

Silver Institute

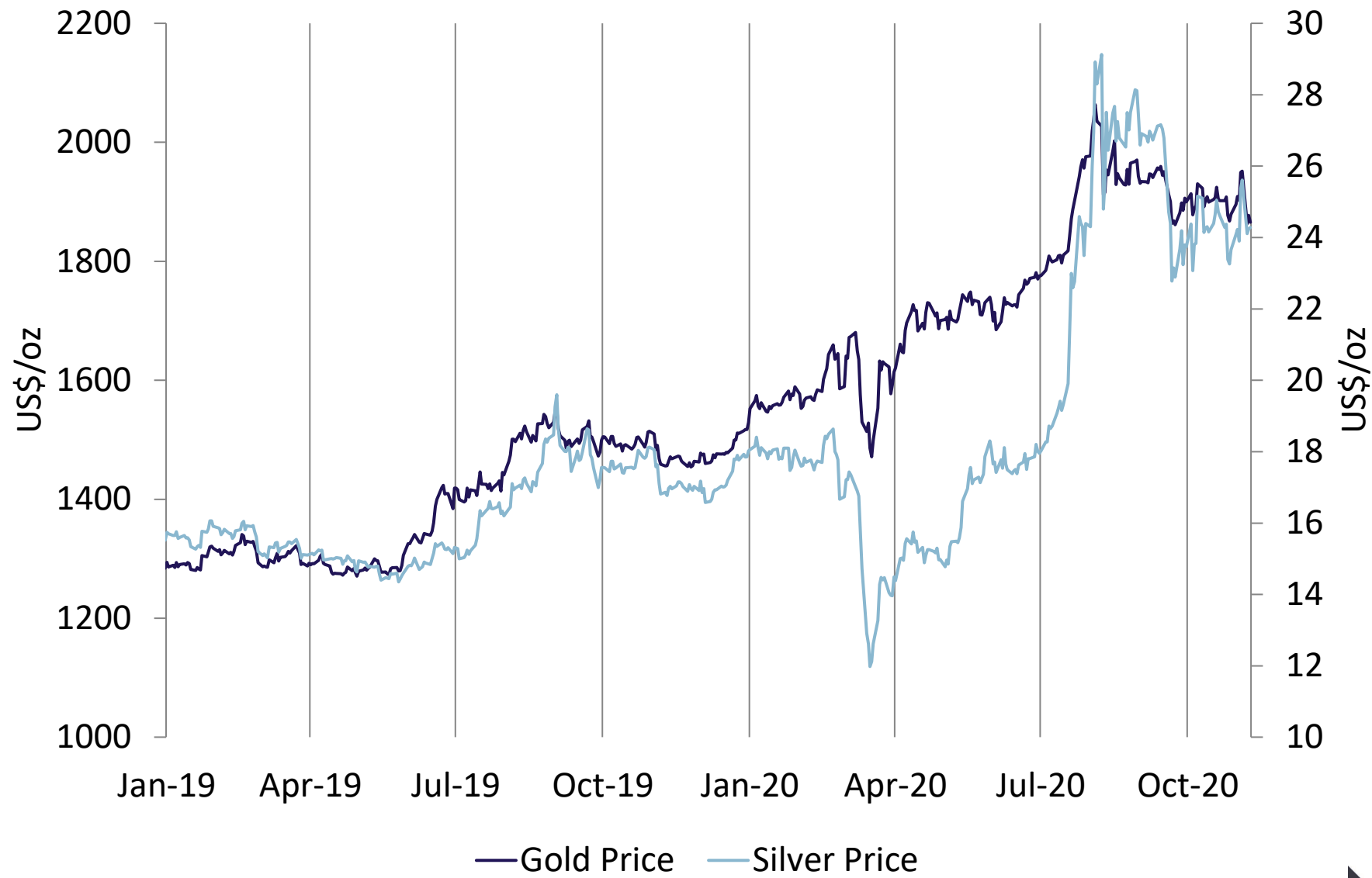
Interim Silver Market Review 2020

Philip Newman & Adam Webb, Metals Focus

November 17th 2020



Silver now holding in a higher range, despite recent weakness



Source: Bloomberg



Relationship with base metals has strengthened recently, but...

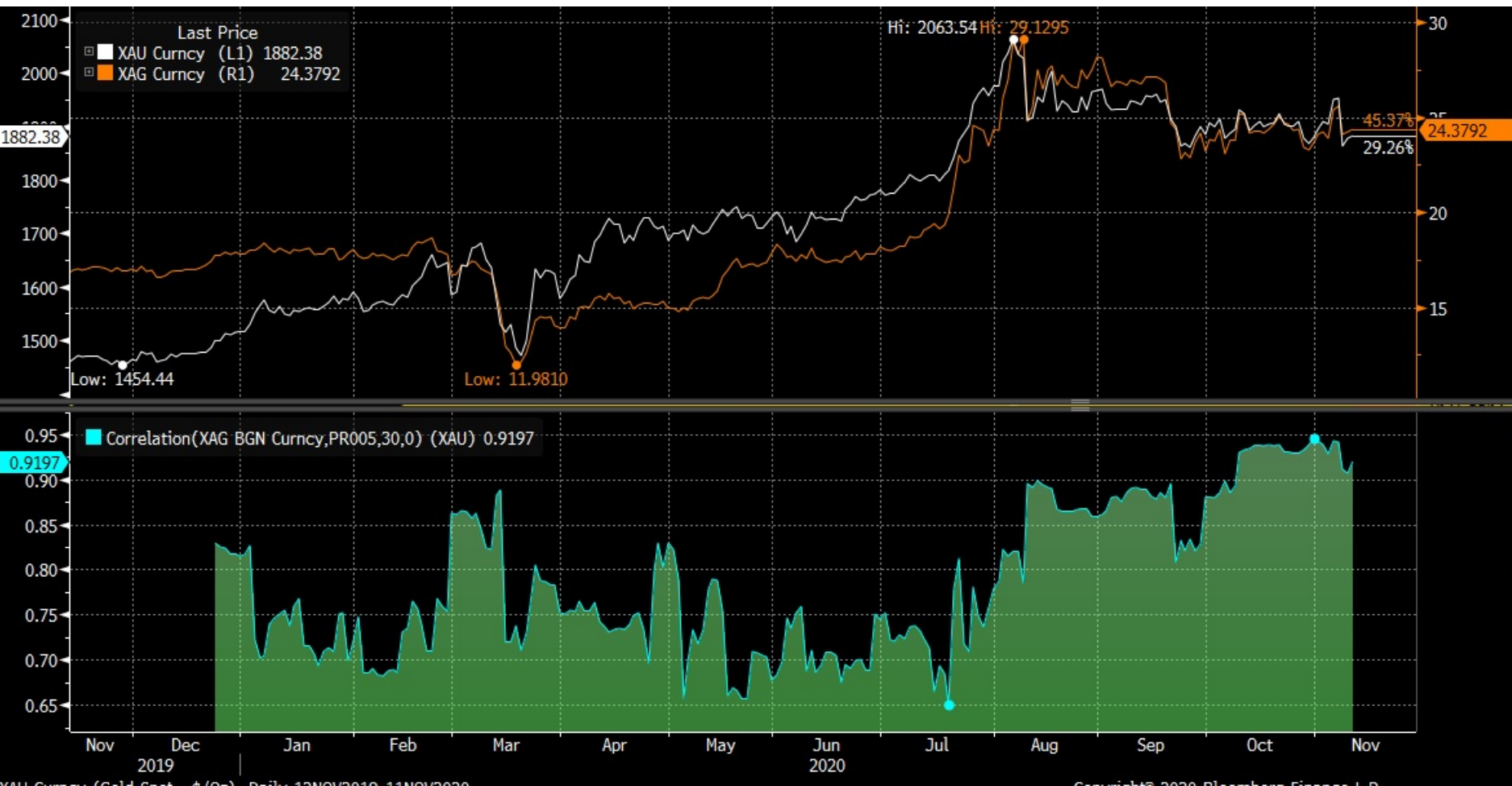


LME Index (London Metal Exchange LME Metals Index) Daily 12NOV2019-11NOV2020

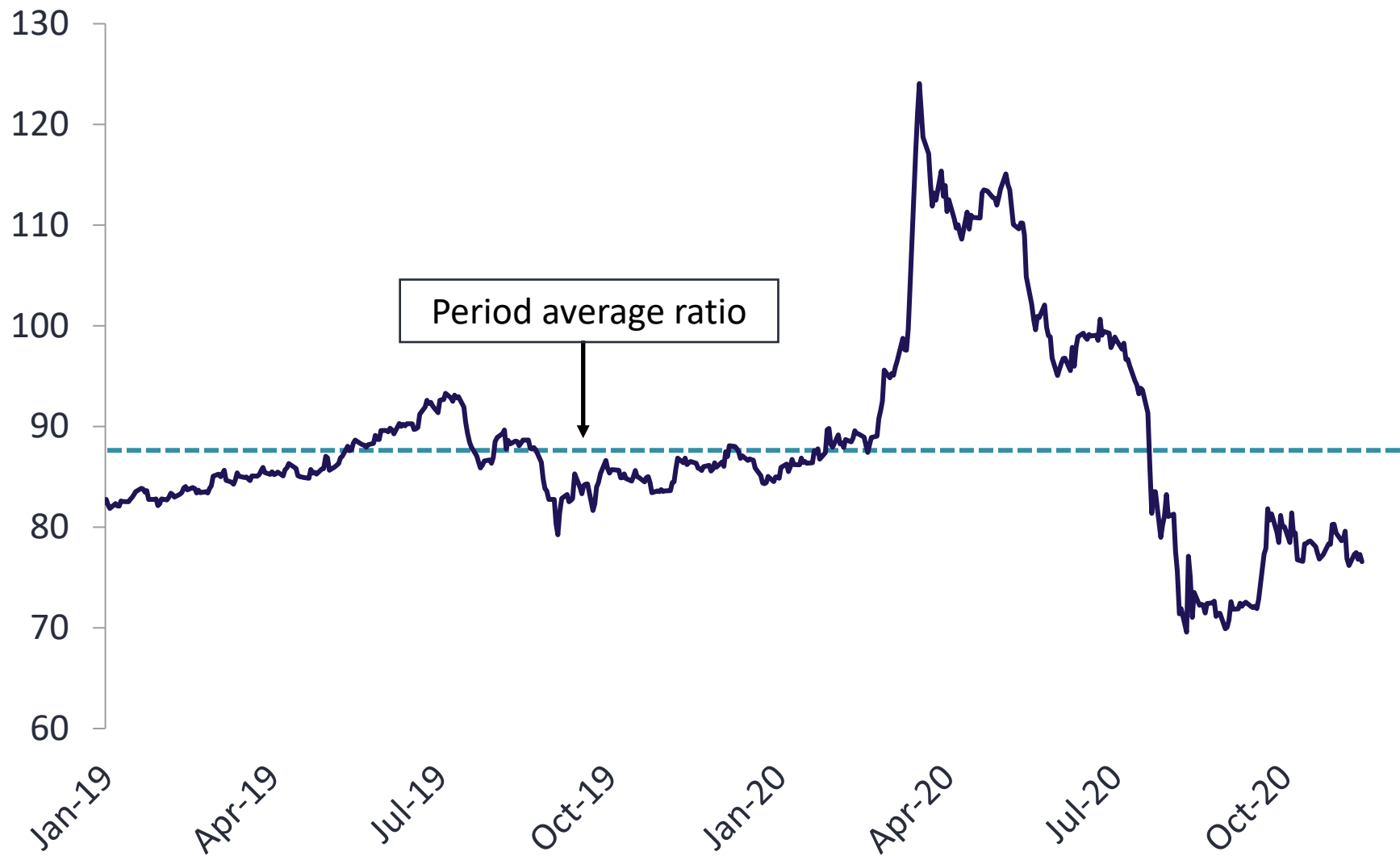
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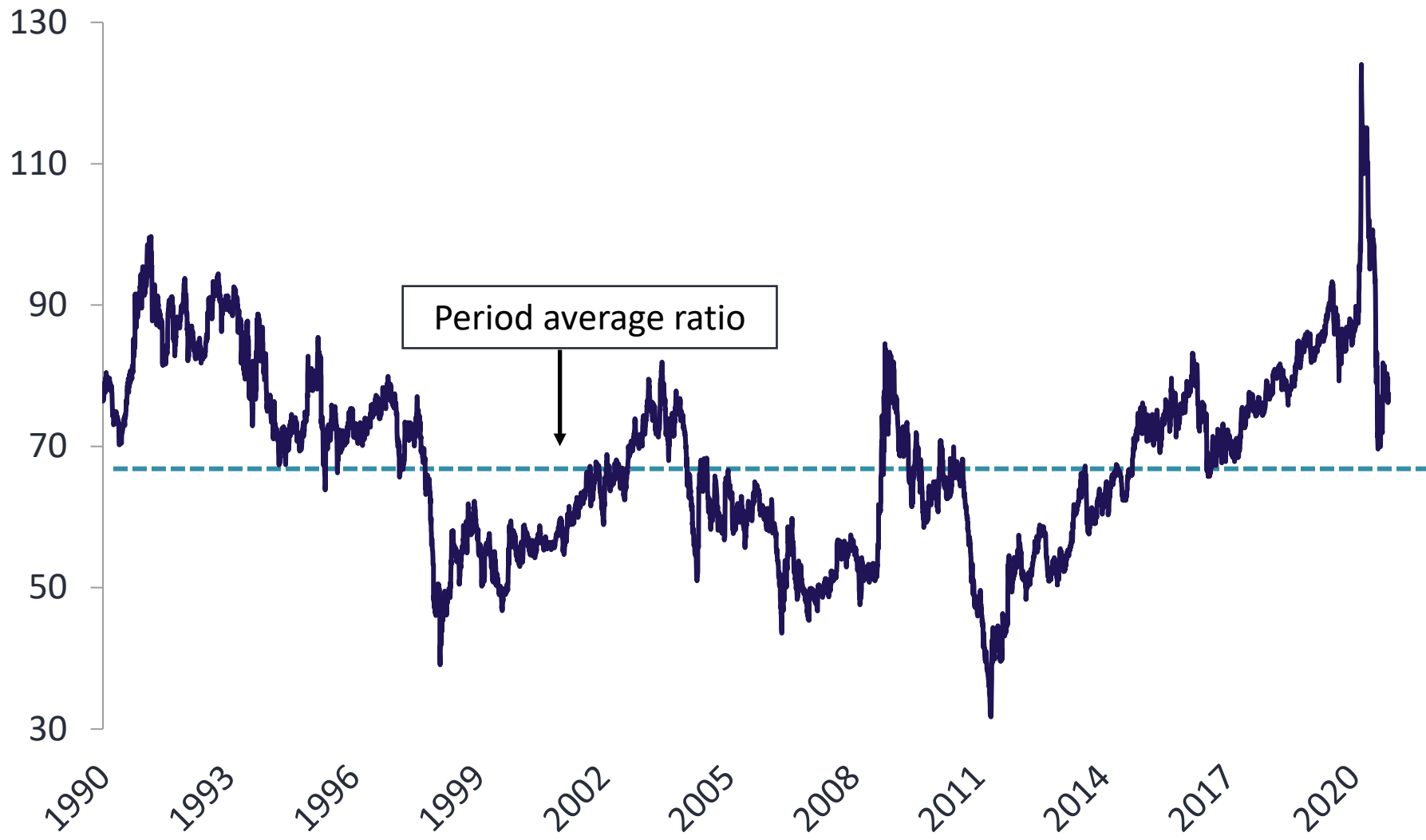
...the gold-silver dynamic continues to dominate



