



The Silver Market in 2006

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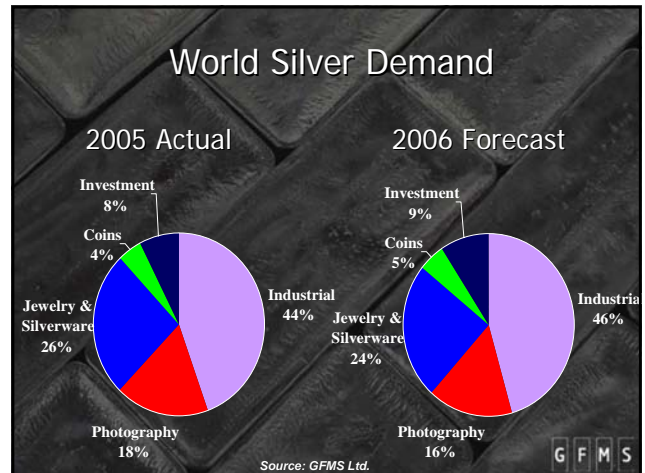
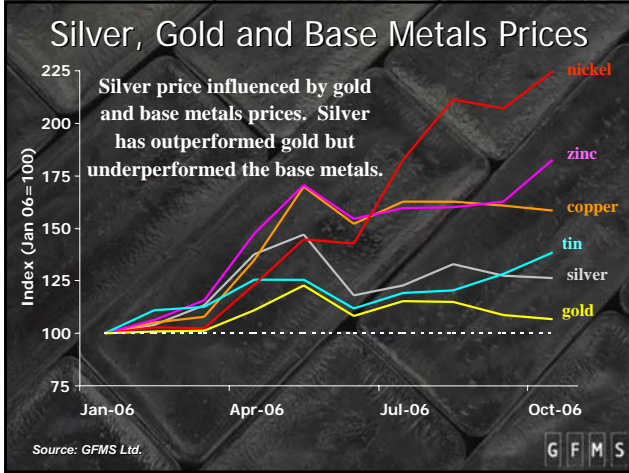
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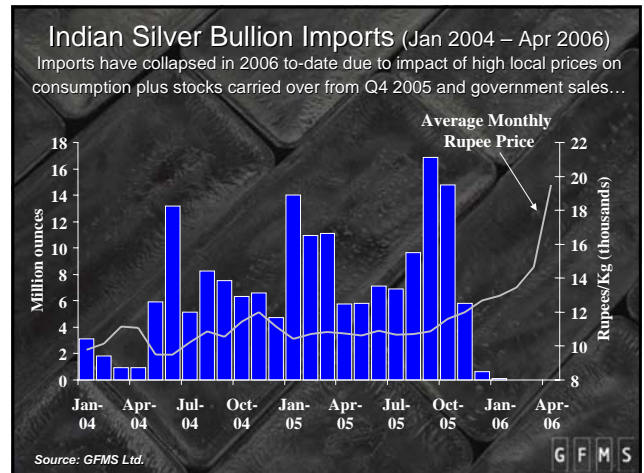
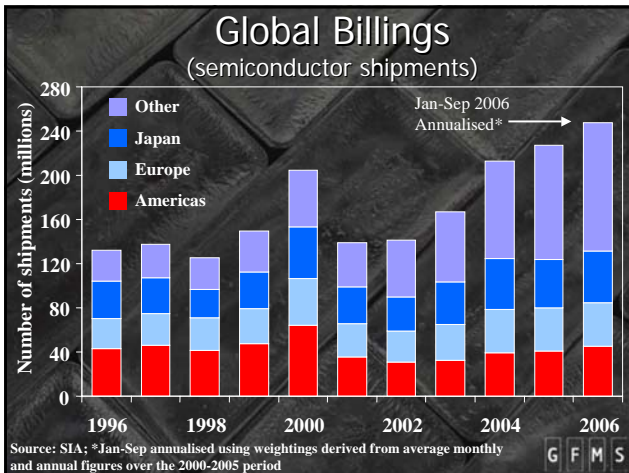
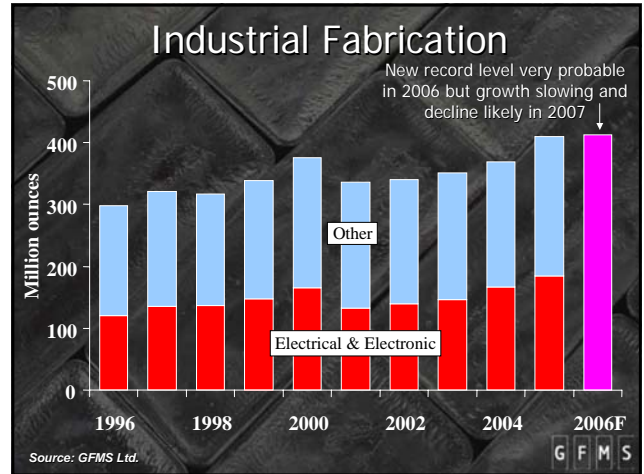
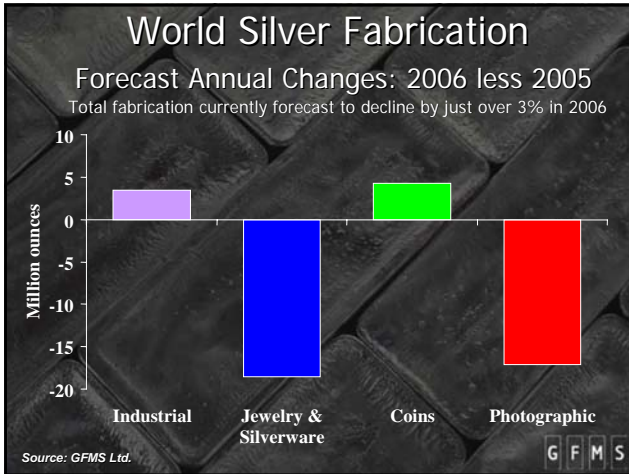


