

# SILVER OUTLOOK Q2 2020: RALLY TO CONTINUE, BUT UNLIKELY TO FULLY CATCHUP WITH GOLD

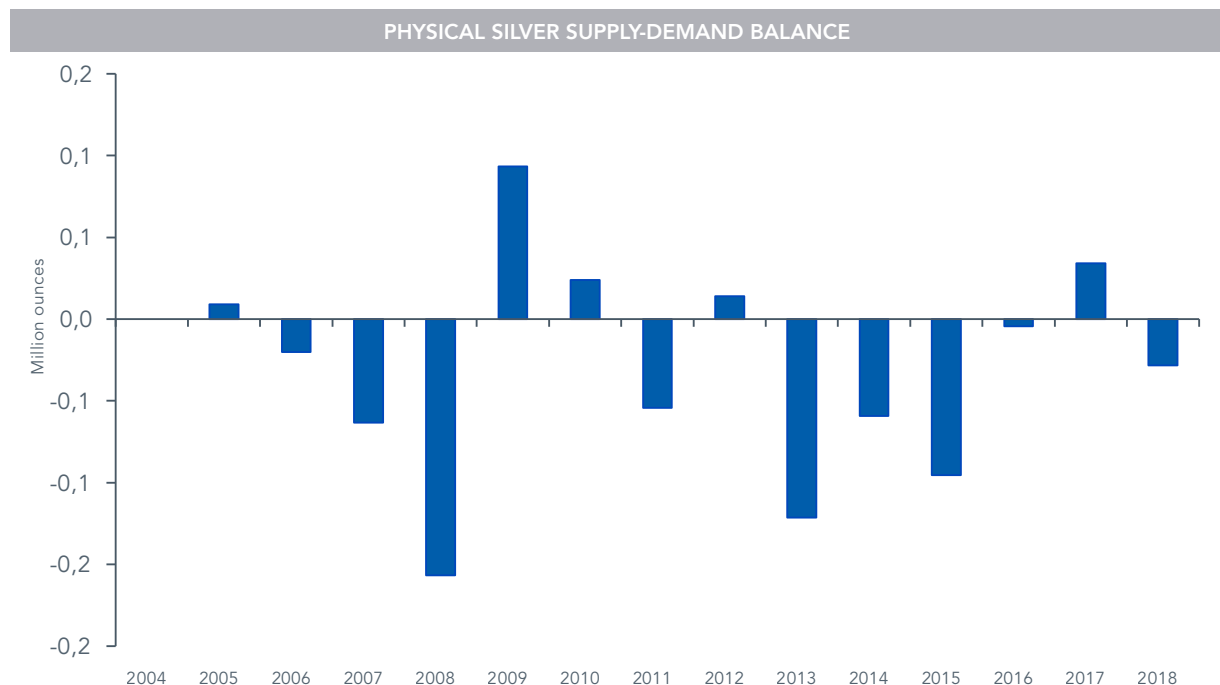
JULY 2019

## SILVER UNDERPERFORMS GOLD, BUT FOR HOW LONG?

In June 2019, gold prices broke out, rising 10% in the month. Silver on the other hand, only gained 6% in the month. Based on WisdomTree’s internal forecast model, we expect silver to rise from US\$15.3/oz at end of June 2019 to US\$17.0/oz at end of December 2019, before retreating to US\$16.5/oz at end of June 2020. Thus, on a one-year horizon, we expect close to a 7% gain in silver prices which is higher than the 5% gain we expect for gold. However, silver is unlikely to fully catchup with gold’s recent price performance.

## SILVER IN A DEFICIT

Silver was in a supply deficit in 2018 – that is excluding Exchange traded products (ETP) and futures exchange inventory, demand for the metal outstripped its supply – contrary to the World Silver Institute’s November 2018 forecast<sup>1</sup>. That reverses the surplus from 2017. When the World Silver Institute published its confirmed 2018 numbers in April 2019<sup>2</sup>, we would have expected this correction to drive silver prices higher. Yet silver languished in comparison to gold.



