

Silver Momentum is Building for a Price Explosion Higher

One of The Best Buying Opportunities For Years ?

21st August 2017



By David Mitchell

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Recognising a major trend change in a particular asset class and then timing the purchase is fraught with danger, but I have monitored major undercurrents that I believe are going to significantly advance the value of this important precious metal in the immediate future.

Market dynamics for silver are building dramatically with distortions of its price becoming very obvious. I will try to keep this article as short as possible and concentrate on future price discovery of silver from another direction that I would usually approach it from, namely its industrial component, mining and supply / demand dynamics.

Silver is widely considered a monetary metal and hence accumulated in times of economic crisis, but silver is also an extremely important industrial metal.

The big drivers I will be looking at in particular, which I believe has changed the larger picture quite significantly are as follows:

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Industrial Metal Pricing Surges Higher

Industrial metals have broken higher through an important five-year down trend line. Copper has been one of the driving forces with futures trading on the Comex market raced ahead last week as global supply disruptions come back into view and large-scale speculators place huge bets on rising prices.

Copper's 2017 year to date gains in percentage terms now top **+19%** and the red metal has recovered **+54%** in value after falling to six-year lows below \$2.00 a pound in January last year.

The price chart below is a Bloomberg index BCOMIN:IND Formerly known as Dow Jones-UBS Industrial Metals Subindex (DJUBSIN), the index is composed of futures contracts on aluminum, copper, nickel and zinc. It reflects the return of underlying commodity futures price movements only. It is quoted in USD.

This index has surged **+49%** since its lows in January 2016, with a technical price target pointing to another **+26%** higher from here.

