



Why Gold Will Outperform Silver

Description

Gold and silver have both taken a dive recently with the majority of the losses attributable to a declining greenback. Gold has managed to recover a bit on some renewed safe haven demand, which combined with other economic factors points toward the metal outperforming silver in the near future. Here is the case for gold being a better investment than silver.

The dollar factor

Both gold and silver are priced in U.S. dollars. That means when the U.S. dollar appreciates, it's more expensive for holders of international currency to buy the commodity and therefore demand decreases. Typically we see a strong inverse relationship between the value of the U.S. dollar and the price of a dollar-denominated commodity and this is why both metals have been under pressure recently. While this has been influencing the price of both commodities, overall the current economic outlook paints a better picture for gold's price than silver's.

Safe haven demand

Recent global economic data has pointed toward a weakening in some of the major economies, including Japan and Germany. In addition, some recent data from the U.S. has shown some weak spots after months (arguably years) of positive momentum. When economic growth looks shaky investors turn to the precious metals including gold and silver as "safe haven" investments to protect their wealth from the uncertainty.

Both metals can benefit during times of economic uncertainty, but gold has a much larger reaction because its primary value is as an investment. Silver also has investment value, but it also has a large industrial demand component. This prevents silver from rising as much during times of economic weakness because although safe haven demand may increase, industrial demand will decline. During times of economic uncertainty, gold is the clear winner.

Another time we see increased safe haven demand is during times of geopolitical tensions. This year we have seen our share of geopolitical tensions without much of a response in either gold or silver. The reason for this is that other macroeconomic factors — particularly the greenback's climb — has

been dictating the metal's momentum. There is still the potential the situation with ISIS will push tensions to the point where investors seek some safe haven investments, and if that develops, gold will show more upside than silver.

Regional demand changes

The U.S. is the world's largest consumer of silver followed by China, Japan, India, and Germany. When it comes to gold the top six are China, India, U.S., Turkey, Germany, and Switzerland. As you can see, some of the same countries appear on both lists. Japan makes it into the silver category thanks to its high tech industries, which use a great deal of silver. China and India dominate the gold category thanks in part to strong physical demand for gold.

Recent economic concerns have focused on Japan and Germany, while some data in the U.S. has been weak. This is not a good case for silver, with the U.S. and Japan dominating the metal's demand picture. Gold, however, will perform well with physical demand in India and China propelled in part by the increase in those countries' middle class fueling demand for the metal.

How to profit

Gold looks positioned to outperform, so how can you profit? The best way is to purchase the stock of a miner that primarily produces gold.(many miners produce both metals in conjunction). While there are very few options to pick a pure gold producer, two miners that focus on gold to consider are **Goldcorp Inc.** (TSX: G)(NYSE: GG) and **Eldorado Gold Corp.** ([TSX: ELD](#))([NYSE: EGO](#)).

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2. Metals and Mining Stocks

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1. NYSE:EGO (Eldorado Gold Corporation)
2. TSX:ELD (Eldorado Gold Corporation)

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Author

Iklingel

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