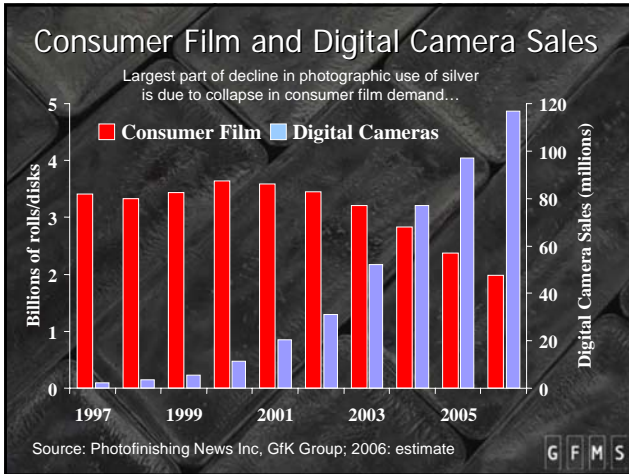
Silver: Presentation Outline

- Silver Prices
- Demand
- Supply
- Investment
- Price Outlook





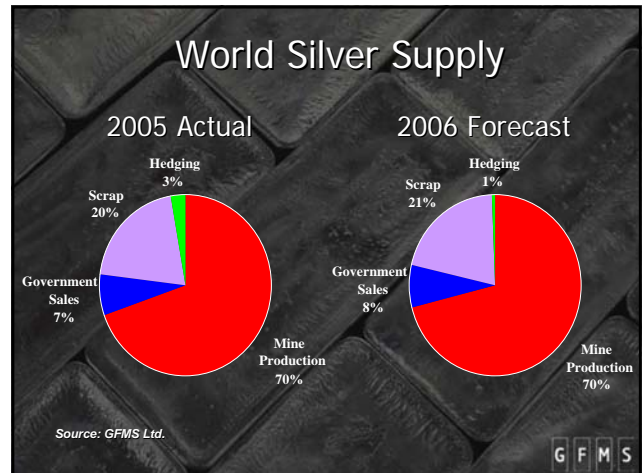


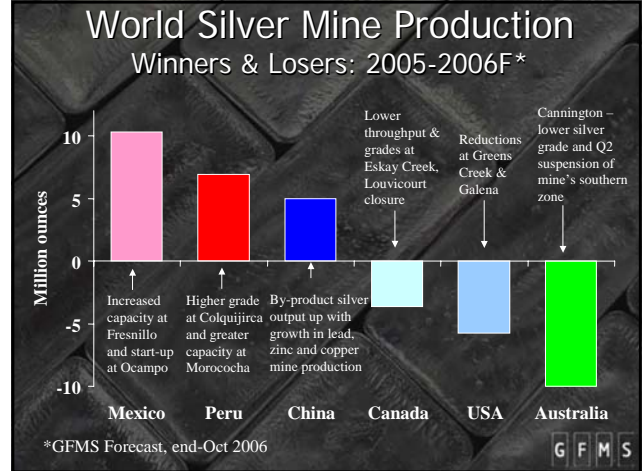
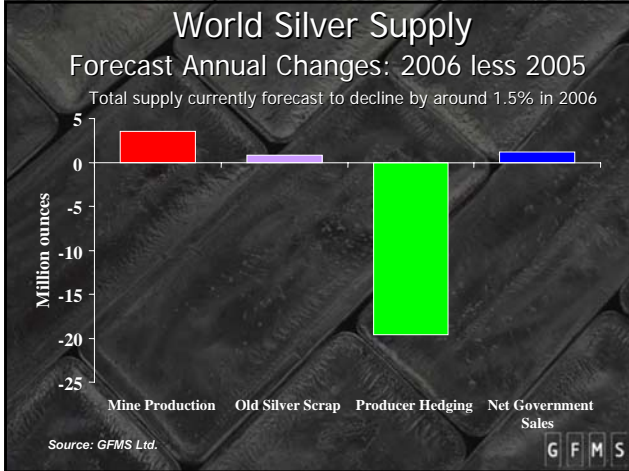


