



Is it Time for Silver to Rally?

Description

Silver has drifted lower since the start of 2019, losing almost 3% as it followed gold lower, while the uncertainty gripping financial markets which propped up precious metals in late 2018 and into 2019 has subsided. Despite this weakness, many silver miners — as evidenced by the **Global X Silver Miners ETF** gaining 3% for the year to date — haven't fallen sharply in value. This can be attributed to the market having already priced in much of the negative sentiment surrounding silver, and some of the events that bode poorly for gold are favourable for the white metal.

Nonetheless, what is now reputedly the world's largest primary silver miner, **Pan American Silver** ([TSX:PAAS](#))(NASDAQ:PAAS) has lost 14%, creating an opportunity for investors.

Increasingly positive prospects for silver

Key among the improved outlook for silver is the growing consensus among analysts that a trade war between the U.S. and China, the world's two largest economies, has been averted. This is a positive development for silver, because it bodes well for the global economy and industry as well as China's manufacturing sector.

You see, silver is as much an industrial metal as it is a precious metal, with industry consuming 59% of all silver utilized in 2017. It is this dual characteristic which is responsible for the closely correlated relationship between gold and silver diverging in recent years.

If China's economy bounces back, it will trigger greater demand for silver, especially for use in the fabrication of photovoltaic cells, which make up solar arrays. Globally, China is the largest manufacturer of solar panels with seven of the world's 11 leading producers of solar panels being located on its mainland. Because of its conductive qualities, silver is a key component used in their fabrication.

During 2017, the solar manufacturing industry was responsible for consuming 16% of all silver used in industrial processes, which totaled 94 million ounces and was 19% greater than a year earlier. That consumption should keep growing at a rapid clip, as the demand for solar energy rises because of the

push to renewable sources of energy to combat global warming.

Meanwhile, silver's value as a precious metal will be supported by the Fed's less-aggressive stance on monetary policy, including taking a softer approach to interest rate hikes, which should see the U.S. dollar ease. This is important because it reduces the opportunity cost of holding a non-income-producing precious metal asset like silver, making it more popular with investors seeking to hedge against geopolitical and economic uncertainty. Because silver, like other commodities, is priced in U.S. dollars, a weaker dollar makes it cheaper for holders of other currencies, such as solar panel manufacturers in China, to purchase the metal.

Why buy Pan American Silver?

It is here that the opportunity for investors arises. In February 2019, Pan American successfully closed its acquisition of Tahoe Resources adding the world's second-largest silver mine, Escobal in Guatemala, to its portfolio. While the mine's licence remains suspended, the Latin American nation's Constitutional Court has issued a finding providing a [clear path](#) to recommencing operations. A change of ownership will assist this process given the allegations surrounding the conduct of Tahoe when operating the mine.

If operations at Escobal restart, it will add the [mine's reserves](#) of 264 million silver ounces to Pan American's existing 280 million ounces as well as production of over 20 million silver ounces annually. This will not only boost Pan American's net asset value but also give its earnings a solid lift, particularly when it is considered that Escobal has all-in sustaining costs of less than US\$10 per silver ounce produced. Tahoe's 3.7 million ounces of gold reserves and 500,000 ounces of production will also bolster Pan American's asset value and earnings.

The primary silver miner also expects a major precious metals discovery at its La Colorada mine in Mexico to boost reserves, which — along with growing earnings because of increased production and firmer silver — should give Pan American's market value a healthy lift.

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