Financial investment to drive next silver boom amid industrial demand doubts EXCLUSIVE

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By Anthony Barich
Market Intelligence

Financial investment through exchange-traded funds and related products will drive the next silver price boom, according to new research from independent Australian analyst Jean-François Bertincourt, amid debate over the strength of industrial demand growth going forward.

Analyst Jean-François Bertincourt.
Source: Jean-François Bertincourt

The assessment tracks silver supply and demand, compares the metal's market size and price volatility with gold, and the gold/silver ratio, then assesses ASX companies with silver exposure using mineral resource and capital expenditure benchmarks.

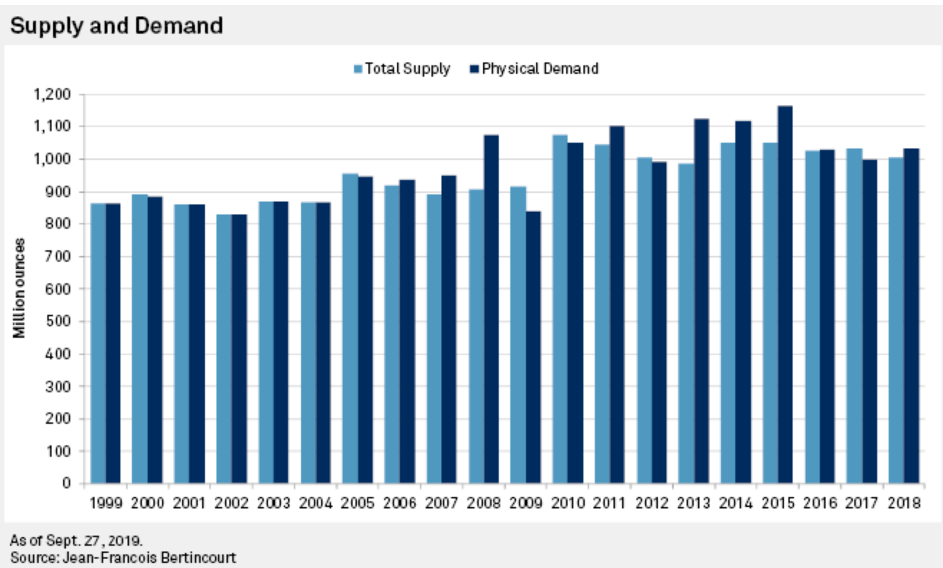
Bertincourt's analysis found no discernible market trend by tracking silver's supply and demand since 1999 — assessing a variety of uses including jewellery, electronics, coins and bars, ethylene oxide, photovoltaics and silverware — aside from declining use in photography.

While silver-exposed miners hoped its use in solar panels would be a way for them to leverage the "battery mineral" investment thematic, that has not increased regularly. Meanwhile, the proportion of silver's industrial use has shrunk to between 50% and 60% since 2010 from as high as 70% in the early 2000s.

Given this trend, Bertincourt concluded that financial sector investment in both gold and silver is likely to drive the next silver price boom, particularly in the context of "stagnating" global demand amid uncertain industrial demand due to ongoing trade uncertainties between the U.S. and both China and the European Union.

This is in contrast to the 2010 to 2012 boom when silver investment soared by over 48%, at the start of which period, mine producers ended a four-year run of de-hedging, government sales rebounded strongly and scrap availability reached a new record at 215 million ounces.

"Given trade issues such as those between the U.S. and China, it's difficult to see industrial demand growing substantially. So financial investment will drive [silver] prices," Bertincourt told S&P Global Market Intelligence.



