



## **Metals & Markets Blog**

Virus Impact on Silver Supply and Demand  
2020-2025

August 31, 2020

METAL

# On Net the Fundamental Balance has Improved

- ❖ Mine supply, relative to the pre-virus 2020-25 outlook as of January 2020, has been reduced by 167 million ounces.
- ❖ Recycled scrap supply, likewise compared to January, has been squeezed down by industry analysts by 80 million ounces for 2020-25.
- ❖ Industrial demand, including photographic film, is now 173 million ounces lighter for the years 2020-25 relative to January's outlook.
- ❖ Decorative demand, which covers jewelry and silverware, has been melted down by 62 million ounces for 2020-25.
- ❖ Investment demand for coins, medals and bars has increased by 43 million ounces for 2020-25.
- ❖ As a result of the virus, the 122 million-ounce surplus analysts saw in January for the 2020-25 period has almost been halved to 68 million.

Silver is going from strength to strength. The argent metal breached the \$20 US dollar per troy ounce ceiling on July 20<sup>th</sup>, a level last seen four year earlier. Now it looks lustily at \$30. Silver may be rising in concert with gold due to fear that the economic disorder is only getting started. Or independently of gold due to a possible change in the inflation regime. Or both! Or neither. Maybe it is all about the United States Space Force? The newly independent branch of America's armed forces in need of a logo took to Twitter to explain their new emblem:

II The logo has many elements, but the silver outer border signifies defense and protection from all adversaries and threats emanating from the space domain. The U.S. Space Force protects. #sempersupra.<sup>a</sup>

Just when you thought Team Silver could not be more rapturous, they casually announce they have signed the Martian Marines, Asteroid Belt Guards and Venus Regiment to the team! Checkmate.

### ANALYST FORECAST: JANUARY VS. JULY

The January 2020 precious metals analyst forecast for the 2020-25 period was stone-cold, lead-lock dead-on perfect except in one respect: the real-life reenactment of British director Danny Boyle's *28 Days Later*. The analysts had not included the emptying of streets to a degree observed only in zombie insurrections, at least not for 2020. But by July it had been factored in, not only for this year, but the subsequent five years.<sup>b</sup>

### SUPPLY FALLS A QUARTER OF A BILLION

Silver mine supply, which represents 85% of total supply, has been reduced for the 2020-25 period by 167 million ounces (Moz). In

January, the consensus forecast anticipated 875 Moz in 2020 rising to 893 by 2022 before trailing off to 880 in 2025 for a total of 5,294 Moz. As of July the analyst community now sees only 805 Moz in 2020 with a peak of 873 in 2023 before trailing off to 862 in 2025.

With just over 70% of mine supply coming from non-silver mines your blogger surmises the bulk of the drawdown over the coming years will be coming from industrial metal mines, like zinc, lead and copper. There is, after all, a global depression in progress with economists predicting the world economy will not reacquire 2019 levels until the end of 2022. These are optimistic forecasts.

Your blogger has reviewed these outlooks and they are – almost without exception – assuming the virus is an exogenous phenomenon that will come, go and affect no change in behavior of economic actors. Perhaps had it occurred in some other era that would be the case. But the virus arrived on scene with economic activity already in a two-year downtrend begun in January 2018. Nor

