Market Insight

Silver Outlook to Q2 2025: Deficits persist

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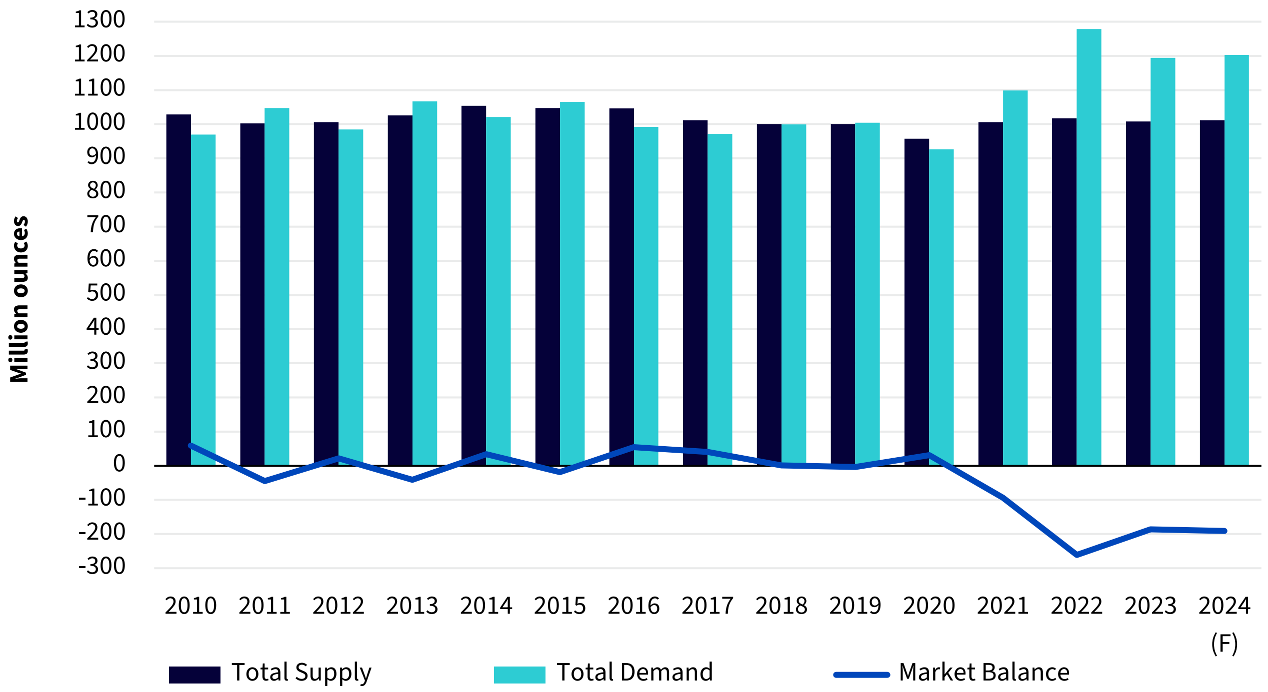
Silver is the best-performing precious metal this year, returning 22%, compared to 13% for gold[1]. Silver – widely known as the hybrid metal – has undoubtedly been lifted by its industrial traits and gold correlations. However, both asset groups (industrial metals and gold) have been pulling back over the past month, pulling silver back in turn. We expect gold prices to continue to cool over the coming quarter before a rebound and silver will follow suit.

However, there is an upside risk for silver, as it should be able to break its bounds with gold. Silver supply is tight (Figure 1), and demand cases for the metal are widening. Silver has been in a supply deficit every year since 2021, and we expect demand to outstrip supply by a similar magnitude in 2024 as we saw in 2023.

Figure 1: Silver supply and demand



Source: Metals Focus, WisdomTree. July 2024. (F) = Forecasts

Forecasts are not an indicator of future performance and any investments are subject to risks and uncertainties

