

2022 Supply/Demand Trends Could Catalyze The Silver Price

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What's the silver outlook for 2022? Market watchers share their thoughts on what's ahead for the precious metal.

After outperforming gold by 51 percent in 2020, silver was unable to maintain significant gains in 2021.

2020 saw the white metal's price rise an impressive 43 percent between January and December, primarily driven by investment demand and safe haven interest.

However, the silver price has contracted 16 percent since the start of 2021, when it was sitting at US\$26.37 per ounce. Investor demand drove silver prices to an eight year high of US\$28.55 in February, but that was short-lived as values fell back to the \$26 threshold a few days later.

Unable to breach the US\$30 level, silver trended lower after touching a four month high of US\$27.92 in June.

"Silver prices received a huge boost in the first half of 2021 due to some short squeezing by retail investors, (US President Joe) Biden's fiscal stimulus measures and rebounding global industrial production," Steven Burke, economist at FocusEconomics, told the Investing News Network (INN).

"Market concerns around rising inflationary pressures also supported prices due to silver's attractiveness as a hedge against inflation," he added.

Although H1 proved positive for the metal, values have remained rangebound below US\$24 since mid-September, despite positive fundamentals sector wide. "In the second half of the year, some profit taking from investors, who witnessed their positions rise nearly 60 percent year-on-year in mid-June, and the Delta variant weighing on industrial output in key economic regions, gradually pushed prices lower," Burke said.

"More recently, the (US Federal Reserve's) decision to speed up the tapering of its quantitative easing purchases and markets bringing forward their expectations for a US rate hike to the end of H1 2022, from Q4 2022 just months earlier, has dramatically taken the shine off silver demand and consequently sent prices lower."

The white metal's inability to register meaningful gains in 2021 has led analysts to note that the dual metal is both undervalued and underperforming.

Silver outlook 2022: Demand soars to six year high

Silver's move to US\$28.55 wasn't the only milestone the white metal registered in 2021. Demand for silver exchange-traded products touched an all-time high during Q1, when holdings topped 1.2 billion ounces.

Healthy purchases from the investment and industrial segments helped silver demand surpass 1 billion ounces for the first time since 2015. While some of that heightened demand has been offset by a 6 percent increase in mine supply, 2021 is still set to see a silver shortfall.

"The silver market is expected to record a physical deficit in 2021, albeit modestly," this year's interim report from the Silver Institute notes. "At 7 (million ounces), this will mark the first deficit since 2015."

This deficit is likely to grow in the years ahead as demand stemming from the green energy space, specifically solar panels, will call for more silver annually. In a recent webinar, Maria Smirnova of Sprott

Asset Management explained that by 2030 demand from this segment alone is estimated to grow by 250 million to 400 million ounces, representing 25 to 40 percent of the entire silver market.

"I cannot for the life of me imagine a world in which we can conjure up an extra 300 million ounces of silver just like that. It will be hard work," Smirnova said. "So from that perspective, and again, overlaying the investment demand side of things, we're quite bullish on silver."

On the other hand, FocusEconomics' Burke believes the benefits from this segment may be delayed.

"Silver prices should be supported by green energy sectors over the long term, but as the pandemic put one crisis on hold for another, green tech has had a weaker impact on price movements over the past two years," he said.

Burke continued, "Prices surged in early 2020 due to heightened safe haven demand, and as the greening movement was already priced in to some extent, silver demand is likely overheating and is expected to moderate ahead, predominantly as investors' concerns surrounding inflation and the economic outlook ease."

Silver outlook 2022: Tailwinds from inflationary environment

Although widespread cost increases in the US and elsewhere have not yet moved the silver price, inflation is expected to add tailwinds for the silver price in 2022.

"It won't matter until it does," said David Morgan, publisher of the Morgan Report. He went on to point out that during the stagflation period in the late 1970s and early 1980s, silver's major price moves were delayed.

"Silver did not take off in the late 1970s until the very end," Morgan said. "Inflation had been running hot for quite some time and silver had modest moves, and then all of a sudden it went straight up."

For Ted Butler of Butler Research, investor sentiment will be the determining factor. "(Inflation) will undoubtedly cause more investors to consider silver as an inflation hedge, given its past record," he said.

However, Butler explained that he believes the silver market is highly manipulated, and this manipulation has prevented the versatile metal from seeing sustainable price growth in 2021.

