Market Insight

Silver Outlook to Q1 2025: The hybrid metal is staging a catch-up

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Silver is finally staging its catch-up to gold after underperforming the yellow metal for most of the past year. Silver's year-to-date gains – at 17.6% as of 11 April 2024 – outshines gold's 13.4%[1] . Most of this catch-up took place in the first week of April.

While many analysts have marvelled at gold's recent rise to a new all-time high, silver's gains seemed to have been a long time coming. The metal has been in a supply deficit for three years running and is likely to head into a fourth year of undersupply in 2024. Industrial demand for the metal is rising strongly with increasing demand for photovoltaics, vehicle electrification, 5G technology, and artificial intelligence (AI) applications.

Tight supply-demand balances

When including investment demand but excluding exchange-traded products (ETPs), silver has notched three years of back-to-back supply deficits, with a 253-million-ounce record-high deficit in 2022 and the second-highest deficit in 2023 of 211 million ounces. When excluding net physical investment (arguably the better way to look at silver balances as silver in investment isn't 'consumed' but stored and is very mobile), silver was in surplus in 2023. Still, it was the smallest surplus on record. We believe that silver will enter another year of deficit in 2024 of a similar magnitude to 2023, when including investment demand. The balance excluding investment is likely to be at its lowest on record.

Figure 1: Silver market balance

Million ounces	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024*
Total supply	1,054	1,047	1,046	1,012	1,000	1,000	959	1,006	1,020	1,012	1,020
Total demand	1,021	1,065	992	971	999	1,004	926	1,096	1,272	1,223	1,240
Market balance	34	-19	55	41	1	-4	33	-90	-253	-211	-220
Balance excluding investment	317	291	268	196	167	183	241	193	82	44	10

Source: Metals Focus, WisdomTree. April 2024. *Forecasts. **Forecasts are not an indicator of future performance and any investments are subject to risks and uncertainties**

