



**G F M S**

## The Silver Market in 2007

Philip Klapwijk  
Chairman, GFMS Limited

*The Silver Institute, New York, 7<sup>th</sup> November 2007*

**G F M S**



## The GFMS Group's Unique Research Capabilities & Programme

- 18 Analysts + Consultants; full-time representation in UK, India, China, Australia.
- Not just desk-based: over 300 companies and organisations in 39 countries visited by our personnel in the last 12 months.
- Annual Gold, Silver and Platinum & Palladium Surveys.
- Also, weekly, monthly, quarterly & bi-annual reports plus consultancy services across all the precious and base metals & steel.
- For more information see: [www.gfms.co.uk](http://www.gfms.co.uk)

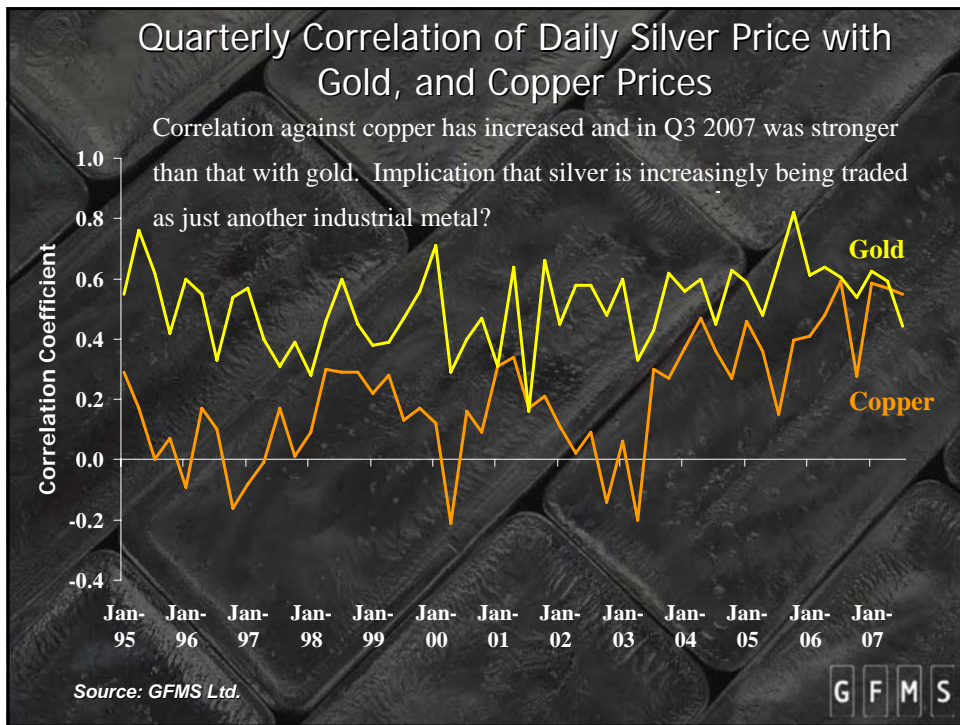
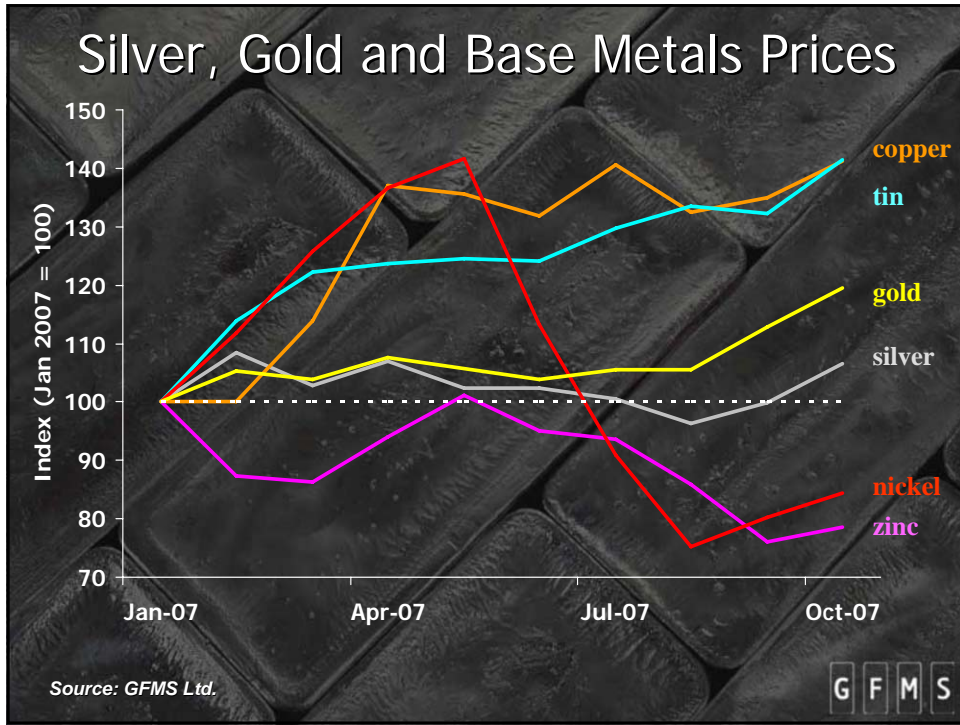
**G F M S**