The gold:silver ratio had fallen noticeably



Overall though, it remains above the long-term average

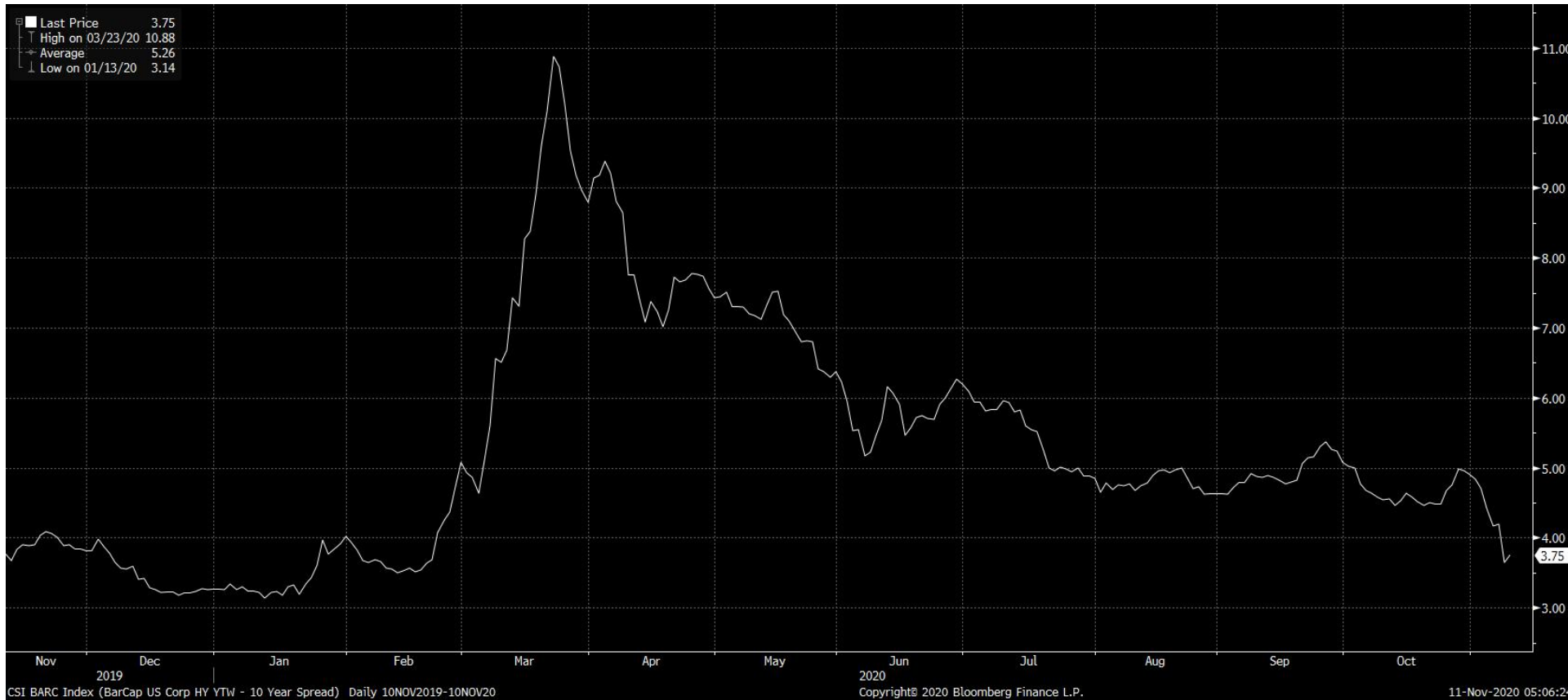


Source: Bloomberg



The macro environment remains pivotal

“Spread between US high yield corporate debt and 10Y Treasuries”
Risk appetite has grown recently



The macro environment remains pivotal

“10-2Y and 30-5Y Treasury Spreads”

Interest rate expectations rising, but remain low in absolute terms

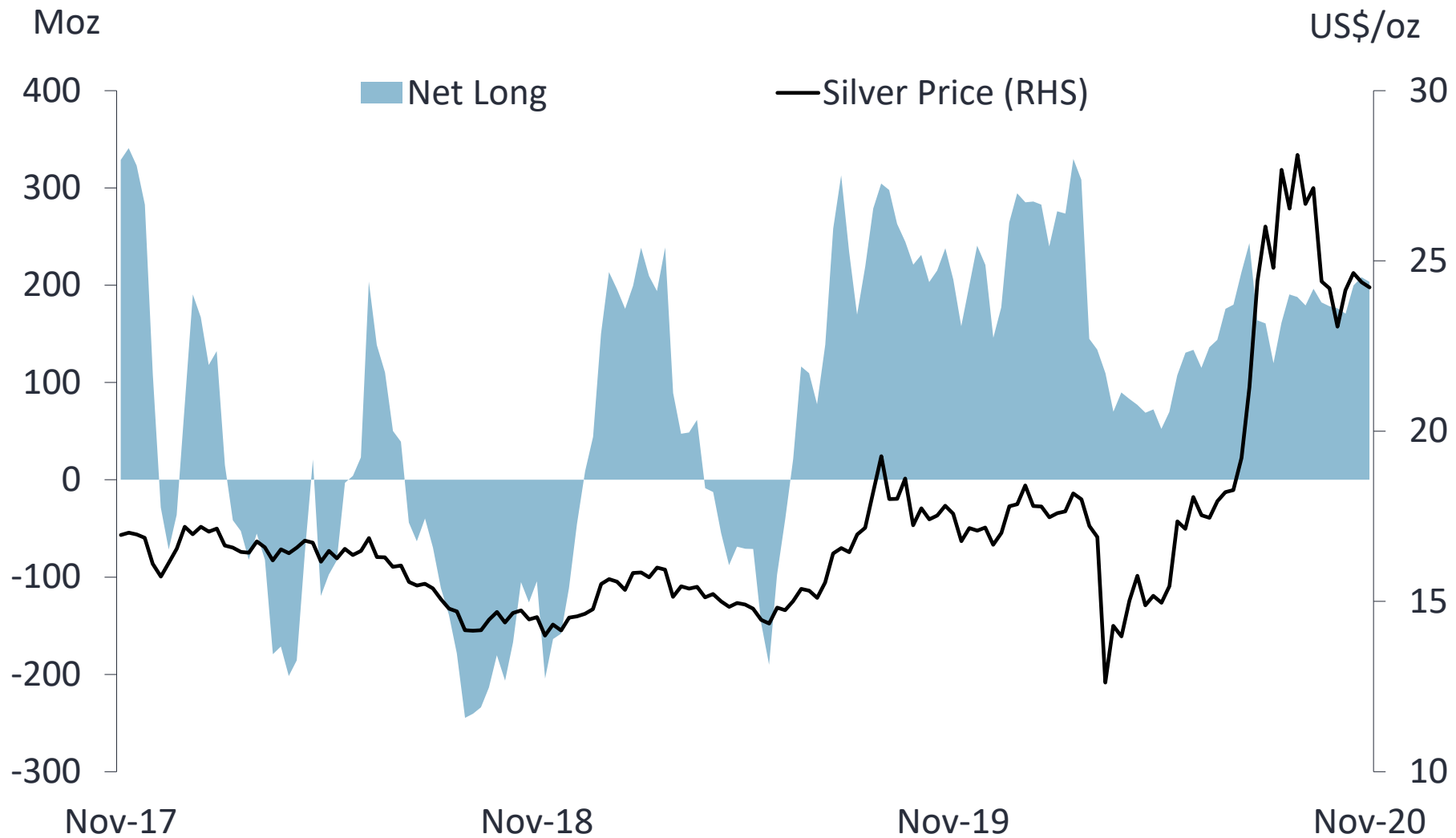


The macro environment remains pivotal

“US 5Y Breakeven rates and CRB Index”
Inflation expectations have recovered from exceptionally low levels earlier in the year, but remain modest



