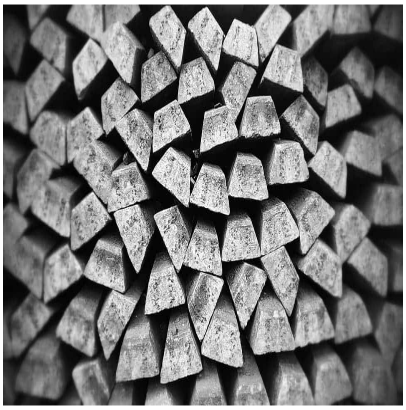

Don’t Expect Trump’s Trade War to Boost Silver

Description

The last few years have been particularly disappointing for silver investors. While gold has remained relatively firm after pulling back sharply from its 2018 high of over US$1,355 per ounce, silver keeps drifting lower recently hitting US$15.34 an ounce**,** its lowest price since early April 2016. The poor performance of the white metal is reflected in the **iShares Silver Trust ETF** (NYSE:SLV), which has plummeted by 11% since the start of 2018.

This bodes poorly for silver miners, as is evidenced by the **Global X Silver Miners ETF** (NYSE:SIL), which plunged by almost 20% over the same period. It also makes high cost primary silver miners like **First Majestic Silver Corp.** (TSX:FR)(NYSE:AG) unappealing investments.

Now what?

It isn’t only poor fundamentals for precious metals that are weighing on silver. Trump’s approach to trade and his threats to not only place tariffs on US$500 billion of imports from China, but also to now boost those tariffs from 10% to 25% has sharply impacted copper and other metals.

What many investors fail to realise is that silver is as much an industrial metal as it is a precious metal. During times of economic growth, that gives it a distinct advantage over gold because as consumption expands, industrial demand for silver grows, thereby boosting its price.

Silver’s utility arises from its conductive qualities as the most electrically conductive of all the elements followed by copper. For that reason, it is an important component used in a wide range of industrial applications. This means that silver’s fortunes are becoming more closely aligned with copper, the world’s premier industrial metal, which is decoupling from its traditional relationship with gold.

The growing likelihood of a global trade war triggered by Trump and his escalating isolationist rhetoric could derail the world economy, causing global gross domestic product (GDP) to fall sharply. It would also wreak havoc on a Chinese economy slowing from Beijing's attempts to rein in excessive credit. This is because around 40% of China's GDP is generated by its manufacturing sector. The most important export market for that sector is the U.S., which in 2017 accepted US$506 billion of imports equivalent to roughly 4% of the East Asian nation's GDP.

A trade war could cause industrial activity to decline so significantly that even Beijing's planned economic stimulus potentially wouldn't offset it.

As a result, demand for silver would deteriorate because China is the world's second largest consumer of silver, while most of the white metal is consumed by the nation's industrial sector.

You see, China is the world leader in manufacturing electrical items, electronic components and photovoltaic cells that make up solar arrays. These are the leading applications for the industrial consumption of silver, because of its conductive qualities, thereby accounting for a third of all of the metal consumed in 2017.

So what?

It is difficult to see any upside for silver over the short to medium-term. This means that higher cost silver producers such as First Majestic, which reported first quarter all-in sustaining costs (AISCs) of US$16.01 per ounce produced, will struggle to be profitable. The decoupling of silver from gold and its growing relationship with copper means that it will not perform as strongly during times of economic crisis, when precious metals have traditionally shined.

CATEGORY

1. Investing
2. Metals and Mining Stocks

TICKERS GLOBAL

1. NYSE:AG (First Majestic Silver)
2. NYSEMKT:SLV (iShares Silver Trust)
3. TSX:FR (First Majestic Silver)

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