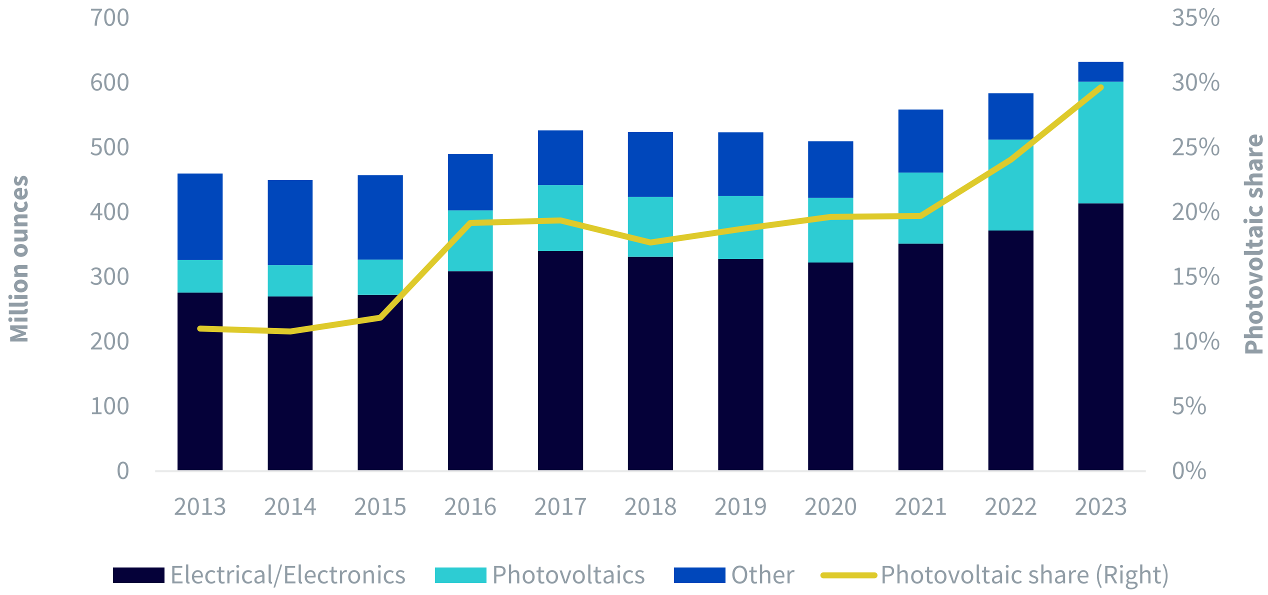
Industrial demand for silver

Industrial demand for silver has been scaling new highs (Figure 2), propelled by photovoltaic demand and increasing use of silver in 5G and car electronics. Photovoltaic installations significantly exceeded anyone's forecast at the beginning of 2023, with new capacity additions forecast to reach another record high in 2024. Silver offtake should also benefit from the technological breakthrough that has brought new, higher-efficiency, N-type solar cells (with higher silver loadings) into mass production. In the automotive industry, greater use of electronic components and investment in battery charging infrastructure will continue supporting silver offtake.

1 Source: Bloomberg

Consumer electronics were an area of relative weakness for silver demand in 2023, but with AI applications set to expand in 2024, we expect silver demand from this segment to rise.

Figure 2: Industrial demand for silver

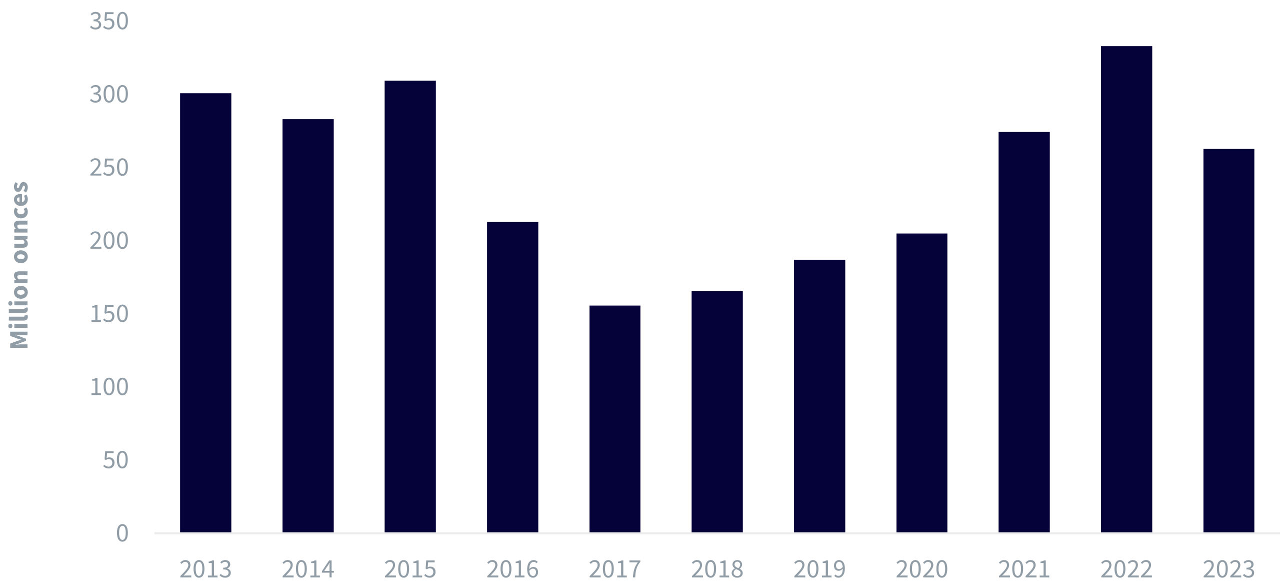


Source: Metals Focus, WisdomTree, April 2024. **Historical performance is not an indication of future performance and any investments may go down in value**

Investment

Physical investment in silver has been robust since 2021 (Figure 3). This represents a predominantly retail investment in coins and bars. Institutional demand for silver, however, has been relatively muted over the past few years, with outflows dominating the space.