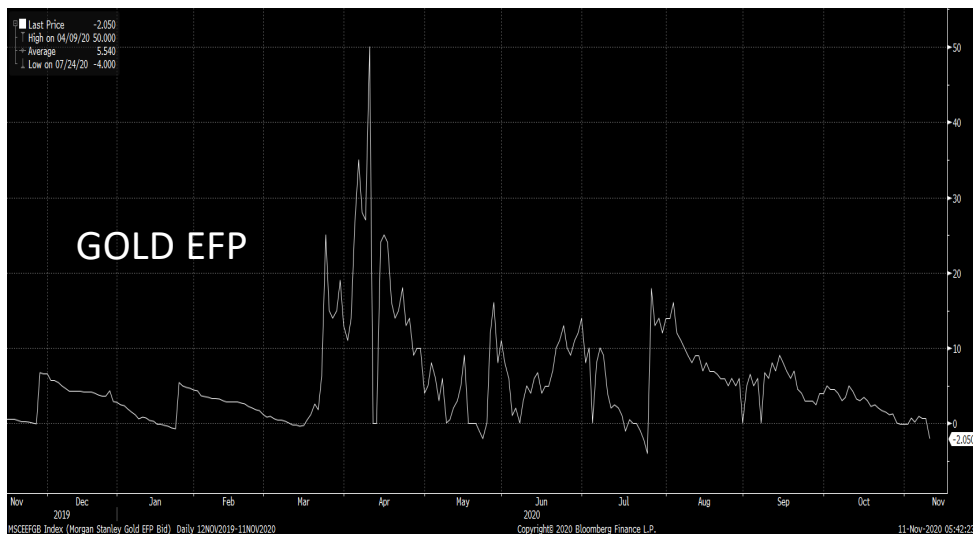
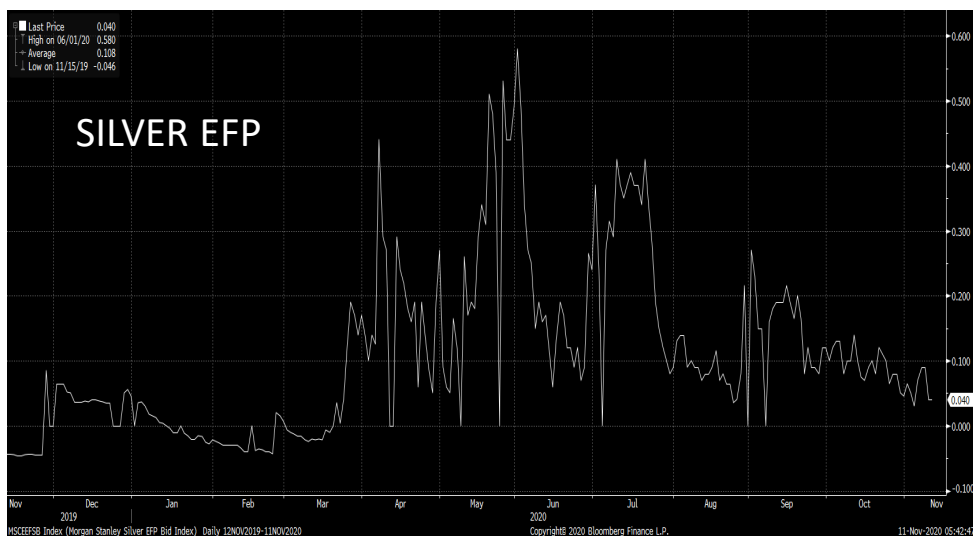
Investor positioning constrained by EFP issues



Source: Bloomberg

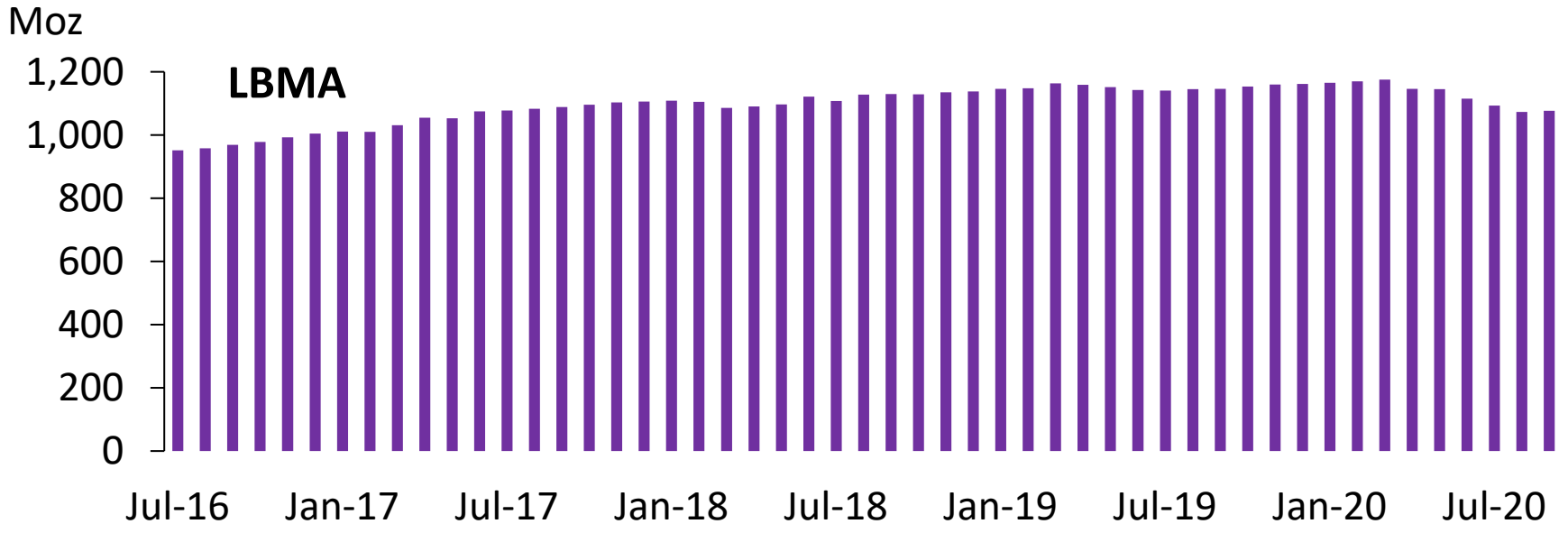
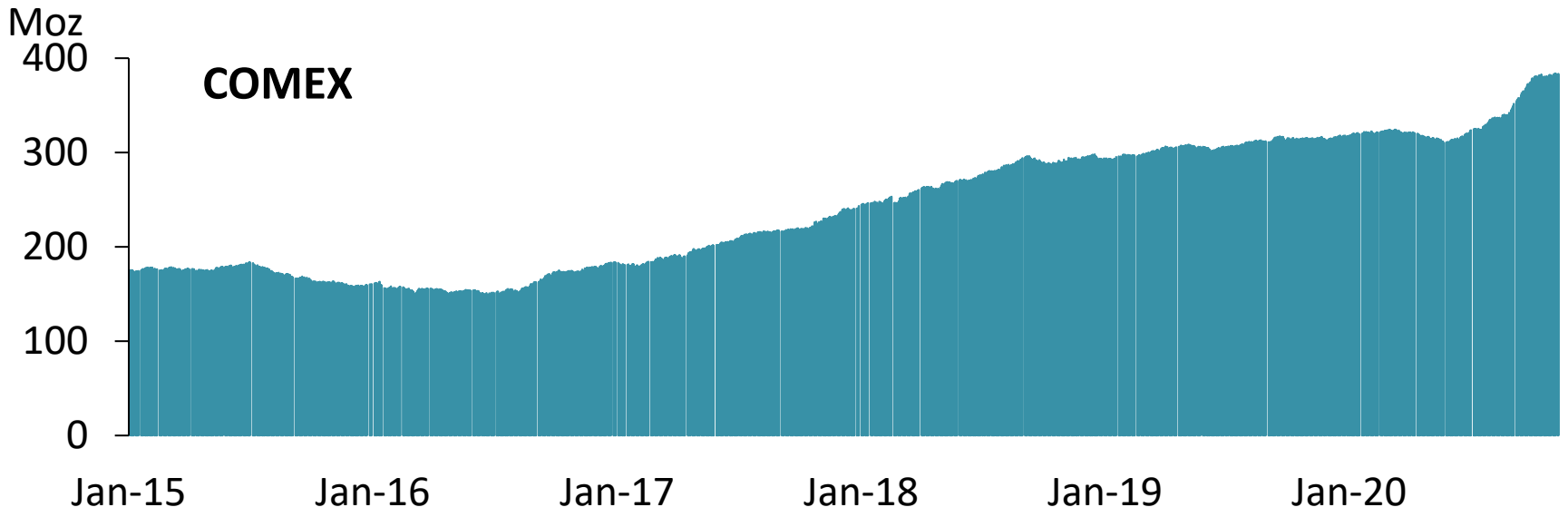


What happened to EFPs?



- Early jump due to COVID disruptions
- Temporary closure of Swiss refineries made it hard to re-cast LGD bars to 100oz/kilobars
- Logistics bottlenecks due to limited flights
- COMEX market makers tend to hedge loco-London, while physical delivery is very rare
- Dealers who were short Comex exposed to risk that counterparties would not roll. Led to rush to buy back shorts
- High demand for EFP, effectively a long Comex/short loco-London transaction
- Position limits also added pressure
- EFPs now eased, reflecting sufficient COMEX inventories and market conditions more generally normalizing
- Jump in silver EFP in spite of Comex stocks being at record high levels

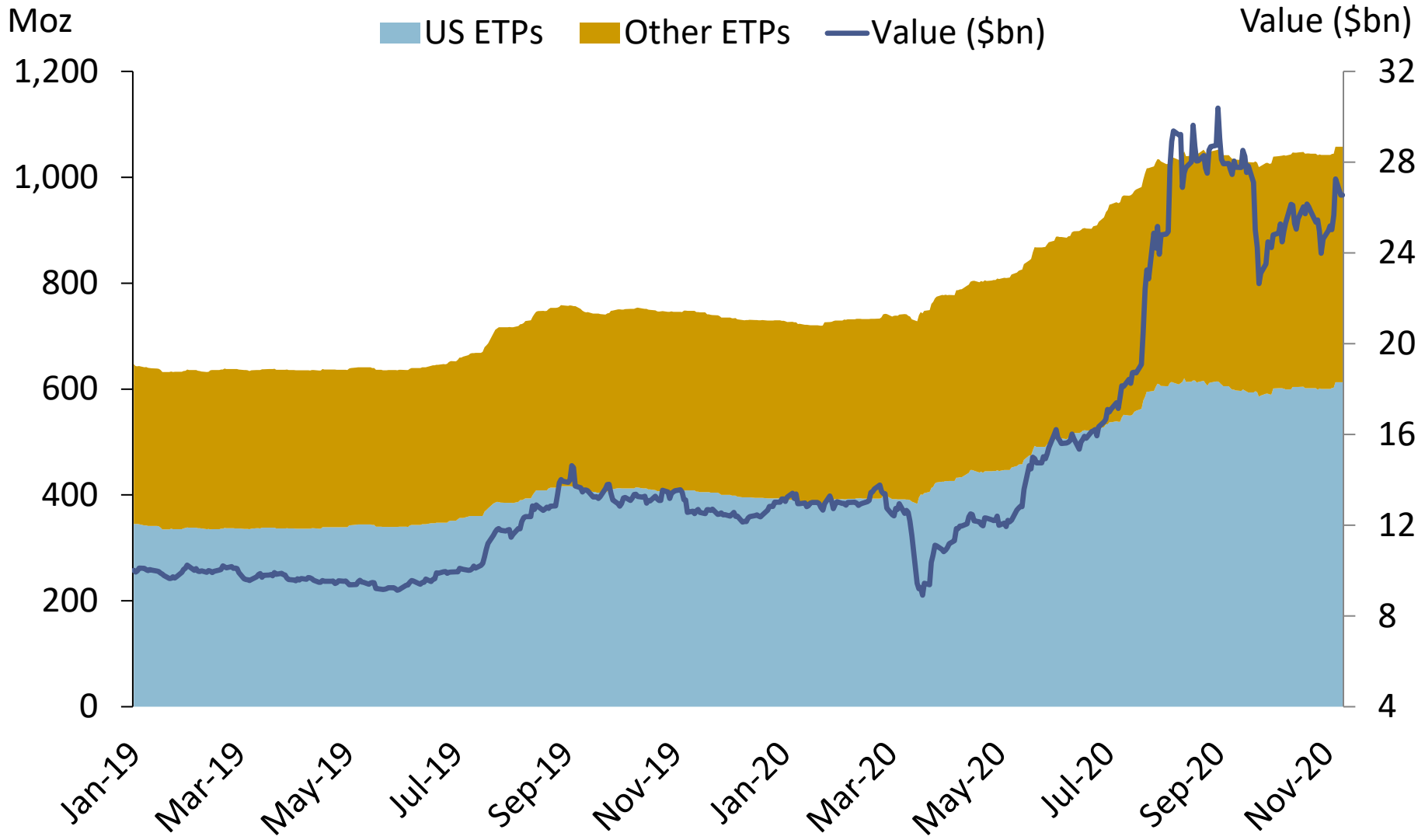
Bullion stocks rising, but most cross-border moves reflect EFP dynamics