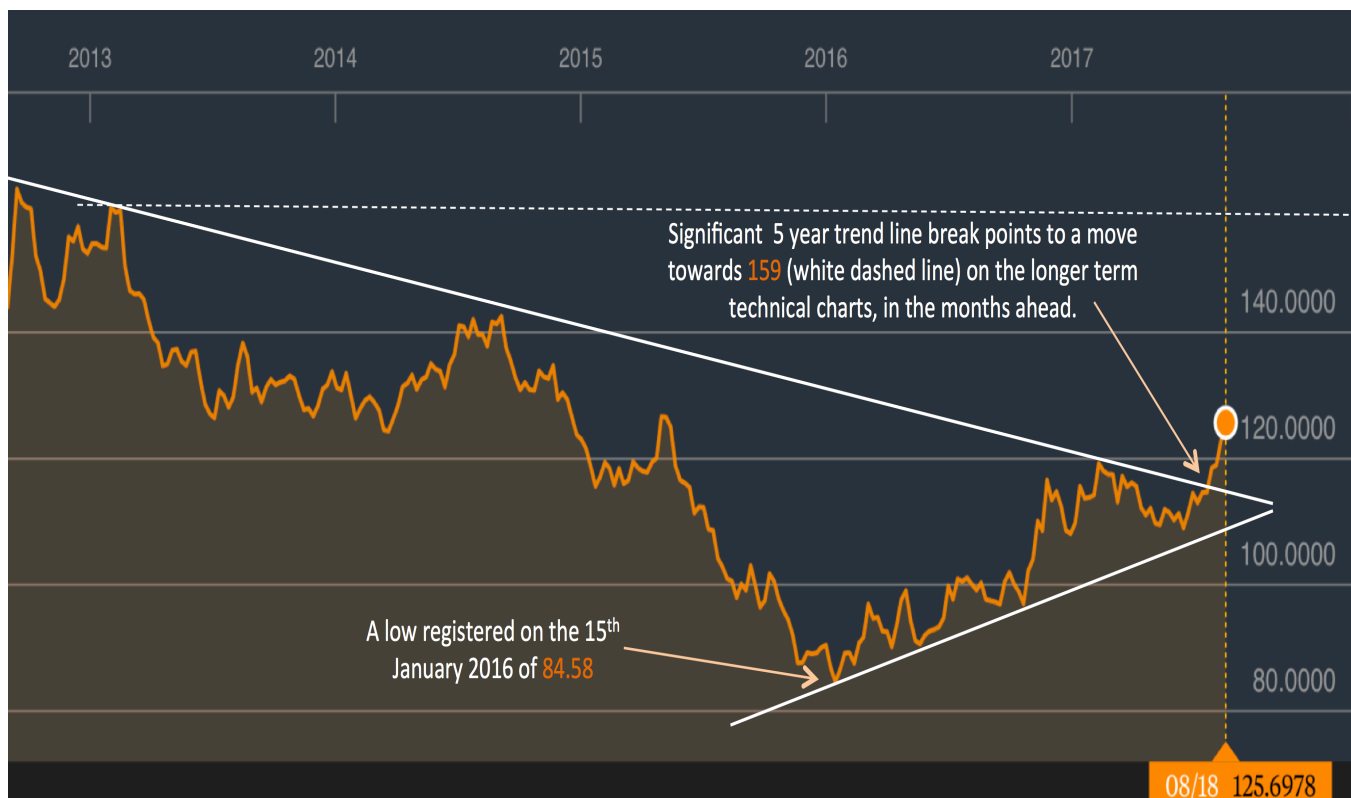


Chart Source: Courtesy of Bloomberg

The major breakout in industrial metals is a hugely bullish omen for silver, which is both an industrial and monetary metal.

This price breakout in the industrial metal sector will undoubtedly affect the silver's future price revaluation, this is unavoidable – read on why history and demand makes this a fact.

To give a clear picture of where silver production is sourced from see the table below, with serious copper production disruptions and a large shortfall in production has a huge impact on silver supply levels (23% of global product of silver comes as a by-product from copper mining).

Remember we are also experiencing annual silver production deficits against world demand (covered in 'Peak Silver Production & Supply / Demand deficits')

SILVER OUTPUT BY SOURCE METAL

(million ounces)	2015	% of	2016	% of
	Output	Total	Output	Total
Primary	262.4	29%	265.1	30%
Gold	116.5	13%	105.5	12%
Lead/Zinc	314.3	35%	309.4	35%
Copper	192.8	22%	200.9	23%
Other	4.9	1%	4.8	1%

Source: GFMS, Thomson Reuters

But lets continue and look at the other major components I see building for a huge upcoming move in silver....

Copper Revaluation and its Driving Forces Affect Silver

Several outages at some of the world's largest mines including a 43-day strike at BHP's Escondida mine in Chile, which ended in March and the ongoing strike action at Freeport McMoRan's Grasberg operations in Indonesia, have continued to underpin copper prices. Just last week (16 /8/17) Freeport stated flash floods at Grasberg has destroyed roads, bridges and water lines. The Indonesian main processing mill at the extensive complex may also be affected.

Freeport's temporary exporting licence is coming up for renewal in October 2017, a bargaining chip used by Jakarta as it negotiates with the US company about divesting a majority stake in its Indonesian subsidiary.

Zambia, Africa's top copper producer, this week reduced power supply to mines operated by Glencore and First Quantum Minerals in the country over a pricing dispute. While Glencore's Mopani was taken off line, the power cuts coincided with a maintenance shutdown at Kansanshi and power supply had been redirected to the Canadian miner's Sentinel mine.

Last month Chile's Antofagasta narrowly avoided labour strikes - which would have been the first in the London-listed company's history - at its Zaldívar and Centinela mines in the South

American nation. Together the two mines produce more than 280,000 tonnes of copper per year.

Chile is responsible for some 30% of global copper output and workers have been emboldened by a new law that strengthens the hands of labour unions in wage negotiations by making illegal reductions in benefits and replacing striking workers.

Chile also happens to be the world's fourth largest silver producer, which has seen its production plunge **-32%** in May versus the same month last year. Chile, a country which produced a record high of 54 million oz of silver in 2014, is forecasted to see its mine supply decline to less than 40 million oz of silver in 2017.

Looking further into global production, preliminary results from the top silver producers show that mine supply continues to decline from the global peak in 2015.