Source: GFMS Refinitiv, Silver Institute, WisdomTree, data available as of close 6 June 2019

Historical performance is not an indication of future performance and any Investments may go down in value.

<sup>1</sup>[https://www.silverinstitute.org/wp-content/uploads/2018/11/2018\\_Interim\\_Report\\_PR.pdf](https://www.silverinstitute.org/wp-content/uploads/2018/11/2018_Interim_Report_PR.pdf)

<sup>2</sup><https://www.silverinstitute.org/global-silver-demand-4-2018-fueled-soaring-investment-demand-along-rising-jewelry-silverware-offtake/>

## SILVER LAGGING GOLD

While gold has been rallying in recent weeks, silver has failed to move with the same muster. The gold-to-silver ratio is at the highest since 1991 and far more than a standard deviation above its historic average since 1990.



Source: Bloomberg, WisdomTree, data available as of close 4 June 2019

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## SILVER'S CLOSE TIES TO GOLD

Silver historically is 80% correlated with gold. So when its yellow cousin rallies, we expect silver to rally. In the past month when gold had risen 10%, silver only gained 6%. That latent rally is typical of silver – it doesn't always move as quickly as gold, but if gold's moves are decisive, it tends to follow.

## OUTLOOK FOR SILVER

As we have articulated in [Silver outlook: Searching for a silver lining](#), silver is closely correlated with gold and hence gold prices are the most important determinant of silver prices. But in contrast to gold -which is almost solely driven by economic and monetary variables - the physical supply and demand for silver matter. In our model for silver we proxy demand for the metal using global Purchasing Manger Indices (PMIs), given that more than 50% of silver demand is from industrial applications. We proxy supply by (lagged) mining capital expenditure: as mining investment rises, we expect with a lag, some increase in metal supply. We also proxy supply using futures market exchange inventory of silver. The more inventory on exchange, the more easily available silver will be. Because it is difficult getting timely data on aggregate silver inventory, we use exchange inventory as a proxy.

Gold prices – which is the most important component of our silver model – are rising. We expect gold to rise to US\$1480/oz by Q2 2020 in the absence of any major geopolitical shocks, US Dollar depreciation or decline in 10-year Treasury yields (see [Gold above US\\$1400, where next?](#))

