METALS

For silver, spotlight's on demand

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It may take the launch of another exchange-traded fund or some other major injection of investor demand to drive silver prices beyond the 25-year high of $14.94 (U.S.) an ounce they hit just over a year ago, judging by analysis prepared for the Silver Institute.

Investors' appetite for gold's poor relation was the "prime driver" of the 58-per-cent jump in the precious metal's average price to $11.55 an ounce in 2006, the highest level of any year except 1980, when it averaged $20.98 an ounce, metals consultants GFMS Ltd. said yesterday in the World Silver Survey it conducted for the industry-funded institute.

The successful launch of a silver ETF by Barclay's Global Investors of Britain in April of last year provided most of the fuel. The new ETF was the "chief force" behind the April-May rally last year, which, on May 12, pushed silver to the highest level of any year except 1980, the institute's silver report said.

Even though silver prices subsequently slid along with most other commodities, the ETF's holdings - now 135 million ounces - have "only occasionally fallen, and then not by much," the report said.

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Another reason for silver's price jump is that total supply of the metal fell last year by 1.5 per cent to just under 912 million ounces. Among key markets, demand for industrial use climbed to 430 million ounces from 405.8 million, photography slipped to 145.8 million ounces from 162.1 million and jewellery dipped by eight million ounces to 165.8 million. The net result was flat demand from these markets.

The survey indicated silver also benefited from commodities in general being in vogue, and especially from its "traditionally strong relationship with gold, which, of course, has also enjoyed a powerful investor-led rally." The report said silver's 25-year high last May 12 coincided with that of gold ($725 an ounce).

Yesterday, the July silver contract rose 11.5 cents to $13.105 an ounce in New York. The June gold contract added $2.70 to $662.60 an ounce.

One potentially unpleasant recent indicator for silver bulls is that there's been a bit of a selloff in gold ETFs. The volume of yellow metal held in these funds has fallen by 730,000 ounces to 20.2 million in total since this month began, according to a BMO Nesbitt Burns Inc. note Tuesday.

The institute said investors might liquidate silver holdings if global economic growth slides, but if new investor demand were to push gold higher before year-end, "silver is unlikely to be left behind."