

## **Investor interest in silver to remain strong over several years - CPM**

*New York metals consultants CPM Group says investors remain concerned about financial market and economic conditions and continue to hoard large amounts of silver.*

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RENO, NV -

New York metals consultants, CPM Group, forecasts that investment demand for silver will remain firm this year and may even surpass last year, when investors bought an estimated 209.7 million ounces of bullion.

In its annual *Silver Yearbook 2010* which was made public today, CPM projects that investors will purchase another 213.9 million ounces in 2010.

"Given the severity of today's financial imbalances, and the fact that major governments have allowed them to compound over the ensuing three decades, it seems fair to assume that investors will remain concerned about their financial futures for years to come, and consequently remain interested in buying more silver to add to their portfolio," CPM's analysts said.

"Thus it is reasonable to assume that investors will continue to add large volumes of silver to their inventories in 2010 and for the next several years."

### **SILVER SUPPLY**

Total silver supply reached 826.1 million ounces last year. A further 2.3% increase to 845.1 million ounces is projected for 2010. Around 553.9 million ounces of silver was estimated to have been mined in the market economies in 2009.

Silver mine production rose in Peru and Mexico, the world's two largest silver miners, but fell in Australia, Canada and Chile last year. Silver production was unchanged in the U.S.

Last year Peru mined 123.9 million ounces of silver, up 4.6% from record silver production in 2008. The Antamina mine was the largest producing silver mine, mining 15.7 million ounces of silver last year, a 25.6% increase.

Mexico was the second largest producer of silver in 2009 with 104.7 million ounces or 19% of the market economy silver production. CPM forecasts that Mexican mine output will increase 14.6% this year to 120 million ounces. The Fresnillo mine remains the largest Mexican silver mine with a record 35.4 million ounces mined last year.

Last year China was estimated to have produced around 88 million ounces of silver and is the third largest silver-producing nation. The Shuikoushan mine is one of China

largest silver-producing mines with an annual yield of 16 million ounces of silver. CPM predicts that Chinese silver production will increase to 89 million ounces this year.

Meanwhile, Australian silver production dropped 14.4% in 2009 to 53 million ounces. Weather-related issues during the first quarter of last year impacted silver production. Several mines also experienced lower ore grades.

Nevertheless, silver production in Australia is projected by CPM to recover to 56.5 million ounces this year. BHP Billiton's Cannington mine is the largest silver producing mine in Australia, mining 33.8 million ounces last year, down 2.6%.

U.S. silver mine production was 39.5 million ounces in 2009, largely unchanged from the prior year. CPM predicts silver output will increase slightly this year in the U.S. to 39.9 million ounces.

Meanwhile, Canadian silver mine production has been declining since 2002 and hit its lowest level since the 1950s last year dropping to 20.2 million ounces.

Mine production in Poland was estimated to be 40 million ounces last year and is forecast to be 40.5 million ounces this year. Three copper mines accounted for more than 90% of Poland's silver production.

Bolivia reported a 14.3% rise in mine production of silver for 40 million ounces in 2009. The San Cristobal and San Bartolome mine are the two largest silver mines in Bolivia, accounting for more than half the nation's silver production.

CPM projects that global silver mine production will rise 4.9% to 581.2 million ounces in 2010, with large increases expected in Mexico, Australia, and some smaller producing nations.

Silver production scheduled to come on line within the next five years is projected to be at least 113 million ounces. There are also several existing mines that have plans to ramp up their silver production over the next couple of years, which will add further to total silver production.

Total silver supply rose 2.4% to 826.1 million ounces last year. While both mine production and secondary supply from scrap recycling rose last year, the larger part of this increase came from secondary supply, according to the yearbook.

CPM predicts that total silver supply this year will increase to 845.1 million ounces, with all of the increases coming from silver mine production.

Secondary supply of silver is the second largest source of silver after mine production. Secondary supply increased 7% to 272.2 million ounces last year, but is projected by CPM to decline to 263.9 million ounces this year.

## **FABRICATION DEMAND**

Total fabrication demand for silver is estimated to have declined 11.3% in 2009 to 616.4 million ounces. Demand for silver in jewelry and silverware, which is currently the largest use of silver, declined last year as silver use declined in all of its major applications.

However, this year, the use of silver in jewelry and silverware is projected to rise 1.7% to 246.3 million ounces.