GOLD PRICE FORECAST

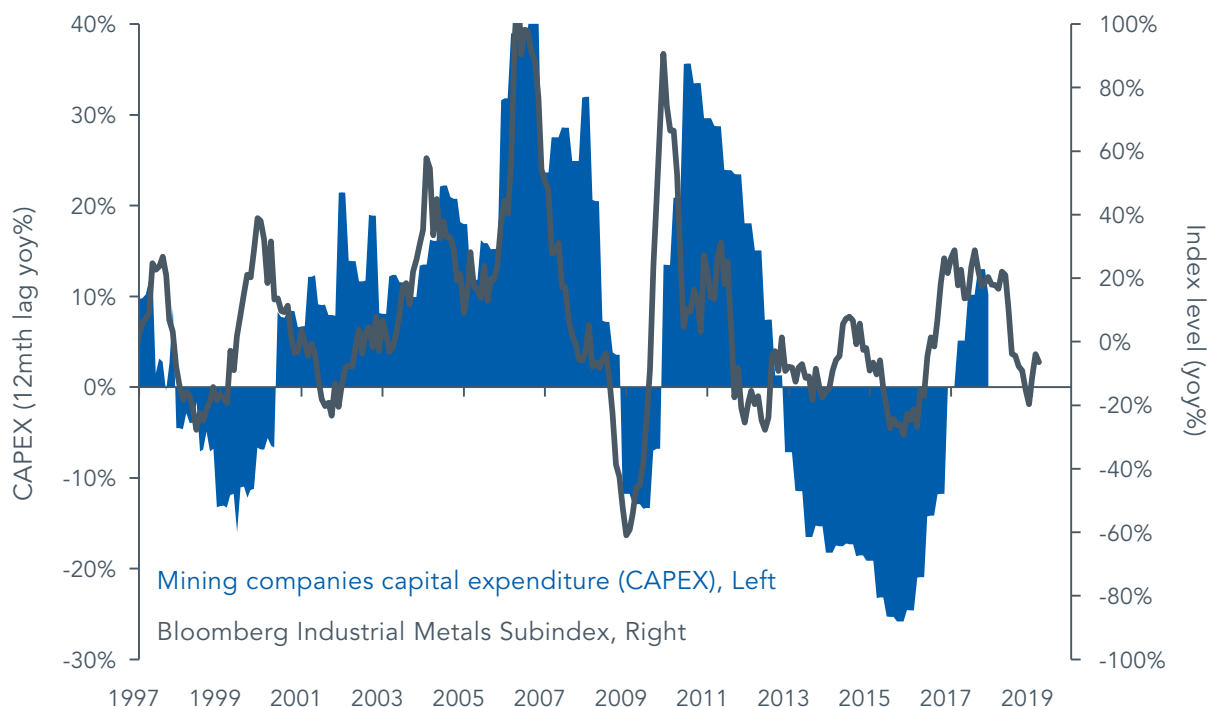


Source: WisdomTree Model Forecasts, Bloomberg Historical Data, data available as of 20 June 2019

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Given that mining capex had been rising, we expect more metal supply to pressure silver prices.

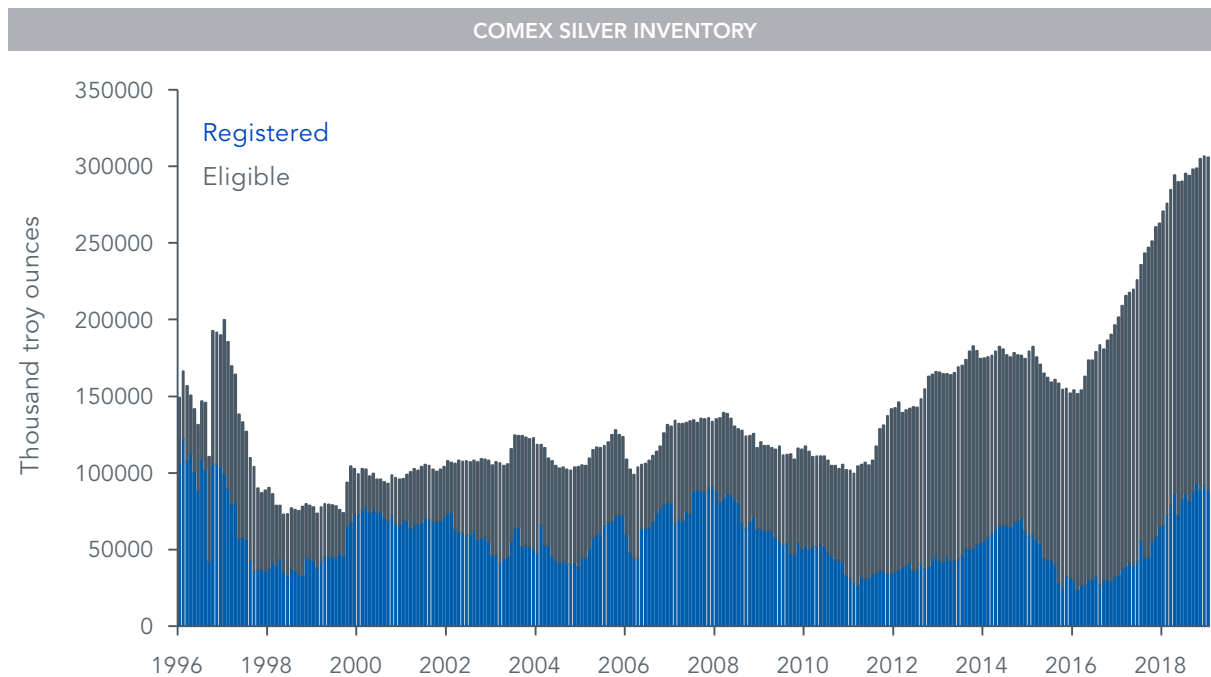
TOP 100 MINERS CAPITAL EXPENDITURE GROWTH