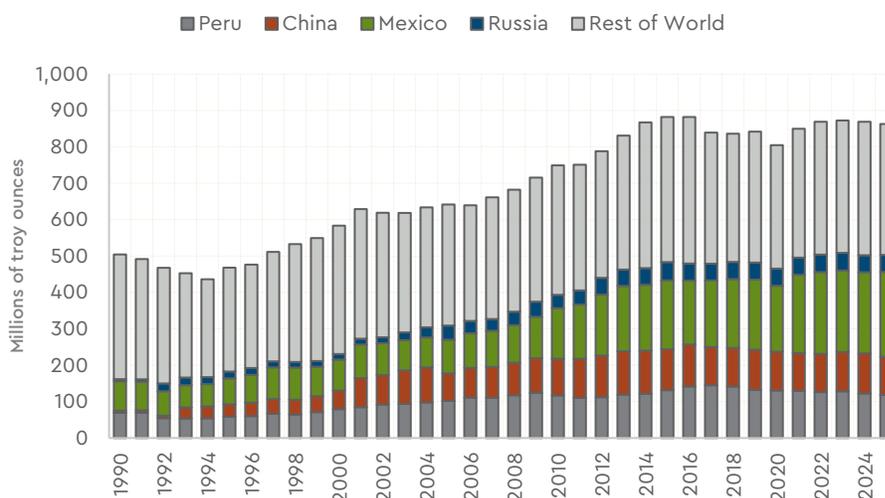
was it your classic business cycle downturn. The virus made its appearance in Year 13 of an economic slowdown that bears more than a passing resemblance to the Long (1873-96) and Great (1929-47) Depressions. So when the virus yelled, "Surprise!" it did so after the body economic had already suffered three recent frights: in 2007-09, 2011-12 and 2014-16.

This blogger would not be surprised if the mine supply forecasts continue to be revised down.

About 15% of silver supply is from recycling industrial scrap, photographic film, unwanted jewelry, old coin and grandma's silverware. In January analysts were expecting some kind of global economic boom and, as a result, had heady numbers for silver scrap recovery from industry. At the time it was believed silver scrap in 2019 contributed 154 Moz to total supply. Analysts believed 2020 would surge to 168 and settle at 174 by 2025 for a total of 1,033 Moz.

After adjusting for *28 Days Later*, total recycled silver supply has been reduced by 80

THE ANALYST CONSENSUS IS FOR NO MINE SUPPLY GROWTH (SILVER, MINE SUPPLY BY COUNTRY, ONLY TOP FOUR SHOWN)



<sup>a</sup> @SpaceForceDoD (2020, Jul-22). "United States Space Force" Twitter.

<sup>b</sup> This blog has it on authority that Flourish & Blotts bookstore, located down the street from the London Bullion Market Association headquarters, has seen *Predicting the Unpredictable: Insulate Yourself Against Shocks and Broken Balls: When Fortunes Turn Foul* fly off the shelves (sometimes literally). The publisher Obscurus Books is rumored to be in its third printing of *Unfogging the Future* ("very good guide to all your basic fortune telling methods – palmistry, crystal balls, bird entrails").

Moz for 2020-25. Last year is now believed to have come in at 159 Moz. It will serve as the indefinite ceiling with 2020 estimated at 157 and that figure staying essentially constant through to 2025 (also at 157 Moz).

All-in-all, when comparing mine supply, recycled scrap (as well as the tiny contributions by government and metal-producer hedging) a quarter-of-a-billion ounces of supply are no longer expected to materialize compared to the January forecast. Well, actually just under, at 246 Moz.

**INVESTMENT SAVES DEMAND LEVELS**

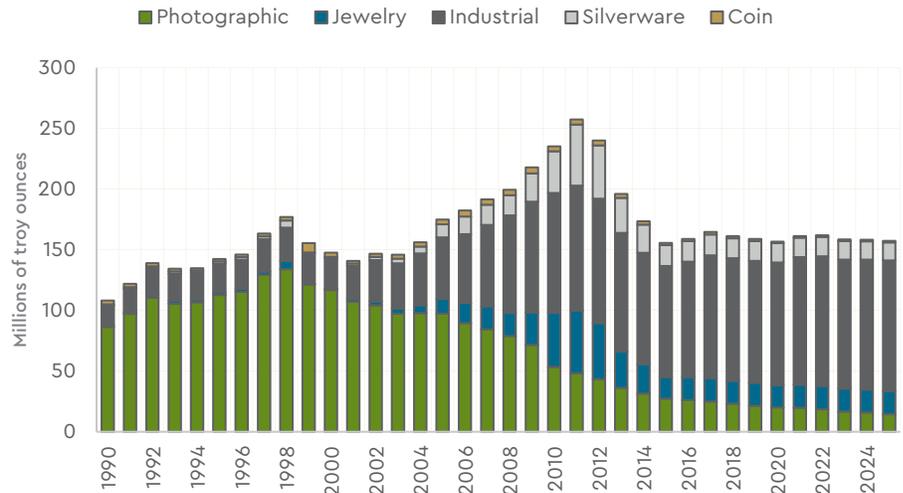
Silver has remarkably diverse end uses but it can be broadly categorized as industrial, decorative and investment. With about 55% devoted to industrial applications analysts have been forced to remove 173 Moz from their 2020-25 forecast compared to January's numbers. Instead of reaching 615 Moz by 2025 the precious metal community now anticipates just 578.

