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Headline: Silver on the run, leaves behind Gold and Platinum

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Coverage –

« **BULLION**



PRITHVIRAJ KOTHARI
Managing Director, RSBL
and current president
Bombay Bullion Association,
(BBA)

Silver on the run, leaves behind Gold and Platinum

Over the last six months, there is a tremendous upsurge in Silver metal price. On 21st February 2011, the prices of white metal (silver) for the June month contracts increased by almost 2.30% to reach a new high of Rs 50,603 per kg. It has broken to a 31 year high of \$33.14. Average silver price in 2011 can be seen at \$32.00.

Moreover silver has given 17% return in last 1 month alone. The metal witnessed a steep increase at future trade. Option books struggled to hedge their deltas, while forward books saw further tightening of liquidity, which suggested that some producer might be hedging again. Also, due to the ongoing unrest in the Middle East region, investors in the region are buying the commodity in order to hedge against any future uncertainty.

Despite some weak initial action in gold prices, March silver prices have managed a fresh high. Initially we have seen that gold and silver used to fluctuate proportionately.

However, silver prices are easily outperforming gold and platinum prices in the early action and that would seem to suggest that silver is benefiting from its physical commodity market standing and over the last 2 months silver has been moving independently. Those holding silver ETF's are tapping on the profit making opportunity and on the other side there has been an increase in buying in industrial areas like auto, batteries, conductors etc.





However the demand for silver is less compared to its supply. Hence silver has seen heavy discounting in the physical market which has resulted in a good opportunity for investors to hedge their position in the physical market price v/s the exchange price.

On 22nd Feb, white metals prices witnessed a downfall. Platinum fell by 7%, Silver by 5.5% and Palladium by 3.2%.

Platinum and Palladium saw speculators sitting on large longs and trying to exit in a too small market, as risk sentiment was turned off and stocks tumbled. Silver saw double volumes if compared to the last previous sessions and almost 5 times the average volume of the last 3 weeks.

In the news, Industrias Penoles, the world largest silver producer, said it would invest 700 Mio. USD this year, to boost output given the strong price rise. Gold on the other hand showed its solid virtues, trading rather calmly 5 USD above and below the 1400 level

Comex options expiry, where Gold has the largest open interest at the 1400 strike with 850'000 ounces expiring and which could work as a gravity point. Silver's largest open interest is a bit far away, with 13.2 Mio- ounces at the 35 strike, while the closer strikes are the 32 strike with 9.3 Mio- ounces and the 33 strike with just 3.3 mio- ounces.

The silver prices will come down after roll over and the market to trade relatively quiet towards the expiry, unless some fresh catalysts would come from the Middle East.