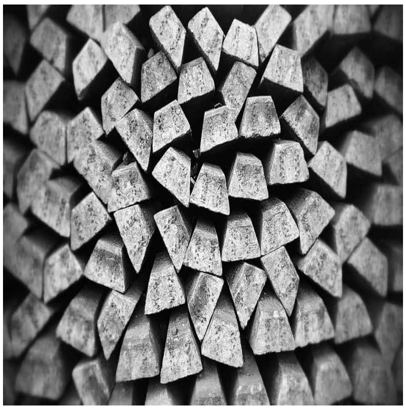

After Hitting a Multi-Year Low Is it Time to Buy Silver?

Description

Around three weeks ago, silver slipped to a multi-year low, trading at just over US$14 an ounce — its lowest price since January 2016. In recent days, the white metal has recovered, gaining 3% to trade at just over US$14.50 per ounce. Some analysts claim that now is the time to buy silver.

Nonetheless, those assertions appear premature, especially for a precious metal that has shown itself to be extremely volatile and appears to have disconnected from its underlying fundamentals. This is bad news for primary silver miners — particularly high-cost operators like **First Majestic Silver** (TSX:FR)(NYSE:AG).

Now what?

Silver, unlike gold, possesses considerable utility, being heavily utilized in a range of manufacturing applications.

As a result, industrial demand is responsible for almost 59% of all silver consumed, whereas gold only accounts for just over 7%. This means that the price of silver, despite being a precious metal, is dictated by the health of the economy and other factors that affect industrial consumption. It is also this which is responsible for silver's growing disconnect from gold.

A key factor weighing on silver at this time are growing fears of a full-blown trade war emerging, which would sharply impact global economic growth. According to the World Bank, President Trump's trade policies have the potential to trigger a 2008-style global financial crisis, which could cause global manufacturing activity to grind to a halt. Even if that were not to occur, many economists believe that it will shave up to 1% off global GDP growth.

The nation that will be the worst affected is China, which is Trump's principal target. Essentially, the president has threatened to place tariffs on virtually all U.S. imports from the East Asian nation. That has the potential to spark a major downturn in manufacturing activity in China, which is known as the world's workshop.

The two industries that consume the most silver and form an integral part of China's manufacturing sector are electrical and electronic as well as solar panel fabrication. If there was a sharp decline in demand for silver from those industries, it would have a calamitous impact on the white metal.

It wasn't so long ago that the fabrication of photovoltaic cells, which are the key component in solar panels, was touted to become one of the largest consumers of silver globally. This hasn't occurred, and the fabrication of photovoltaics cells has slowed and could fall further because of Trump's tariffs. The consumption of silver in the manufacturer of solar panels has only managed to offset the significant decline in the metals use in photography over the last 10 years.

There is also every indication that global silver supplies will continue to expand, despite weaker prices.

You see, all-in sustaining costs (AISCs) for many primary silver miners such as First Majestic may be high, but the true measure of the costs associated with the production from existing operations are their cash costs.

In the case of First Majestic, it reported cash costs of US$7.59 per ounce of silver produced, which was 3% lower than the previous quarter. It is also 48% lower than silver's spot price, which means that even if prices remain weak, First Majestic won't shutter any of its mines or reduce production any time soon. Another example of this is the fourth-largest primary silver miner globally, **Endeavour Silver** (TSX:EDR)(NYSE:EXK). For the second quarter, it reported AISCs of US$17.28 per silver ounce produced, but cash costs of US$7.61. That means Endeavour also won't shutter existing operations even if silver prices remain low.

So what?

It is difficult to see any upside for silver over the remainder of 2018 and into 2019. Growing pressures on precious metals, including a firmer U.S. dollar coupled with concerns of a trade war emerging, will weigh on its outlook for some time to come. This means that it will remain stagnant and that most primary silver miners are unattractive investments.

CATEGORY

1. Investing
2. Metals and Mining Stocks

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