

By Michael Fahy, ZAWYA

Silver prices are expected to trade higher in 2019 on the back of higher gold prices despite an 8 percent decline in dollar terms in 2018.

The World Silver Survey unveiled at the Dubai Precious Metals Conference earlier this month revealed that the London Bullion Market Association (LBMA) silver price fell by 8.3 percent last year, after a 3.8 percent gain in 2017. Silver averaged \$15.71 last year, and closed the year at \$15.48.

The survey, which was produced jointly by trade body The Silver Institute at Zawya's parent company, Refinitiv, showed that silver prices also fell against most major currencies in 2018, finishing the year 11 percent lower against the Japanese yen, 5 percent against the euro, 3 percent against the British pound and 0.7 percent against the Indian rupee.

Prices fell despite a slight decline in supply, with silver mine production declining by 2 percent last year to 26,616 tonnes and silver scrap supply declining 1.7 percent to 4,707 tonnes.

According to Eikon data, prices have continued to decline since the start of the year, falling by a further 3 percent to just above \$15.01 by 19.49 BST on Monday.

Presenting the survey's findings, Cameron Alexander, director of precious metals at Refinitiv, said: "We are expecting silver prices to firm up, driven by a higher gold price. We are looking for an average silver price this year in the range of about \$16.50-\$16.75, with a slightly higher price approaching \$17-\$17.50 in 2020."

Meanwhile, demand for physical silver also rose by 4 percent to 32,146 tonnes in 2018, driven by a recovery in demand from retail investors.

Demand from industrial users, which accounts for 57 percent of total silver use globally, fell by 1 percent in 2018 to 17,997 tonnes globally, according to the report, with a 9 percent decline in use by the solar photovoltaic sector accounting for the bulk of the decline. The report attributed this to a more efficient use of silver loadings in panels for the change.

There was brighter news in both the retail and investment markets, however.

In the investment market, demand for coins, bars and medals, as well as additions made to stocks used by exchange-traded products, increased by 5 percent to 5,007 tonnes. This was fuelled mainly by buying of silver bars, with demand jumping by 53 percent, mainly as a result of increased purchases from Indian investors, the report said.

Price divergence

The increase in jewellery fabrication, which also climbed by 4 percent to 6,609 tonnes, was also attributed to increased buying from India, where demand increased by 16 percent to hit a new record of 2,378 tonnes, or around 36 percent of the global total. The report said that buying increased in the fourth quarter, driven by a diversion between gold and silver prices, with the former increasing by 6.8 percent, but the latter falling by 3.3 percent.

Speaking on a panel debate on the demand for white metals at the Dubai Precious Metals Conference, Viraj Didwania, a director of Mumbai-based silver trading body, Foresight Bullion India, said that the market in India picked up last year after having to contend with demonetisation of the rupee and the introduction of the goods and services tax in 2016-17.

“2019 has been good—demand has been higher than 2018,” Didwania said, adding that it had been driven mainly by retail buyers and investors.

He said industrial demand in India was still a small percentage while most of the demand was for jewellery and investment.

He argued that the main competition for demand for silver wasn't gold, but is experiential. “A lot of the younger generation isn't so interested in products anymore; they are more interested in experiences.”

Despite this, he said, “the consumption of silver is going to continue. I don't see that changing.”

Silver remained popular as a gift for weddings, births and other occasions, even if designs have become more modern, he added.

In terms of other white metals, panel participants discussed the divergence in pricing which has taken place between platinum and palladium in recent years.

