

Is Silver Ready to Surge?

by [Sean Brodrick](#) on April 16, 2010 at 8:30 am

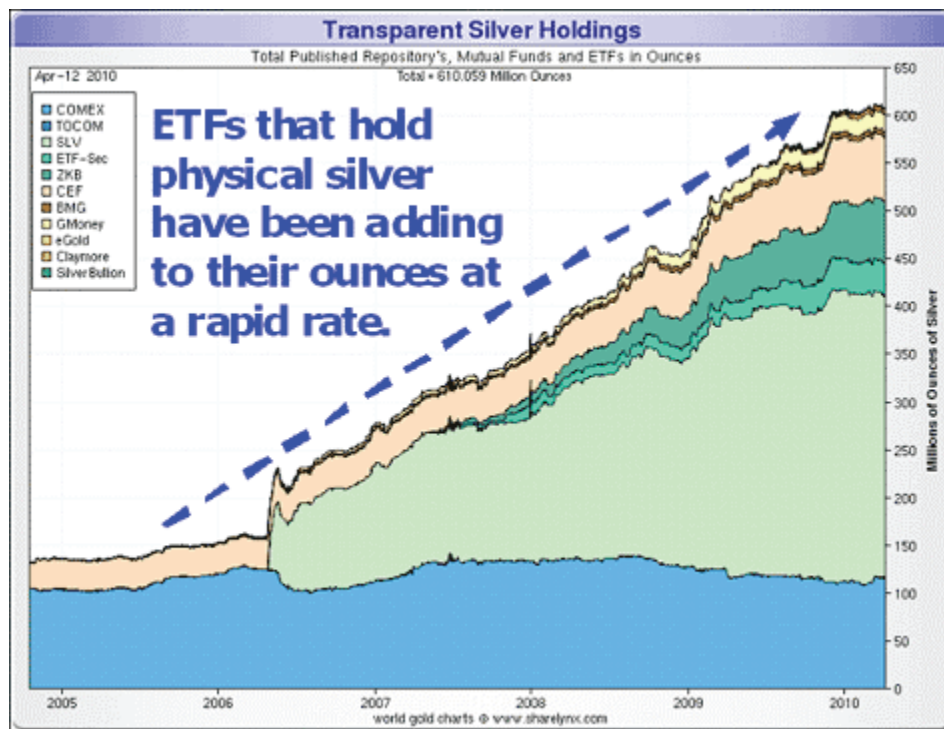


Main Street may know something that Wall Street's chattering class doesn't know. Because while Wall Street always seems to give silver short shrift, mom-and-pop investors are buying silver at a furious pace.

Here's what I mean: The U.S. Mint sold more Silver Eagles in March and in the first quarter of the year than ever before. A total of 9,023,500 American Silver Eagles were purchased in the first quarter of this year, the highest amount since the coin made its debut in 1986.

I think that we may be seeing the start of something big in silver. And I have some ideas on how you can ride this wave, as silver goes to \$20 an ounce, \$25, and potentially higher.

And it's not just the small investors tucking silver coins away at home. Take a look at the combined holdings of silver ETFs around the globe



Last year, total silver ETF holdings grew by 122 million ounces. That's nearly 1 in 5 of every ounce mined. How much do you think silver ETFs will add to their holdings this year?

I'm not going to guess, but it's just one of upward pressures on silver now. The other forces include ...

#1) Supply Squeeze. The 2009 numbers aren't in yet, but in 2008, silver saw its demand decrease by 0.9% to 832.6 million ounces. In fact, both the price and demand for silver have been trending higher for the past 10 years. It's also good to remember that the average bull market in commodities lasts around 17 years.

Silver miners couldn't meet demand in 2008 — only about 657 million ounces came out of the ground — a gap of 175 million ounces. So, the world relied on recycling to fill the gap.

Now for the bullish news: Above-ground stockpiles, while off their lows, are trending lower. Considering that stockpiles include all the silver in ETFs, that trend is very interesting.