Source: Bloomberg, LBMA



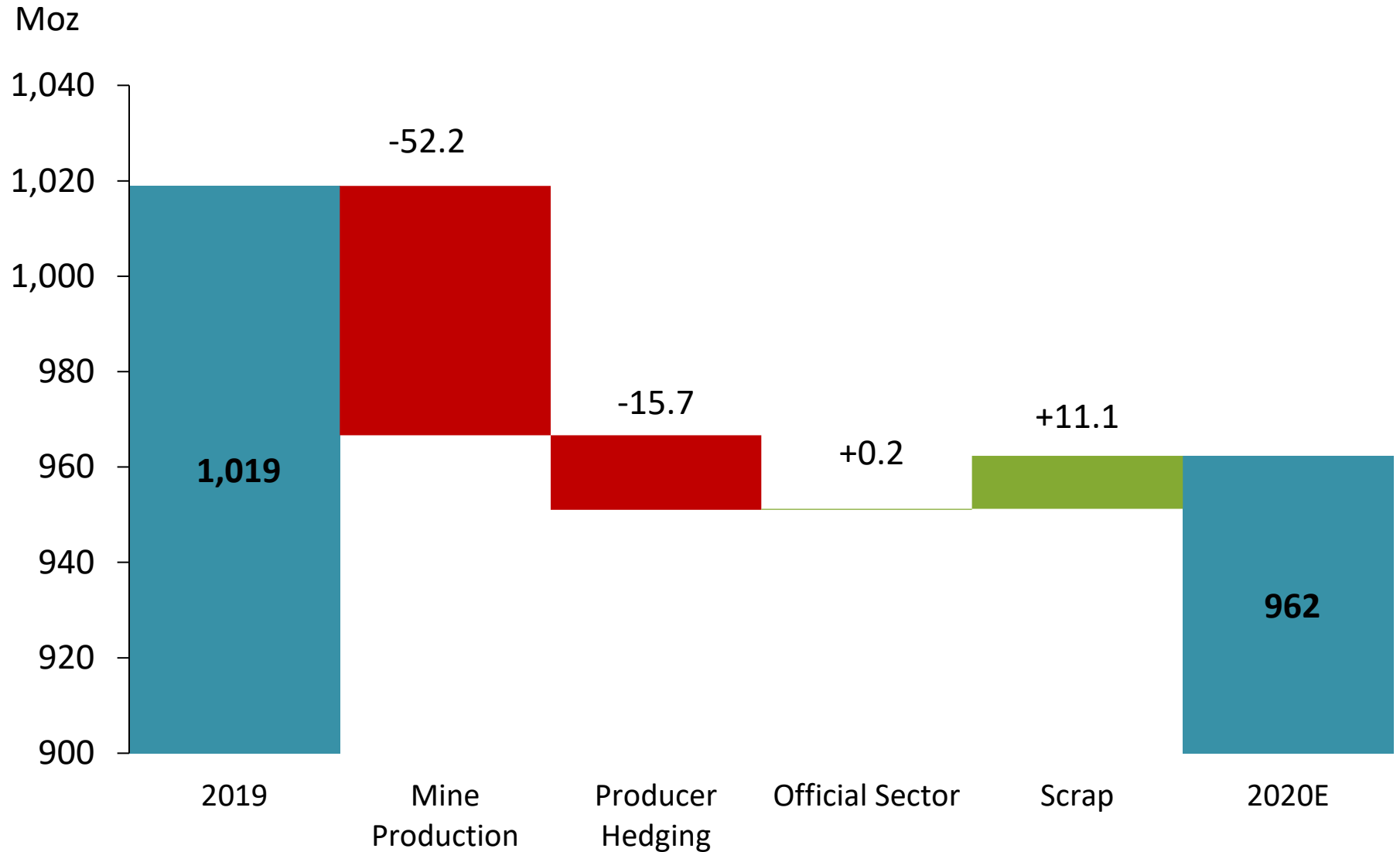
ETP holdings hit record highs, driven by US funds



Source: Bloomberg, various ETF issuers



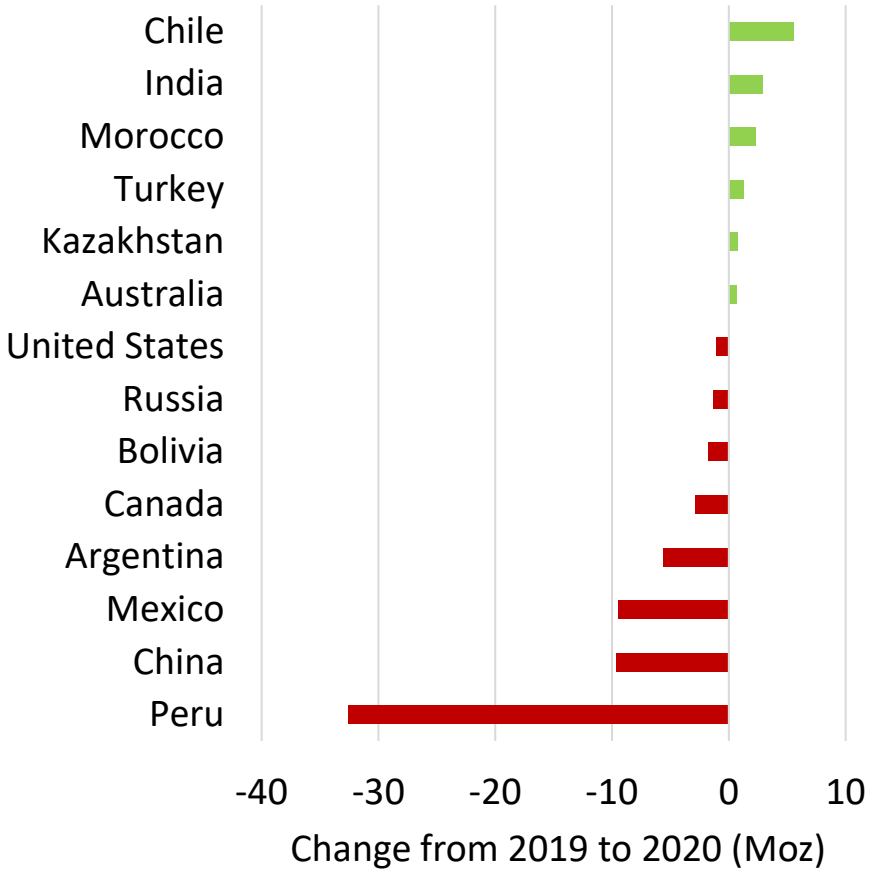
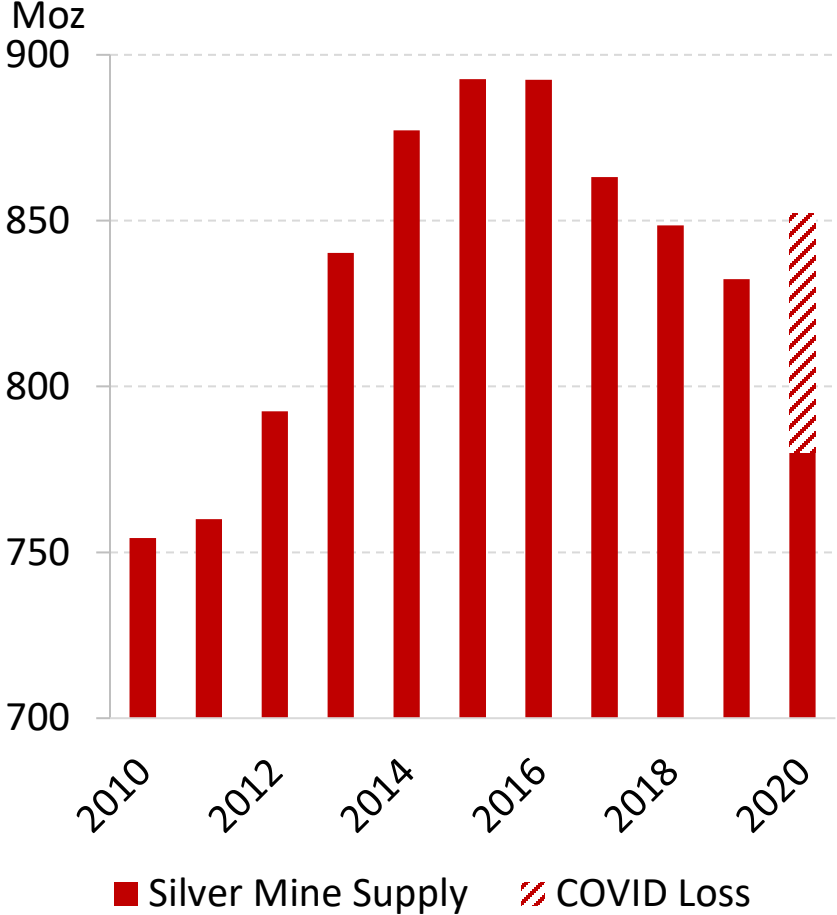
Global supply summary



Mined silver production in 2020 lower due to COVID

Mined silver production is forecast to decline **6.3% y/y** in 2020 to **780Moz**.

The biggest declines are expected in **Peru, China** and **Mexico** due to COVID related disruptions.

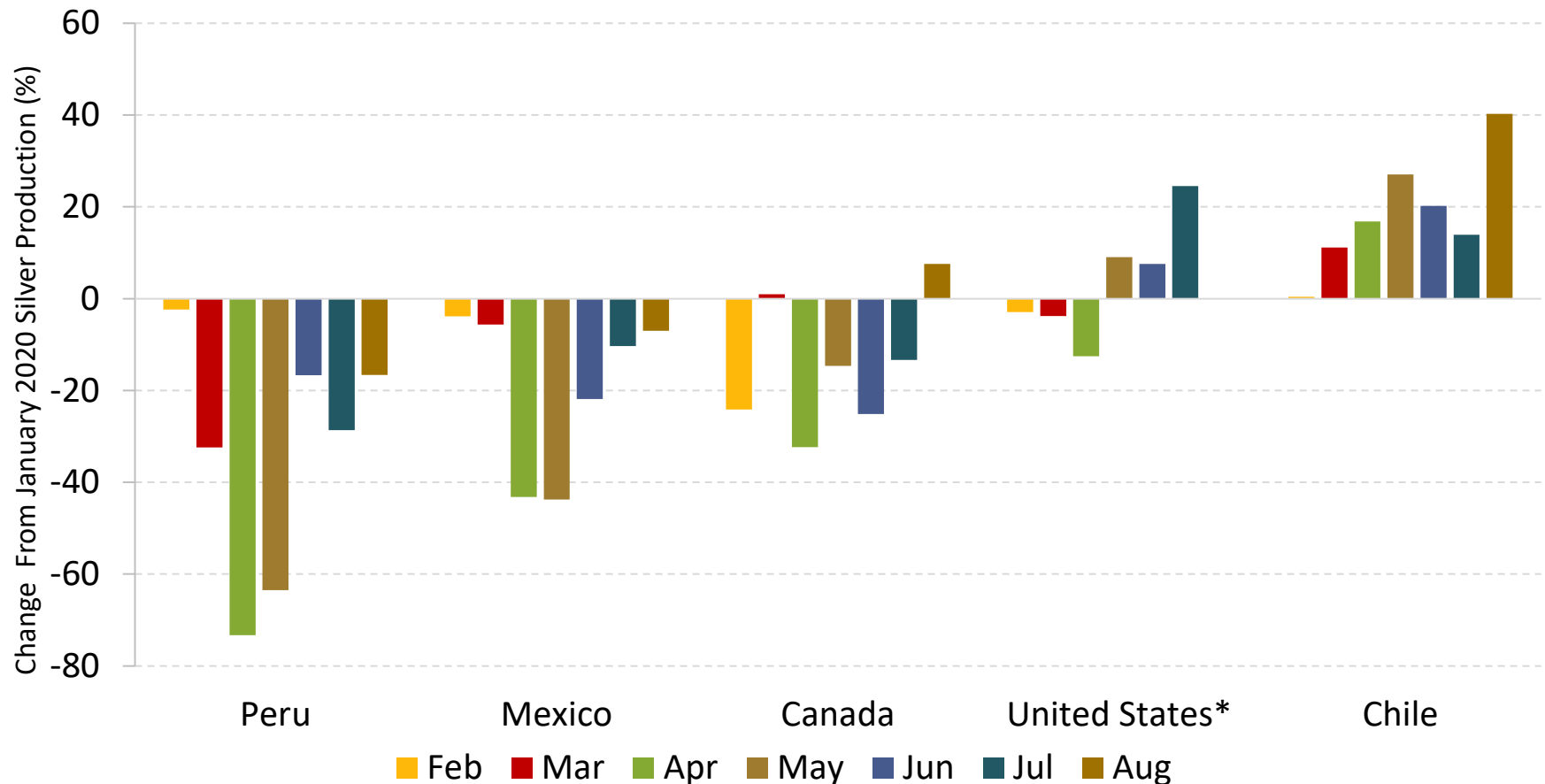


Source: Metals Focus



COVID disruption peaked in Q2.20

Mines in several major silver producing countries were forced to temporarily close due to **COVID-19 lockdowns** that were implemented from **mid-March**, however mining in other countries was allowed to continue as normal.

