Further upside in Silver

Mr Smit Rajesh Bhayani, Research Analyst

The market is currently projecting that the United States would lower interest rates in June 2024, which is when the gold price surge began. One significant resistance level, $2,080/-per ounce, was broken by the Comex gold prices at the end of February 24, which caused the prices to soar even higher. In the midst of geopolitical unrest, demand for safe haven assets and positive U.S. economic statistics helped to sustain gold prices. Silver prices are still not rising to their full potential in relation to gold prices. Since silver's fundamentals are stronger compared to gold, its potential for a rally this year is significantly greater than that of gold prices.

In the recent several sessions, silver prices have increased by about $2, mostly due to the possibility of a US interest rate cut. This occurred as a result of lower-than-expected consumer sentiment and the PCE index for February coming in line with forecasts. The demand-supply situation also encourages a further increase in silver prices.

Since silver is lagging behind the industrial metals, it is performing poorly. China's aggressive silver purchases should intensify in order for silver prices to soar even further. The fundamentals of silver are far better to those of gold. Silver has a far larger surplus-deficit than gold, which makes it much more appealing. The deficit market for silver has been growing over the past two years, which will eventually result in higher prices.

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Source: NB Research, the Silver Institute

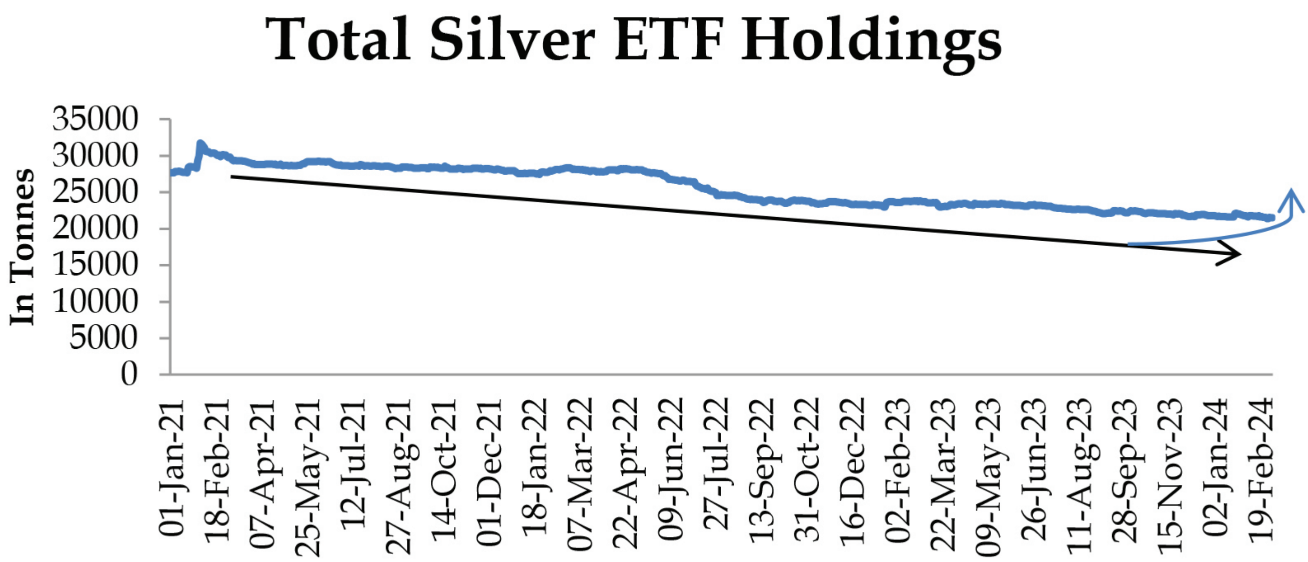
Comex silver prices are about to rise further and silver's returns have the potential to outpace those of gold. Given the prevailing conditions, silver ought to have surged by now. Silver's supply and demand characteristics show that the metal's price is currently underperforming.

Over the past two years, there has been a shortage of more than 1.2 billion ounces in the silver market. The Silver Institute estimates that the shortage in silver was over 1.24 billion ounces in 2022 and that it will only slightly decrease to 1.67 billion ounces in 2023. But given the ongoing increase in industrial demand and the growing use of silver in solar and green technologies, we think the shortfall in 2023 will exceed the projections made by the Silver Institutes.

Although China's contribution to the acquisition of white metals is still low, the country is using more silver as its gold stockpiles rise. In the upcoming months, China's continued acquisition of silver for its many purposes will contribute to the metal's exponential price increase.

Because the industrial sector and the bars and coin segments are expected to generate the majority of market demand, silver's demand suggests that the jewelry and silverware sector may experience lower demand in the upcoming months compared to the demand numbers observed previously. Nonetheless, the demand for silver investments, particularly from ETFs, might stay weak. However, if this ETF's demand for silver increases, the price of silver will continue to rise.

