GFMS

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GFMS' Interim Silver Market Review

Fabrication - *forecast little changed in 2007 as industrial uses' robust growth counters sizeable drop in photography and smaller losses in jewellery, silverware and silver coins.*
Supply - *rise in mine production of around 4% to be offset by lower government sales.*
Investment - *expected to drive silver higher but the metal could underperform gold.*
Prices - *forecast to range between $13.20-$16.50 over next 12 months.*

This evening at the annual New York Silver Dinner organised by The Silver Institute, GFMS presented its interim silver market review. This review included GFMS' provisional supply and demand forecasts for 2007 and the consultancy's expectations for the silver price over the next 12 months. The key points from the interim silver market review are:

Supply

- **Mine production** is forecast to increase by some 23 Moz (725 t) or 3.6% this year. Growth is being driven by higher silver production from La Coipa (Chile), first output from San Cristobal (Bolivia), a partial rebound at Cannington (Australia) and higher production in Mexico (including Alamo Dorado and Cerro San Pedro). These increases are expected to be partially offset by declines in production in Canada, Peru, Russia and Kazakhstan.

- The outlook for 2008 is for a 7% rise in global mine production, most of the gain coming from a full year of output at San Cristobal, the commencement of production at San Bartolome (Bolivia) plus anticipated starts at the Penasquito and Dolores projects in Mexico.

- **Producer hedging** is expected to return to the supply side this year, although making only a modest overall contribution to the total.

- **Scrap supply** is forecast to fall slightly this year, due to ongoing reductions in the recovery of silver from photographic waste comfortably exceeding a small rise in the amount of scrap generated from the jewellery sector.

- **Government sales** look to have fallen sharply in 2007-to date. The Indian sales programme has ended and there is little evidence of any Chinese official sales this year. The bulk of government sales in 2007 has come from Russia.

Demand

- **Fabrication demand** is forecast to be essentially unchanged on 2006's level, with expectations currently for a year-on-year rise of less than 1%.

- **Industrial** demand has once again expanded strongly and GFMS are forecasting a full year gain of over 5%. The industrial category should account for some 54% of total fabrication demand this year. Both electrical and electronic uses of silver continue to absorb more metal. GFMS caution, however, that a cyclical downturn in industrial demand is looking probable in 2008.

- **Jewellery and silverware** fabrication is estimated to have fallen slightly in 2007. Lower jewellery production in Italy, Mexico and the United States contrasts with noteworthy gains in India and China this year.

- **Photographic** use of silver is expected to drop by close to 10% in 2007. Demand continues to be affected by the switch to digital technology. Silver use in consumer film has once more been the sub-sector hardest hit.

- **Coin** minting looks to have dropped back a little in 2007 from the level recorded last year.

Investment

- Although it has remained positive, net investment demand this year appears to have been less strong than in 2006.

- After good buy-side interest in January/February, investment demand had slumped until fairly recently, with some selling from more speculative and shorter term investors. This development was due to disappointment at silver failing to sustain its break through $15 and the subsequent setback to the price. In addition, for much of this year, declines in the US dollar were limited and gold's performance was unimpressive. Furthermore, financial crises (equity, fixed income and sub-prime markets) initially led to sell-offs in all liquid assets - including silver - in August.

- In the fourth quarter-to date, investment demand for silver has rebounded. After an initial delay, silver has responded to gold's earlier reaction to the financial markets' crisis and the slide in the US dollar.

- Overall, the January-October period saw a 23 Moz (715 t) rise in ETF holdings but a decline in investors' net long futures positions. Investors' bullion stocks have increased this year on a net basis.

Prices

- For the first ten months of 2007, the average silver price basis the London fixing was $13.16, up 17% year-on-year and 10% on an intra-year basis.

- Although it is investors who have driven silver prices higher in 2007, this move has been underpinned by the resilience of fabrication demand and its short-run price insensitivity plus the absence of overall supply growth.

- Investment demand will remain the key to silver's price prospects over the next year. In fact, more will be required from investors because silver's supply/demand fundamentals are expected to deteriorate, with a surge in mine production and lower fabrication demand forecast by GFMS for 2008.

- Nevertheless, GFMS believe that fresh investment in silver will be sufficient for the metal's price to move higher over the next twelve months, with a price range of $13.20 to $16.50 forecast by the London-based consultancy.

Note to Editors about GFMS Limited:
GFMS Limited is the world's foremost precious metals consultancy, specialising in research into the global gold, silver, platinum and palladium markets. GFMS is based in London, UK, but has representation in Australia, China, India, Spain, France, Germany and Russia, and a vast range of contacts and associates across the world. For contact details, please visit www.gfms.co.uk.

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