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Will silver continue to catch up?

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- Silver prices have underperformed gold this year ...
- ... but they have recently caught up
- It is unlikely that this catch-up will resume before the end of 2020, ...
- ... because we expect weaker global growth and weaker global trade
- But there is a limit to relative silver price weakness compared to gold

Introduction

Since the start of this year silver prices have risen 10% versus the US dollar and 13% versus the Chinese yuan and the Indian rupee. Despite the strong rise in silver prices, their overall performance has been rather disappointing. Gold prices have considerably outperformed silver prices. As a result the gold/silver ratio has risen to new highs. The deterioration on global growth and global trade has dampened silver prices. However, recently there has been a catch-up. Since mid-July there was a strong rise in silver prices, while gold prices barely moved. We think this was triggered by two developments. First, consumers in India wanted to buy silver before the new import tariffs became effective on 1 August. The import tariffs were raised from 10% to 12.5% for both gold and silver. Second, the gold/silver ratio moved to levels last seen in 1992. This ratio has already been high for years but it was at extreme levels in mid-July, when the ratio hit 93, i.e. gold was 93x more expensive than silver. This looks to have been a clear opportunity to load up on silver.

Silver prices still low ...

Silver price in USD



Source: Bloomberg, ABN AMRO Group Economics

... and gold looking expensive by comparison

Gold/silver ratio



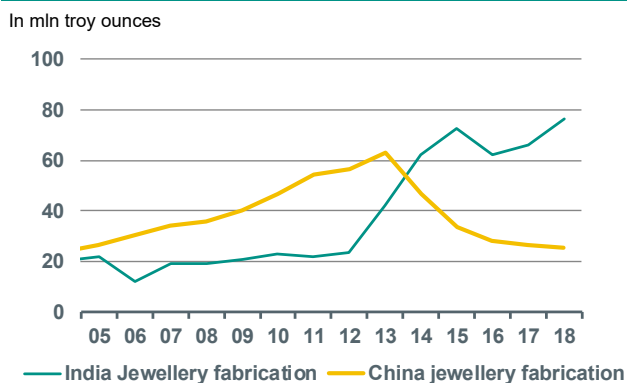
Source: Bloomberg, ABN AMRO Group Economics

Silver prices to underperform gold prices, but there is a limit

In the near term we expect silver prices to decline. We expect a further deterioration in our outlook for global growth and global trade. We have below consensus forecasts for economic growth in the eurozone and the US. We expect the Chinese and Indian economies to weaken as well. Next to that we expect weaker global trade. Industrial demand accounts for more than half of total silver demand. Jewellery demand is around 20% of total silver demand. If the global economy and global trade slow further (we don't expect a recession), this will weigh on silver demand and the outlook for silver prices. In addition, we expect profit taking in gold prices and this should also drag silver prices lower. So for the remainder of this year, silver prices will likely underperform gold prices. But there is a limit to silver's underperformance to gold. We think that a gold/silver ratio above 90 is unsustainable, that silver is cheap, and that net-positioning is not extreme (as in gold).

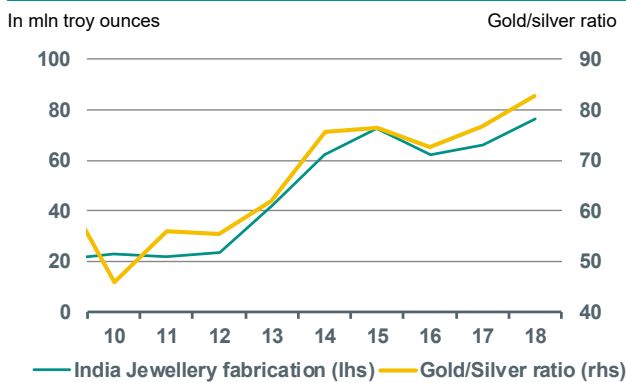
For 2020, we don't expect a material improvement in the outlook for global trade and in the global economy. We think most of this will already be reflected in silver prices though. In 2020, silver prices will likely follow gold prices higher again, mainly because of monetary policy easing by central banks, and an increase in the amount of negative yielding debt. With silver prices following gold prices in an environment of weak economic fundamentals, gold prices will likely outperform silver prices. From the moment that global trade and global growth start to recover and provided central banks remain accommodative, we think that silver prices will start to outperform gold prices. A weaker US dollar will also support gold and silver prices. This is more likely to happen in 2021, though.

Sharply higher silver jewellery fabrication in India...



Source: Bloomberg Barclays, ABN AMRO Group Economics

... likely due to the underperformance of silver prices



Source: Bloomberg, ABN AMRO Group Economics

ABN AMRO Gold and silver price forecasts

Changes and new forecasts in red/bold

End period	22-Aug	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20
Gold	1,495	1,281	1,324	1,409	1,450	1,400	1,450	1,500	1,550	1,600
Silver	17.01	15.48	14.68	15.31	16.50	15.50	16.00	16.60	17.20	18.00
Gold/silver ratio	87.8	82.8	90.2	92.0	87.9	90.3	90.6	90.4	90.1	88.9

Average	Q1 19	Q2 19	Q3 19	Q4 19	2019	Q1 20	Q2 20	Q3 20	Q4 20	2020
Gold	1,303	1,308	1,450	1,425	1,371	1,425	1,475	1,525	1,575	1,500
Silver	15.7	14.9	16.00	16.0	15.7	15.8	16.3	16.9	17.6	16.6

Old										
End period	22-Aug	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20
Gold	1,495	1,281	1,324	1,409	1,350	1,400	1,425	1,450	1,475	1,500
Silver	17.01	15.48	14.68	15.31	15.25	15.50	15.75	16.00	16.25	16.50
Gold/silver ratio	87.8	82.8	90.2	92.0	88.5	90.3	90.5	90.6	90.8	90.9

Average	Q1 19	Q2 19	Q3 19	Q4 19	2019	Q1 20	Q2 20	Q3 20	Q4 20	2020
Gold	1,303	1,308	1,383	1,375	1,342	1,413	1,438	1,463	1,488	1,450
Silver	15.7	14.9	15.28	15.4	15.3	15.6	15.9	16.1	16.4	16.0

Source: ABN AMRO Group Economics

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