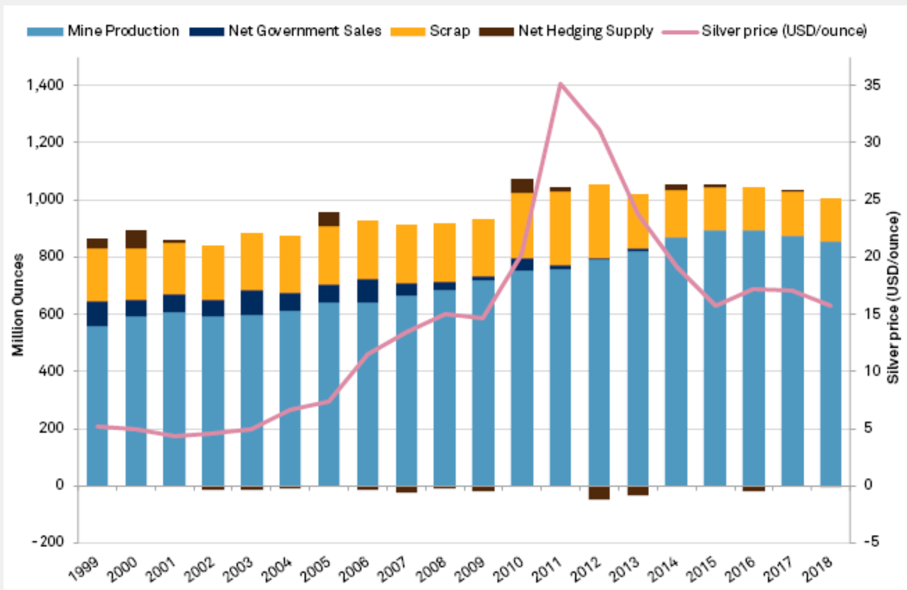
Much of that financial investment is likely to come in the form of ETFs, which have seen some correlation with silver prices.

The iShares Silver Trust, a direct silver bullion ETF, has nearly US$5 billion in assets under management, more than those of the 11 other major U.S. silver ETFs combined, Bertincourt noted.

While annual silver supply is about 1 billion ounces versus 144 million ounces of gold, the yellow metal's market value is 11 times bigger when combining annual supply with ETF holdings at year-end.

Bertincourt said this is a key factor in silver's higher volatility, as money movements have had a greater impact on the silver price than the gold price.

Silver market supply analysis



As of Sept. 27, 2019.
Source: Jean-Francois Bertincourt

Meanwhile the gold/silver ratio is currently about 80:1, which is much higher than the five-year average of about 50:1, a sign which is often the "precursor to a [silver] bull run," Silver Mines Ltd' Managing Director Anthony McClure told the Denver Gold Forum in September.

John Lamb.
Source: Myanmar Metals

Myanmar Metals Ltd CEO John Lamb, who released a recorded interview with Bertincourt about the analyst's silver piece to the ASX on Oct. 3, told S&P Global Market Intelligence that if the gold/silver ratio "normalizes" back to its long-term average, silver should be in the mid-US$20/oz range "before too long."

He said growth in advanced electronics, solar power and biotech — silver's key industrial drivers — would boost the precious metal's price, and is particularly "good value for money" for investors versus gold, when considering gold is about 15 times rarer than silver in the earth's crust yet it is 85 times the price.

He also pointed to the lack of good silver projects on the horizon, citing Bertincourt's chart which named Myanmar Metals' Bawdwin project in Myanmar and South32 Ltd 's Cannington mine in Queensland, Australia, as the only "world class" projects based on their silver mineral resource and grade.

Of the other two projects with significant silver content and grade — Rio Tinto’s Berenguela project in Peru and Red Metal Ltd 's Maronan project in Queensland — Bertincourt said the latter is a similar deposit type to Cannington, offering significant exploration potential at depth.

As opposed to pure silver plays, Lamb said polymetallic projects like Bawdwin can also leverage a price run in other commodities, which in Bawdwin's case is lead, which Lamb believes has a healthy outlook as every electric vehicle still has a lead-acid battery like every carbon-fuelled car.

Lead, or acid, batteries are still the only technology that can cost-effectively handle the charge/discharge duty that is required for a car's 12-volt accessories, he said.

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