At the start of the year the consensus outlook was for a rally in electrical and electronic consumption, silver's largest single end-use (jewelry is close behind). From 240 Moz in 2019 the community forecast a healthy gain to 278 by 2025. Now the outlook is for the segment to not fully recover until 2022, when it reaches 243 Moz. For the same reasons as explained in the industrial-metal mine supply section, your blogger is worried this forecast is too optimistic.

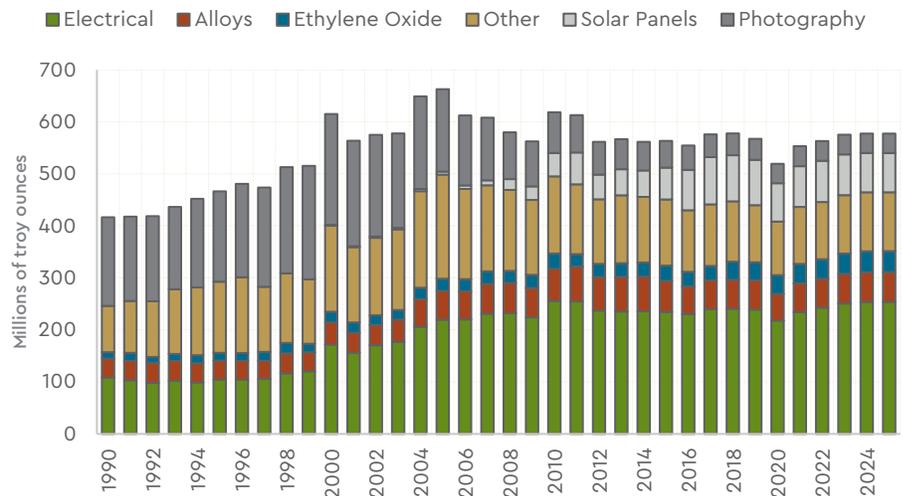
The decorative end-uses of jewelry and silverware are driven by silver price and household income growth. It will not surprise the reader to learn that 2020-25 totals have been reduced since January. From a total of 1,657 Moz to 1,594 as of July. It is, perhaps, a surprisingly small downward adjustment of only 62 Moz. Most of the damage is borne by silverware. Despite being only 30% the size of the jewelry segment, silverware was reduced by 45 Moz. Jewelry meanwhile only by 17 Moz. Perhaps there is some consideration being given to jewelry's investment-like aspects whereas silverware is purely a luxury item.

Saving silver demand is the investment category with the coin, medal and bar segments. As has been implied a few times already, the industry analyst relies on economists for their economic forecasts instead of the Wheaton Precious Metals blog. Understandably then the industry analyst was anticipating an economic liftoff and consequently, much less need for wealth-

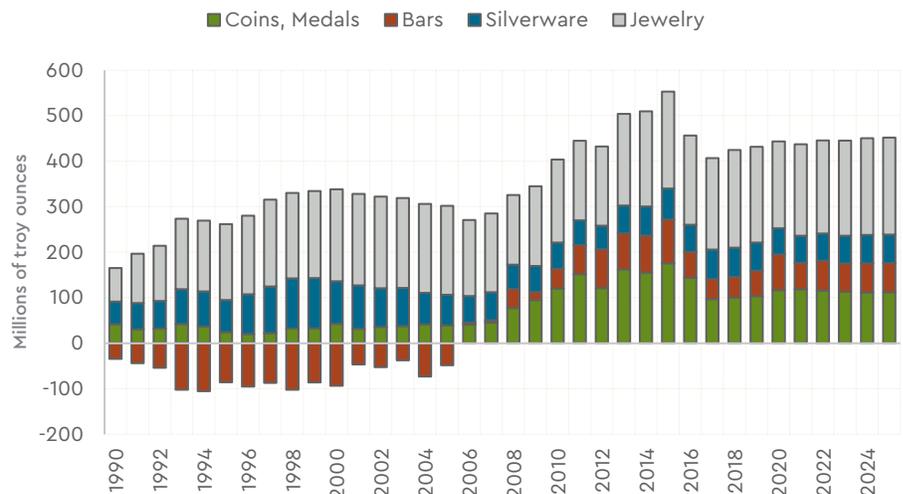
**ANALYSTS DON'T EXPECT RECYCLED SCRAP SUPPLY GROWTH**  
(SILVER, SECONDARY SUPPLY, RECYCLING SOURCE)