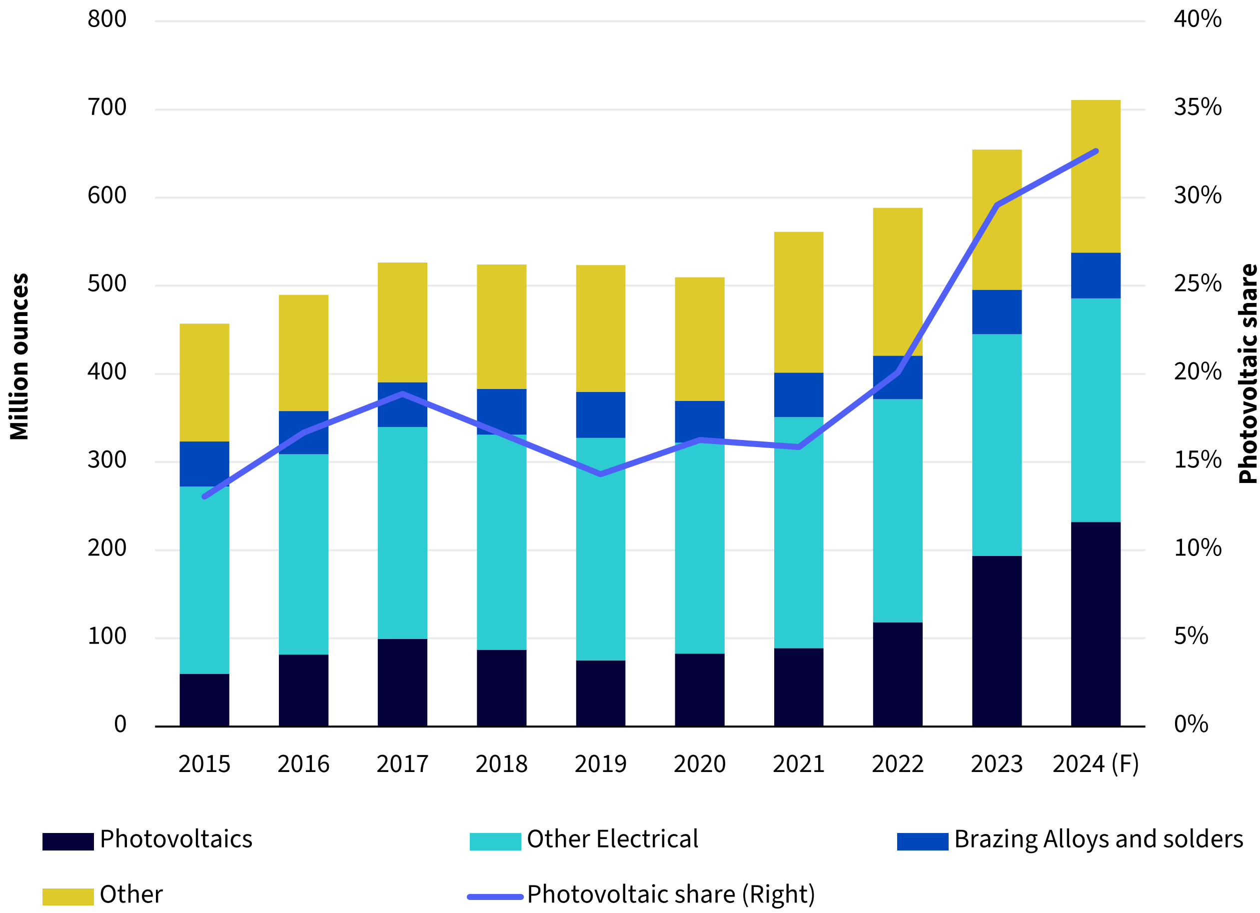
Industrial demand for silver

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. Bloomberg spot prices, 31 December 2023 to 30 June 2024.

Consumer electronics were an area of relative weakness for silver demand in 2023, but with artificial intelligence 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, July 2024. (F) = Forecasts

