



Has the Silver Correction Hit Bottom?

Description

It has been a tough year for investors in silver with the lustrous white metal plunging 17% over that period. This was on the back of recent weakness across all precious metals as the U.S. dollar continued to strengthen on positive economic data coming out of the U.S.

Of even greater concern for investors, are claims silver still has further to fall, with some analysts predicting further weakness among precious metals because of a stronger U.S. economy which cause the U.S. dollar to continue appreciating in value.

But in recent days silver has rebounded – after hitting its lowest point in almost five years – to be trading at over \$16 per ounce and I believe there is further gains ahead with the silver having already bottomed.

Let me explain why.

Firstly, the gold-to-silver ratio – a crucial measure of the correlation between silver and gold prices – has continued to widen.

Over the last year, the ratio has widened from 68 ounces of silver to purchase one ounce of silver to now require 73 ounces. Even more startling is the current gold-to-silver ratio is 55% higher than the 100 year average of 47 ounces and 62% higher than the 45 ounces required at the height of the bull market in gold.

This according to a number of analysts specializing in precious metals is a key signal that silver is undervalued in comparison to gold. For this reason, some are recommending investors invest in silver in preference to gold, with the ratio set to at least rebound close to the historical average.

However, more promising for investors is if gold prices remain weak hovering around the \$1,200 per ounce mark as they are now, silver will need to appreciate in value by 46% if the ratio is to move back to its historical average of around 50 ounces. Even if gold falls to \$1,050 per ounce as predicted by Goldman Sachs and the ratio moves back to 50, silver still offers upside of 27%.

All of this, without requiring gold to rise any further in value, but rather for silver to appreciate in value and close the gold-to-silver ratio to around the historical average.

Secondly, demand for silver has rebound strongly, with growing seasonal demand expected to continue this momentum.

The key drivers of this seasonal demand are growing jewellery demand in China and India for festivals and weddings. This saw India's silver imports for October 2014 spike by 44% compared to September and a massive 136% compared to October 2013.

Meanwhile, investment demand for silver continues to grow with sales of American Silver Eagles hitting an all-time October record and being at their highest point since January 2013.

Finally, silver futures continue to appreciate in value.

Since the start of November 2014 silver set for delivery in in December 2014 has firmed by almost 7%, while contracts set for delivery for December 2015 have firmed by 9%, over the same period. This can be attributed to speculators expecting the price of silver to continue rising over coming months, coupled with a range of indicators highlighting this upward momentum is set to continue over the longer-term.

I believe the best way for investors to take advantage of rising silver prices is to invest in precious metals streamer **Silver Wheaton Corp.** (TSX: SLW) (NYSE: SLW). Unlike silver bullion or a silver ETF, but like the primary silver miners, it offers leveraged exposure to the silver price but with significantly less risk than the miners. This is because it is not engaged in the exploration for silver or the development and operation of actual mines which is are costly and risky activities.

Instead, Silver Wheaton lends funds to miners to develop mining projects and in return receives a portion of the silver mined at a fixed price, which is typically far lower than the spot price at the time the contract is enacted. This allows it to operate with significantly lower costs than any of the silver miners, which means even the slightest appreciation in silver will translate into significant upside on its bottom-line.

CATEGORY

1. Investing
2. Metals and Mining Stocks

TICKERS GLOBAL

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

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