Silver Follows its Leader

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Only three months into 2025 and silver prices have surged 14%. Its performance for the remainder of 2025 hinges on three factors: the gold price, arbitrage trading due to US tariff threats, and industrial demand.

Silver usually follows gold's lead, yet in the latest price rally, it has underperformed gold. While the gold prices touched multiple record highs, silver is far from its peak of USD50 per ounce. This disparity is reflected in the widely tracked gold-to-silver price ratio, which remains high at 90:1, well above the long-term average of 70:1. Simply put, silver is yet to catch up with gold.

The reason for this lag lies in the geopolitical tension in the last three years, which benefitted gold more than silver. Deteriorating international relationships have boosted central bank purchases of gold, creating a tailwind that has eluded silver.

That said, a sustained price rally in gold will be crucial for lifting silver prices. The bullish view on gold remains intact, as geopolitical tensions, US tariff threats, a slowing economy, and an easing monetary policy will support haven demand for assets like gold and silver. Gold prices trading near USD3,000 per ounce may attract investments in silver from a relative valuation perspective. For investors who missed the gold price rally, silver could provide an inexpensive alternative.

As with gold, a supply relocation has been underway in the silver market since December 2024 due to fears of a blanket tariff under the Trump administration. Silver is flowing from the London Bullion Market Association (LBMA) to New York vaults, leading to a reduction of 128 million ounces in London since November, and a gain of over 100 million ounces in Chicago Mercantile Exchange-approved vaults.

This relocation has significantly tightened London's silver market, which sets the global price benchmark. As a result, borrowing rates for silver have spiked, staying elevated in the range of 6–7%. This spread, between Comex futures and London spot prices, shot up to a high of USD1 per ounce in January, nearly double the spread seen during the pandemic and four times the upper range of the long-term average. Such a price spread indicates the market's reaction to the potential supply disruptions caused by tariffs, as US is a net-importer of silver, with Mexico and Canada accounting for 70% total US imports.

The concern about a potential price spike in the silver market is growing, as silver stocks relative to silver-backed exchange traded funds (ETF) have reached a historically low level. The LBMA stocks include both commercial and ETF holdings. The net short position of swap dealers is at its highest since 2020. If these short positions are covered, silver's price could jump. This underscores the fragility of the silver market and the potential for significant price fluctuations.

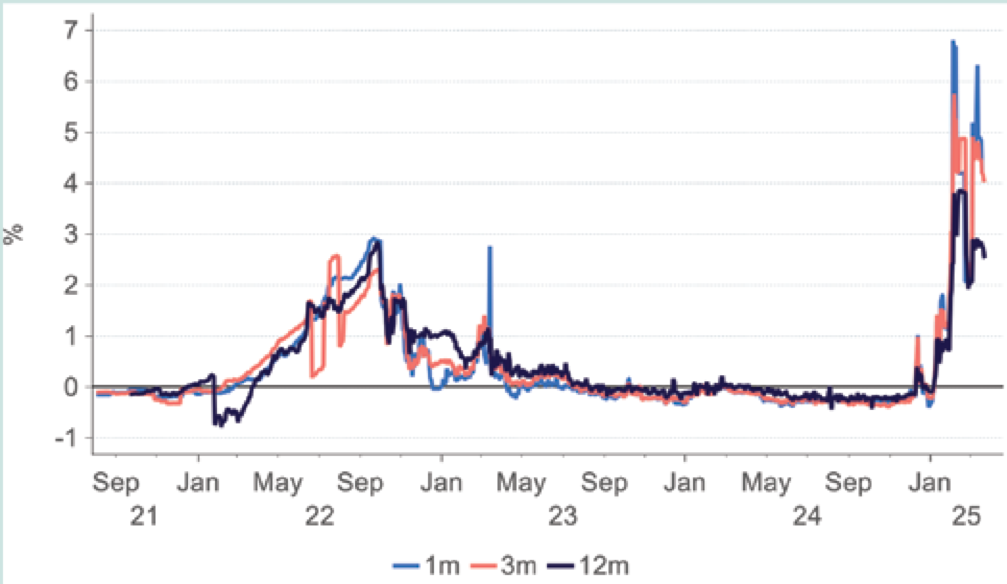
Silver is a 'dual' metal. It is a monetary asset like gold and an industrial metal like copper. A strong rise in silver demand has come from industrial applications, such as the energy transition, 5G and other advanced technologies. The metal is uniquely positioned to benefit from both growth in traditional electronics and growing investments in artificial intelligence, data centres and renewables.

Electronic sector growth has been strong. Semiconductor sales growth hit 19% in 2024. This pace of growth can continue with the US projected to triple its domestic chip making capacity by 2032. Similarly, solar panel installation will continue to support industrial demand for silver and has been a cornerstone for incremental growth in silver demand the past few years. Silver offtake from the solar sector has seen a staggering annual average growth of 16% since 2015. While this growth estimated to slow down, the sector continues to make up 20% of total demand.

Industrial demand for silver grew in double digits despite China growth concerns in 2023 and 2024. China's recovering industrial activity will provide additional support. Silver's industrial consumption could sustain near the historically high levels of 720 million ounces this year. The market may remain undersupplied by about 180 million ounces in 2025.

These factors make a compelling investment case for silver; and strategic investment or ETFs could turn positive, as has been the case in past rallies. Even a modest increase of 45 million ounces in silver ETF holdings this year could push silver prices above USD38 per ounce, up 13% on the spot price.

Source: Bloomberg, Macrobond, ANZ Research



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