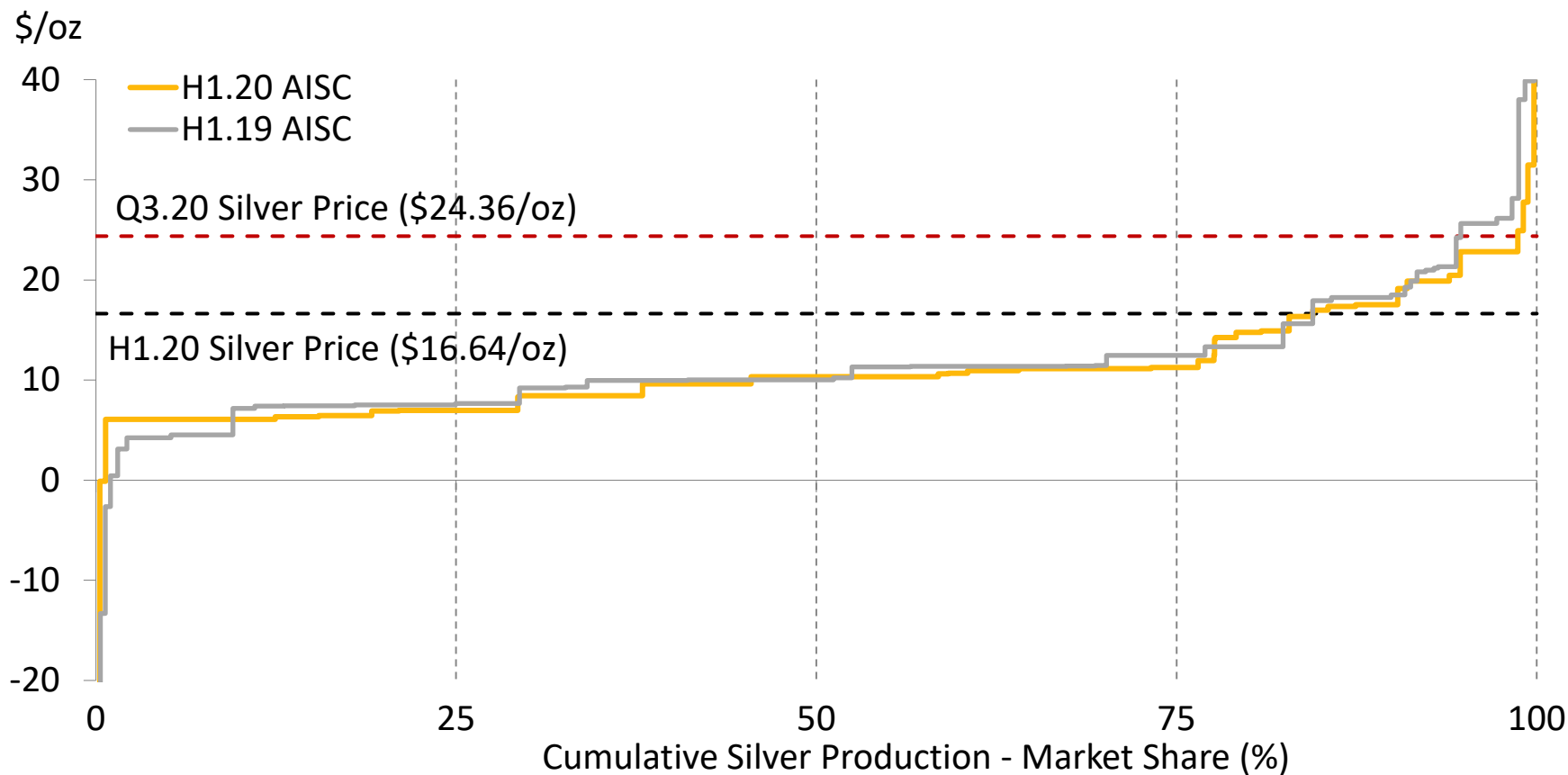


*US statistics not yet available for August

Source: Metals Focus, Country reported statistics

Costs declined year-on-year in H1.20

Average AISC for primary silver mines in **H1.20** was **down by 3% y/y** to **\$11.01/oz** as higher by-product credits and the closure of some high-cost operations in 2019 offset increased costs from COVID-19 related disruption.

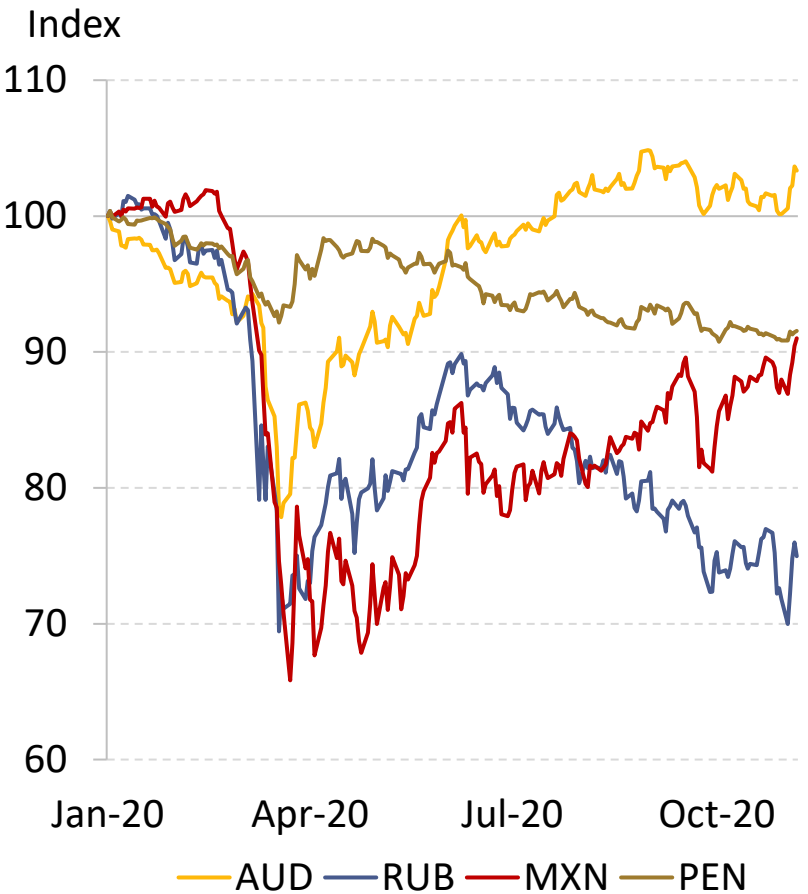


Note: costed production = c.80% of primary silver supply

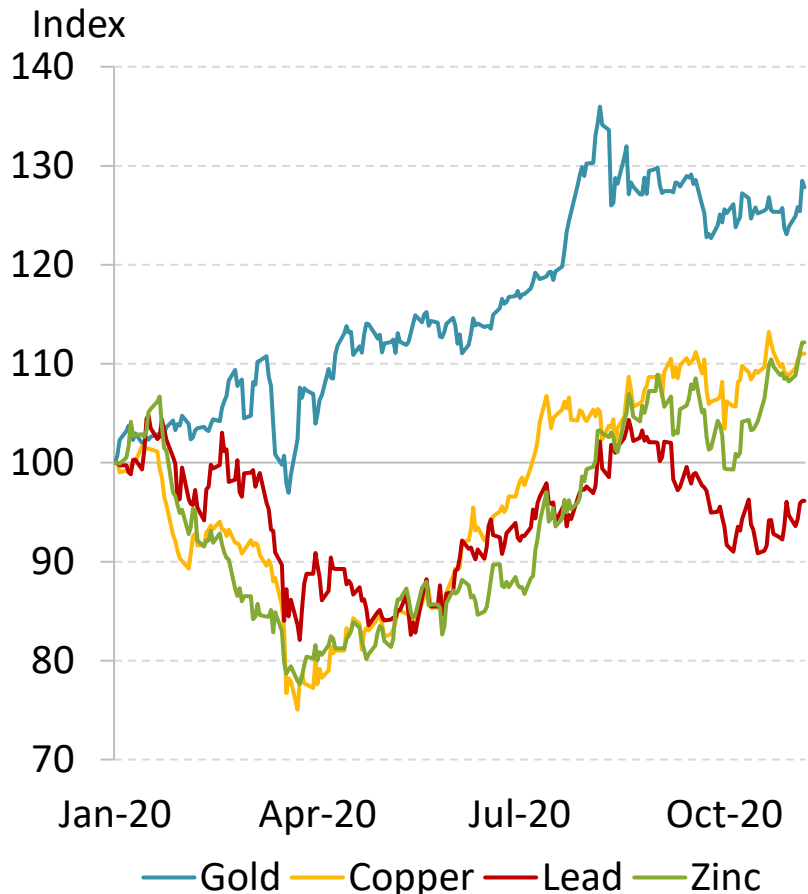
Source: Metals Focus – Silver Mine Cost Service

FX rates and metal prices push costs lower

Local currency weakness to the US dollar has constrained costs in many countries.



Higher gold prices have boosted by-product credits for silver miners.

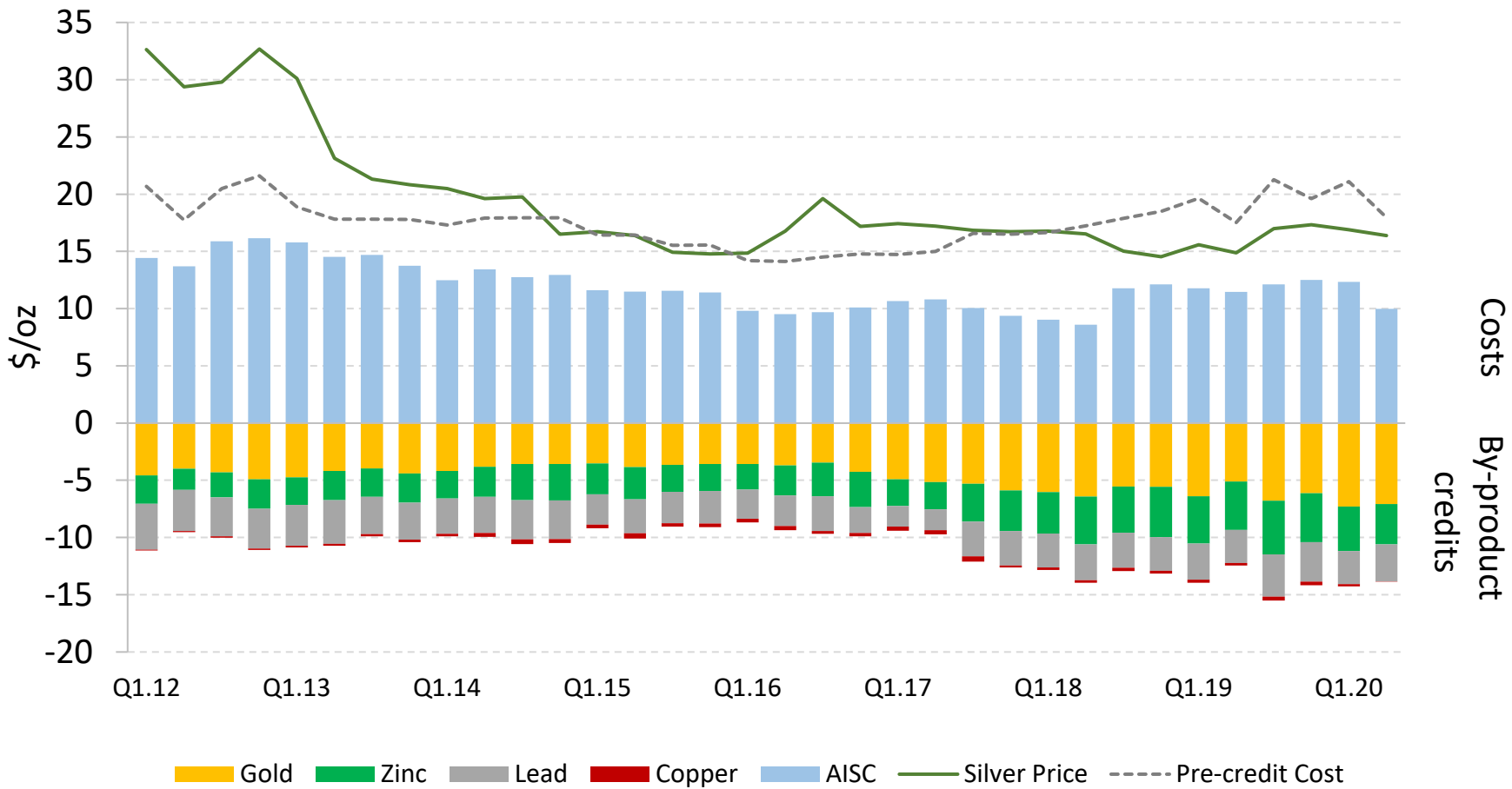


Note: AUD - Australian dollar, RUB - Russian ruble, MXN - Mexican peso, PEN - Peruvian sol
Source: Bloomberg, Metals Focus