Source: Bloomberg, WisdomTree, data available as of close 4 June 2019

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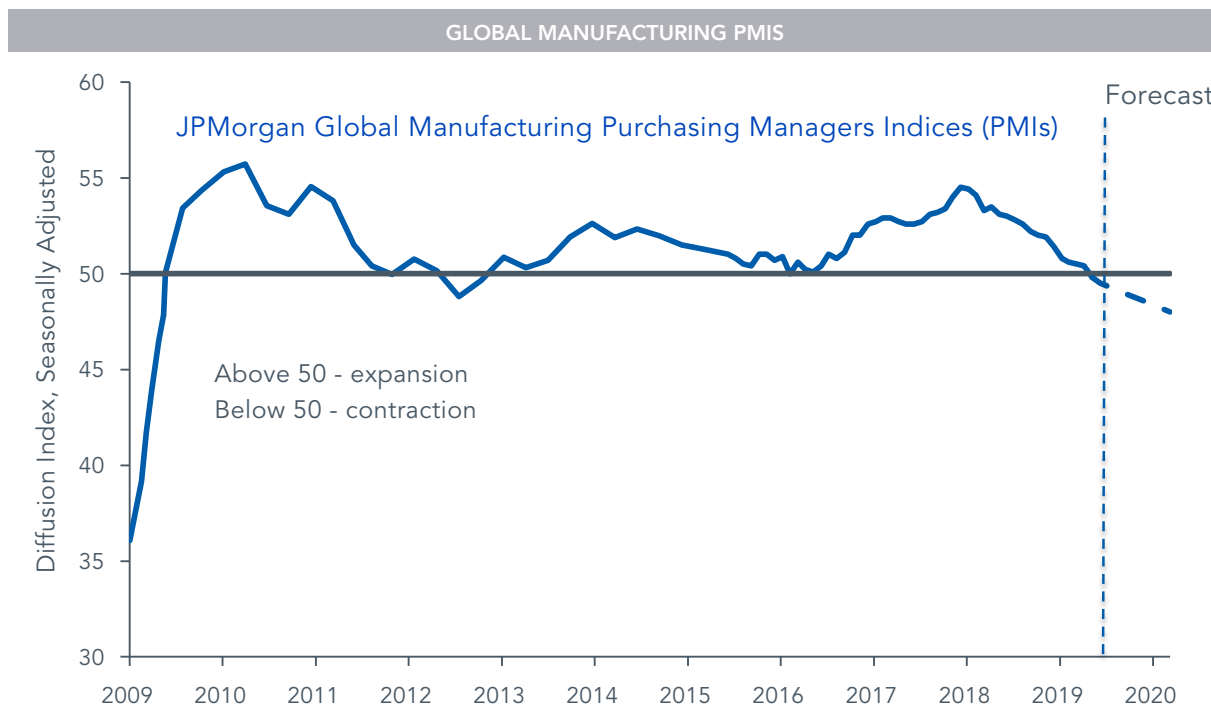
Exchange inventory for silver has been growing unabated, and which will also pressure silver prices.