Demand Summary

- After solid growth in 2005, total fabrication demand will drop back slightly this year (currently forecast fall of just over 3%).
- Industrial demand strong year-to-date but expected to slow towards end of 2006 and possibly decline in 2007.
- Photographic demand continues to drop due to impact of digital technology.
- Jewelry & Silverware demand hit mainly by slump in India.
- Coin demand has increased in 2006.
- Investment demand has grown again.

Silver Supply





Mine Production + Hedging

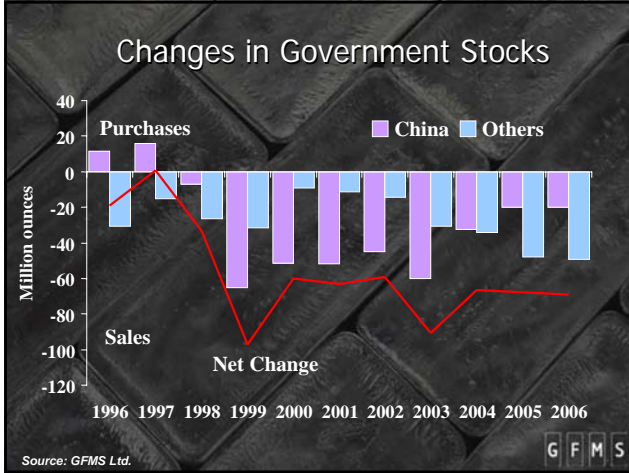
- World silver mine production only marginally higher year-on-year in 2006 (by around 4 Moz or 0.6%).
- Globally in 2006 by source: Lead-zinc, copper, and gold all up by roughly 2%, primary down by almost 3%.
- Outlook for silver in 2007 is for a greater increase of around 16 Moz with strong growth forecast to continue into 2008.
- In contrast with upwardly revised 2005 number, only modest amount of producer hedging in 2006 in spite of high forward prices. Primary silver producers and their shareholders strongly against hedging.

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Scrap Supply

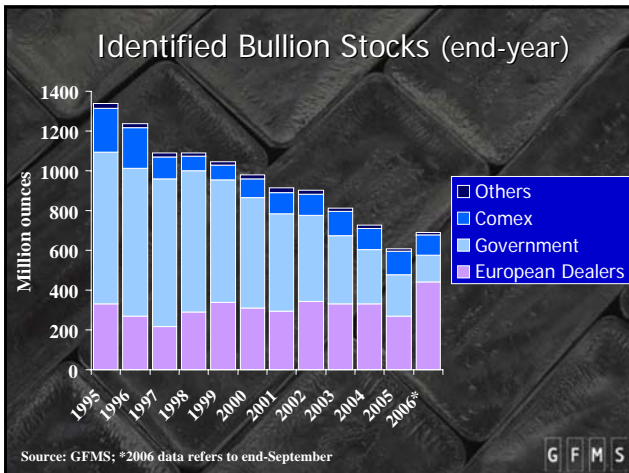
- Scrap supply estimated to be little changed overall.
- Decline in volume from photographic sources.
- Price not nearly high enough to stimulate large scale scrapping of jewelry and silverware.
- No growth apparently even in Indian scrap supply this year from its high 2005 level.
- Scrap supply for silver far less price-sensitive than for gold due to different composition of above-ground stock of fabricated products and much higher margins over metal value on silver than gold jewelry.

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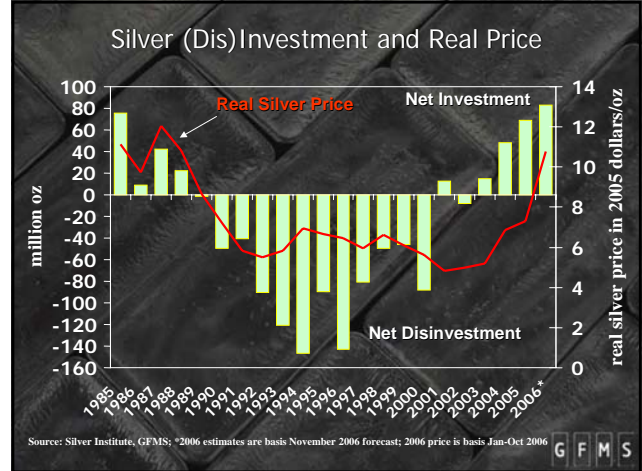
Government Sales

- Government sales have probably risen marginally in 2006.
- Chinese government sales were expected to decline but have held up, apparently due to attractive prices.
- Continued Russian sales also price-related.
- Indian sales into the domestic market this year will probably reach nearly 30 million oz.