# Silver: Presentation Outline

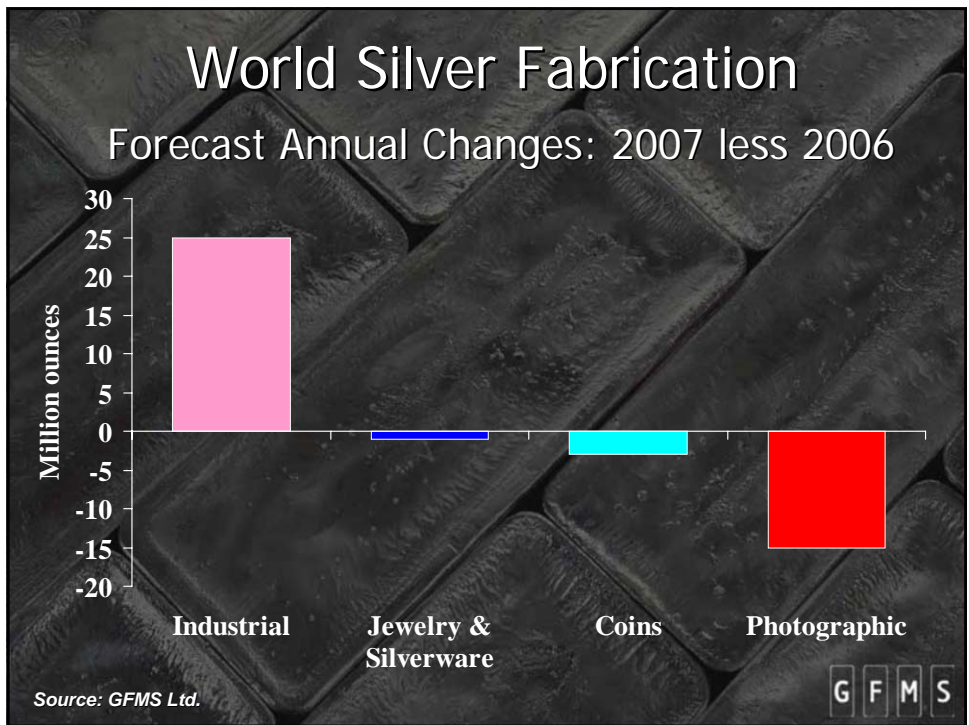
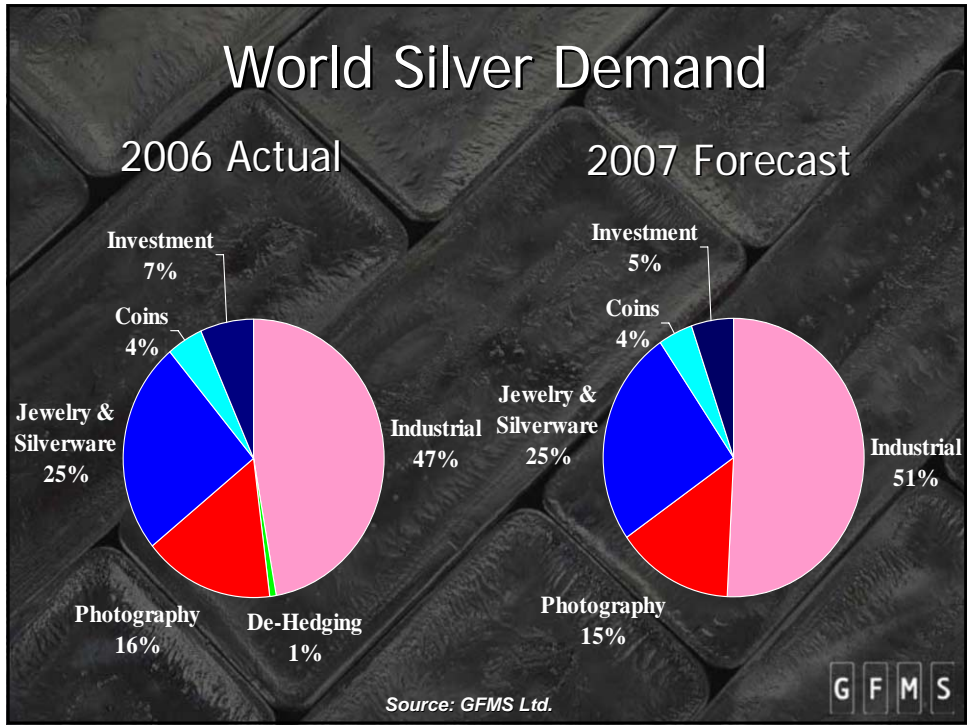
- Silver Prices
- Demand
- Supply
- Investment
- Price Outlook

