



Interview: 'The U.S. Dollar Doesn't Have Any Fiscal Strength Behind It.'

Description

In part two of my interview with **Silver Wheaton** (TSX:SLW, NYSE:SLW) CEO Randy Smallwood, we discuss the state of mining industry. We also debate the outlook for precious metal prices and related products like the **SPDR Gold Trust** ([NYSEMKT:GLD](#)) and the **iShares Silver Trust** ([NYSEMKT:SLV](#)).

Below is the transcript of our conversation; it has been lightly edited for clarity. You can find part one of our conversation [here](#).

Robert Baillieul: After the recent battering the mining industry has taken, is there any sense of optimism?

Randy Smallwood: I would say right now most people are pretty confident that we're near a bottom. I don't think anyone wants to pick off a bottom in commodity prices. But there're a lot of factors that sort of support that.

The cost to actually produce the metal is the strongest one. Where you can actually point to hard data. There just isn't a lot of space further down without impacting mining capacity. So that supply side pressure will support the price itself.

So now the question is how long until we're going to stay in this trough. And so much of that depends on, and I'm going to say, emotional sentiment to the U.S. dollar remaining a reserve currency.

I'm going to quote someone on T.V., 'There's a lot of happy speak about how strong the economy is.' But we don't see any strong changes. Somewhere along the line it's going to catch up and we're going to see strength again in precious metals.

The general consensus out there, most people seem to think it's probably six months to a year and a half before reality really kicks in. And people realize that the U.S. dollar doesn't have any fiscal strength behind it.

Baillieul: Let me play devil's advocate to that point. When I look out at the economy right now, inflation is pretty well flat. We haven't seen any uptick in the consumer price index. We're expecting maybe a Fed taper announcement this afternoon or possibly by the spring. Other than your supply side argument, why would I want to be in precious metals?

Smallwood: Well because we're near a bottom in terms of the supply side means that it's a good time to invest into it. The question is, and this is what we've seen, how long is it going to be until it actually starts moving again.

And you have to go back and look at fiscal policies in the United States. And some of the drive that we have seen in the economy is due to the devaluation of these fiat currencies over the last five years.

People talk about this as the great commodity boom in terms of prices. I don't think that's the proper word. I think what we've seen is the massive devaluation of currencies around the world relative to hard assets.

When I look around the world, that's all I see. Countries continuing to devalue and it's just a matter of who's doing it the fastest. Who's doing it first. And right now the United States is losing that devaluation race. That will catch up to the United States.

For an economic perspective, when you have Japan massively devaluing their currency its going to shift away economic strength from the United States. The United States is of course important to us because that's what we're measuring the strength of precious metals in. So eventually that will catch up.

We see the Euro itself. Germany is setting records in terms of exports on a devalued Euro because they don't have to deal with the Mark. I don't think it's a system that's going to work.

So when I look around I see just enough band-aids being applied around the world. But bandaids don't fix the wounds. They only cover them. And it's eventually going to catch up.

Baillieul: It's the old cliché of just giving more drugs to a drug addict.

Smallwood: Yeah, but not fixing the core route of the problem itself, which is continued, excessive printing of money, the continued increase of the supply of money in the system itself.

Baillieul: So given the bullish backdrop for precious metals, why are you more optimistic on the prospects of silver relative to gold?

Smallwood: Well the first thing, and we've all seen this, is that silver is more volatile than gold. So when you make your investments in the bottom part of the price curve when precious metal prices move, and gold and silver have a very strong correlation with each other, silver will typically outperform gold. So that's one of the appeals of being in the silver space over the gold space.

The other core side of it is the fact that over half of silver is consumed. Silver conducts electricity better than any other metal. It's the most efficient means of conducting electricity.

So in these times when we're looking for the most powerful smartphone, tablet, mobile electronics,

silver is going to play a role. Solar panels, the efficiency in trying to get that it's a sustainable industry without subsidies, silver will play a role in that. Silver also has strong antibacterial qualities so you see continued new applications where silver is being used in water purification systems and burn treatment systems.

Half of it's consumed in a space where there is not a lot of recycling. So it's another strength that I see in silver that I don't see in gold.

Gold is a very emotional holding. There is some function strength behind the demand for silver. But the key reason for us is, of course, return. We're focused on profit. That higher volatility the silver has generally means that in an upwards market it will outperform.

Coming up next

In part three of my interview with Mr. Smallwood, we discuss the advantages of owning a streaming metals company versus an exchange traded fund.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:WPM (Wheaton Precious Metals Corp.)

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