Figure 3: Investment demand for silver



Source: Metals Focus, WisdomTree, April 2024. **Historical performance is not an indication of future performance and any investments may go down in value**

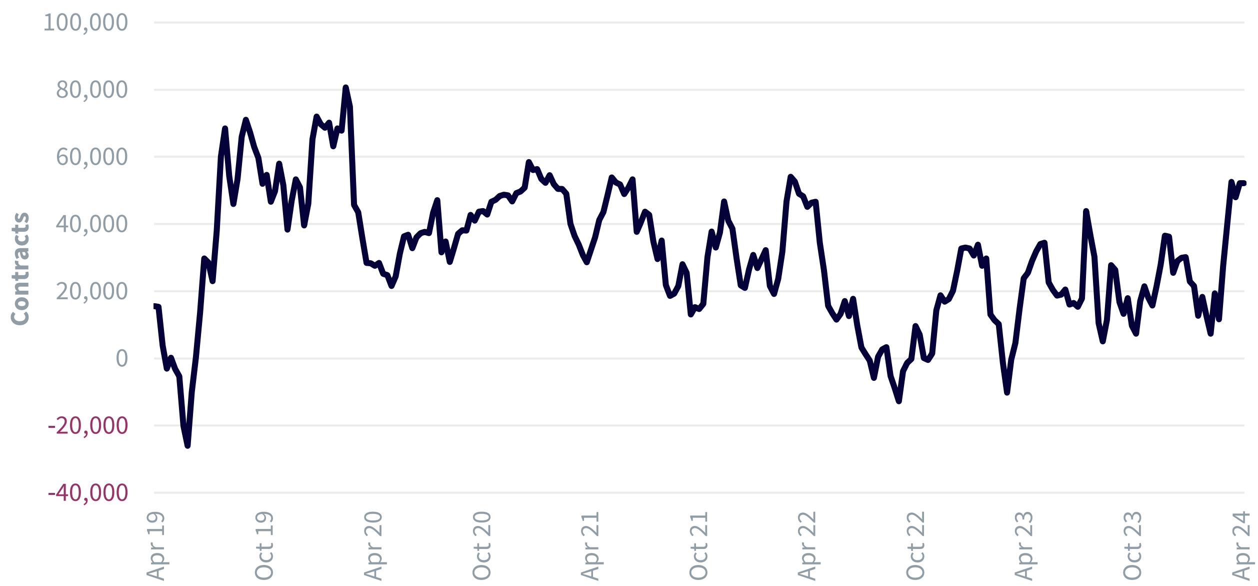
However, in March 2024, we started to see an uptick in silver ETP demand (Figure 4). That contrasts with gold, where despite the yellow metal hitting an all-time high, ETP investors have sat on the sidelines. The flows into silver ETPs may be somewhat tactical, given silver's relative underperformance in March 2024 and the potential for catchup.

Figure 4: Silver in ETPs

Source: Bloomberg, WisdomTree, April 2022 to April 2024. **Historical performance is not an indication of future performance and any investments may go down in value**

Net speculative positioning in silver futures markets has also recovered recently (Figure 5). Net longs in silver had fallen to 7k contracts in mid-February 2024 but had recovered to over 50k contracts by the beginning of April 2024. That does point to excess bearishness towards silver from institutional investors melting away.