Silver ETF's



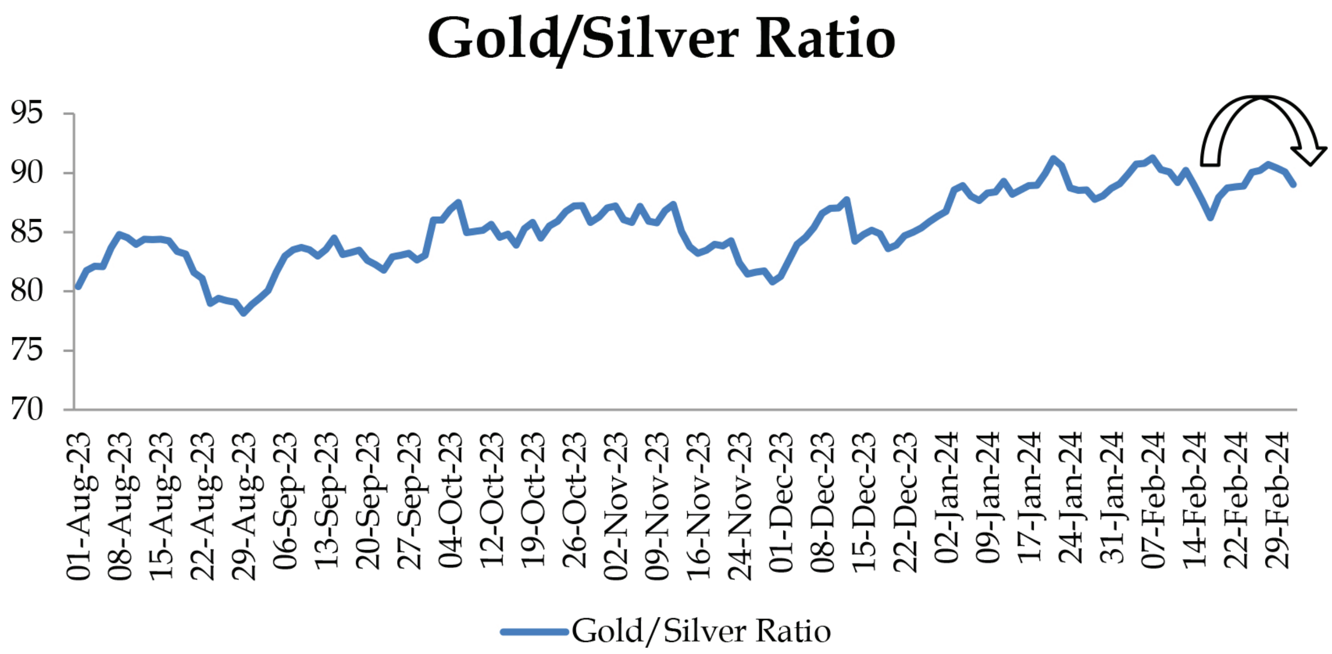
Source: NB Research, the Silver Institute

Since 2021, there has been an ongoing outflow from silver exchange-traded funds (ETFs). The aforementioned charts demonstrate that investment demand in silver has only experienced outflows due to investors' lack of confidence despite improving fundamentals. We think silver will beat gold with extremely excellent returns until this trend reverses (as indicated by the blue arrow on the chart); but, a rise in investor confidence and the decline in the equity market are also anticipated to fuel silver prices.

Source: NB Research, the Silver Institute

According to the supply scenario for silver, mine production has been gradually declining till 2022, while scrap availability and scarp inflow have been steadily rising over the past few years. The impact of COVID-19 was also a factor, as many mines had been closing down or producing less, but more recently, many of them had resumed operations at full capacity or had even expanded.

Gold/Silver Ratio



Source: NB Research, the Silver Institute

The ratio of gold to silver suggests that silver is once again due for an accumulation. The amount of silver needed to buy one ounce of gold is expressed as the gold/silver ratio. The ratio of silver to gold is currently 89, suggesting that silver is reasonably cheap and will likely outperform gold. When both metals are in bull markets, the ratio's historical movements indicate that gold is typically more expensive than silver. This implies that silver investors will have a higher rate of return on their investments when both markets increase.

Outlook: Silver prices on Comex have climbed from $22.27 to $26 and made a high of $ 27 per ounce, and it's just a matter of time before they approach $28. There is still room for growth, as prices might reach $30 and even higher. In the upcoming months, we anticipate that Comex silver prices will test the levels of $29-32 per ounce. Regarding the economy, the United States' rate cut is already anticipated; the timing of the rate cuts is the focus of attention. China's economy is likely to remain unstable, and the government there is likely to hoard silver in the same way that it does gold, driving up prices. We also anticipate that there won't be a geopolitical truce between Israel and Gaza and Russia and Ukraine, which is also why prices will stay higher. On MCX, we expect silver prices to test Rs. 85,000-93,000/- per kg.

Address: Nirmal Bang Securities Pvt. Ltd., B2, 301 / 302, 3rd Floor, Marathon Innova, Opp. Peninsula Corporate Park, Ganpatrao Kadam Marg, Lower Parel (W), Mumbai - 400 013, India.