

Silver Prices Falling Despite Forecasts of Rising Demand

Trade Idea

21 February 2013

Summary

- Silver prices have fallen over 2.5% year to date
- Industry estimates of rising industrial demand in 2013 have yet to bolster silver prices
- While estimates of US 2013 GDP pushing above 2% and hopes that China's GDP will be at 7.5% or higher should increase industrial use of Silver, the metal still trades as a precious metal rather than an industrial metal
- CFTC data shows that speculators reduced net longs by 3,789 lots (10.6%) to 32,072 contracts for the week ended February 12 with similar reports for gold
- If silver is trading on the back of flows in and out of the US dollar (USD) then the near and medium term is that USD firms and precious metal prices fall
- The weekly price chart below underlines the risk that the drop below key support at \$29.24/oz marks a medium term trend change

Silver prices have been under pressure over the last few weeks and the risk is that further losses will be seen as long positions are being trimmed. CFTC data showed that speculators trimmed net long positions by 3,789 lots (futures and options) to 32,072 contracts for the week ended February 12. This is still a relatively hefty long position, and it is worth bearing in mind that the last time that CFTC data showed a net short speculator position was in 2003 when spot silver was trading below \$5.00/oz.

The Silver Institute, an industry body that promotes research on the metal, published their forecasts in November 2012 that pointed out that the use of silver in industry may rise to 57% of annual fabrication in 2014 (as opposed to use in jewellery or investment/coins). They forecast a rise of 6% in total demand by 2014, bolstered by rising economic activity in the US (which accounts for over 20% of annual use) and increasing use of silver in China. While this outlook is generally positive, silver prices trade off the moves in precious metals (gold) more often than industrial demand swings. The charts on p.2 below show silver and US GDP and silver and GDP in China, and illustrate that there was a tendency during the 'credit crunch' to see US growth drop and silver prices to drop, and US growth to rise and silver prices to rise as well. But this may have more to do with a 'flight to liquidity' trade (risk on/risk off) than any real trading based on forecasts of industrial demand. The relationship between economic activity in China as measured by GDP and the price of silver is not as clear, and it serves to underline that this metal is still traded on the back of non-industrial demand and sentiment. If silver is trading on the back of flows in and out of the US dollar (USD) then the near and medium term, as many countries pursue 'weak currency policies' in a bid to spur export growth, is that the USD firms and precious metal prices fall. The weekly price chart (to the right) underlines the risk that the drop below key support at \$29.24/oz marks a medium term trend change.

Sustained losses below this area will leave further losses to key long term support at \$26.00/oz to follow, and could leave losses to \$20/oz at risk further out. Resistance is at \$29.24/oz now, and then \$30.00/oz. Further resistance is at \$30.75/oz ahead of the \$32.50/oz area.



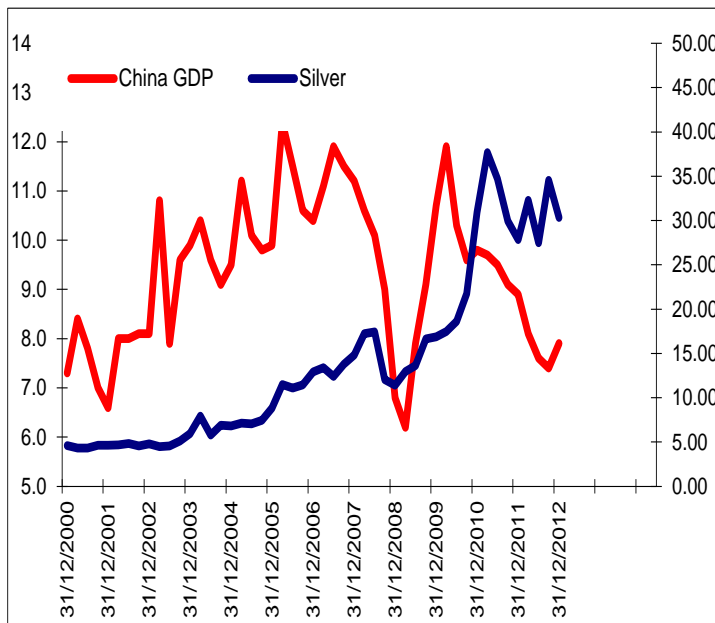
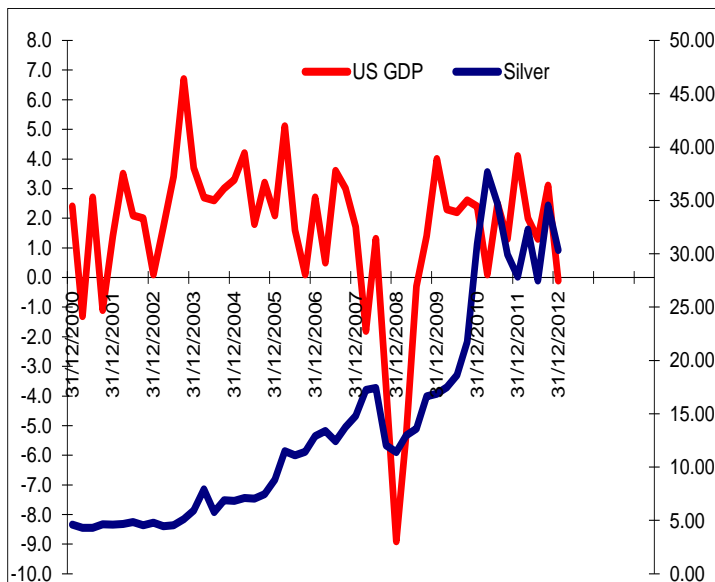
*Data courtesy of Bloomberg and Reuters

Trade Ideas

- Short Silver - Investors who feel that silver prices may have further to fall on a short to medium term view could buy **Boost Silver 3x Short Daily ETP (3SIS)** as a way to leverage their returns if prices do fall.
- Short Gold – if silver is trading as a precious metal and is negatively correlated to USD, then investors may also consider buying **Boost Gold 3x Short Daily ETP (3GOS)**
- For any relative mispricing between gold and silver, consider a pairs trade of **3SIS and 3GOL or 3SIL and 3GOS**

* Source: Boost, Bloomberg. The prices used for the returns are primary market closing prices from Oct 18th 2012 to Feb 15th 2013, and are given in the base currency of each index. The returns may rely in part on back-tested prices prior to the inception of some ETPs. Past performance and back-tested performance are not indicators of future performance. Back-tested prices are those which precede Dec 4th 2012 for ETPs referencing the FTSE 100, Dec 7th for the DAX, Dec 10th for EURO STOXX 50, Russell 100 or NASDAQ-100, and Dec 17th for the commodities.

** Calculated as annualised standard deviation over the past 3 months of daily returns (some of which are based on back-tested prices).



*Data courtesy of Bloomberg and Reuters

Boost Gold & Silver ETPs:

- Boost Gold 3x Leverage Daily ETP 3GOL
- Boost Gold 3x Short Daily ETP 3GOS
- Boost Silver 3x Leverage Daily ETP 3SIL
- Boost Silver 3x Short Daily ETP 3SIS

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