Figure 5: Silver futures net speculative positioning

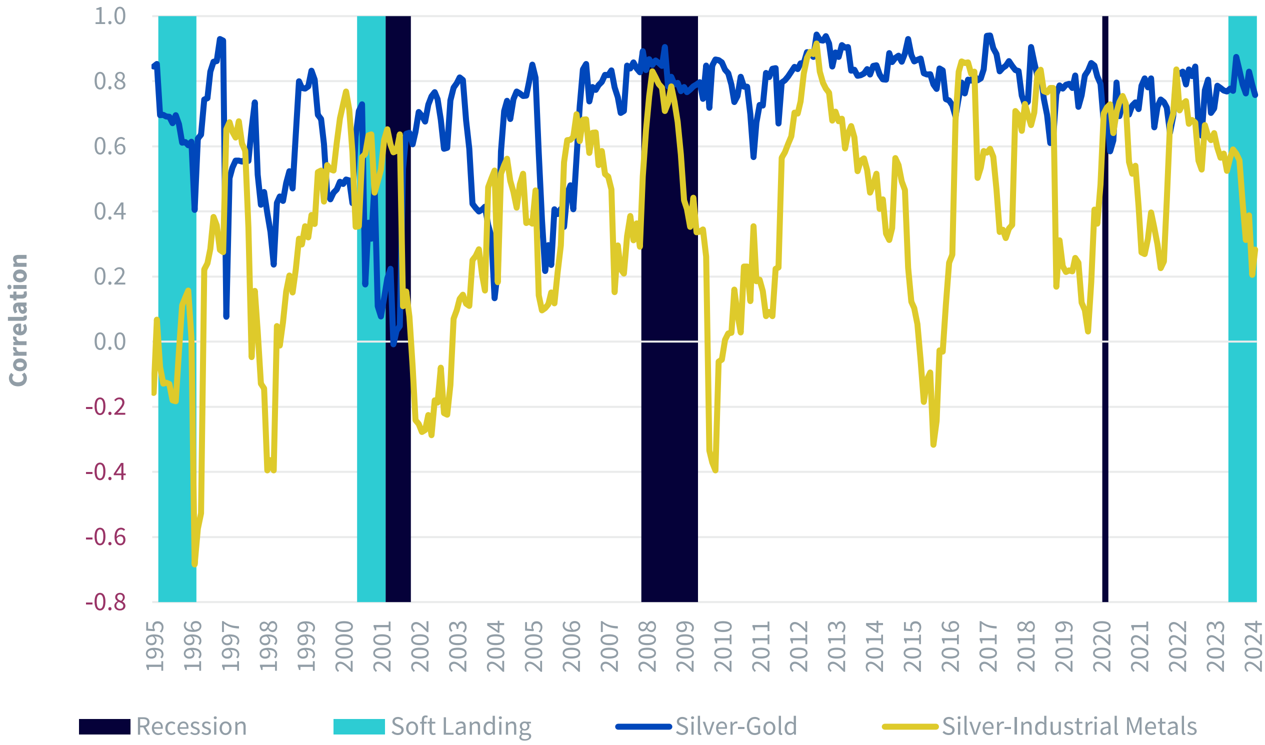


Source: Bloomberg, WisdomTree, April 2019 to April 2024. **Historical performance is not an indication of future performance and any investments may go down in value**

Silver in the next leg of the economic cycle

We expect silver's correlation to gold to remain strong. So, if we head into an economic recession, silver should benefit from gold's rise. Silver's correlation with gold has been surprisingly consistent at around 0.8 since the Global Financial Crisis in 2008. However, silver's correlation with industrial metals has moved in a wide range – it has sometimes been positive and occasionally negative. Although consensus expectations are for a soft landing in 2024, there are relatively few observations of soft landings in the past (at least where we have industrial metal basket data). Looking at the few observations of soft landings and recessions, silver's correlation with industrial metals tends to decline. In the current period (assuming the last Federal Reserve rate hike was in July 2023), the silver-industrial metal correlation has declined.

