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Active Minds – Bigger than Gamestop? Reddit magnifies silver shortage

Ned Naylor-Leyland comments on the silver market, after retail investors on Reddit turn their attention to the metal. Could their impact be even bigger than on Gamestop? Meanwhile, Mark Richards discusses what could be seen as a business cycle on fast-forward, as multiple supportive factors fuel recovery.



Ned Naylor-
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Head of Strategy, Gold &
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Mark Richards

Strategist, Multi Asset

Bigger than Gamestop? Reddit magnifies silver shortage

The Reddit saga is dominating the market narrative about silver, but it is simply holding a magnifying glass to an already existing structural shortage of physical silver that is finally becoming news, says Ned Naylor-Leyland, Head of Gold and Silver.

The first thing to understand about silver supply and demand is the amount of physical silver available, said Ned. Silver isn't like gold, which above ground accumulates year-on-year since it is almost impossible to destroy and is constantly melted down and reprocessed. In contrast, the many industrial, commercial, and medical uses of silver mean that much of the silver that is mined is consumed and then lost forever.

The total amount of physical silver mined each year is around 750 million ounces. Usually, this just about matches the demand, said Ned. However, even before the Reddit army turned up, industrial demand was exploding due to its use in green tech and the digital economy – tiny amounts of silver are used in everything from solar

panels to electric vehicles. It's the modern economy metal.

Investment demand has also exploded – again, not just in the past week. One ETF alone, SLV, has accounted for 500 million ounces of silver demand in the last nine months. That is only a fraction of total demand, so it's not hard to see that there is a massive supply and demand squeeze that is only just starting, said Ned.

Margin hikes on silver futures this week have caused a bit of a sell-off but it is clear there is a net short position in futures and OTC markets that is miles bigger than Gamestop, said Ned, which is exacerbated by a big structural supply-demand problem. This issue isn't a flash in the pan: substantially higher prices for silver seem very likely, in his view. Adjusted for inflation, silver prices hit around \$120 per ounce in 1980, so Ned sees plenty of room for silver to move higher from here.

The business cycle on fast-forward

Mark Richards, Multi Asset Strategist, and his team pay close attention to different cycles, for example the broad business cycle of recession/recovery, or the faster inventory cycle of destocking/restocking. Mark said that, since Q2 last year, their thesis has been that this business cycle is on fast forward, with the global economy rapidly moving through recession and early cycle – we're now into mid-cycle. While the post GFC recovery was known for its sluggishness, said Mark, he and the team think this one will be known for its speed.

Taking US consumption of durable goods as an example, Mark highlighted how it took just under seven years for that component of the US economy to recover its losses post-GFC, but this time it took just four months to recover its pre-Covid levels. Adding to that, there was data last week showing that in December aggregate wages in the US economy had got back to pre-Covid levels too.

The broad fundamental view of Mark and the team is constructive. They think there are tailwinds from a healthy consumer cashflow position, admittedly helped by government transfer payments, but they also see excess savings in the household sector that can help sustain the economy through the first half of this year. Other supportive factors include a structural upswing in the housing cycle, as well as low inventories that will support production output in the coming months, particularly at a

time when many companies are talking about running with higher inventory levels going forwards.

There is still a lot of angst in the market about tapering from central banks following comments for some more peripheral Fed speakers, but Mark and the team prefer to focus on Jerome Powell, Richard Clarida and Lael Brainard as the most influential members. The team does not expect material Fed tapering until later in the year, and expect the Fed will look past any short-term inflation surprises, maintaining its accommodative stance for some time.

Lastly, Mark highlighted risks to watch out for around the middle of the year, as inventory restocking completes, growth momentum slows and Biden's second fiscal package likely brings with it some tax rises to balance spending.

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