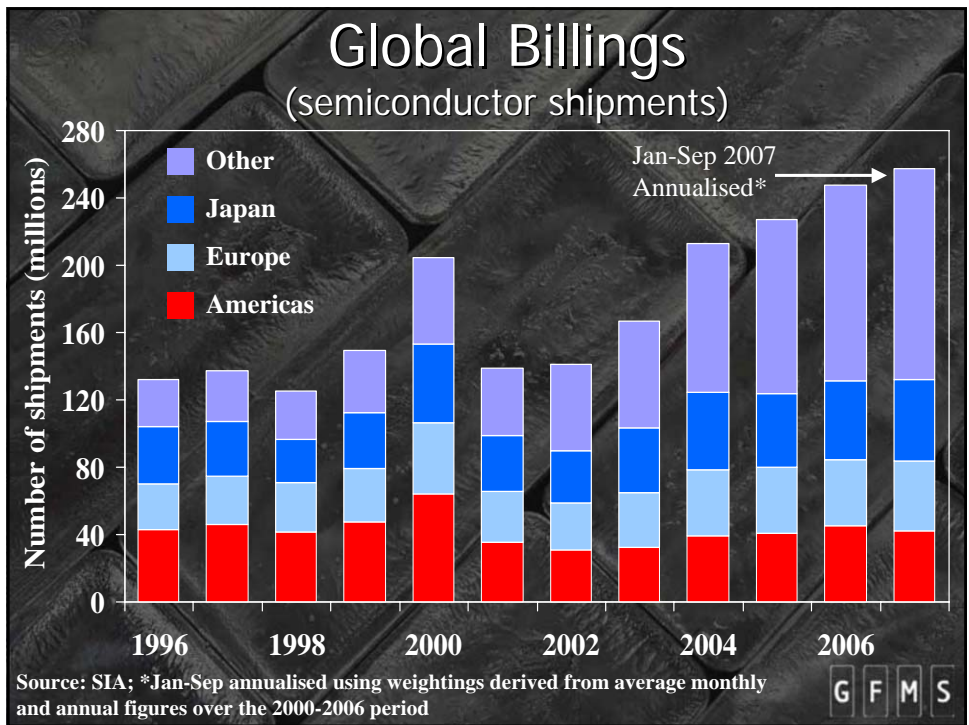
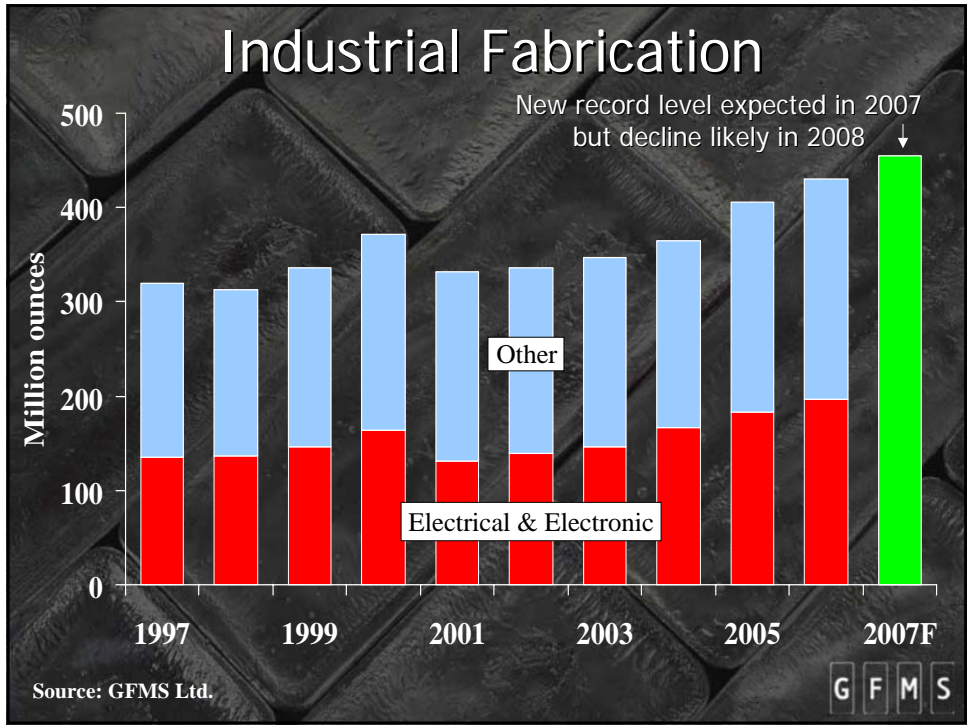
G F M S