Figure 6: Silver correlations

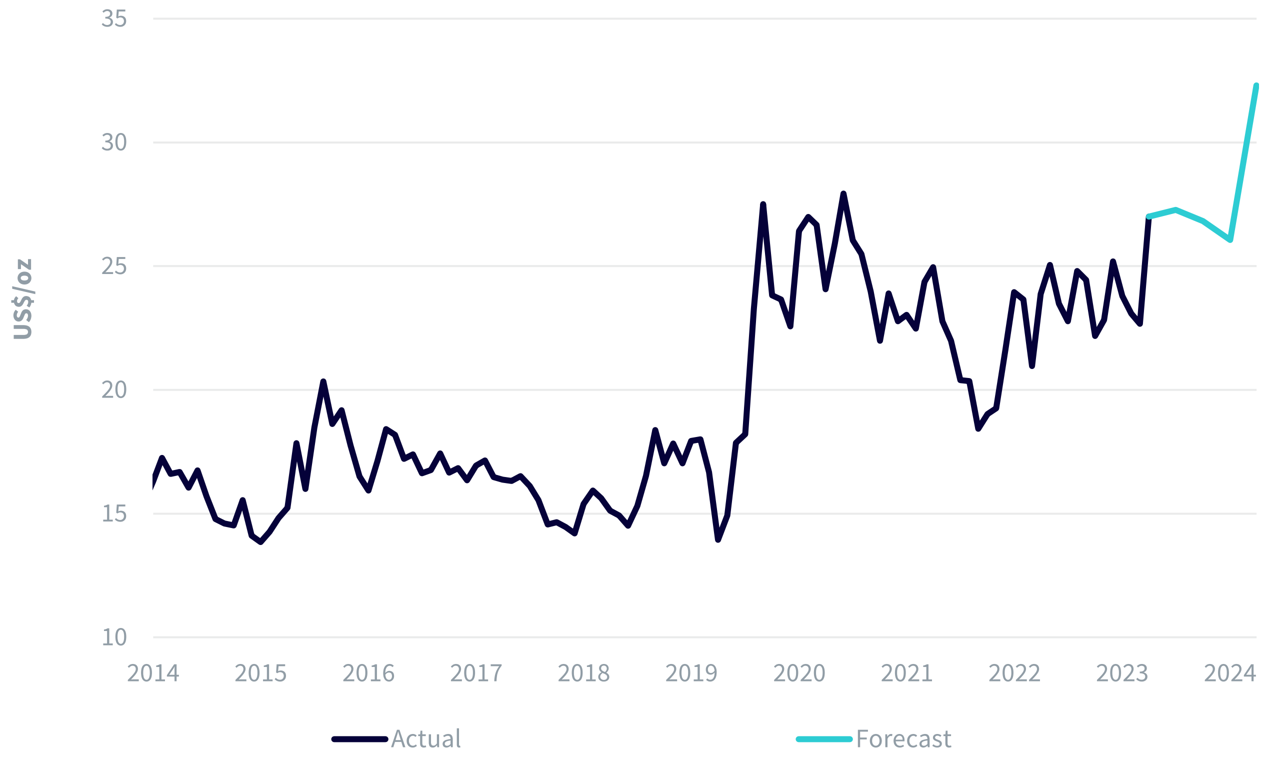


Source: WisdomTree, Bloomberg, NBER Recessions dates, Soft landing dates taken from Landings, Soft and Hard: The Federal Reserve, 1965–2022, by Alan S. Binder, Journal of Economic Perspectives—Volume 37, Number 1—Winter 2023—Pages 101–120, using last rate hike as the start and ending 12 months from there. February 1994 to March 2024, monthly data. 12-month rolling correlations. Spot gold and silver prices, Bloomberg Commodity Industrial Metals Subindex Total Return. **Historical performance is not an indication of future performance and any investments may go down in value**

Outlook for silver

We believe that silver will outpace gold to gain 15.4% over the coming year, versus 11.9% for gold (March 2004 to March 2025). By Q1 2025, we expect silver prices to trade above US$32/oz (Figure 7). That largely reflects silver's historic 'leveraged' play on gold combined with continued improvement in the industrial cycle. Our models indicate that for every 1% increase in gold prices, silver has historically risen 1.4%. The price of both metals, however, may moderate as markets recalibrate their expectations around interest rate cuts. Silver's stronger gains over the forecast horizon could reduce the gold to silver ratio to 77 by Q1 2025 from the current 84 (as of 11 April 2024).

Figure 7: WisdomTree silver price forecast



Source: WisdomTree (forecasts), Bloomberg (historical data), data available as of close 31 March 2024. **Forecasts are not an indicator of future performance and any investments are subject to risks and uncertainties.**

Framework

Gold and silver's strong correlation is the main driver for silver prices in our framework. However, to account for the remaining c.20% of price behaviour that gold does not explain, we use the following variables:

+ **Growth in manufacturing activity:** More than 50% of silver is used in industrial applications (in contrast to gold, where less than 10% comes from that sector). We use the global manufacturing Purchasing Managers Index (PMI) as a proxy for industrial demand.
+ **Growth in mining capital investment (capex):** The more mines invest, the more potential supply we will see. Thus, we take an 18-month lag on this variable. Given that most silver comes as a by-product of mining for other metals, we look at mining capex across the top 100 miners (not just monoline silver miners).
+ **Growth in silver inventory:** Rising inventories signal greater metal availability and hence are price-negative. We use futures market exchange inventory as a proxy.

