What Is the Outlook for Silver in 2019?

Description

Last year was a tough one for silver investors and miners. The white metal started the year on a positive note, opening at just over US$17 an ounce, but then the wheels fell off and it plunged to under US$14 per ounce in mid-November 2018.

While silver has rallied in recent days, following gold higher, to trade at US$15.70 per ounce, it is still well under US$17 an ounce and down by 8% over the last year. According to some analysts, silver will remain stagnant over the course of 2019 with higher gold the only tailwind that will push the white metal higher.

Now what?

Other than firmer gold because of fears of a global economic slowdown, rising political risk, and growing uncertainty, there appears to be very few other tailwinds for silver. A key reason for silver's sharp slump during 2018 was a growing supply surplus because of a recovery in mine production.

Significantly higher silver prices since July 2016 sparked a flurry of investment among miners as they expanded their operations and ramped up the tempo of mine-development activity. That saw a substantial supply surplus of over 35 million ounces emerge during 2018 compared to 2.4 million ounces a year earlier.

While some analysts believe that the surplus will decline during 2019, helping to buoy prices, there are indications that this substantial surplus is here to stay. Primary silver miners have been ramping up production at a frantic rate, while focusing on reducing costs, making it profitable to continue operating, even if silver continues to trade at less than US$16 an ounce.

The world's largest silver producer Fresnillo Plc., for the first nine months of 2019, had boosted its silver output by 8% compared to a year earlier to 42.7 million ounces. The seventh-largest producer **Pan American Silver** (TSX:PAAS)(NASDAQ:PAAS) expanded its silver production for the same period by just over 1% to 18.6 million ounces. It also announced that it intended to acquire troubled miner Tahoe Resources, which owns the Escobal mine in Guatemala — the world's second-largest silver mine.

By order of the Guatemalan courts, Escobal has been shuttered since mid-2017, shaving around 20 million silver ounces annually off global supplies. There is growing speculation that Pan American will be able to recommence operations at Escobal during 2019. This will add anywhere up to 20 million silver ounces annually to an existing supply surplus, which arose during the period where Escobal's operations were suspended.

If a large supply surplus weren't enough to worry about, there are signs that demand for silver will remain weak. Industrial consumption of silver hasn't grown as significantly as predicted. There has been a sharp reduction in the volume of the metal consumed by photography, while slowing manufacturing activity in China, along with weaker global economic growth, will lead to less being used in the fabrication of electronic goods.

The rapid uptake of solar power has failed to generate the massive surge in demand for silver as previously anticipated. Silver is a key material used in the fabrication of photovoltaic cells (PVCs), but because manufacturers are substituting less-costly materials and reducing the volume of silver required through technological improvements, the amount being consumed is falling.

This sees analysts tipping that the volume of silver being used in the fabrication of PVCs will drop by 40% between now and 2024. That certainly doesn't bode well for higher demand for silver, because the manufacture of PVCs is responsible for 16% of all silver consumed by industrial processes.

Demand for silver bullion in the form of bars and coins also remains weak as other alternative investments, including cryptocurrencies, keep garnering greater attention from retail investors. Then you have the confluence of a stronger U.S. dollar and higher interest rates, which — with the Fed proposing two more rate hikes — will weigh further on the price of silver.

So what?

While silver will edge higher over the course of 2019, primarily because of firmer gold, it is difficult to see any sustained recovery occurring during the year. This bodes poorly for silver miners, especially when it is considered that the prices of base metals have also declined reducing the value of by-product credits. For these reasons, silver-related stocks like miners are generally unappealing investments.

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