

Where Silver Is Headed

03/15/2010

By Josh Lipton (Minyanville)

It might be referred to as "poor man's gold"; but a lot of investors are betting silver could make them rich.

Silver has shined in the past few weeks. The metal settled last Friday at \$17.065 an ounce. That's up 16.56% since its February 5 low of \$14.64, according to Bloomberg data.

The precious metal retains dual attractions to investors, says Jeffrey Christian, the managing director at CPM Group: "Silver is a financial hedge like gold," he tells us, "but it is also an industrial play."

Let's talk about investment activity first: Demand for silver exchange-traded funds, although it's come off a bit in the past couple weeks, still looks strong, according to Christian.

He tells us that global ETF holdings have increased to 438 million ounces since the first silver ETF launched in April 2006.

Looking ahead, Christian expects investors to stay pretty interested in lining their portfolios with some silver. "The additions last year to ETFs were on the order of 150 million ounces," he says. "I don't know that this year will be as strong as 2009, but we do expect it to be relatively strong."

Christian says he expects silver to average \$17.24 this year, up from \$14.67 in 2009.

The iShares Silver Trust (SLV) is up 10% in the past month. The stocks of some mining-related companies have also enjoyed big runs to the upper right hand corner of the chart: Pan American Silver (PAAS) is up 56% in the past 12 months; Silver Wheaton (SLW) is up 135%.

Investors, by adding a dash of silver to their holdings, are also making a bet on the global growth story, given the metal's many industrial applications.

About 50% of silver's demand is industrial, analysts tell Minyanville, with the bulk of that demand coming from

electronics.

The Silver Institute, a nonprofit industry group, notes that the metal is used in everything from computer keyboards and automobile dashboards to the control panels of washing machines and the circuit breaker boxes in our homes.

Industrial demand for silver did take a hit due to the economic downturn. The use of silver in industrial applications fell to 447.2 million ounces in 2008, down from 453.5 million ounces the year before, according to The Silver Institute.

Fabrication demand was weaker still in 2009, says Neil Meader, research director at GFMS, a London-precious metals consulting firm. However, Meader forecasts demand most definitely rebounding in 2010.

“The world economy is coming back to life,” Meader tells Minyanville, adding that he sees the price of silver moving higher from here.

“There are reasonable grounds for price growth,” he says. “It will be heavily bound to what happens to the gold price. We think there is upside to that so silver will follow in its footsteps. Silver has quite a lot going for it.”

Not everyone agrees.

Michael Pento, senior market strategist at Delta Global Advisors, does like silver but he’s no die-hard fan, given its ties to the business cycle.

He believes the global economy will slow down in the second half of the year, and he forecasts silver lagging the yellow metal.

“It is the least precious of the precious metals,” Pento says. “I still do like it, but because it’s tied to the cyclicity of the global economy, I like it less than gold.”

The strategist concludes, “The global economy will fall, as we get all the exit from the Fed’s artificial stimulus and the government support of the housing market. Once that leaves the economy, we will see a vacuum. In that environment, I am not upbeat on commodities in general.”

In our recent article, Behind China's Stance on Gold, Pento outlined why he remains bullish on the yellow metal, citing the threat of what he sees as elevated levels of inflation in the years ahead.

He's a fan of the metal and the miners, specifically IAMGOLD (IAG) and Eldorado Gold (EGO).