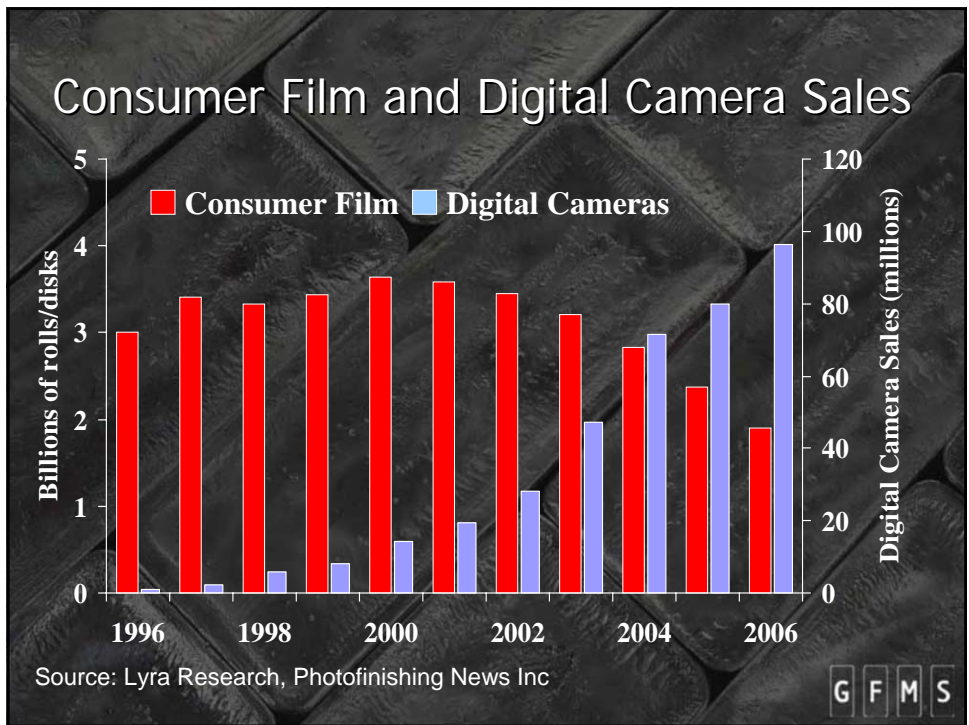
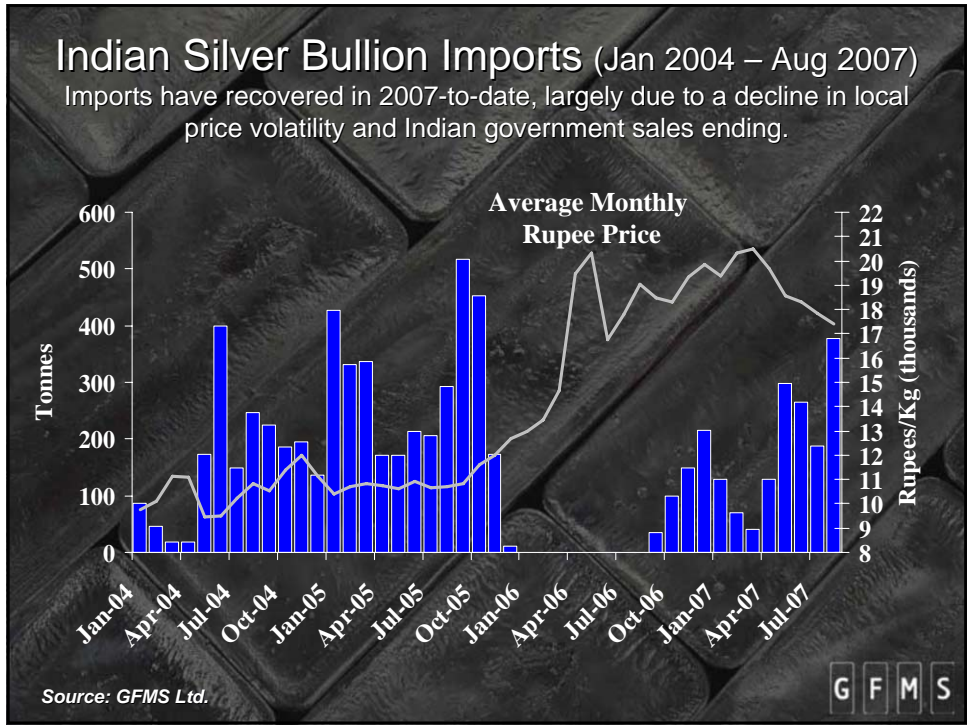












