The outlook for the photovoltaic (PV) sector appears mixed. Ongoing government support for renewables to counter climate change and falling prices for finished PV modules should boost global PV installations. Actual silver consumptions, however, could be offset by continued efforts to reduce silver loadings. Overall, silver demand in the PV sector is forecast to edge slightly lower, but even so, the total will remain close to record highs.

Global jewelry demand is forecast to maintain modest growth this year. India remains the dominant growth driver, led by the ongoing penetration of 925 sterling jewelry, more commonly sold in that country's urban areas. In the United States, silver jewelry consumption should remain healthy, thanks to stronger online sales. A marginal increase is also projected for silverware fabrication this year. Like jewelry, growth in this segment will be almost entirely dependent on India.

Holdings in silver exchange-traded products (ETPs) are forecast to remain elevated in 2020. Profit-taking in ETPs is likely to be limited, even with a price rally. These holdings tend to be relatively sticky, which reflects the importance of retail investors in this market, who often adopt a longer investment horizon than many short-term professional investors. Meanwhile, continued macroeconomic uncertainties should also favor safe-haven assets, which will encourage new allocations into silver ETPs.

Silver physical investment, which consists of purchases of silver bullion coins and bars, is forecast to increase for the third year in a row, up by around 7 percent in 2020. In part, this reflects a continued recovery in western markets where improving price expectations and rising price volatility will prompt new purchases.

Silver Supply

Silver mine production is anticipated to grow by 2 percent in 2020, which would make it the first annual increase in five years. This growth will be partly due to the contribution from several recently commissioned mining operations and from the ramp-up of several mine expansions to full production.

Silver scrap supply is projected to rise for the fourth consecutive year, albeit by a small amount, a reflection of the ongoing capacity expansion in the ethylene oxide market. Rising metal prices could also stimulate jewelry and silverware scrap in price-sensitive markets, such as India.

The silver market is expected to end this year with a structural surplus (total supply less total demand) of roughly 15 million ounces. At that level, the surplus would be the lowest in five years.

Silver Price

Silver experienced a notable improvement in investor sentiment in 2019, boosting the average annual silver price to its first increase in four years, up 4 percent to \$16.21 (basis the London Bullion Market Association silver price). Underpinning the price rise was a marked shift towards looser monetary policies, as concerns grew about the global economic outlook, exacerbated by the ongoing US/China trade war.

The outlook for silver remains positive, with the annual average price projected to rise by 13% to a six-year high of \$18.40 in 2020. This rally is premised mainly on a positive spill-over from gains in gold, as the yellow metal will continue to benefit from macroeconomic and geopolitical uncertainties across critical economies. Concerns about the state of the global economy will have possible negative consequences for the industrial metals, and by extension, silver. However, the weight of institutional money flowing into a relatively small market should prove sufficient for silver to outperform gold, and could cause the gold:silver ratio to drop to the mid to high-70s later this year.

Metals Focus, the respected global precious metals research consultancy, contributed to this analysis. The firm will research and produce the 30th edition of the Silver Institute's annual report on the international silver market, *World Silver Survey*. That report will be released on April 15, 2020.

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The Silver Institute is a nonprofit international industry association headquartered in Washington, D.C. Established in 1971, the Institute's members include leading silver producers, prominent silver refiners, manufacturers, and dealers. The Institute serves as the industry's voice in increasing public understanding of the value and many uses of silver, including its role in numerous green technologies. For more information on the Silver Institute, please visit www.silverinstitute.org