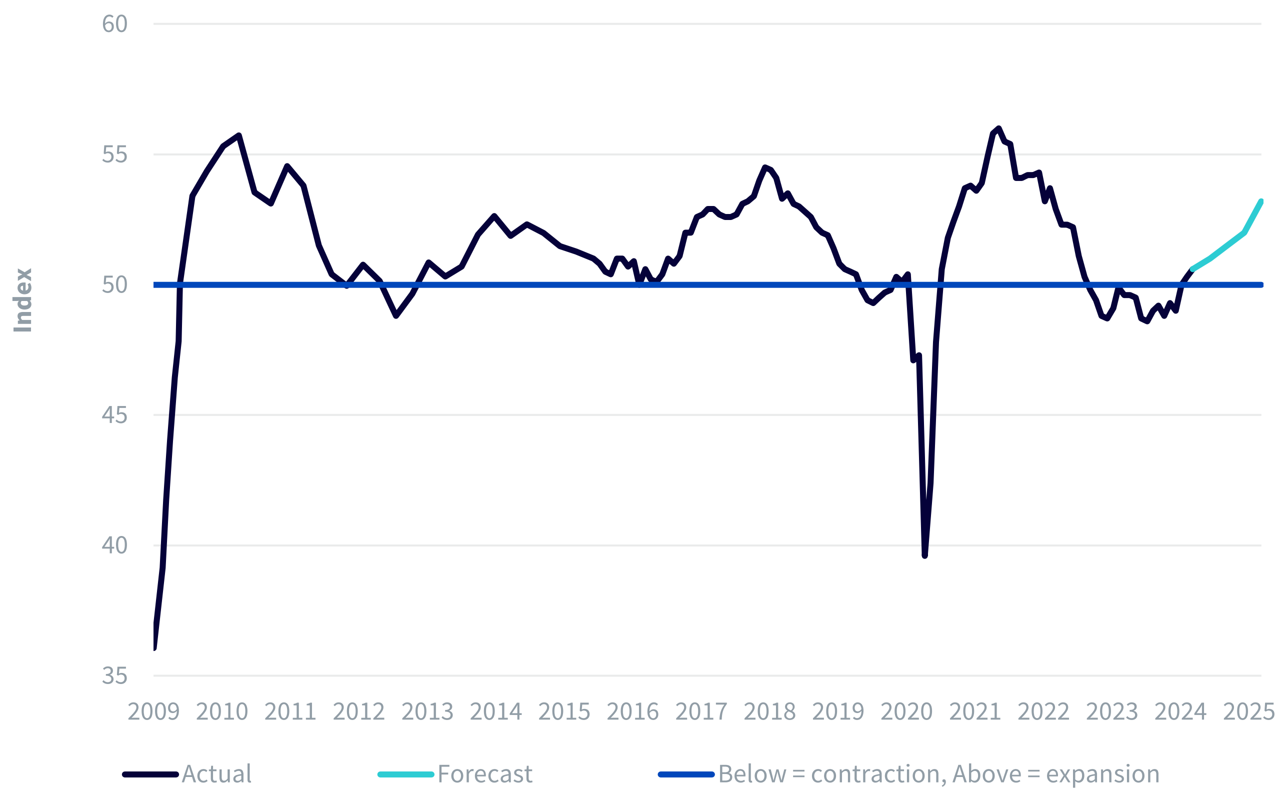
Gold outlook

Using market consensus on key economic variables such as inflation, US Dollar, and treasury yield forecasts, we believe that gold could reach a new high of US$2,500/oz by Q1 2025. Consensus is looking for inflation to continue to decline (although to remain above the central bank target), the Dollar to depreciate, and bond yields to decline. Consensus is based on Federal Reserve rate cuts commencing in July 2024 and ending Q1 2025 at 100 basis points lower than Q1 2024. However, the survey took place before the latest inflation data was released, and market-implied rate expectations have shifted a little since then.

Industrial demand

Global manufacturing PMIs have been recovering in recent months and have been above the crucial 50 marker that separates contraction from expansion for two consecutive months (Figure 8). We believe it will continue to recover, supported by interest rate cuts in developing countries. Even China's manufacturing PMIs, which had been soft all of last year despite the reopening of its economy after the COVID-19 pandemic, has returned to above 50 in March 2024.