**EX-PHOTOGRAPHY, INDUSTRIAL DEMAND PEAKED IN 2011**  
(SILVER, INDUSTRIAL DEMAND, BY END USE)



**COINS, MEDALS AND BARS WILL DRIVE MARGINAL CHANGE**  
(SILVER, ORNAMENTAL DEMAND, BY END USE)



protecting investment in bars and coins. Coins and medals were expected to drop from 2020's 106 Moz to 95 by 2025! Bars were forecast to drop from 71 Moz in 2020 to 48 Moz in 2025!

The latest, July forecasts for investment demand have come around – somewhat. Coins and medals are expected to reach 117 Moz in 2020 and end 2025 at 112. Is that a lot? The record is 176 Moz in 2015. The six-year 2011-16 period averaged 152 Moz per year.

For bars, the analyst consensus now sees 79 Moz in 2020 trending down to 64 Moz by 2025. Again, the 2015 record was 96 Moz and the same six-year period averaged 77 Moz per year.

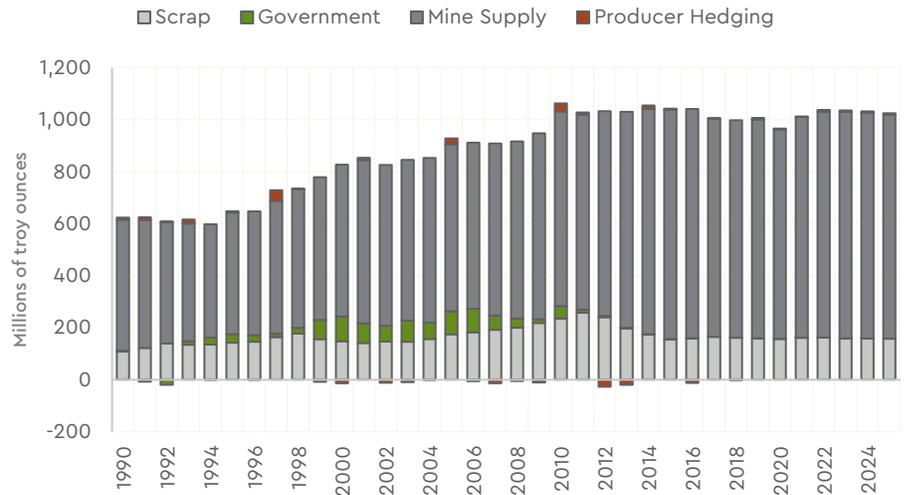
**THE SUPPLY AND DEMAND BALANCE**

Remarkably, the silver market comes out looking better for the 2020-25 period than before the virus struck. Prior to its arrival the analyst community had come to a consensus that there would be a 122 Moz surplus of supply over demand. But now, after adjusting mine supply, recycled scrap, industrial, decorative and investment demand, that surplus has been reduced to 68 Moz. That is unabashedly good news.