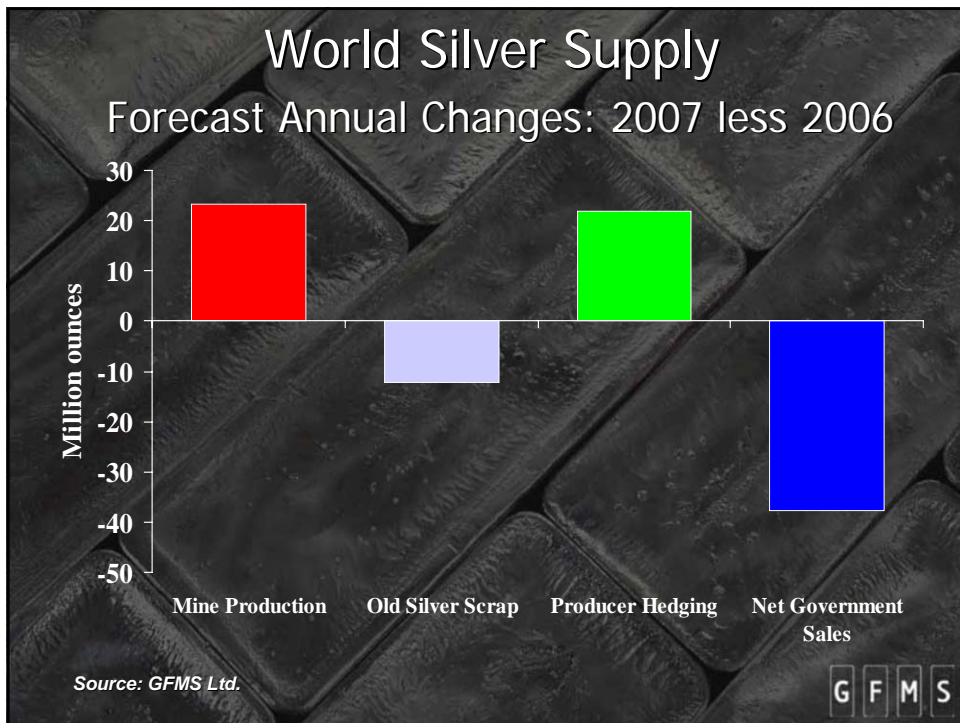
## Demand Summary

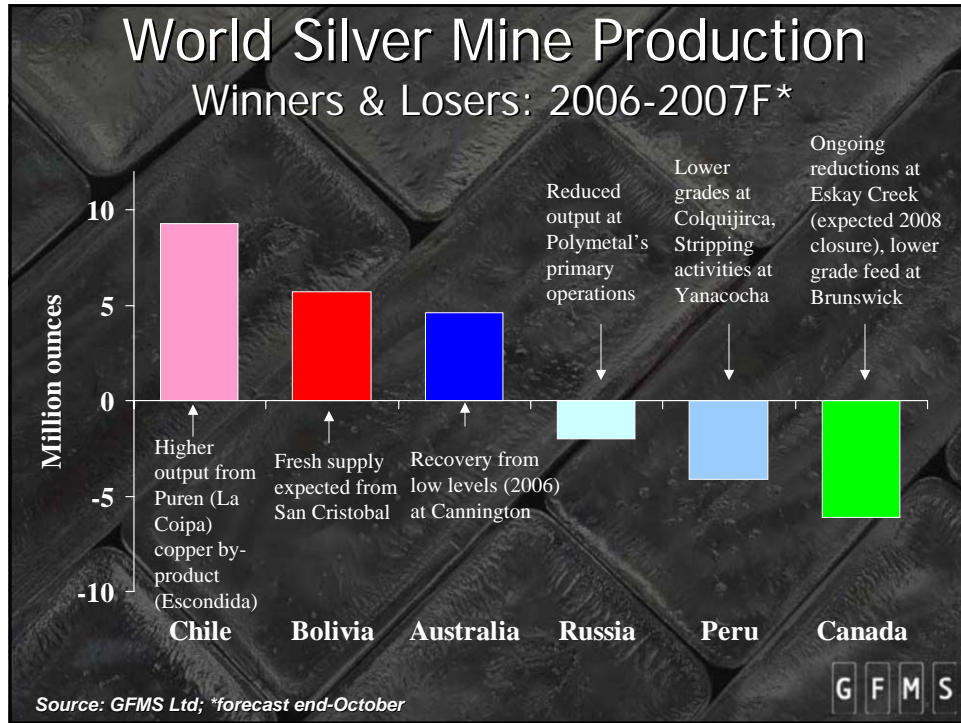
- Total fabrication demand forecast to be little changed in 2007.
- Industrial demand still rising in 2007 and should account for well over 50% of all fabrication. Growth rate similar to 2006.
- Photographic demand continues to fall rapidly due to impact of digital technology.
- Jewellery & Silverware demand flat year-on-year.
- Investment demand remains strongly positive in 2007.