In fact, even including the silver in ETFs, the above-ground stockpiles of silver amount to just 10 months' worth of supply. That's one-sixth the ready supply of a decade ago, when ETFs barely figured into the equation.

Now for some potentially bearish news on supply. Silver production will increase over the next few years when existing mines ramp up or new operations start including Coeur's San Bartolome in Bolivia, Pan American's Manatial Espejo in Argentina,

Coeur's Palmarejo mine in Mexico, Goldcorp's Peñasquito in Mexico, and Barrick's Pascua-Lama in Argentina and Chile.

So, to keep upward pressure on prices, demand will have to increase as well. I think that's going to happen. For one thing, as I've showed you, investment demand is surging. For another ...

#2) Industrial Demand for Silver. Silver is a precious metal, but it's also an industrial metal — used in everything from flat-screen TVs to zinc-lithium batteries. The industrial uses for silver keep growing and growing. Silver is not only beautiful, it's malleable, it's the best conductor for electricity and heat of all metals, it's reflective, and it's even an anti-bacterial agent. It's a chemical catalyst, and approximately 700 tons of silver are consumed every year in the production of plastics.

New industrial uses for silver come along all the time. For example, one new source of silver demand comes from the electronics industry and the use of silver in photovoltaic applications for solar energy panels.

What's more, silver's industrial status means that 50% of global production is consumed — used up, never to be seen again — every year.

Last week, in my column "[America Shifts into Higher Gear](#)," I gave you a long list of bullish indicators for the global economy. That list keeps growing, with U.S. gasoline demand rising, producers reporting rising orders, and confident retailers building inventories. And industry is booming in China and along the Pacific Rim, too.

Those are some happy, cheery reasons why silver could and should go higher. There are also the scary reasons. For example ...

#3) Are We on a Collision Course with a Global Currency Crisis? Take a look at how silver is performing in a group of major currencies ...



This chart shows the progress of silver over the past year priced in U.S. dollars, euros, yen, Australian dollars, Canadian dollars and Swiss francs. You can see that silver is rising in all these currencies, but it is up the least in the Australian and Canadian dollars. These are what are called the “commodity currencies” — because they are backed by hard assets like gold, silver, copper and oil that those countries produce and export.

Silver is doing the best in the U.S. dollar, euro and yen. These are fiat (paper) currencies, backed up by little more than faith in a principled government and the conservative practices of bankers.

Good luck with that!

I don't have to tell you about the serious financial woes the U.S. and other countries are in. Greece is in debt up to its eyeballs and may take the euro down with it. Japan has an aging and shrinking population that can't keep up with its ballooning debts. As for the U.S., the short version is we are trillions of dollars in debt and can't seem to grow our way out of it. The only way to get out from under that debt is to print money, or inflate out of it.

We aren't seeing official inflation ... yet. But as debts become insurmountable ... as balance sheets sink deeper into the red ... as debt payments eat up more and more of national budgets ... the temptation for central bankers to print their way out of this problem will probably become irresistible.

You know what does well when central bankers turn on the printing presses? Gold and silver, and hard assets generally.

Smart traders realize this. Heck, mom and pop investors on Main Street realize this. That's why they're buying silver eagles with both hands. Sure, the U.S. mint set a new record in March. But records are made to be broken.

And here's one last chart to keep your eye on ...



Silver is trying to break out now. Maybe it will head lower. But if it can break out to the upside the next stop should be its old high at \$21.44. And if that overhead resistance shatters, we could see \$25 silver pretty shortly after that.

This may sound like pie in the sky, especially because silver is up 21% from its low this year on February 8th, and up a whopping 103% from its low back in November 2008.

But take a longer-term view. The historical ratio of the price of gold to silver is 16 to 1. Moving closer to that would give us a silver price of around \$70 an ounce! I'm not saying we're going there. I'm saying there's no reason we can't.