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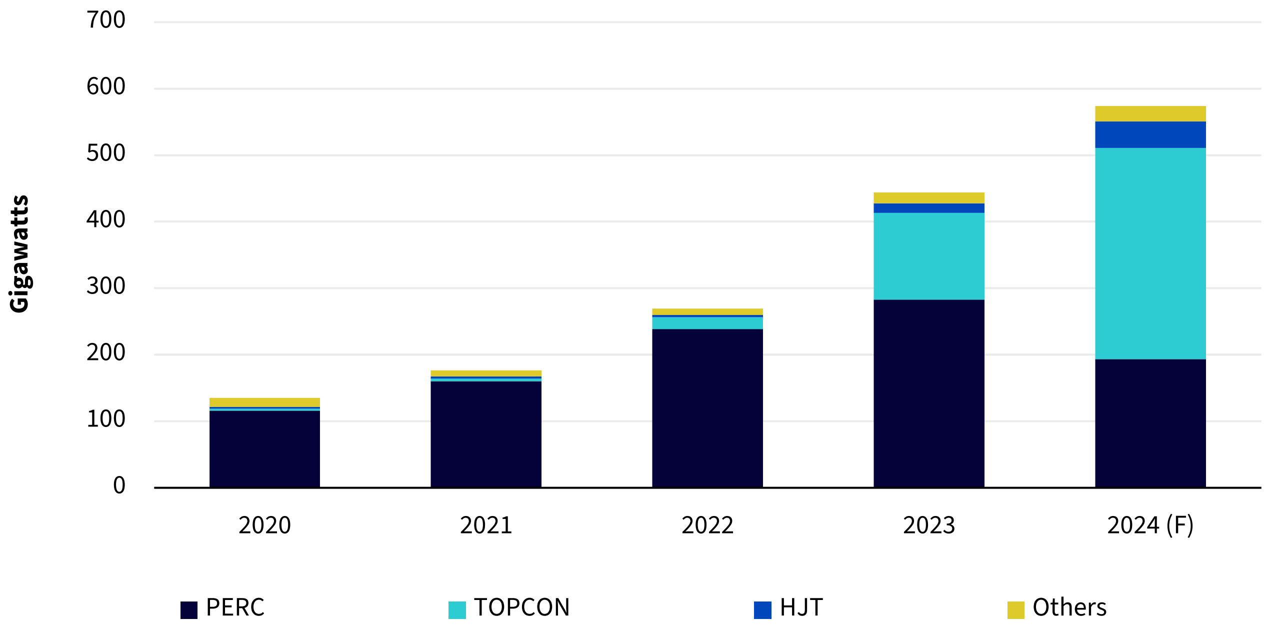
China's pivot toward high-tech green industries as key growth drivers is gaining momentum, and photovoltaics have been a key beneficiary. China has increased PV module production, and in turn, the prices of modules have fallen, accelerating deployment. In 2023, China's newly added installations for example hit an astonishing record of 216 gigawatts. This was up over 140% year-on-year, lifting global capacity additions above 400GW. Moreover, the global industry saw a migration from P-type cells (PERC) to N-type cells (TOPCon and HJT), which have higher silver loadings (Figure 3). Although the industry actively improved the manufacturing process for thrifting and substitution, the substantial increase in installations and the rising share of N-type cells still meant a notable jump in silver demand.

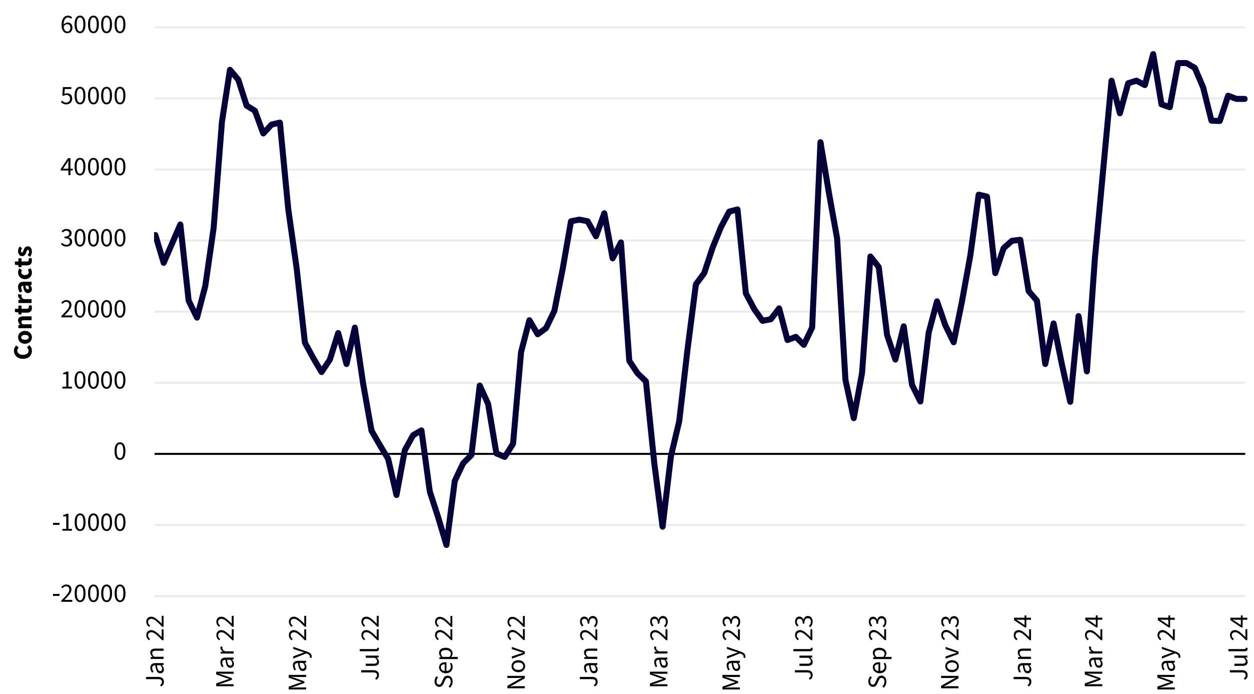
Figure 3: Photovoltaics installations by type