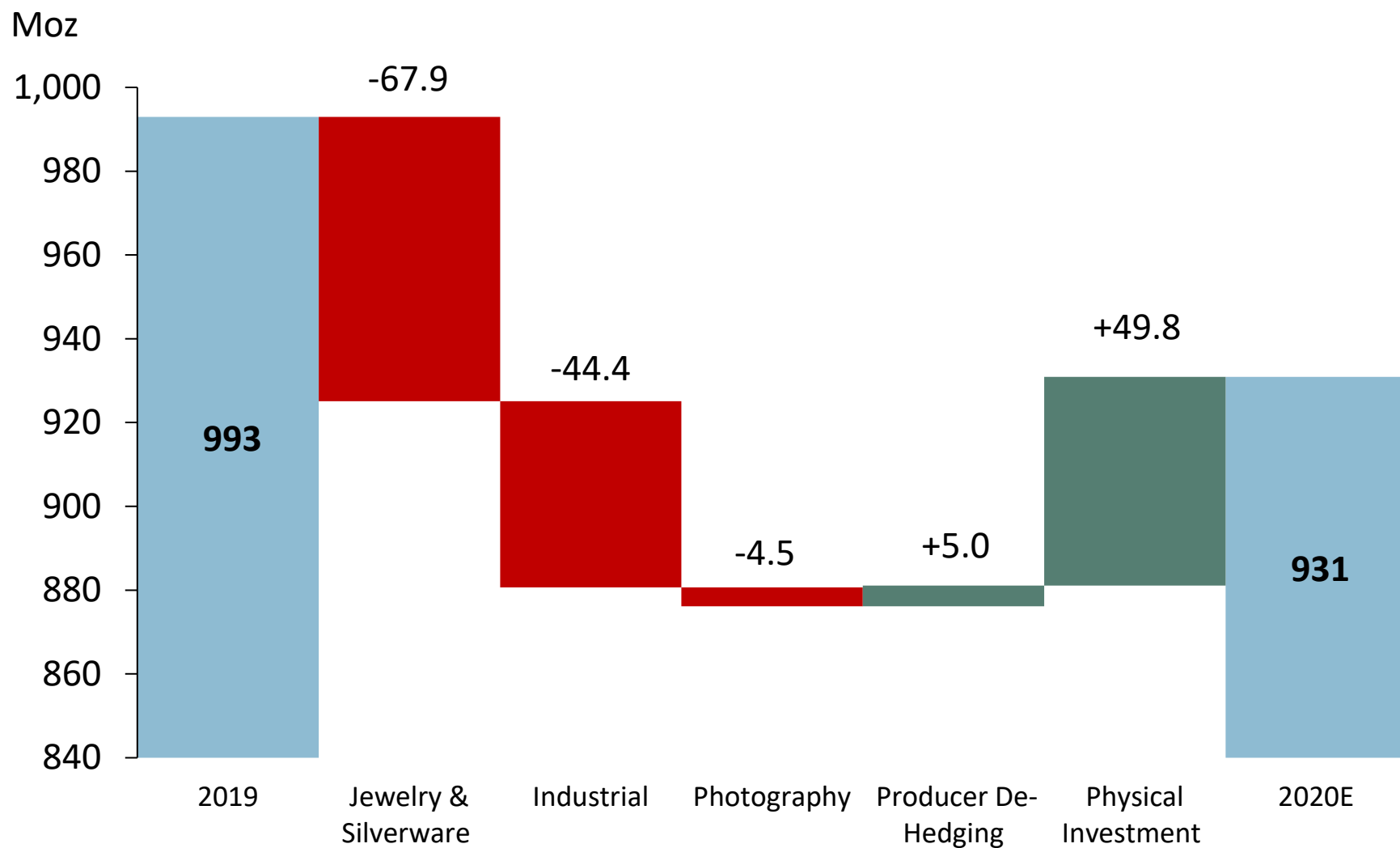


Higher prices will drive by-product credits up

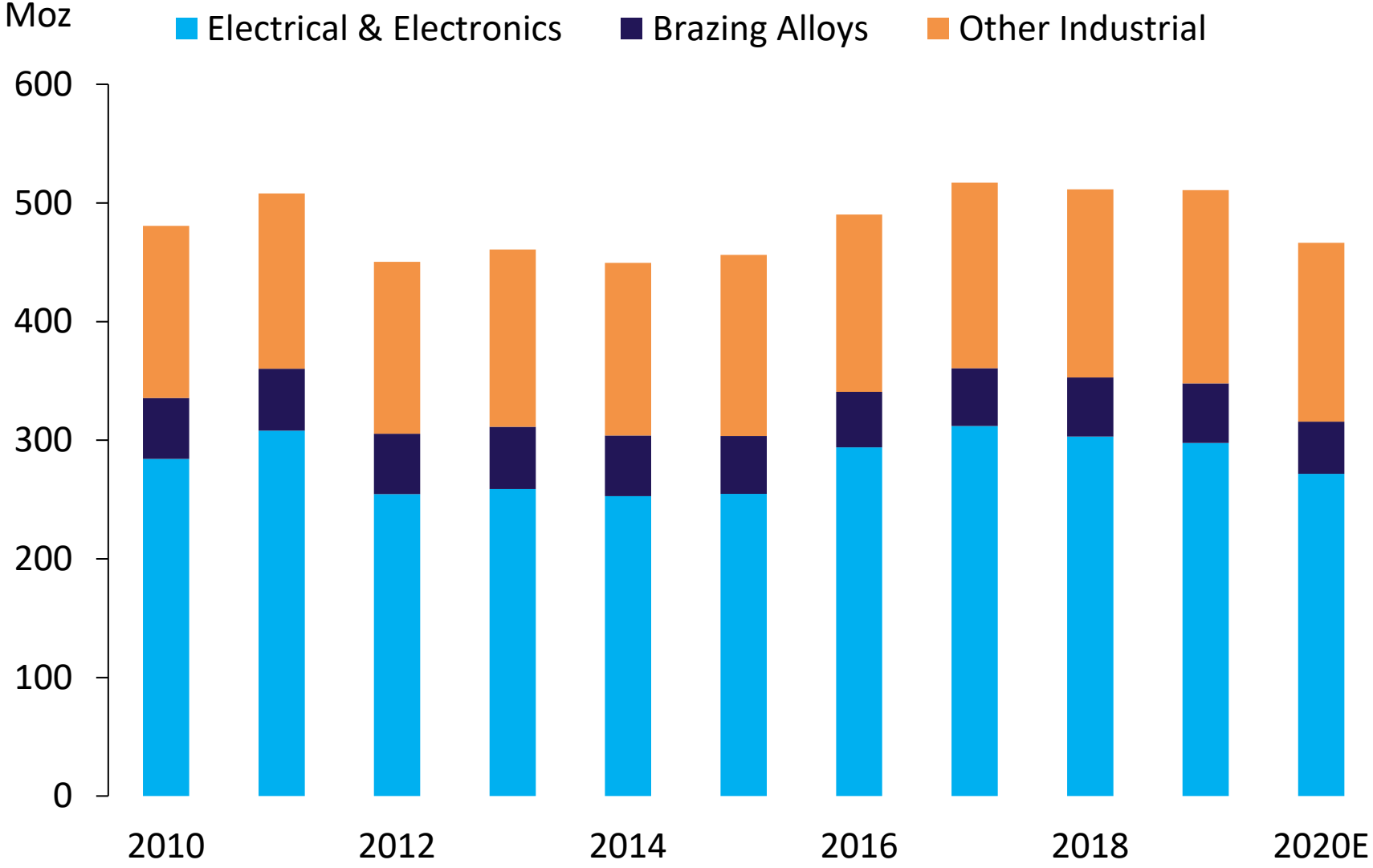
Average costs for primary silver mines were **lower q/q** in **Q2.20** due to higher cost operations in South America being closed, the upward pressure on costs of these mines returning to production will be offset by **higher by-product credits** in **H2.20**.



Global demand summary



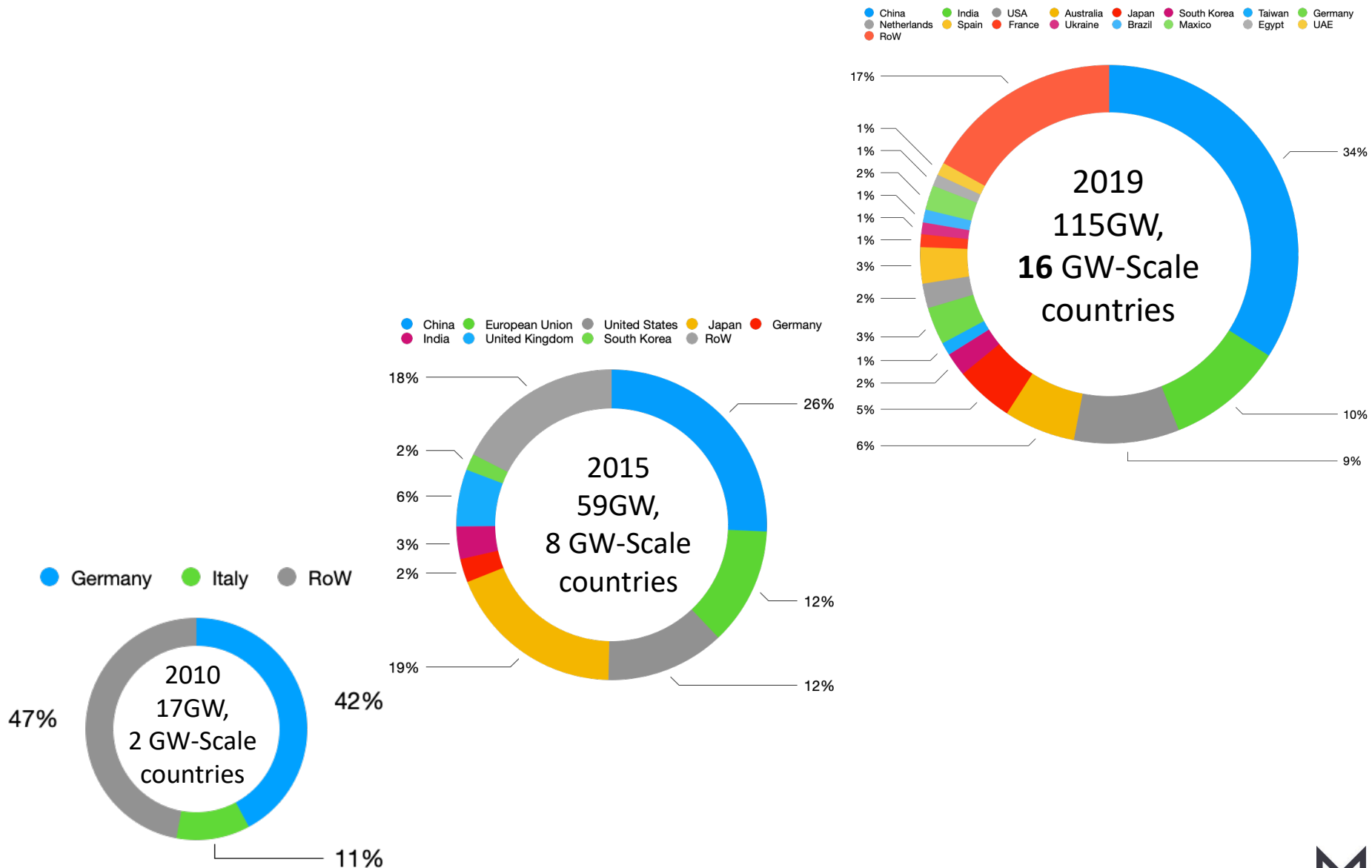
Industrial demand, sharp H1 decline, but improved H2 trend



