



## 2 Reasons Why Silver Will Rebound in 2015

### Description

I have been bullish on the [long-term prospects](#) for silver for some time and while it finished 2014 significantly lower with its price plunging 22%, there are signs of a rebound in 2015.

There are range of reasons for this, but there are two key catalysts set to drive silver prices higher.

#### 1. Growing industrial uses for silver will see demand outstrip supply

According to the World Silver Institute 2013 silver demand outstripped supply and the institute expects this to occur again for 2014 and 2015. This is because of growing demand for using silver in a range of high-tech industrial applications including photo-voltaic cells, electronic touch screens, light emitting diodes, and interposers for the stacking of semi-conductor chips.

Demand for photo-voltaic cells, of which silver is a key component, is set to explode with a number of nations including China, Germany, and Japan committing to boosting clean energy production through solar power between now and 2018. Consumer demand for electronic products — where flexible touch screens, light emitting diodes, and interposers are integral components — continues to move ever higher.

This has the potential to boost industrial demand for silver solely for use in these applications by 2018 jump by 350 million ounces or 60% of total industrial demand in 2013.

Yet, global silver supplies between now and 2018 are expected to remain constrained at around 1 billion ounces annually. This is because silver mining supplies roughly 80% of all silver produced globally. With silver miners winding down exploration and development because of markedly lower silver prices, supplies are unlikely to rise anytime soon.

The end result is that silver supplies will fail to match demand, driving silver prices higher.

#### 2. The gold-to-silver ratio remains severely disconnected from historical averages

Over the last 100 years, the gold-to-silver ratio has on average required 47 ounces of silver to

purchase one ounce of gold. But since the peak of the gold bull market in 2011 where only 44 ounces of silver was required, the ratio has widened to now need 75 ounces of silver to purchase one ounce of gold.

This indicates that silver is heavily undervalued in comparison to gold, with a number of commodities analysts stating they believe the ratio will drop to 60 ounces of silver for one ounce of gold over the course of 2015. If this were to occur silver prices when using the current gold price of \$1,188 per ounce would need to rise to roughly \$20 per ounce, offering 26% upside from their current level.

### What is the best way to cash in on this opportunity?

I believe the best way for investors is to invest in silver is through silver miners rather than silver bullion or an exchange traded fund. This is because the miners and related companies like precious metal streamers offer investors the opportunity to make a leveraged play on silver, which bullion and ETFs don't as they solely track the spot price.

However, I don't believe the primary silver miners like **Pan American Silver Corp.** or **First Majestic Silver Corp.** offer the best opportunity to bet on a rebound in silver. Rather, precious metals streamer **Silver Wheaton Corp.** (TSX:SLW)(NYSE:SLW) and gold miner **Goldcorp Inc.** (TSX:G)(NYSE:GG) in my view offer the greatest potential.

Just like the primary silver miners, they offer leveraged exposure to the price of silver, but come with other distinct advantages.

Silver Wheaton offers far lower risk because as a precious metals streamer, it doesn't engage in high risk mining operations. Instead it provides loans to miners to fund mine development, while in return receiving the right to purchase silver at prices far lower than the market price. This means it can generate far superior margins than the miners, meaning even the slightest bump in silver prices will deliver a far greater positive impact to its bottom line.

Despite being primarily a gold miner, Goldcorp holds considerable silver reserves totalling 818 million ounces, outstripping even Silver Wheaton's massive reserves of 781 million ounces. This means investors can benefit from both a rising gold price and cash in on a rebound in the price of silver. It is also relatively low risk because of its fortress balance sheet and focus on reducing costs.

### CATEGORY

1. Investing
2. Metals and Mining Stocks

### TICKERS GLOBAL

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

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### Date

2025/08/04

**Date Created**

2015/01/05

**Author**

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