GFMS

## Silver Supply

GFMS





## Mine Production + Hedging

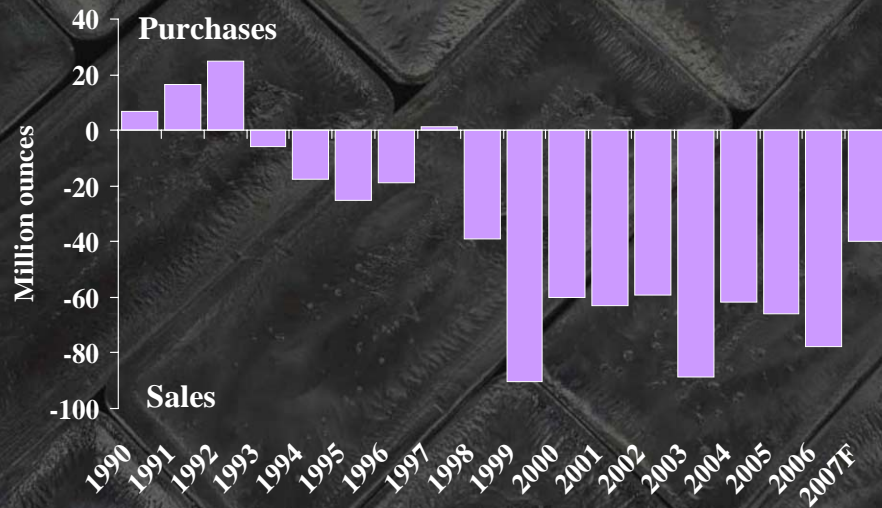
- World silver mine production up fairly strongly (+4%) in 2007.
- Growth driven by higher silver output from La Coipa (Chile), first output from San Cristobal (Bolivia), partial rebound at Cannington (Australia) and higher production in Mexico (including Alamo Dorado and Cerro San Pedro).
- Offset expected by declines in Canada, Peru, Russia, Kazakhstan and DRC.
- Stronger 7% rise expected in 2008: Full year production at San Cristobal and start at San Bartolome (Bolivia) plus anticipated starts at the Penasquito and Dolores projects in Mexico.
- Return of producer hedging to supply side in 2007.

## Scrap Supply

- Scrap volumes estimated to have declined due to reduced re-cycling of photographic waste.
- Price not high enough to stimulate much scrapping of jewellery and silverware, except in India.
- 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 jewellery.

GFMS

## Changes in Government Stocks



Source: GFMS Ltd.

