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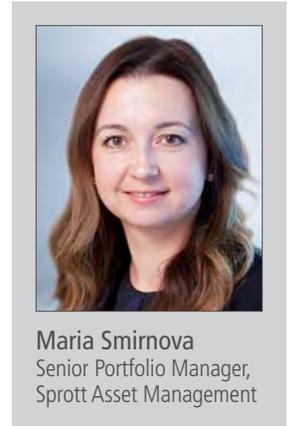
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Silver has been a lackluster performer this year, but as investors' appetite for gold improves, silver might share in the yellow metal's prosperity.

"It is difficult to be pessimistic about silver at these levels," with prices that don't provide an incentive to boost supply, says Maria Smirnova, senior portfolio manager at Toronto-based Sprott Asset Management.

Silver futures settled at \$14.867 an ounce on Thursday, down more than 4% in 2019, after last year's more than 9% loss. In contrast, gold futures, at \$1,293.30 an ounce that day, were up 1% this year, on track to recoup half of their loss of just over 2% in 2018. "We expect silver to outperform gold," says Smirnova,. "Silver has lacked retail investment demand, so a sustained rally in gold will lead to the speculators coming and buying silver."



Total physical demand for silver rose 4% last year, to a three-year high of 1.03 billion ounces, according to the Silver Institute's World Silver Survey, compiled by a team at financial data and analytics provider Refinitiv. The report, released on Thursday, also showed that global industrial silver demand fell 1% last year, to 578.6 million ounces. All told, silver's physical market posted a "minor deficit" of 29.2 million ounces in 2018 which is considered to be close to in balance.

Smirnova expects industrial demand to "remain stable, despite slower [economic] growth." A recent forecast from the International Monetary Fund revealed expectations for global economic expansion of 3.3% this year, down from an estimated 3.5% in January.

"Silver does not represent large components of end products," Smirnova explains, pointing out that electronics, cars, and medicines don't use a lot of the metal per unit, so an economic slowdown probably won't have a big impact on it. Its use in solar applications is also "insulated from economic growth" because that market is "more driven by government incentives and the need for renewable energy." Instead, it's the "return of retail investment demand [that] will be the driving force behind an increase in the silver price," Smirnova predicts.

The World Silver Survey found that global investment in silver bars and coins grew 20% last year, with bar demand alone up 53%. The study also revealed a third consecutive annual decline in global production of the metal. It fell 2% in 2018, to 855.7 million ounces. "Silver is cheap, at \$15 [an ounce] as it is not encouraging new supply," says Smirnova. "Primary mines are not generating a lot of cash at these levels or are losing money."

Still, some analysts urge caution. Adam Koos, president of the Libertas Wealth Management Group, believes that silver is a "wait-and-see game" right now. However, he has recently detected "momentum [for gold] waning in favor of silver." Given that, he wouldn't be surprised to see a "changing of the guard at some point in 2019, putting [silver] in the lead." Koos adds, however, that he'd want to see prices break above \$16 before risking any "serious capital."

Investors seeking exposure to physical silver can consider Sprott Physical Silver Trust (ticker: PSLV), which Smirnova manages. Those interested in silver stocks might want to look at the Ninepoint Silver Equities Class funds, which are sub-advised by Sprott Asset Management.

Exchange-traded funds focused on the metal include the iShares Silver Trust (SLV), as well as Global X Silver Miners (SIL) and Aberdeen Standard Physical Silver Shares (SIVR).

Myra P. Saefong writes about commodities for MarketWatch.

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