Source: Bloomberg, WisdomTree, data available as of close 4 June 2018

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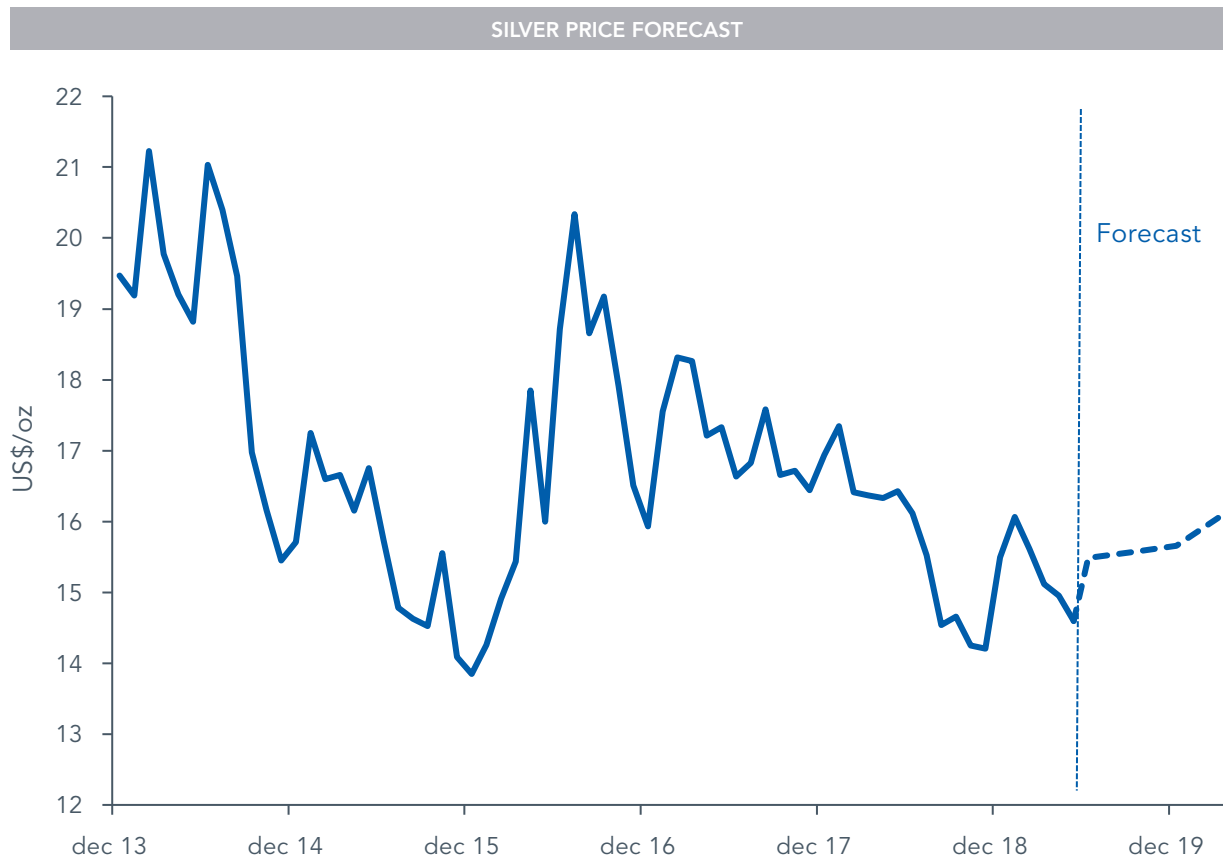
Global manufacturing PMIs are falling and we don't expect a strong turnaround in the coming year with trade frictions between the US and China (and between the US and a number of other countries) hindering manufacturing supply chains.



Source: Bloomberg, WisdomTree, data available as of close 4 June 2019

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Factoring all this into our model, we expect silver prices to rise to US\$16.5/oz by Q2 2020, up 7% from Q2 2019 levels. That is more than the expected 5% increase in gold's price from Q2 2019 levels, but not enough to bring down the gold-to-silver ratio back to normal levels (i.e. it will still be more than 1 standard deviation above the average). To bring the gold-to-silver ratio back to average, the price of silver would need to rise to over US\$22/oz.



Source: WisdomTree Model Forecasts, Bloomberg Historical Data, data available as of close 26 June 2019

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In conclusion, we expect silver prices to rise, playing true to its correlation with gold. However, due to the poorer industrial outlook and likely rising supply of silver, the gold-to-silver ratio is likely to remain elevated.

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