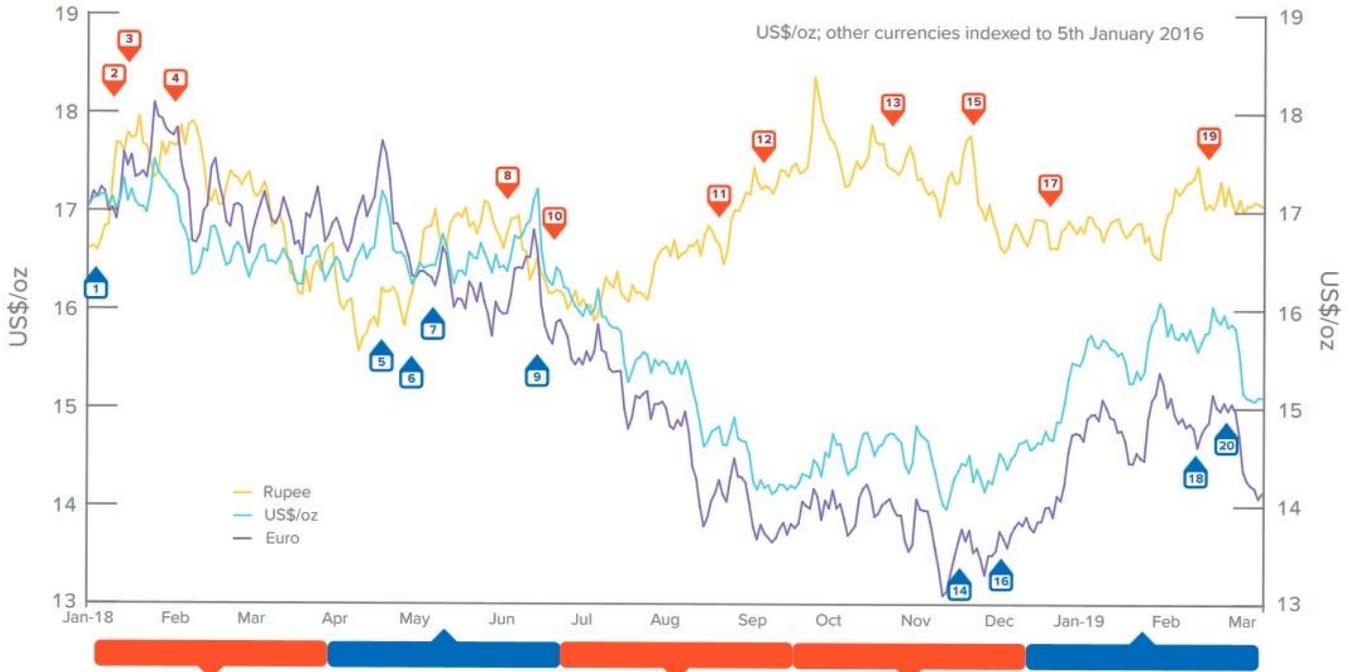
Over a five-year period, platinum has declined in value by 36 percent to \$895.35 per oz, from \$1,396.60 at the end of April 2014, while palladium has gained in value by 72 percent to \$1,374.91, according to Eikon data.

Speaking via a translator, Sergey Belov, deputy CEO and head of refining at Russian precious metals firm Krastvetmet, said that Russia and South Africa were responsible for around 85 percent of the world's platinum and palladium production. He said that the amounts of both metals had declined in both countries for seven years, and that palladium, in particular, had been in greater demand.

Both metals are used extensively in the auto industry, which is responsible for about 85 percent of palladium demand. But the dwindling demand for diesel cars, where platinum is used in catalytic converters, has led to its price decline, whereas palladium is used to remove nitrous oxide from petroleum engines, and remains in demand even for hybrid cars.

Belov forecast an annual price for platinum this year of \$882, and said it could climb as high as \$930-\$950, depending on market conditions. He predicted a price of around \$1,300-\$1,350 for palladium, with a maximum price of \$1,700.

Rhona O'Connell, EMEA and Asia head of market analysis for U.S.-based INTL FCStone, said that based on a premise that the U.S. dollar loses some of its strength, the market sentiment pushing down platinum prices had been "overdone". The fundamentals underpinning palladium's price remains robust, she said, adding that she expected prices of both precious metals to rise this year, to \$950 for platinum and \$1,450 for palladium.



Source: GFMS, Refinitiv

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| 1 (02/01/2018): Bitcoin prices drop, wiping over \$40 in value. | 6 (05/08/2018): Trump backs out of Iran's nuclear deal | 11 (08/28/2018): Non-commercial speculators add 100 moz to gross short position. Net position at two months low. | 16 (12/01/2018): Trade war tensions ease after a truce is promised within U.S. and China in Buenos Aires G20 Summit |
| 2 (02/05/2018): Jerome Powell is sworn in as new Federal Reserve Chairman | 7 (05/10/2018): First Majestic completed the acquisition of Primero Mining corp. | 12 (09/03/2018): Guatemala's High Court confirms the suspension of the Escobal silver mine | 17 (12/22/2018): U.S. sees the largest Government shutdown in history |
| 3 (02/06/2018): U.S. wage growth triggers market concerns. Investors unwind short volatility positions; VIX surges | 8 (05/31/2018): U.S. levies tariffs on Canada, EU and Mexico, while announces taxes on steel and aluminium imports of 21% and 10%, respectively | 13 (10/22/2018): Moody's Analytics Survey for Business Confidence posts confidence in the market | 18 (02/12/2019): North Korea-United States Summit in Vietnam |
| 4 (02/24/2018): Trump stated the U.S. will extend tariff hikes on Chinese imports | 9 (06/12/2018): Kim Jong Un announces plan to denuclearize North Korea | 14 (11/14/2018): Pan American Silver announces the acquisition of Tahoe Resources creating the largest primary silver producer | 19 (02/17/2019): U.S. Commerce Secretary recommended imposing tariffs on global imports of cars and auto-parts |
| 5 (04/26/2018): Kim Jong Un crosses the border into South Korea, after years of escalating tensions | 10 (06/18/2018): Italy's National Statistics agency forecasts a fall in economic growth from 2.3% to 1.7% | 15 (11/25/2018): EU approves Brexit bill | 20 (02/26/2019): Theresa May pleaded in Parliament to delay departure from the EU if no deal has been reached by mid-March |

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