World Top Silver Producers JAN-APR 2017:

Country	World Production Position	Mine Production
Mexico	World number one in silver production	- 3%
Peru	Second largest producer	- 2%
Australia	Sixth largest producer	- 5%

This decline in global silver production is taking place at a time when other dynamics are pointing clearly to higher silver demand and pricing, **a perfect storm indeed !**

Silver Copper Ratio

Global Copper, Silver & Gold Mining Production Ratios For 2016:

Copper = 19.4 million metric tons (**704** times silver)

Silver = 27,551 metric metric tons (**8.5** times gold)

Gold = 3,236 metric tons

Source : USGS, WGC, GFMS & Thompson Reuters
(Information: 32,150.75 troy ounce in 1 metric ton)

As we can see, the world produces over 700 times more copper than silver, and a lot more silver than gold. The premise that the price of gold and silver should be based upon their production

ratio of 8.5 to 1, is not currently true as the price ratio is closer to 76 to 1... nearly nine times higher.

Again if silver prices reflected the real production levels of both copper and gold then silver today would be closer to **US\$ 150 per oz.**

The silver-copper is purely an expression of the price relationship between silver and copper. The ratio shows the number of ounces of copper it takes to equal the value of one ounce of silver.

For example, the price of copper as 21st August 2017 is 2.947 US\$ per lb, to convert this to grams you have to divide by 453.5923 (Avoir Pounds) and then multiply by 31.1035 to derive the price per oz. Silver price per oz divide by the copper price per oz results in the ratio of 84.06.

Now the point of this exercise is to recognise if Silver over the last 18 years has actually appreciated against base metals **or** is there clear under-valuations of the ratio that can signal as buying opportunities.

Date	Copper Price	Silver price	Ratio
21 Aug 2017	2.947 lb or 0.202 oz	US\$ 16.98 oz	84.06
19 Aug 2016	2.167 lb or 0.149 oz	US\$ 19.30 oz	129.97
19 Aug 2015	2.283 lb or 0.157 oz	US\$ 15.18 oz	97.00
21 Aug 2011	3.961 lb or 0.272 oz	US\$ 43.81 oz	161.06
22 Aug 2008	3.509 lb or 0.241 oz	US\$ 13.32 oz	55.36
26 Aug 2002	0.687 lb or 0.047 oz	US\$ 4.44 oz	94.27
16 Aug 1999	0.740 lb or 0.0507 oz	US\$ 5.23 oz	103.155

Now the point of this exercise is to purely recognise if this ratio recognises buying opportunities in Silver.

Within 3 years from August 2008 silver appreciated 353 %

In fact whenever this ratio moved below 85 silver effectively outperformed in the years ahead.

Peak Silver Production & Supply / Demand deficits

The silver market has finally experienced a major peak in world silver production; this gives notice of higher prices in year ahead. In addition, the global silver market suffered another large net supply deficit in 2016, with large production falls so far in 2017. These factors indicate a large trend change in the future silver market valuations.

GFMS also stated the following in their end of year report:

1. We estimate that mine supply peaked in 2015 and will trend lower in the foreseeable future.
2. Declining total supply is expected to be a key driver of annual deficits in the silver market going forward.