Supply/Demand Outlook

- Investors' hunger for silver has kept the price of the metal above its fundamental equilibrium level of maybe \$6.50-7.00/oz.
- Supply has not reacted sufficiently to balance this:
 - Mine production inelastic in short term and less responsive than gold where primary production dominates. And, although strong growth is expected in 2007-10, volume will be much less than late 1990s/early 2000s when over 100 million oz added.
 - Producer hedging a much less significant factor for silver than gold.
 - Government sales have broadly been stable, with increases from some offset by falls from other countries.
 - Scrap supply mostly price inelastic. Photographic scrap on a secular decline.
- Most fabrication demand is largely price-insensitive in the short run.
- But silver vulnerable to decline in industrial fabrication taking place at same time as photographic and jewelry demand fall.

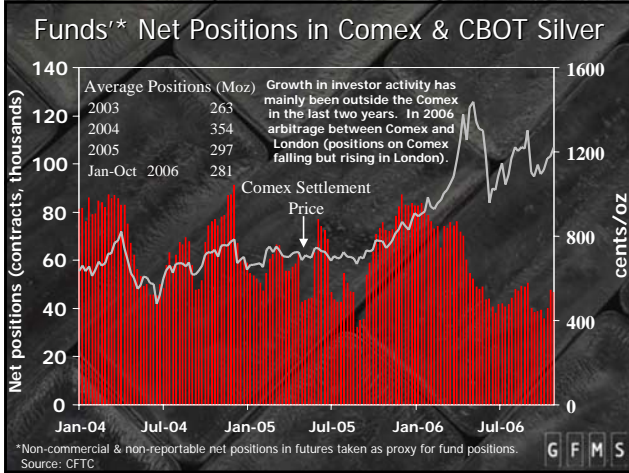


Investment

- Since 2001 disinvestment has ended and in last three years has been replaced by rising tide of investment.
- Early part of 2006 dominated by speculative buying mainly by hedge funds ahead of the Exchange Traded Fund (ETF).
- Massive two-way business following launch of the ETF on 27th April: both heavy purchases of the fund and large-scale profit taking in the OTC market and on Comex from those that front-ran its launch.

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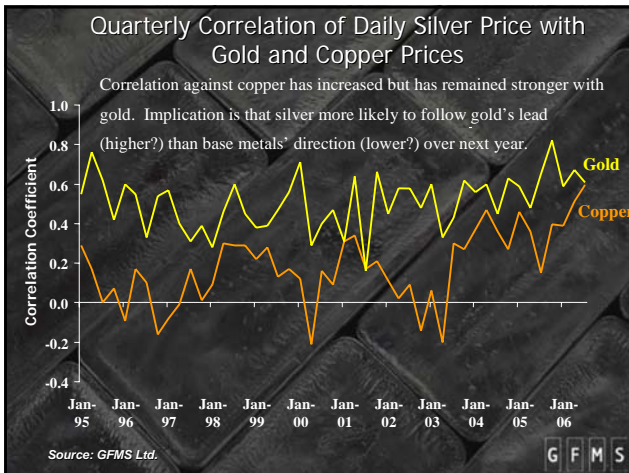




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- Silver a major beneficiary of the general growth in interest in commodities (e.g. 2% DJ-AIG Index).
- Private investor demand also growing outside ETF though still modest volumes and in US investors active on both sides of market.
- Silver briefly led gold in run-up to ETF launch but generally has followed lead of and been strongly correlated to the gold price (and also to a somewhat lesser extent base metals prices).

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Silver Price Outlook

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Silver Price Outlook

- Investment demand remains the main driver.
- Silver ETF has continued to attract investors. An efficient vehicle exists if investor demand surges again. But at some point could the ETF start to represent an overhang, although arguably risk moderated because ownership broad rather than narrow?

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iShares Silver Trust Silver Holdings



Source: iShares

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- Base metals sell off would (and did recently) hit silver.
- Gold's performance central to silver's fortunes.
- Industrial demand (half of total fabrication) vulnerable to slowdown in world GDP growth / downturn electronics cycle.
- Mine production growth will eventually come into play.
- Expect significant price volatility but over next few months at least bias to the upside with spike to \$15/oz very possible.

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Thank you for your attention!

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