

## Silver seen as safe-haven cinderella

*While not for widows and orphans because of its volatility, a number of analysts expect silver's latest run, it is up 15% so far this year, to have a bit more staying power*

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LONDON (REUTERS) -

Renewed uncertainty over the global economic outlook has revitalised the push into perceived safe-haven assets like gold, but as bullion edges ever closer to record highs, silver has emerged as a cheap alternative. Dubbed "the poor man's gold," silver XAG= has risen by nearly 15 percent so far this year to above \$19.00 an ounce, making it one of the top performing commodities of 2010.

The gold/silver ratio -- the number of ounces of silver needed to buy an ounce of gold -- has hit its lowest since mid-May, denoting silver's outperformance relative to gold.

Silver's main sources of demand are from industrial applications such as semi-conductors and jewellery.

This confers it enough of a split personality to benefit from the risk aversion that boosts gold, and from the risk appetite that supports industrial commodities like copper.

However, there is a caveat. Silver is notoriously volatile and profits in this metal can be as elusive as Cinderella, the fairytale heroine, at midnight.

"It's not for the faint-hearted, it's not for widows and orphans. You've got to know what you're doing or you can be stopped out quite easily," said Credit Agricole analyst Robin Bhar. "In a rising market, it does well, but in a falling market, everybody rushes for the exit," he said.

The intraday volatility of silver far outstrips that of gold and is bested only by that of palladium XPD=, another small market that can fall and rise in tsunami-like price bursts.

A raft of patchy U.S. economic data in August has raised the threat of a return to recession in the world's largest economy, and ignited doubt over the ability of the emerging world to offset such a double-dip.

**BUY: AS DEMAND PICKS UP**

This renewed concern has translated into hefty inflows into exchange-traded products backed by physical metal.

The iShares Silver Trust ([SLV](#)), the world's largest exchange-traded silver fund, has seen net inflows of around 95 tonnes in the last month alone.

"Silver ETF supporters have been conspicuously absent this year relative to the significant ETF creations in the other precious metals," wrote UBS precious metals strategist Edel Tully in a note last week.

"This less-speculative element to silver's rally, and the relatively sticky nature of ETF investment, suggests that silver may now have a bit more staying power compared to previous run-ups this summer," she said.

Consultancy Gold Fields Mineral Services said in May this year it expected rising investor demand to be a key driver for the price of silver this year.

Total open interest in COMEX silver futures has fallen in 2010, but the managed net long silver position, which analysts use to gauge hedge fund holdings, has more than doubled in the last six months to some 138.9 million ounces, and the non-commercial net long -- used to gauge speculative activity -- has risen by some 35 million ounces to 174.1 million ounces.

RBS analysts Nick Moore and Daniel Major note silver should get "reflected glory from a firmer gold price."

"Because silver is more volatile than gold, it is often used to finesse gold positions ... and so we should be prepared to see silver attempt to break higher in the coming weeks."

**SELL: NO HOME BIG ENOUGH FOR SURPLUS**

Even if silver's exposure to the growth cycle protects it to an extent from an evaporation in the need for a safe-haven, without healthy investment flows, mine supply will cap prices.

"The industrial side is more important for silver, but the marginal demand driver tends to come from investors," said Bank of America-Merrill Lynch analyst Michael Widmer.

"Now, when you have investor interest subsiding, the industrial side will become more important, but at the moment, looking at the macro picture, I don't see that happening."

The offtake lost from the decline of traditional photography -- silver's main source of demand -- has not been replaced by evolving new uses such as photovoltaic cells in solar panels.

The Silver Institute estimates mine output reached 709.6 million ounces last year and above-ground stocks were around 20.2 million ounces. Even the iShares Silver Trust only holds a fraction of that amount, some 298 million ounces.

"The market has been in surplus for many, many years, above-ground stocks are high... As prices move higher, you're going to get a lot of forward selling from producers," said Credit Agricole's Bhar.