CPM forecasts that silver fabrication demand will reverse during the course this year, growing 2.4% to 631.2 million ounces. "This positive outlook is largely based on the assumption that demand for silver in electrical connectors, electronic components, batteries, chemical catalysts, and a range of other manufactured products from brazing alloys to mirrors will surge as the global economic recovery gains momentum."

"As the global economy continues to recover from the recession, demand for silver in electronics is expected to pick up sharply," the analysts advised. "This year demand for silver in this sector is projected to be 125.2 million ounces, a 4.8% increase from 2009 levels."

## **INVESTMENT DEMAND**

In its analysis, CPM advised that most investors who purchase silver for its safe haven attributes are expected to continue buying silver or remain invested in the metal.

"The net addition of silver to investment inventories is projected at 213.9 million ounces during 2010. This would be an increase over last year's net surplus, or net accumulation of bullion inventories of 209.7 million ounces.

## **Silver ETFs**

"As a percentage of apparent investment demand for physical silver, ETFs have become much more important than they are in gold," CPM asserted.

Last year investors added 151 million ounces of silver to ETF holdings globally, with combined ETF silver holdings at 464.9 million ounces at the end of 2009, up 48.1%. As of February 26<sup>th</sup> this year, combined silver holdings reached a record 474.2 million ounces.

The largest addition to combined silver ETF holdings was made by iShares Silver Trust, traded on the AMEX, which added 86.8 million ounces of silver to its holdings last year. The ETF held 305.2 million ounces of silver at the end of last year.

Two U.S. silver ETFs, iShares Silver Trust and ETF Securities' NYSE listing, accounted for around 65% of total global silver ETF holdings at the end of February. "This underscores the strong investor interest in these ETFs from both U.S. investors as well as investors from other parts of the world who prefer to invest through U.S. markets," CPM noted.

Individual investors were also actively investing in physical silver. Worldwide coin sales of silver last year were a record 35 million ounces. Demand for U.S. Mint one-ounce silver bullion coins this January were the highest monthly coin sales since 1987.

"Given strong investor interest in silver, total coin sales this year could surpass 2009 levels," CPM advised.

### **Silver Trading**

Meanwhile total trading activity in the silver market declined from 102 billion ounces in 2008 to 85.7 billion ounces last year. This figure includes newly refined silver, trading in futures and options, and clear volumes through the London interbank market.

"Despite the decline in trading volumes, total trading activity in the silver markets last year posted the second highest dollar value, at \$1.26 trillion, down from a record 1.53 trillion in 2008," CPM noted. "Trading activity is projected to remain buoyed and possibly rebound from 2009 levels this year as investors are expected to continue to remain interested in silver on both concerns over economic conditions and on expectations that fabrication demand for silver rises."

### **Inventories**

The U.S. and India were the largest holders of government silver inventories in 2009 with the U.S. holding 19.9 million ounces and India held 19.1 million ounces. Mexico's government is the third largest holder of silver with seven million ounces.

Market silver inventories declined for the second consecutive year in 2009, standing at 132.7 million ounces at year end.

Nevertheless, silver inventories held by ETFs now far exceed the volumes of silver held in exchange registered and reported market inventories, according to CPM's analysis.

### **Markets**

Trading in the major international silver markets was 85.7 billion ounces last year, down from 102 billion ounces. The dollar value of silver market transactions were also down from \$1.53 trillion to \$1.26 trillion last year.

Clearing volume handled by members of the London Bullion Market Association dropped to 24.5 billion ounces last year. "Over the past several years trading activity has been moving towards the futures and options market," CPM noted.

Nevertheless, CPM insists that trading activity through the LBMA "remains healthy despite the decline seen in various areas of clearing data. The 24.5 billion ounces cleared through the LBMA in 2009 was still 30 times greater than the physical flow of newly refined silver last year."

Combined silver futures trading volume of the Comex, MCX, NYSE Liffe, and Tocom dropped 9.9% to 55.1 billion ounces last year. It was the first decline in combined trading volume since 2001. The Comex remains the largest futures trading venue, which accounted for 72.5% of all futures traded at major exchanges globally in 2009.

For more information regarding CPM Group's Silver Yearbook 2010, go to [www.cpmgroup.com](http://www.cpmgroup.com)