Source: Metals Focus. July 2024. PERC Passivated Emitter and Rear Cell; TOPCon Tunnel Oxide Passivated Contact; HJT Heterojunction. (F) = Forecasts. **Forecasts are not an indicator of future performance and any investments are subject to risks and uncertainties**

Net speculative positioning in silver futures markets which strengthened in April 2024, has remained robust since (Figure 4). In line with gold, it appears that despite the lack of bullion buying, demand in the futures market remains strong.

Figure 4: Silver futures net speculative positioning

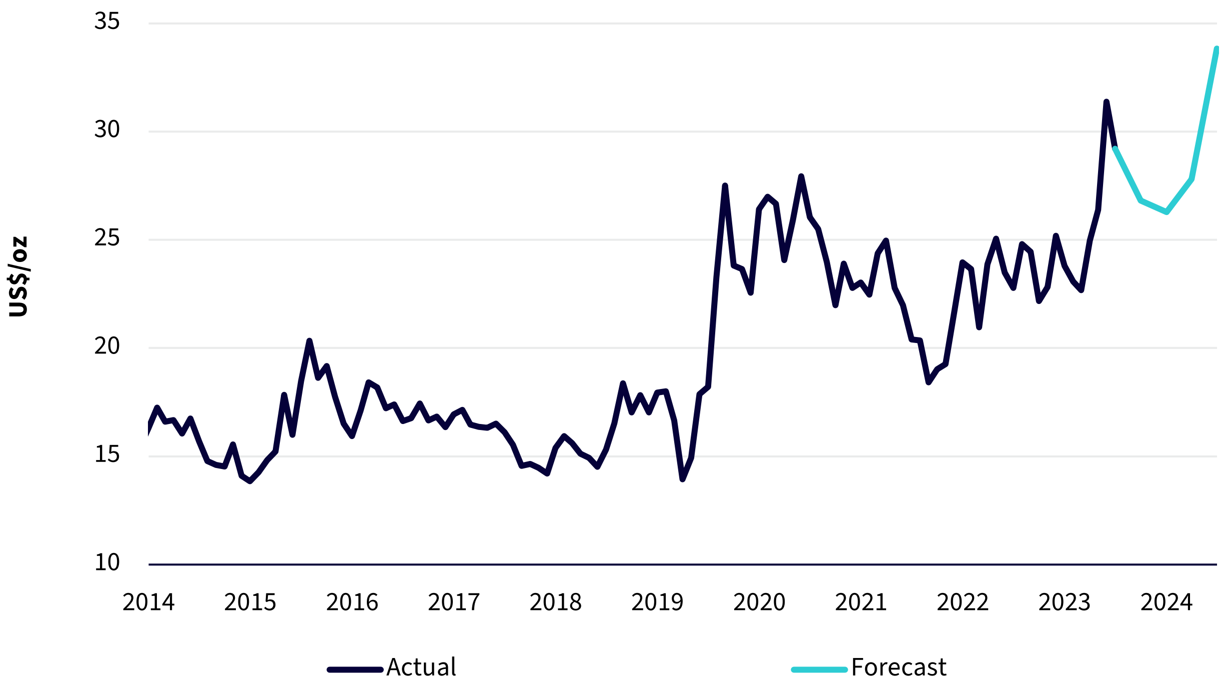


Source: Bloomberg, WisdomTree, January 2022 to July 2024. **Historical performance is not an indication of future performance and any investments may go down in value**

