

## Does Gold's Latest Rally Make This the Time to Invest in Silver?

### Description

Silver has followed its more expensive cousin gold higher in recent weeks, gaining 7% over the last month. The increasingly positive outlook for precious metals coupled with the gold-to-silver [ratio](#) requiring 84 ounces of silver to acquire a single ounce of gold has sparked claims that now is the time to bolster exposure to the white metal. Despite the claims of silver bugs, there are signs that silver will remain stagnant for at least 2019.

### Few positive catalysts

Growing fears over the health of the world economy, Trump's erratic approach to foreign policy and trade, and weaker economic data from China triggered a flight to safety among investors. This pushed gold higher as investors boosted their exposure to the yellow metal to weather-proof their portfolios against economic or political calamity.

This, along with rising inflation and gold's ability to shake off the impact of poor fundamental indicators such as a firmer U.S. dollar and higher interest rates, has led to claims that the yellow metal has entered a new bull market. Because of the closely correlated relationship between the yellow metal and silver, this gave the white metal a solid lift to see it trading at over US\$15.30 an ounce.

Nonetheless, there appear to be very few other positive catalysts for silver. Industrial demand remains weak, with signs that even the anticipated explosion in silver consumption because of its crucial role in the manufacture of photovoltaic cells that make up solar panels won't eventuate. Because of technological improvements over the last five years, the manufacturers of photovoltaic cells are using less and less silver in their fabrication. Many are also looking for cheaper substitutes as they vie to reduce the cost of solar power. Because of its conductive qualities, silver is an important element in the fabrication of various electronic components, and the volume being consumed in each item produced is also falling because of improved technology.

Weaker bullion demand from investors is also weighing on silver prices. Aside from the growing popularity of other alternative investments, which have a similar appeal to silver such as [cryptocurrencies](#), silver coins, bars, and rounds don't appear to hold the same attraction for investors that they once did.

It isn't only weaker demand that's weighing on silver; there are also signs that the copious supplies of the metal will continue. During 2018, silver experienced its first significant supply surplus since 2010, and there are signs that this will continue into 2019. Not only will it take time for that surplus to wind down, but primary silver miners in response to stronger silver prices over the course of 2016 and 2017 ramped up investment in their mining activities. This will continue to drive higher silver production from mining, even with primary silver miners reining in spending because of weaker prices.

While total global mine production in 2017 was 4% lower than a year earlier, it was still 12% greater than at the height of the precious metals bull market in 2011, when silver averaged US\$35 an ounce or

more than double the average price of US\$17.05 per ounce for 2017. That can be attributed to a combination of factors, key being the long lead in times required to ramp down activity as well as steadily falling cash costs, which means that many miners are still generating cash flow despite weaker prices.

Oversupply coupled with softer-than-anticipated demand will weigh on silver and likely offset the gains that will flow through to the white metal because of higher gold.

### Silver miners are unattractive investments

Silver's stagnant outlook makes high cost primary silver miners such as **Endeavour Silver Corp.** ([TSX:EDR](#))([NYSE:EXK](#)) unattractive investments. The miner reported third-quarter 2018 all-in sustaining costs (AISCs) of US\$16.14 per ounce produced, which was 12% greater than its averaged realized silver price for the period of US\$14.42 an ounce.

For this reason, it reported a quarterly net loss of US\$5.5 million compared to a profit of US\$1 million for the equivalent period in 2017. While Endeavour can decrease the amount of sustaining capital invested in its operations or even shutter high cost production to reduce its AISCs, silver's poor outlook doesn't bode well for its financial performance in 2019.

### What does it all mean?

That said, investors should not be deterred from investing in silver miners, but should look to those with high-quality assets and the [potential to deliver](#) outsized returns once the white metal's slump comes to an end.

### CATEGORY

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2. Metals and Mining Stocks

### TICKERS GLOBAL

1. NYSE:EXK (Endeavour Silver Corp.)
2. TSX:EDR (Endeavour Silver Corp.)

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