Figure 8: Global Manufacturing PMI



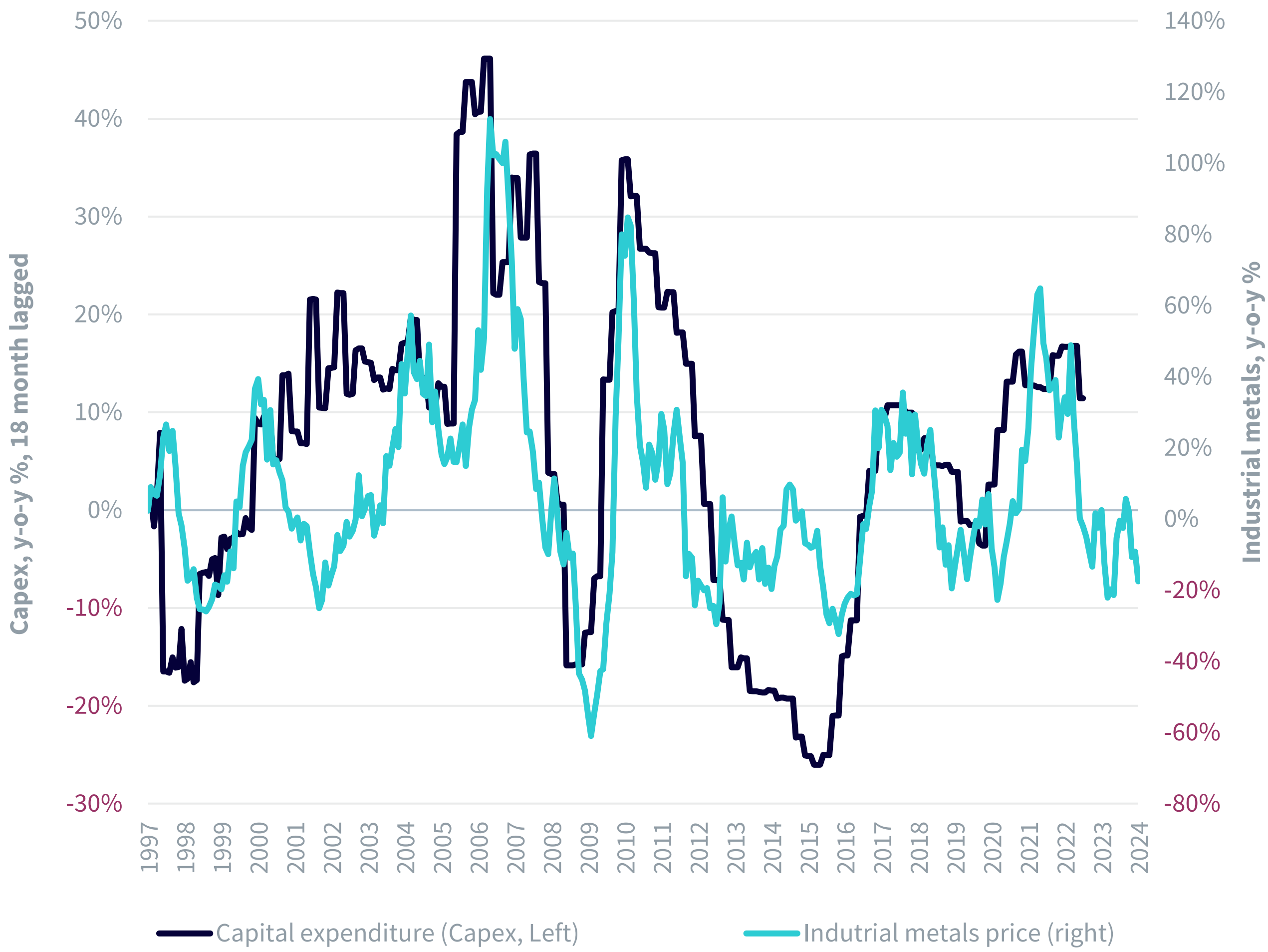
Source: WisdomTree, Bloomberg, S&P Global, Historic: May 2009 to March 2024. Forecasts: April 2024 to March 2025. **Forecasts are not an indicator of future performance and any investments are subject to risks and uncertainties.**

Mining capital expenditure

Metal mining capital expenditure has recently risen (Figure 9). Although in 2023, silver supply fell 1.1% year-on-year to 830Moz, rising capex in prior years will likely push supply higher. Silver, which primarily comes as a by-product of mining for other metals, could see greater supply in due course due to the higher volumes of general mining activity. Metals Focus expect global mine output to rise to 887Moz by 2026. The most significant production gains over the next five years are estimated to come from Canada, Peru, Russia and the United States.

Historically, mining capex has been correlated with industrial metal prices (with a lag). Declines in industrial metal prices in 2023 may drive investment activity lower. However, our silver model depends on capex with an 18-month lag, so rising investment a year ago will weigh on the forecast price.