Outlook for silver

We believe that silver will outpace gold, to gain 15.8% over the coming year versus 11.1% for gold[2]. Our models indicate that for every 1% increase in gold prices, silver has historically risen 1.4%. In line with gold, silver could give back some of its gains before rising as both metals are in a waiting pattern for Federal Reserve rate cuts. Uncertainties around China's policy support could add a headwind for silver as well.

Figure 5: WisdomTree silver price forecast



Source: WisdomTree (forecasts), Bloomberg (historic data), data available as of close 30 June 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's use is in industrial applications (in contrast to gold where less than 10% comes from that sector). We use 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 in the future. 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 availability of the metal and hence is price negative. We use futures market exchange inventory as a proxy.

2. June 2024 to June 2025.

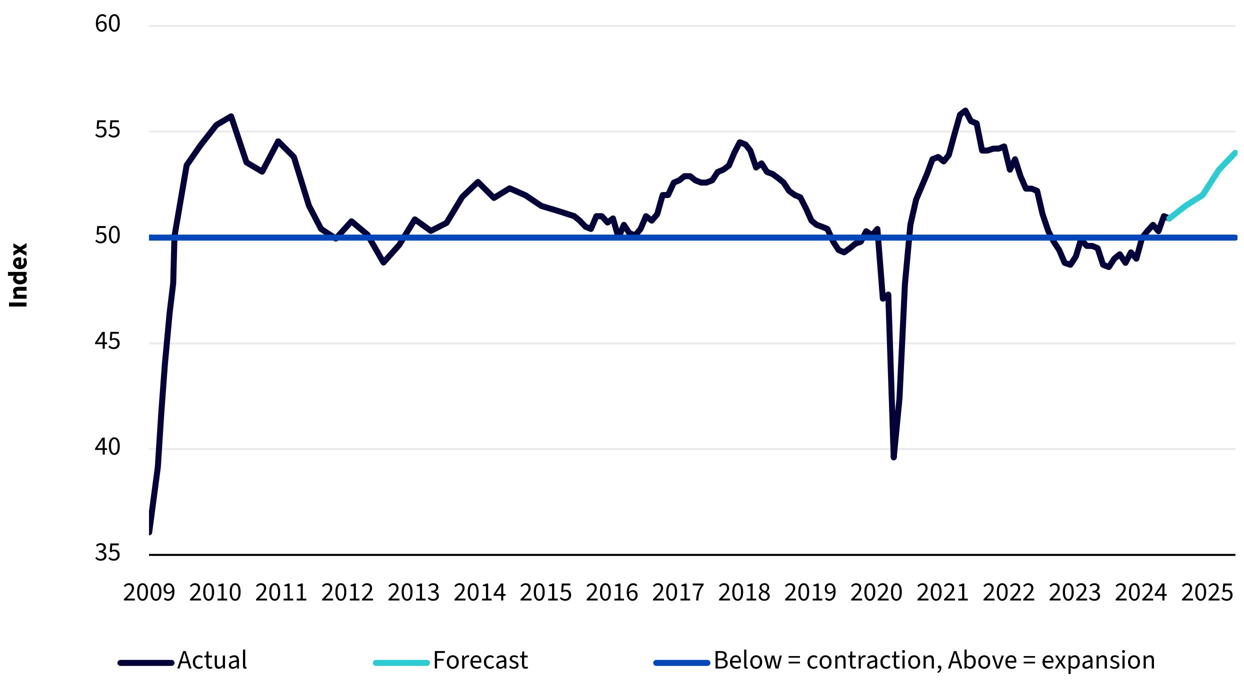
Gold Outlook

Using market consensus on key economic variables such as inflation, the US Dollar, and Treasury yield forecasts, we believe that gold could reach a new high of US$2,585/oz by Q2 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 September 2024 and ending Q2 2025 100 basis points lower than Q2 2024.