TABLE 1 - WORLD SILVER SUPPLY AND DEMAND

(million ounces)	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Supply										
Mine Production	667.7	684.7	717.3	753.0	758.3	791.7	823.7	868.6	890.8	885.8
Net Government Sales	42.5	30.5	15.6	44.2	12.0	7.4	7.9	-	-	-
Scrap	203.7	200.4	200.1	226.4	260.1	253.8	191.0	165.3	141.1	139.7
Net Hedging Supply	-24.1	-8.7	-17.4	50.4	12.2	-47.1	-34.8	16.8	7.8	-18.4
Total Supply	889.8	907.0	915.6	1,074.1	1,042.7	1,005.8	987.8	1,050.7	1,039.7	1,007.1
Demand										
Jewelry	182.3	177.6	176.9	190.0	191.5	187.4	221.8	227.9	228.3	207.0
Coins & Bars	61.6	196.6	92.9	147.7	208.4	159.2	240.6	234.0	290.7	206.8
Silverware	60.2	58.4	53.2	51.6	47.2	43.7	58.8	60.7	62.9	52.1
Industrial Fabrication	646.0	641.8	528.2	633.8	661.4	600.0	604.5	595.7	569.6	561.9
...of which Electrical & Electronics	262.5	271.7	227.4	301.2	290.8	266.7	266.0	263.4	245.9	233.6
...of which Brazing Alloys & Solders	58.6	61.8	53.8	61.2	63.2	61.1	63.7	66.7	61.5	55.4
...of which Photography	117.0	98.2	76.4	67.5	61.2	54.2	50.5	48.5	46.6	45.2
...of which Photovoltaic*	-	-	-	-	75.8	58.2	55.9	51.8	57.2	76.6
...of which Ethylene Oxide	7.9	7.4	4.8	8.7	6.2	4.7	7.7	5.0	10.2	10.2
...of which Other Industrial*	200.0	202.7	165.8	195.2	164.1	155.0	160.8	160.5	148.4	141.0
Physical Demand	950.2	1,074.5	851.1	1,023.1	1,108.5	990.2	1,125.8	1,118.3	1,151.5	1,027.8
Physical Surplus/Deficit	-60.3	-167.5	64.5	50.9	-65.8	15.6	-137.9	-67.6	-111.8	-20.7
ETP Inventory Build	54.8	101.3	156.9	129.5	-24.0	55.3	2.5	1.5	-17.7	47.0
Exchange Inventory Build	21.5	-7.1	-15.3	-7.4	12.2	62.2	8.8	-5.3	12.6	79.8
Net Balance	-136.6	-261.7	-77.2	-71.1	-54.0	-101.9	-149.2	-63.8	-106.7	-147.5
Silver Price, \$ per oz.	13.38	14.99	14.67	20.19	35.12	31.15	23.79	19.08	15.68	17.14

*Photovoltaic demand included in "Other Industrial" prior to 2011

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Annual supply deficits due to increasing global demand started in 2004, and we have now seen officially 13 consecutive years of global annual silver deficits, with 2017 undoubtedly being the 14th Year of yet another large supply / demand deficit.

In fact the deficit accumulation is 1.338 billion oz net silver deficit from 2004 to 2016, a truly enormous number.

These annual deficits have been supplemented by silver surpluses built during the 1980's and 1990's. However, annual deficits are forecasted to continue as mine supply continues to decline along with muted scrap supply.

Seasonal Buying Trends in Silver – Buy Now ?

The chart immediately below is made up of the last 45 years of silver price data, averaged and demonstrating percentage moves over the year, defining seasonal shifts in price action.

Looking at this data would suggest buying now, late August is an opportunity not to miss.