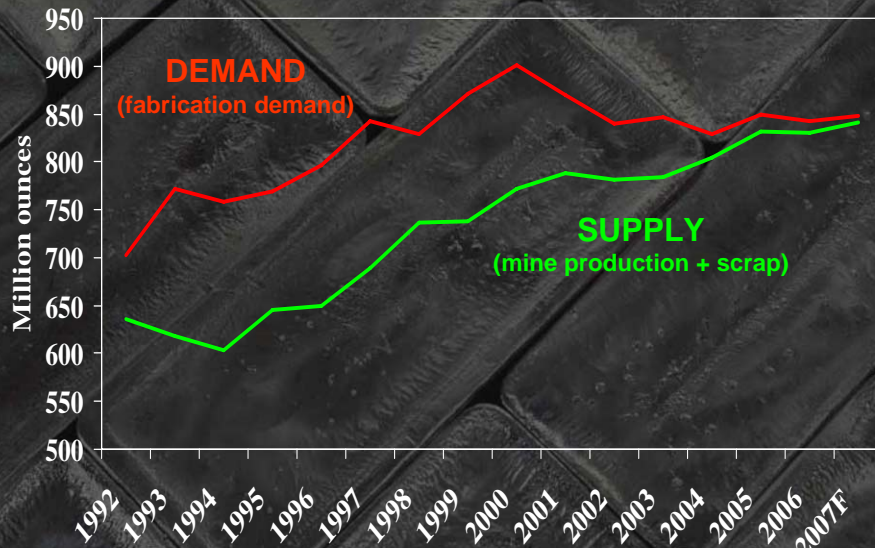
GFMS

## Government Sales

- Government sales have overall fallen sharply in 2007.
- Chinese government sales appear to have ceased.
- Continued large-scale Russian official sales are price-related.
- Indian government sales programme has ended (in 2006 this had resulted in over 860 tonnes of sales into the domestic market).