"The simple answer is that the COMEX-generated price manipulation remained in force after teetering a bit at the end of January," he said. "In other words, the big commercial (bank) interests were able to cap and contain prices through excessive and concentrated short sales."

Inflation will also impact the sector's supply side, as Adam Webb, director of mine supply at Metals Focus, pointed out. "As with gold miners, inflation will push costs up for silver miners," he said. "However, silver mines often produce significant quantities of by-product metals, usually [zinc](#), [lead](#) and gold."

Webb added, "Zinc and lead prices have increased significantly this year, and this has pushed revenues higher, offsetting cost inflation and pushing margins for silver miners up."

Silver outlook 2022: Supply unlikely to grow significantly

Rising silver demand and higher profits are unlikely to result in new supply, as pure-play silver mines are rare and it takes time to bring them from discovery to production.

"We haven't really seen a significant increase in the number of silver mines coming online," Webb explained via email. "Given the timeframe it takes to bring a mine into production, projects that have come online recently have been in development for several years," he added.

"Speeding up the production process is also not really possible. Miners will generally try to produce as quickly as possible at all times whilst maintaining safety and cost efficiencies as production drives revenues and profits."

Current production levels may even be impeded by geopolitical risks in South America, as Ralph Aldis, a portfolio manager at US Global Investors, highlighted.

"There was (the news) that Hochschild Mining (LSE:HOC,OTCQX:HCHDF) may have to close two of its main major mines due to environmental issues. And that is in Peru, which is the biggest producer," he said. "And then in Mexico, you've had some blockades, where mine roads will get blockaded, and that will disrupt operations."

Silver outlook 2022: Price forecasts for next year

Concerns that inflation will continue to drive life-of-mine costs higher are likely to impact both the silver market and the price of the white metal.

"The other thing that caught my eye is solar panels have traditionally dropped in price every year, every quarter almost. And just recently, the price has ticked up on solar panels," Aldis said.

He noted that the increase marks the first time in a decade that photovoltaics have seen price growth.

"I don't know if that is a sign of inflation coming, or whether it's a sign of port constriction, where you can't get the product — the other prices going up a little higher because of that."

In terms of the silver price, Metals Focus sees the metal registering an overall uptick in 2022.

"Our projection sees the average silver price rise by 2 percent to US\$25.75 in 2022," the metals consultancy firm's Precious Metals Investment Focus report states.

The market overview continues, "Much of this increase is due to positive spillovers from an improving gold price in early 2022. The white metal's innate high volatility means that it may well outperform, with the gold:silver ratio expected to narrow to around 70 in Q1.22."

FocusEconomics analysts remain more conservative in their price forecasts, but believe prices will trend lower after 2023. "Our panel of analysts expects silver prices to average US\$22.70 in 2022, before averaging even lower in 2023 at US\$21.50," Burke told INN.

He explained that investors should focus on the Federal Reserve's ability to balance the latest risks to the global economic recovery, specifically the emergence of the Omicron variant and lockdowns in Europe.

"As US inflation continues to rise and the labor market tightens, the Fed will look to cool down domestic demand at the risk of hampering the global economic recovery. This should have a strong bearing on silver prices in terms of safe haven demand and inflation expectations," Burke said.

Another aspect of the silver market investors should be aware of is the COMEX, according to Butler.

"I'm watching one thing only, namely when the COMEX commercial crooks will stop their artificial price suppression through excessive short sales and let the price run free," he said.

In order for true silver price discovery to occur, Butler suggested, "Ideally, the regulators at the Commodity Futures Trading Commission should have stepped up to the plate long ago to restrict the concentrated short selling in silver futures on the COMEX, but sadly, that ship has sailed, so now we await the one thing that will end the manipulation, namely a physical shortage which will ultimately break the backs of the manipulative short sellers. The physical market will end the manipulation, but it didn't have to come to this."

Factors that Morgan of the Morgan Report will be watching in the new year include the introduction of more robotics in mining, energy problems, water issues and labor concerns, as well as a potential "major scandal surrounding the silver market by some of the most trusted names in the industry."

The silver guru also anticipates "more white metal awareness due to WallStreetBets silver, a poor stock market and financial troubles." Lastly, Morgan mentioned that there could be increased jurisdictional risk as "some countries become concerned that their ... mines are being depleted without just compensation."

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