Source: Metals Focus



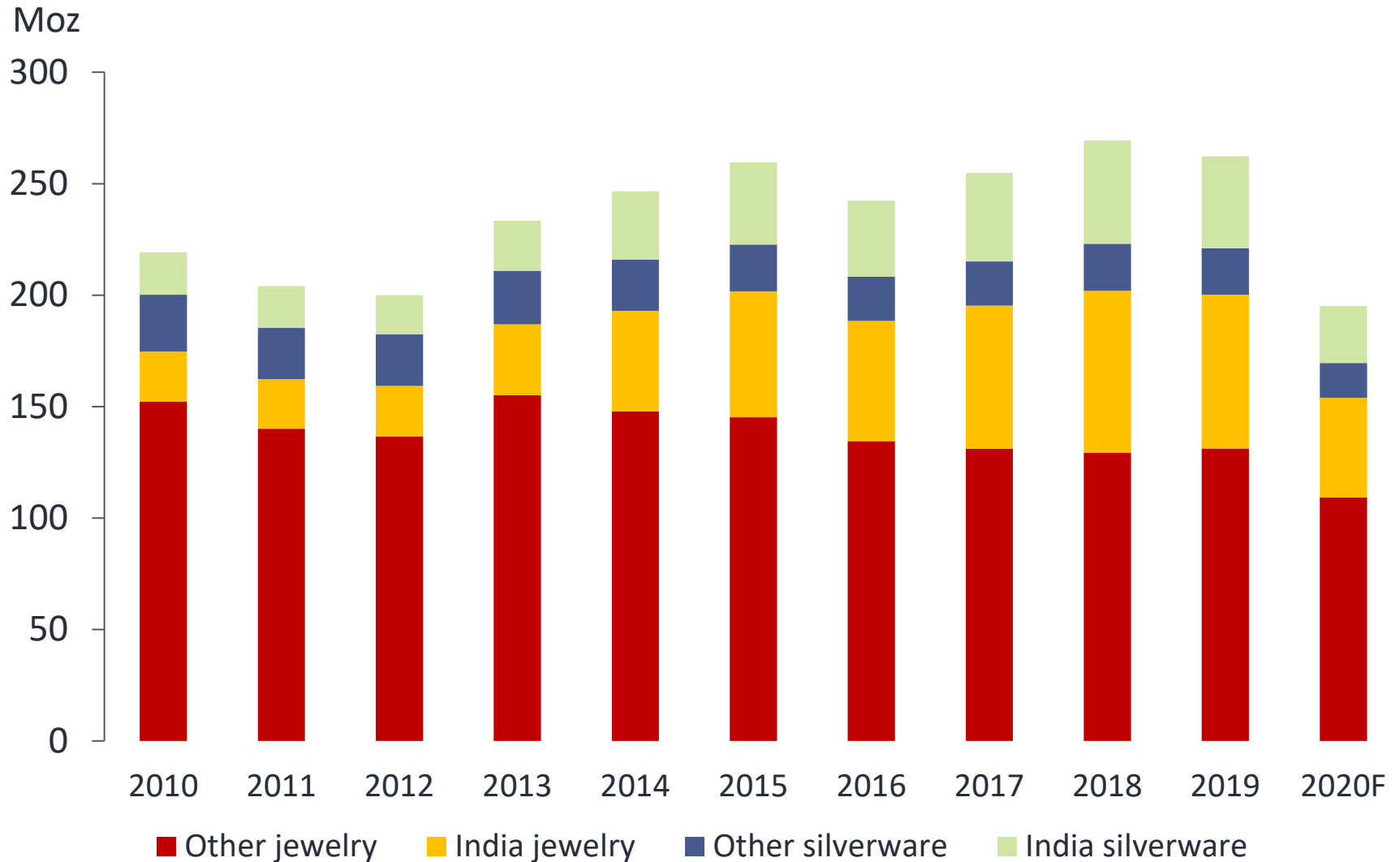
Photovoltaics: success in market diversity



Source: Metals Focus, various

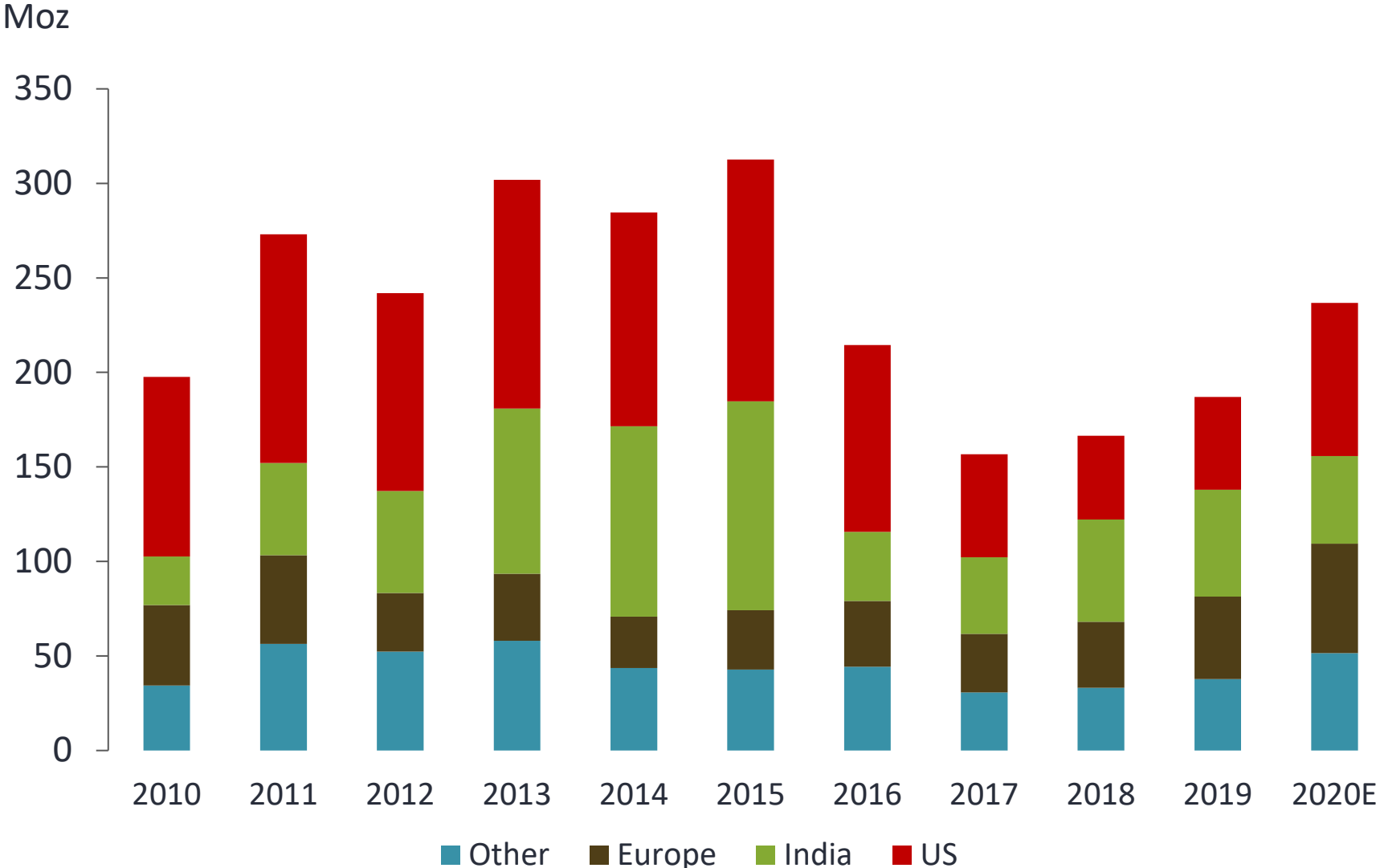


Jewelry & silverware exposed to weakness in India



Source: Metals Focus

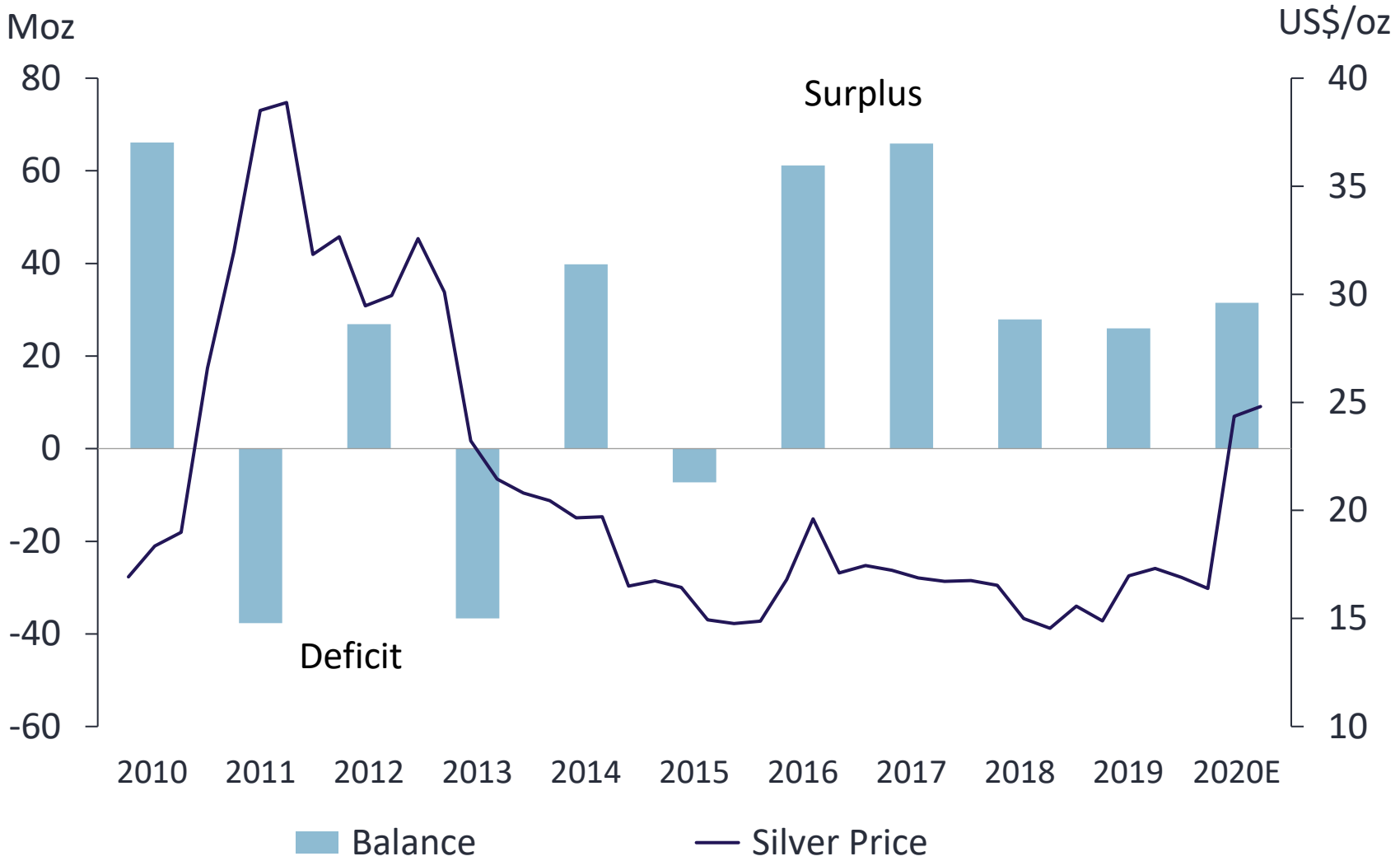
Bar and coin investment enjoys a strong recovery



