

Key Components of Silver Market Affected by Pandemic in 2020

Global Demand and Mine Supply Impacted, While Physical Silver Investment Expected to Surge to a 5-year High

(November 17, 2020) The Silver Institute hosted a webinar today to discuss its annual Interim Silver Market Review. Philip Newman, Managing Director at Metals Focus, and his colleague, Adam Webb, Director of Mine Supply, presented the findings. The Interim Review features historical supply and demand statistics and provisional estimates for 2020. The following are the key highlights from the presentation:

- » Physical investment is expected to surge by 27 percent to 236.8 Moz in 2020, which would be a 5-year high. The largest retail market for bars and coins, the US, will lead the way with a projected 62 percent gain. This reflects the impact of increased price volatility and healthy price expectations. The second largest market, India, however, has experienced a markedly weaker second half, with outright liquidations, resulting in an estimated 20 percent decline for the full year total.
- » The most significant development in the silver investment market this year has been the strength of silver-backed exchange-traded product (ETP) demand. Year-to-date gains (through November 13) have reached 326 Moz. As a result, global holdings have for the first time comfortably surpassed 1 billion ounces, achieving a new record high of 1.062 billion ounces. For the full year, Metals Focus forecasts an increase of 350 Moz on end-2019 levels, which compares extremely favorably with a rise last year of 81.7 Moz.
- » This year, the silver price has risen strongly, achieving an intra-year gain (through November 13) of 38 percent, as the COVID-19 pandemic has led to a surge in safe haven demand. This price upside has been accompanied by a marked improvement in the gold:silver ratio. Having touched a record high of 127:1 in March, the ratio has fallen to 76 this month. In terms of the full year average, Metals Focus expects the silver price to rise by 27 percent y/y to average US\$20.60. This would represent the highest annual average since 2013.
- » Silver mine production is expected to fall by 6.3 percent in 2020 to 780.1 Moz. This reflects COVID-19 lockdowns implemented by several major silver producers during the first half of the year, which required mines to temporarily halt production. This led to lower output from Mexico, Peru and China. The last countrywide restrictions on mining were lifted at the end of May and most mines have now returned to full production rates. However, there is a continued risk of localized outbreaks of the virus, which may impact output from individual operations in the future.
- » The pandemic has also had a pronounced impact on silver demand, especially in March/April. Although demand has recovered since that trough, most areas are still on track for heavy full year losses. Industrial fabrication, for example, is forecast to drop by 9 percent this year to 466.5 Moz, a five-year low. This reflects the impact of lockdown restrictions, with supply chains heavily disrupted, end-users adopting an increasingly cautious approach to inventory replenishment and factories facing labor supply problems.
- » In terms of some of the key end-use industrial segments, Metals Focus estimates that photovoltaic demand will fall by 11 percent to around 88 Moz. Even so, this remains a historically high total. The use of silver in the automotive sector is seeing a slightly steeper decline, as the estimated 17 percent drop in global light vehicle production outweighs ongoing gains in the use of silver in each vehicle. One bright note is that sectors connected to home renovation have often performed better because of the trend towards increased teleworking.
- » Global silver jewelry and silverware demand are expected to fall by 23 percent and 34 percent respectively in 2020, to 153.6 Moz and 40.8 Moz. Heavy losses in India underpin the weakness in each segment. This in turn reflects the impact of widespread lockdowns (to combat the pandemic) which hit disposable incomes, elevated -- and at times record -- rupee silver prices, and a weak Indian economy. The world's second largest jewelry consumer, the US, also weakened, although the extent of the decline was more modest than for gold and heavy destocking implies a sharp turnaround soon for this market's suppliers.
- » Overall, and despite an only modest increase in scrap, the global silver market is forecast to see another physical surplus in 2020, of 31.5 Moz, the highest in three years. This compares with 26 Moz in 2019 and represents the fifth uninterrupted annual surplus in the silver market. Even so, the strength of global silver investment is expected to continue comfortably absorbing this surplus.

Silver Supply and Demand

Million ounces	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020E	Year on Year	
												2019	2020E
Supply													
Mine Production	754.3	760.0	792.5	840.2	877.2	892.7	892.5	863.1	848.5	832.3	780.1	-2%	-6%
Recycling	206.0	232.4	216.0	192.7	175.0	166.5	164.5	167.8	167.8	169.9	181.1	1%	7%
Net Hedging Supply	43.4	11.9	0.0	0.0	10.7	2.2	-	-	-	15.7	-	na	na
Net Official Sector Sales	29.6	4.8	3.6	1.7	1.2	1.1	1.1	1.0	1.2	1.0	1.2	-15%	21%
Total Supply	1,033.3	1,009.2	1,012.2	1,034.7	1,064.1	1,062.4	1,058.0	1,031.9	1,017.5	1,018.9	962.4	0.1%	-6%
Demand													
Industrial	480.8	508.1	450.5	460.8	449.5	456.2	490.3	517.2	511.5	510.9	466.5	0%	-9%
Photography	69.5	61.6	52.5	45.8	43.6	41.2	37.8	35.1	33.8	32.7	28.2	-3%	-14%
Jewelry	174.6	162.3	159.3	186.9	193.0	201.7	188.4	195.2	201.9	200.2	153.6	-1%	-23%
Silverware	44.5	41.7	40.7	46.5	53.6	57.9	53.9	59.6	67.5	62.1	40.8	-8%	-34%
Net Physical Investment	197.6	273.1	241.9	301.9	284.6	312.6	214.4	156.8	166.4	187.0	236.8	12%	27%
Net Hedging Demand	-	-	40.4	29.3	-	-	12.0	2.1	8.4	-	5.0	na	na
Total Demand	967.2	1,046.8	985.3	1,071.3	1,024.3	1,069.7	996.9	966.0	989.6	993.0	930.9	0.3%	-6%
Market Balance	66.1	-37.7	26.9	-36.7	39.8	-7.3	61.2	65.9	27.9	26.0	31.5	-7%	21%
Net Investment in ETPs	133.0	-18.9	53.6	4.6	-0.5	-17.2	50.9	6.8	-22.3	81.7	350.0	na	329%
Market Balance less ETPs	-66.9	-18.8	-26.7	-41.3	40.3	9.9	10.2	59.1	50.2	-55.7	-318.5	na	472%
Silver Price (US\$/oz, London price)	20.19	35.12	31.15	23.79	19.08	15.68	17.14	17.05	15.71	16.21	20.60	3%	27%

Source: Metals Focus

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Press Contact Details

Michael DiRienzo

The Silver Institute

Phone: +1.202.495.4030

Email: mdirienzo@silverinstitute.org

Philip Newman

Metals Focus

Phone: +44.20.3301.6510

Email: philip.newman@metalsfocus.com