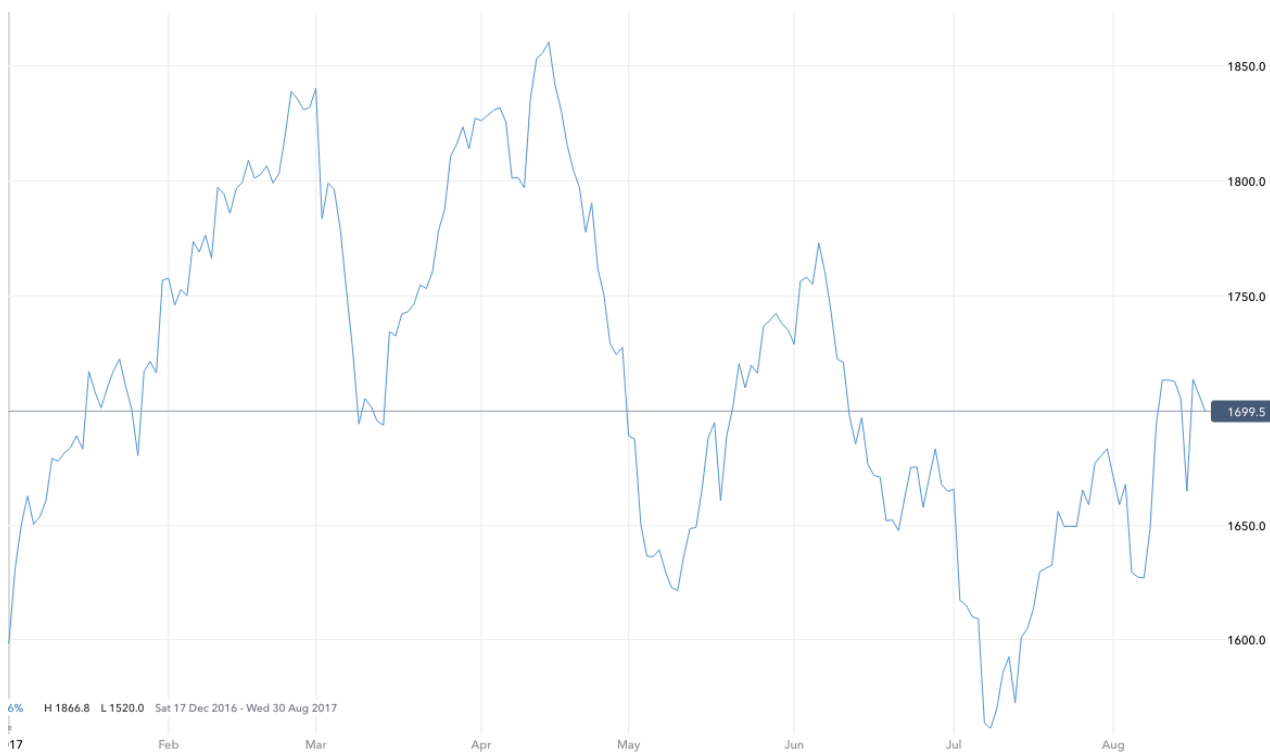


For clarification : silver definitely has strong seasonal tendencies. Silver's best odds for rallying are in autumn and winter, when its strongest seasonal rallies tend to unfold. Its weakest

behaviour occurs during summer doldrums, the end of which are usually the best time to buy silver.

But it is always crucial to remember that seasonality is a secondary driver at best. The tailwinds and headwinds that create seasonal trends can be easily overcome by other more overpowering drivers and hence seasonality is always worth considering when making silver-related trading decisions, but it must be relegated to the smaller peripheral role it deserves.

How does the seasonality trends look compared to 2017 silver price action so far ?