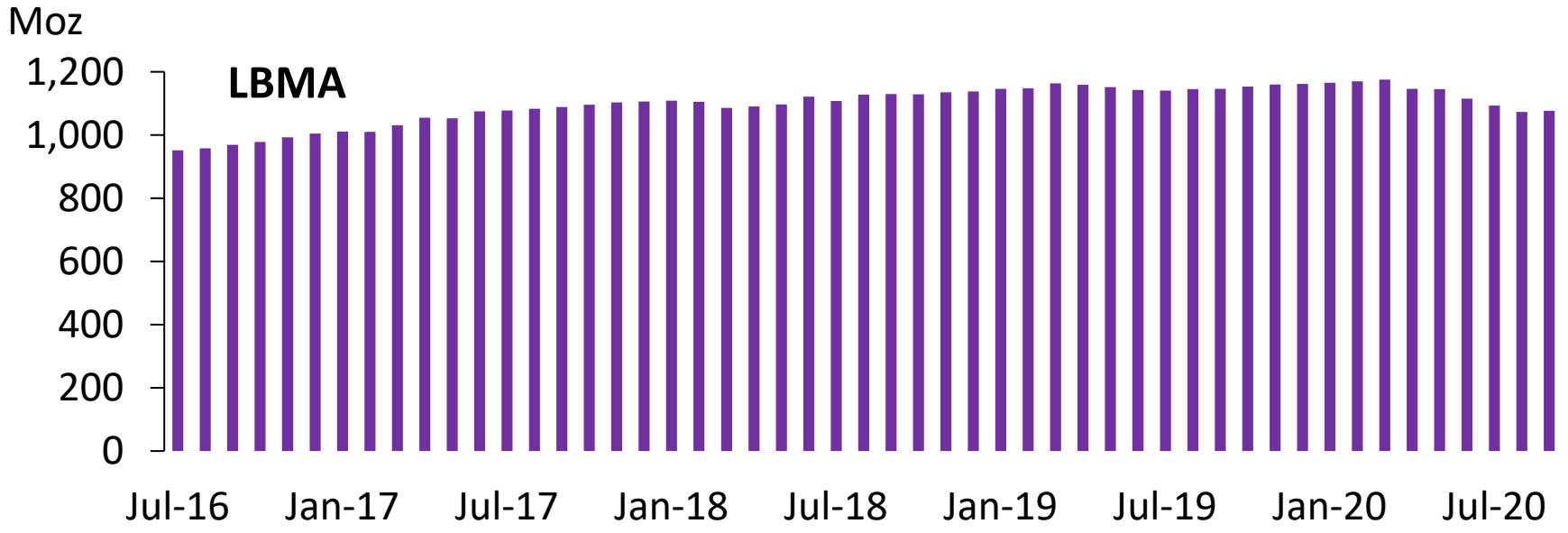
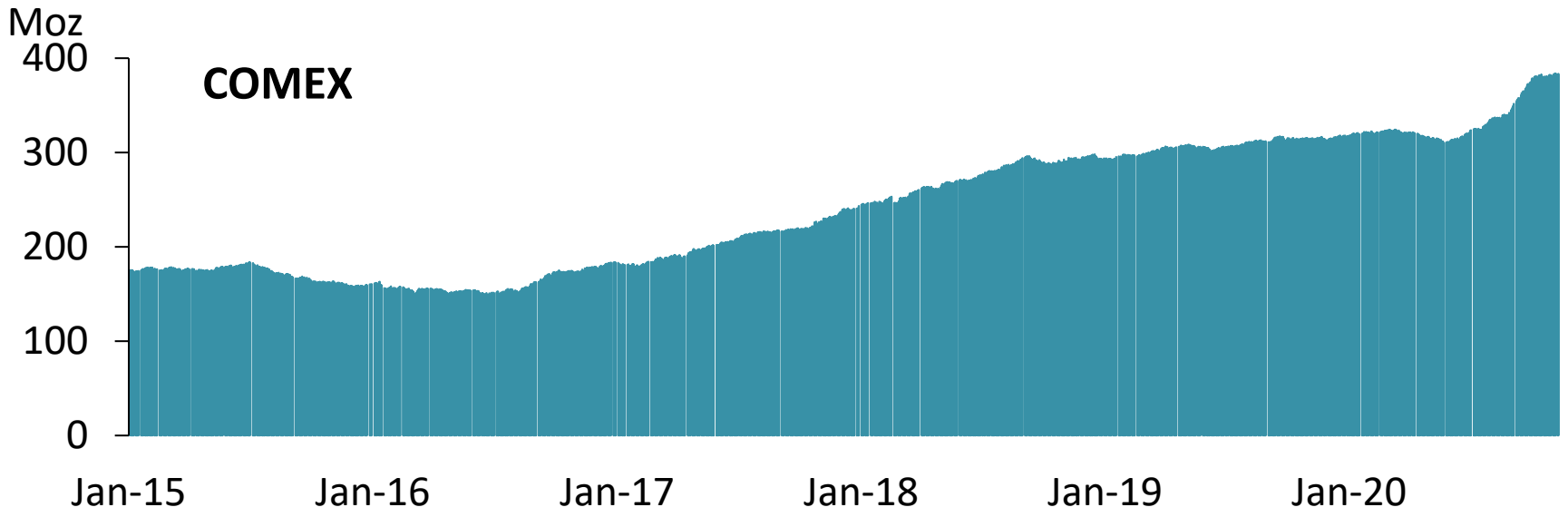
Source: Metals Focus



Fifth uninterrupted surplus in 2020 of 31.5Moz, vs. 26Moz in 2019



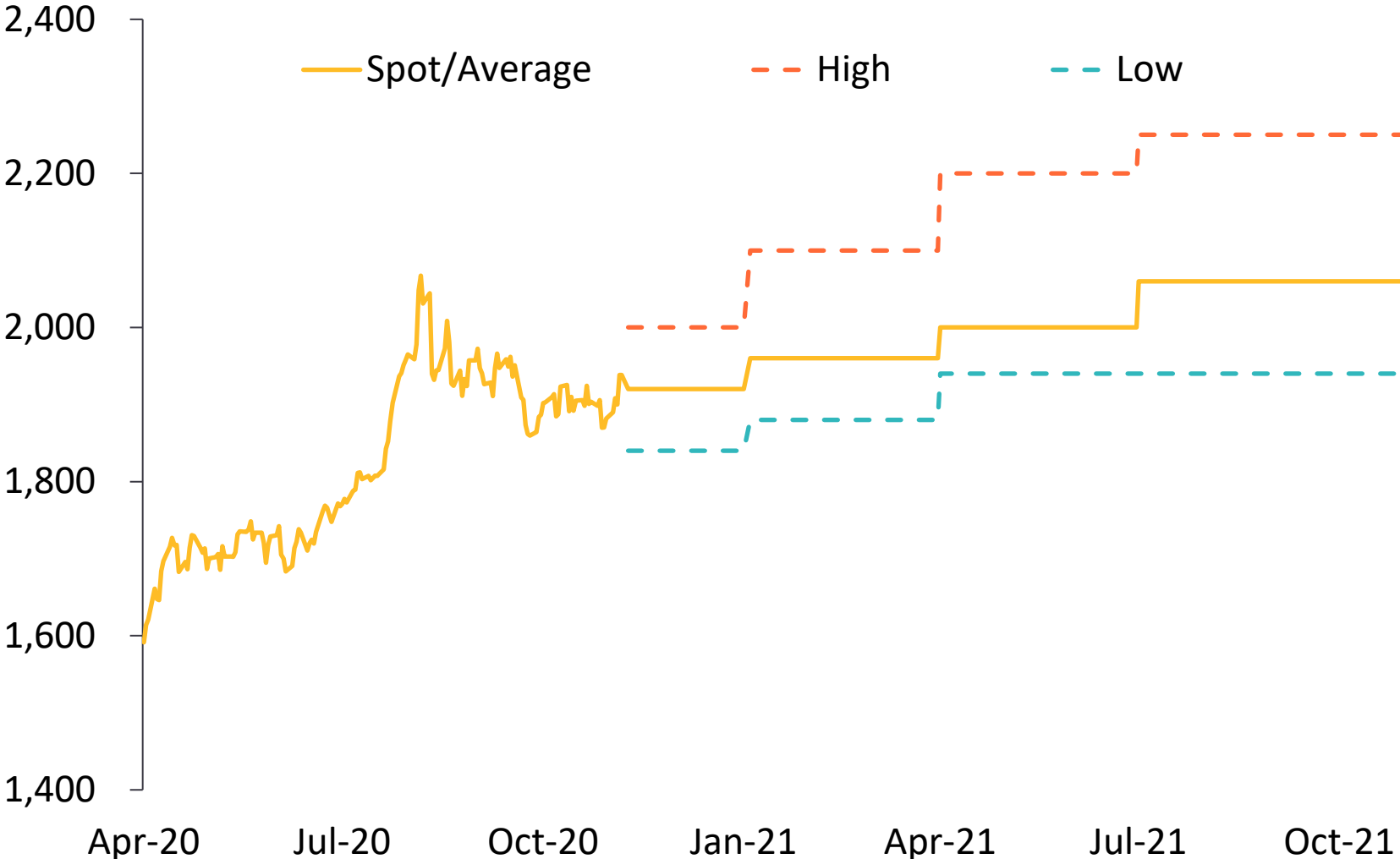
Silver bullion stocks continue to rise



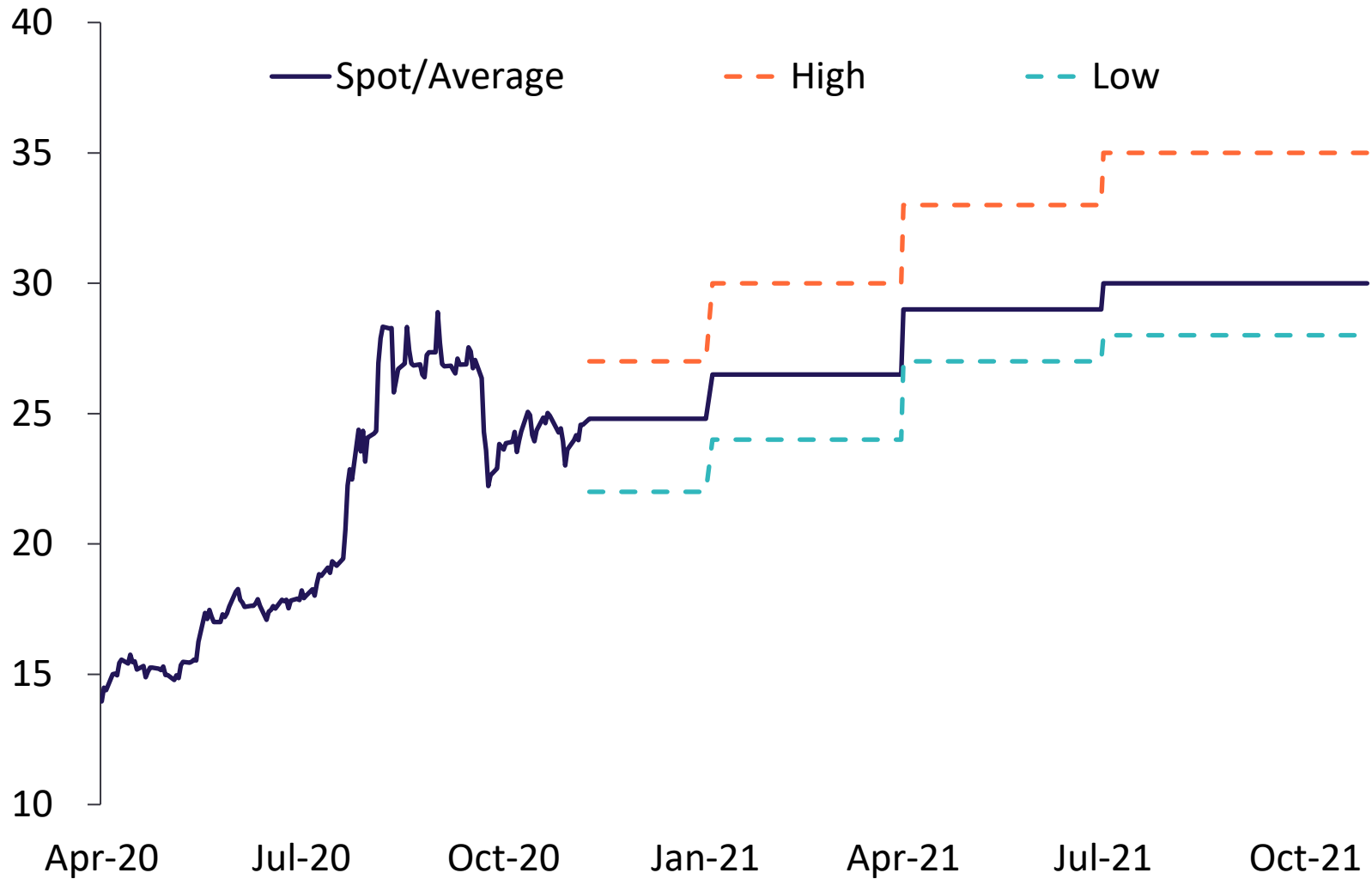
Source: Bloomberg, LBMA



Gold Forecast, 2020: \$1,780, +28%



Silver Forecast, 2020: \$20.60, +27%



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