Figure 9: Mining capital expenditure and industrial metal prices

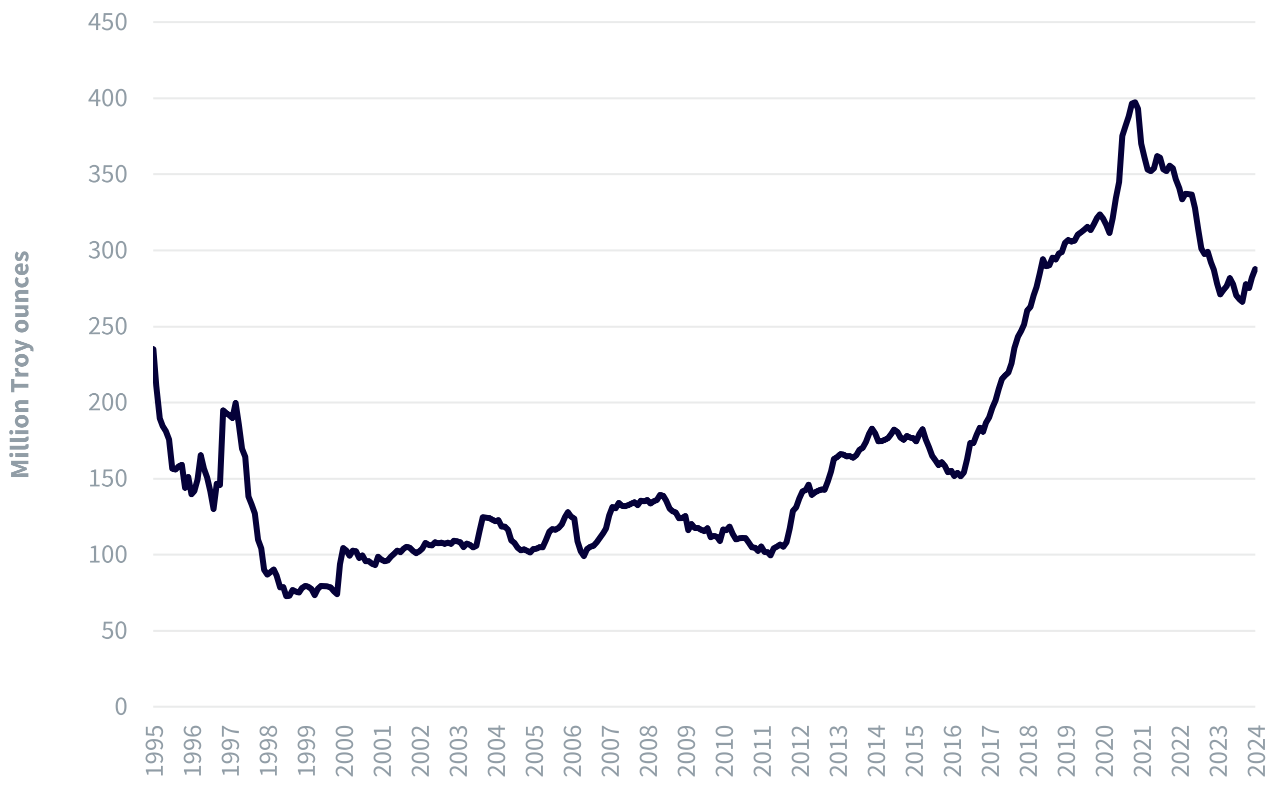


Source: WisdomTree, Bloomberg, February 1996 to March 2024. **Historical performance is not an indication of future performance and any investments may go down in value.**

Silver inventory

Our model uses silver inventory on futures exchanges as a proxy for total silver inventory. This is not a perfect measure as inventory elsewhere, which is not visible, could be rising or falling. We expect futures exchanges inventory to largely flatline after falling between 2021 and H1 2023 (Figure 10). We have seen a marginal increase in inventory over the past year.

Figure 10: Silver futures inventory



Source: Bloomberg, WisdomTree, January 1996 – April 2024. **Historical performance is not an indication of future performance and any investments may go down in value.**

Conclusion

After lagging gold in 2023, silver has started to outperform in April 2024. Silver's growing industrial applications in photovoltaics, vehicle electrification, 5G applications and AI-enabled consumer electronics bode well for demand. After such strong gains, both gold and silver prices will moderate in the coming months as markets recalibrate their interest rate expectations. Still, our model indicates silver will trade above US$32/oz by Q1 2025.

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