



2018 Is Shaping Up to Be a Solid Year for Silver

Description

Last year was a tough one for silver. Despite showing some promise [early in the year](#), it has lagged behind its more valuable peer gold. While gold shot up almost 13% over the last year to be trading at its highest price since September 2017, silver has remained flat, only rising by just under 4%. This has created an opportunity for investors seeking to profit from the optimism surrounding precious metals in 2018.

Now what?

Silver, unlike gold, possesses considerable utility; it's used in industrial processes because of its conductive properties, which make it a key element in a wide range of electrical and electronic applications. This endows it with the attributes of being both a precious metal which benefits during times of crisis as well as an industrial metal that profits from stronger economic growth.

Because silver is a precious metal, its price is closely correlated to that of gold, which means that as gold rises, notably in [response to geopolitical crises](#), then silver will appreciate. There is every sign that a multitude of geopolitical crises could emerge over the course of 2018. Middle East tensions continue to rise, as the conflict for regional ascendancy between Iran and Saudi Arabia intensifies. There is no sign of the conflict in Yemen abating anytime soon, and Trump's decision to decertify Iran last year has applied considerable pressure on Teheran, which is also facing its own domestic crisis.

The standoff between a rogue North Korea and the U.S. remains tense. It could escalate at any moment, and this along with rising tensions between China, Russia, and the U.S. increases the risk of economic fallout, as each nation jockey to assert its national interest.

Nevertheless, any uptick in [global economic growth](#) will apply pressure to gold, because it means a stronger U.S. dollar and higher interest rates, all of which are bad news for the yellow metal. This is where silver will shine.

You see, silver's important role as an industrial metal, particularly in the fabrication of components used in electronic devices, means that manufacturing demand for the white metal will rise. Supplies remain constrained because of a lack of investment in new silver mining projects caused by the

protracted slump in prices since 2014. That means there has been a physical supply deficit over the last five years, as demand has outstripped supply.

Any sharp increase in silver consumption will give its price a healthy bump.

Even the gold-to-silver ratio, which is a key means of determining whether silver is undervalued in comparison to gold, remains well above its 40-year historical average. Currently, it takes 77 ounces of silver to buy one ounce of gold, whereas over that period, on average, it has taken 62 ounces. If the ratio reverts to the historical mean, silver could rise to as high as US\$21 per ounce, or 23% higher than its current spot price. That would be a boon for silver miners, which offer investors levered exposure to the white metal.

So what?

A miner poised to unlock considerable value as silver appreciates is **Silvercorp Metals Inc.** ([TSX:SVM](#))(NYSE:SVM), which is focused on silver mining in China. Despite weak silver prices, the miner is free cash flow positive and remains one of the most profitable among its peers, because of its low all-in sustaining costs of US\$2.26 per ounce. Unlike silver bullion or an ETF, Silvercorp generates income for investors, paying a regular dividend which yields just under 1%. The dividend payout ratio of a mere 4% indicates that not only is it sustainable, but that there is considerable room for dividend growth.

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