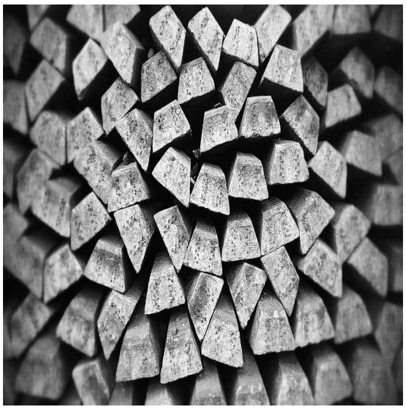

Can Silver Ever Recover?

Description

Even after five consecutive annual supply deficits, silver remains weak and recently plunged to US$15.39 an ounce, which is the metal's lowest price in over a year. This has sparked considerable speculation that silver will never bounce back and trade at anywhere near the highs witnessed in the last precious metals bull market.

A key reason for this has been a marked uptick in silver supply over the last 10 years because of growing mine production. Between 2008 and 2017, silver output from mining grew by 24% to 852 million ounces, yet physical demand declined by just under 6%. The reduced consumption of silver can be attributed to a decrease in its use by industry and lower demand for silver coins. There are signs that silver may not recover for at least the short to medium term for a range of reasons — a key reason being weaker-than-expected demand and growing supply.

Now what?

Silver, unlike gold, has considerable utility. It's used in a wide range of industrial processes, including in the fabrication of electronic components and the photovoltaic cells (PVs) that make up solar panels. It was predicted that silver's value would surge because of a marked uptick in the demand for PVs, as a range of nations globally focused on expanding the proportion their electricity generated by renewable sources of energy.

Regardless of those countries, notably China, pushing ahead with increasing the amount of installed capacity derived from solar, the much-touted surge in demand for silver has failed to materialize. That essentially means that the use of silver in the fabrication of PVs has barely made up for decreased demand for its use in other industrial processes. This includes the sharp decline of silver's use in photography because of the rapid adoption of digital technology over the last decade. That has resulted in photographic consumption of silver more than halving over that period.

More surprising is that in 2017 its consumption for use in the manufacture of electronic components, where it is a widely used material because of its conductive properties, dropped by 4% year over year. There is every likelihood that its use in electronics could fall again during 2018 and 2019.

This is because of the emerging trade war between the U.S. and China, which will crimp manufacturing activity in China, where most of the world's electronic are made.

You see, China is highly dependent on exporting the goods that it manufactures to markets such as the U.S., Canada, and the European Union. Chinese imports are firmly in the sites of the Trump administration, which is threatening to slap tariffs on essentially all imports from the east Asian nation.

That would have a devastating impact on China's manufacturing sector, causing the demand for silver for use in industrial applications to fall sharply. It could also trigger a global economic slowdown or, even worse, a recession in a world economy which has barely recovered from the global financial crisis a decade ago. That would cause demand for industrial metals such as silver to fall further.

So what?

The immediate outlook for silver is not particularly bright, and more than likely, there is further weakness ahead. This will apply pressure to the value of primary silver miners like **Silvercorp Metals Inc.** (TSX:SVM)(NYSE:SVM).

Nonetheless, while silver has lost 11% since the start of year, Silvercorp's shares have only fallen by 6%. That can be attributed to its high-quality silver mining assets and solid fiscal year 2018 results.

Despite weaker silver, Silvercorp reported an 8% year-over-year increase in net income, because it is one of the lowest-cost operators in its industry. For that period, the miner reported all-in sustaining costs of a remarkably low US$3.27 per ounce produced, which was less than the US$3.82 recorded a year earlier. That makes it an attractive investment, even in an operating environment where silver remains weak. It also means that Silvercorp's stock will soar when silver finally rebounds, making now the time to buy.

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