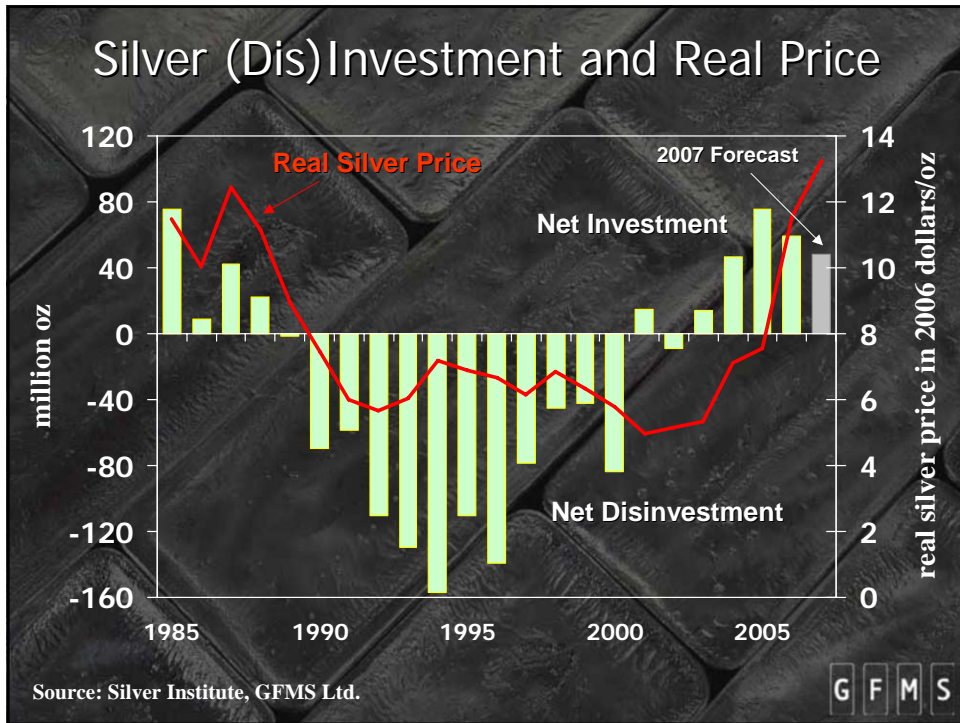
GFMS

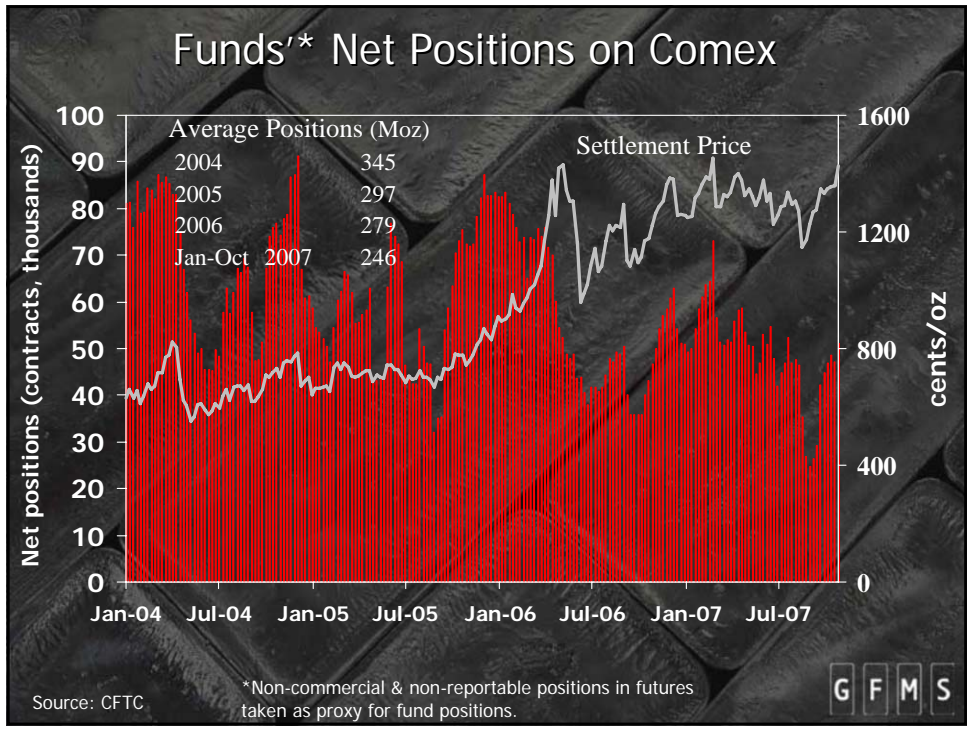
## From "Deficit" to a Balanced Market



Source: GFMS

GFMS





## Investment in 2007

- After good buy-side interest in January/February, investment demand then slumped, with some selling from more speculative and shorter term investors:
  - Disappointment at price failing to sustain break through \$15 and subsequent setback to price.
  - US dollar decline limited.
  - Gold price performance was not impressive.
  - Financial crises (equity, fixed income and sub-prime markets) initially led to sell-offs in all liquid assets in August.
- January-October 2007 saw a rise in ETF holdings but no change in investors' net long futures positions on the Comex.
- In Q4 investment demand for silver has rebounded. After an initial delay silver has responded to gold's earlier reaction to the financial markets crisis and slide in the US dollar.
- Overall, investors' silver stocks will increase again in 2007.

GFMS

## Silver Price Outlook

GFMS

## Silver Price Outlook

### *Supply*

- Mine production forecast to increase by nearly 4% this year, with stronger growth expected in 2008.
- Some offset from lower scrap supply unless prices increase considerably.
- Government sales becoming less of a negative factor.
- Producer hedging? Swing back to net supply this year but no sign of producers' aggressively taking advantage of high forward prices.
- Overall, supply flat to down in 2007 but growth (from mine production) forecast in next few years will be a drag on silver prices.

GFMS

## Silver Price Outlook

### *Demand*

- After several excellent years, including 2007, outlook for industrial demand is now looking negative in 2008 due to potential impact of global economic slowdown.
- Photography still declining but at a lower absolute rate in volume terms.
- Jewellery & Silverware demand little changed this year but could see moderate setback in 2008, especially if prices much higher.
- Fabrication demand in 2007 should be flat overall compared to last year's level. Significant decline expected in 2008.
- Investment? March-August some signs of investor fatigue and sales by more speculative, shorter term investors. More recently, rebound in investment demand. Silver taking its lead (belatedly) from gold.

GFMS

# Silver Price Outlook

## *Conclusion*

- Silver could be dragged in different directions by base metals (downwards) and gold (upwards) in 2008.
- Gold expected to be the dominant influence.
- Silver's supply/demand fundamentals (excluding investment) turning negative in 2008, i.e. higher mine production; lower fabrication demand.
- More reliance on investment demand next year to sustain silver price or drive it higher.
- GFMS expect silver prices will be volatile but tend to increase, though silver likely to underperform gold.
- GFMS expect silver's price range in next twelve months to be \$13.20 to \$16.50, although temporary spike to \$17-\$18 range is a possibility under certain circumstances.

GFMS

# Thank you for your attention!

Website: [www.gfms.co.uk](http://www.gfms.co.uk)

Contact: [philip.klapwijk@gfms.co.uk](mailto:philip.klapwijk@gfms.co.uk)

### Disclaimer

The information and opinions contained in this presentation have been obtained from sources believed to be reliable, but no representation or warranty, express or implied, is made that such information is accurate or complete and it should not be relied upon as such. This presentation does not purport to make any recommendation or provide investment advice to the effect that any precious metal related transaction is appropriate for all investment objectives, financial situations or particular needs. Prior to making any investment decisions investors should seek advice from their advisers on whether any part of this presentation is appropriate to their specific circumstances. This presentation is not, and should not be construed as, an offer or solicitation to buy or sell precious metals or any precious metal related products. Expressions of opinion are those of GFMS Ltd only and are subject to change without notice.

GFMS