Industrial demand

Global manufacturing PMIs have been recovering in recent months and have been above the crucial 50 marker separating contraction from expansion since the beginning of 2024 (Figure 6). We believe it will continue to recover, supported by interest rate cuts in developing countries. Chinese manufacturing PMIs have been one area of concern lately after slipping below 50 for the past two months. However, we believe the poor readings will strengthen the case for forthcoming policy support.

Figure 6: Global manufacturing purchasing managers index



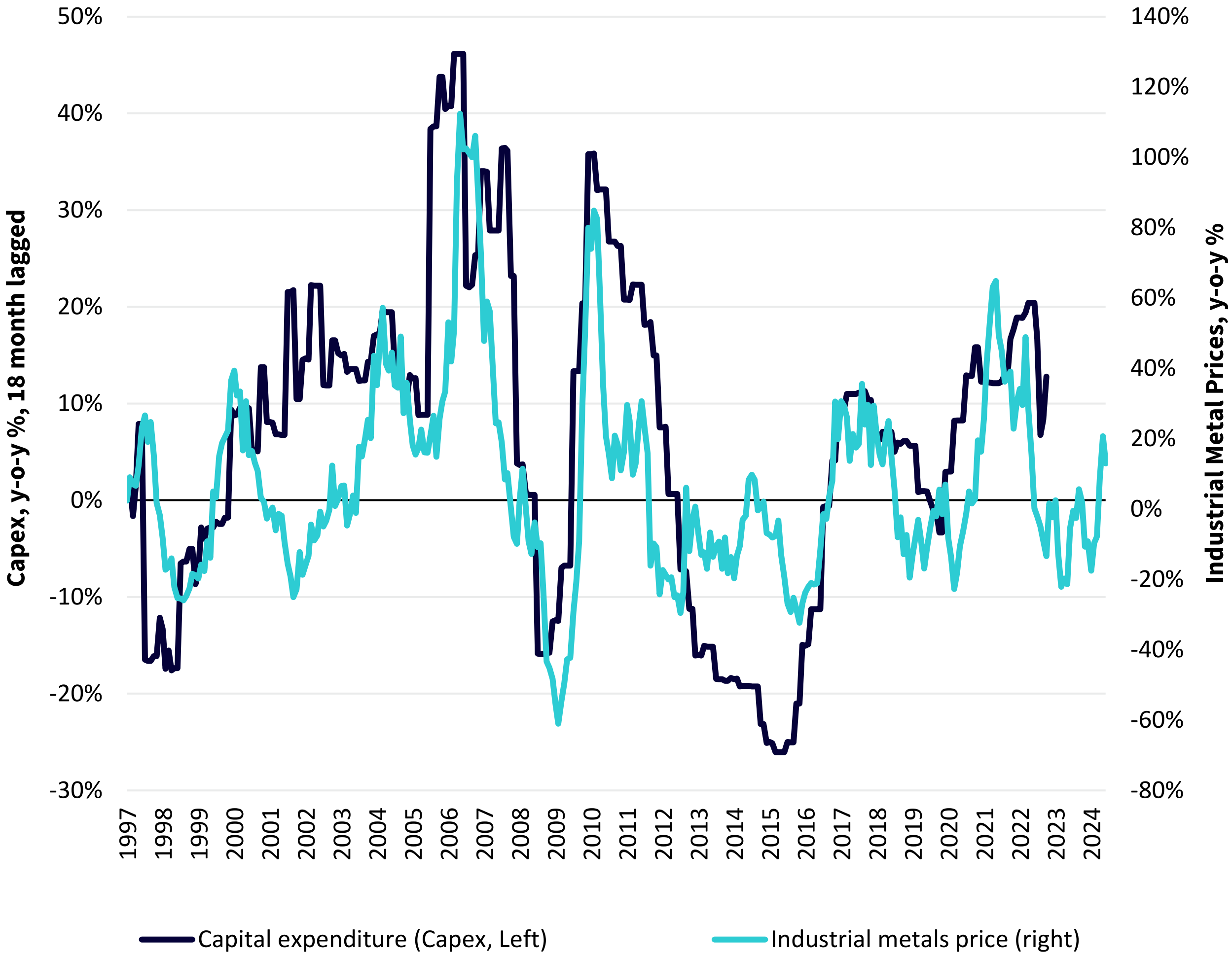
Source: WisdomTree, Bloomberg, S&P Global, Historic: May 2009 to June 2024. Forecasts: July 2024 to June 2025. **Forecasts are not an indicator of future performance and any investments are subject to risks and uncertainties.**

Mining capital expenditure

Metal mining capex has been rising in recent years (Figure 7). Our modelling framework, which applies an 18-month lag to this trend, sees this as a continued but diminishing headwind for silver. We acknowledge that in 2023, mine supply fell and, according to Metals Focus, could fall further this year, so there is room for an upside surprise to price.