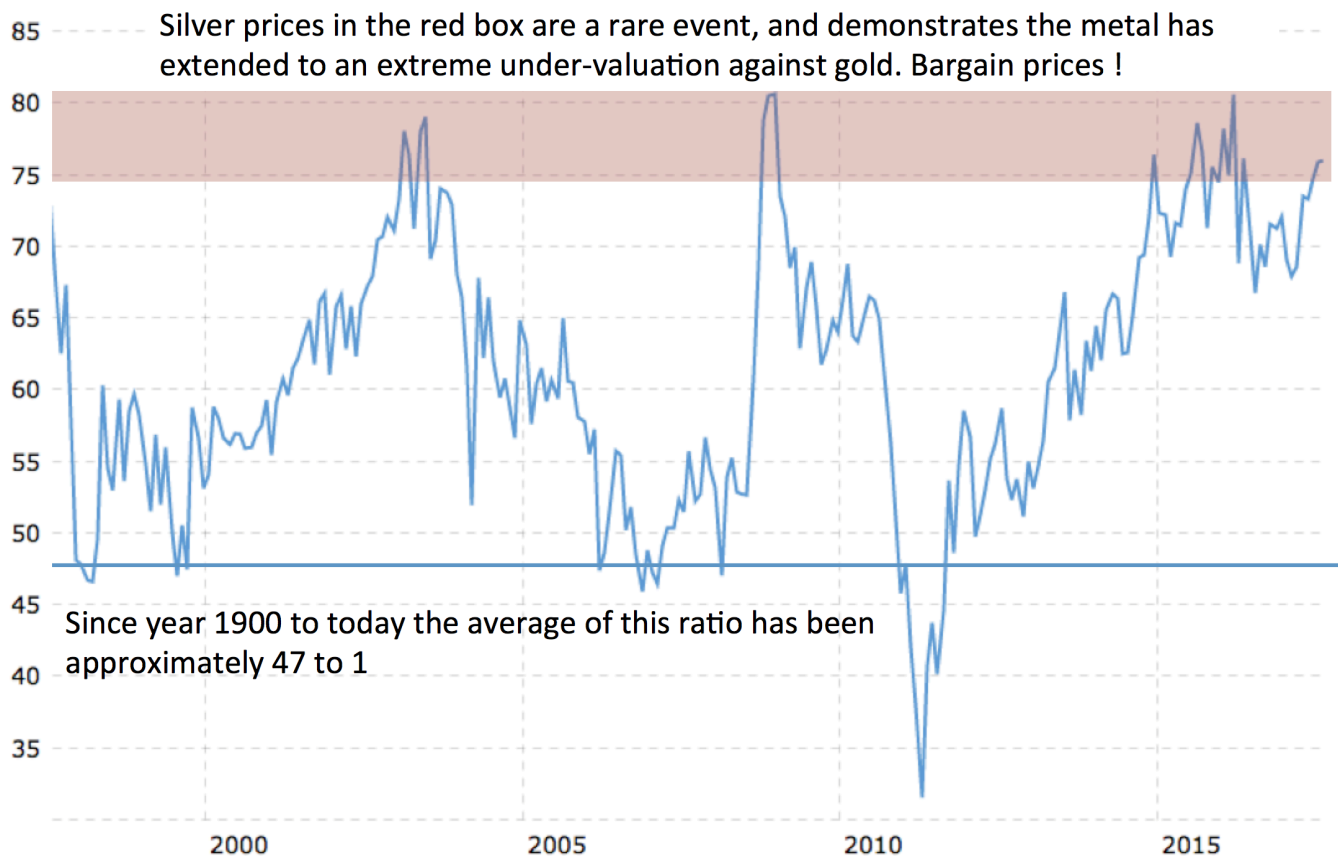


- Price action sharply higher into beginning of March ✓
- Down in March only to recover the highs in mid April ✓
- Price down in summer doldrums into late June early July ✓
- Recovery in price in July ✓
- August choppiness awaiting buying opportunity into September ?

Well year 2017 price seasonality has worked incredibly well so far !

Gold Silver Ratio - Buying Opportunity ?

The gold-silver ratio is the oldest continuously tracked exchange rate in history. The primary reason the ratio is followed is because gold and silver prices have such a well-established correlation.



As mentioned in the 'copper ratio'

Global Silver & Gold Mining Production Ratios For 2016:

Silver = 27,551 metric metric tons (**8.5** times gold)

Gold = 3,236 metric tons

Source : USGS, WGC, GFMS & Thompson Reuters

And we are presently trading at 75.7 to 1 - silver is very undervalued ! A significant buying opportunity ?

Conclusion: Silver Buying Checkpoint List

When investing for the medium to longer term (over the next few years) and avoiding the subject for the moment that our financial system is facing a critical juncture in our history, based on the largest debt bubble ever recorded and the solvency issues stemming from this, once the debt markets start to crack – let us instead look simply at the supply / demand production data and industrial metal markets.

- Industrial metals (zinc, nickel, copper and aluminium) have recorded large powerful moves higher, in fact copper for example is up 54% since its lows in Jan 2016 while silver is only up + 24%. We have also broken higher through a larger long-term trend line in the industrial metals.
- Enormous problems are surfacing with not only primary, but also by-product production of silver (read copper production problems). In fact it is now recognised by the USGS and Silver Institute that silver production will continue to fall every year moving forward.
- Global demand for Silver is far outpacing silver production (including re-cycling). In fact Silver is in the throes of recording 14 consecutive years of supply deficits into 2017. The pressure on higher prices moving forward will be immense.
- Gold Silver ratio is clearly demonstrating an enormous buying opportunity for Silver.
- Silver Copper ratio is also clearly signalling a buy opportunity in Silver.
- Seasonal monthly trends, based on 45 years of data is pointing to end of August 2017 as a prime buying opportunity.



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