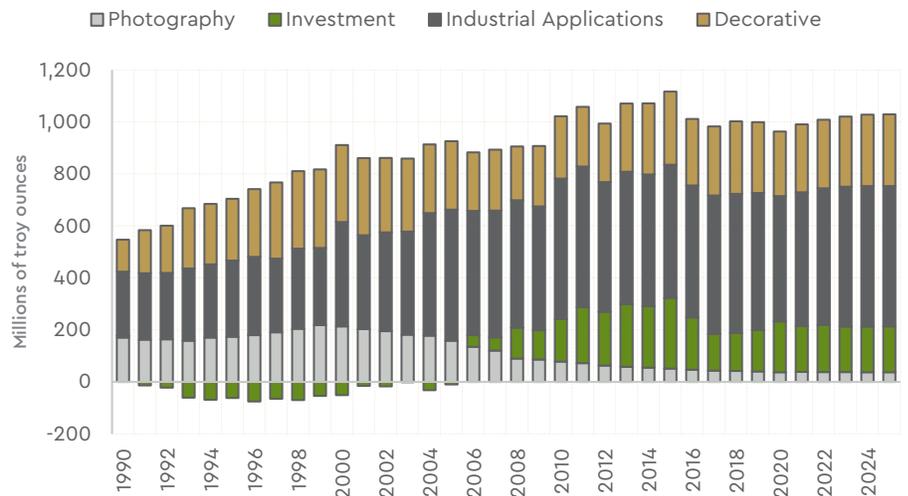
But it may turn out even better. Your blogger hews towards less supply from mines and scrap. The possibility that government will become a source of demand by the end of the decade – as opposed to supply – is on the table, at least this blogger's table. Industrial demand seems more likely to be worse than the consensus forecast. For ornamental demand, your blogger does not have a strong opinion. And for investment demand? It seems entirely reasonable to expect more. As mentioned earlier, the virus did not show up in just any random time period.

Indeed Rudyard Kipling noted these periods of history marked, 'the return of the Gods of the Copybook Headings'. Isaac Asimov stylized them as "Hari Seldon Crises". William Strauss and Neil Howe labeled them "Fourth Turnings". George R. R. Martin introduced it to readers as, "winter". George Friedman's ninth book calls this period, "The Storm before the Calm". Your blogger is a blogger, not an author, and thus labels it unwieldy as 'the volatile transition from one era to the next'. This blogger also considers silver ownership during these periods as not the worst possible decision a reader could make.

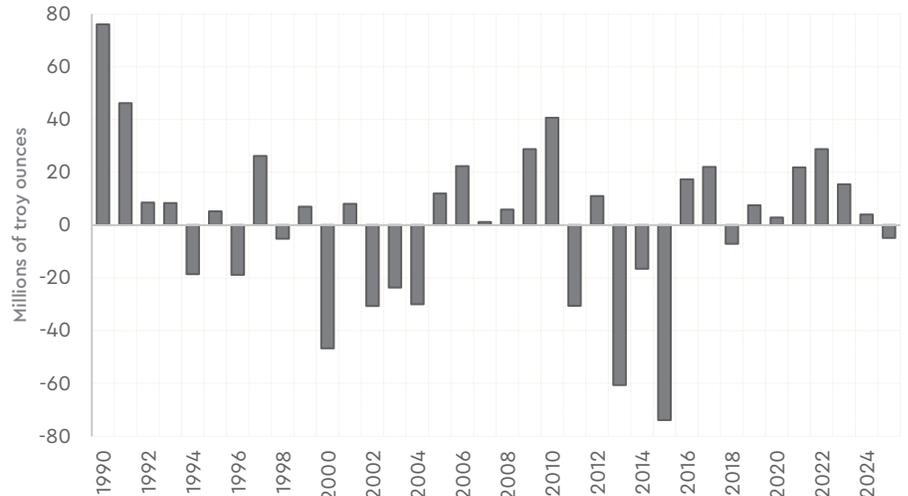
**SUPPLY IS EXPECTED TO REMAIN STAGNANT THROUGH 2025**  
(SILVER, TOTAL SUPPLY, BY TYPE)



**INVESTMENT WILL CARRY THE WATER TILL THE DISORDER ENDS**  
(SILVER, TOTAL DEMAND, BY TYPE)



**INVESTMENT WILL CARRY THE WATER TILL THE DISORDER ENDS**  
(SILVER, ANNUAL SUPPLY AND DEMAND BALANCE)





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## PRECIOUS METALS

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