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. Eventually, we are likely to see silver supplies tighten further, but that largely sits outside of our forecast horizon.

Figure 7: Mining capital expenditure and industrial metal prices

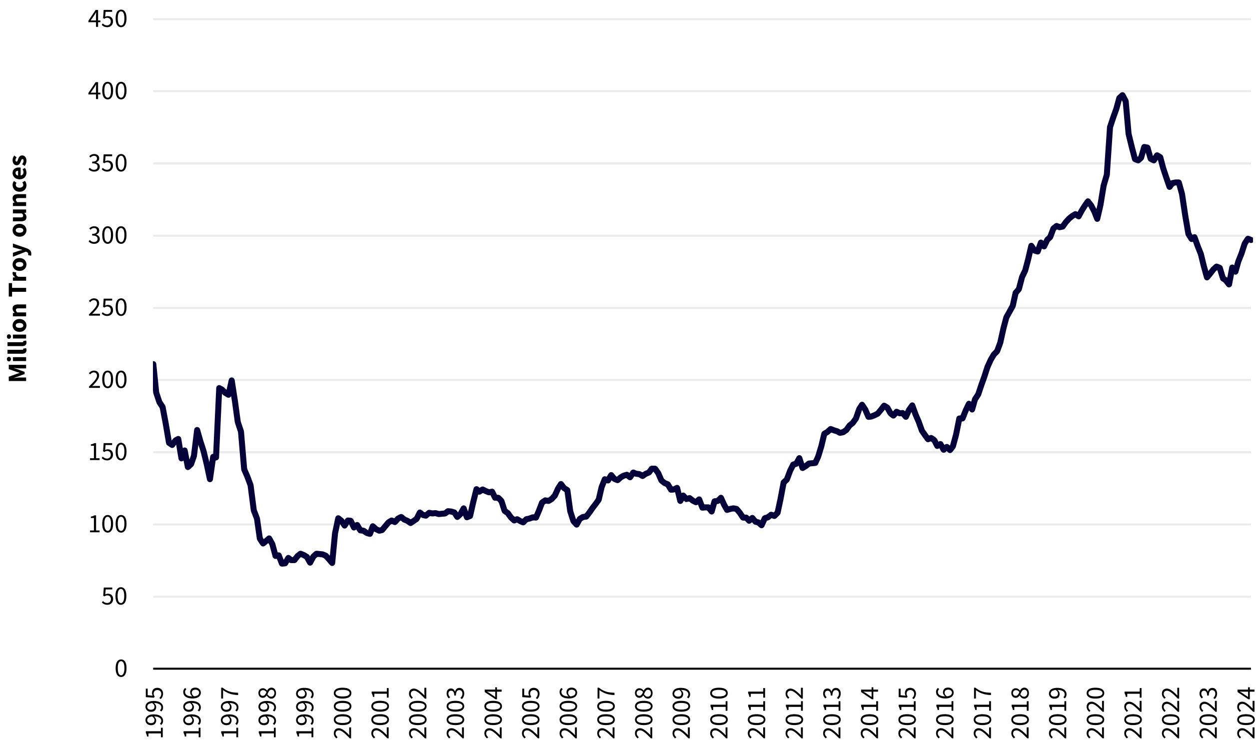


Source: WisdomTree, Bloomberg, February 1996 to June 2024. **Historical performance is not an indication of future performance and any investments may go down in value**

Silver inventory

In our model, we use 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 exchange inventory to largely flatline over the forecast horizon. Inventory levels have been rising in the past half-year, reversing the trend between 2021 and 2023.

Figure 8: Silver Futures Inventory



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

Conclusion

Silver has outperformed gold in the past half-year, and we expect it to continue to do so in the coming year. However, both metals will pull back while in a waiting pattern for Federal Reserve rate cuts.

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