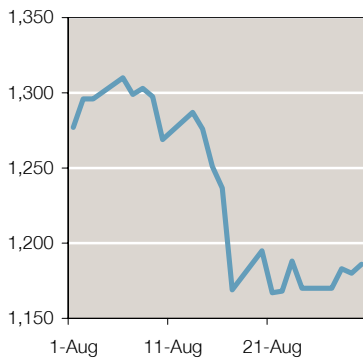


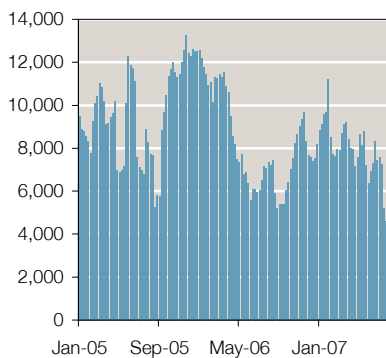
Silver

Silver price (cents/oz)



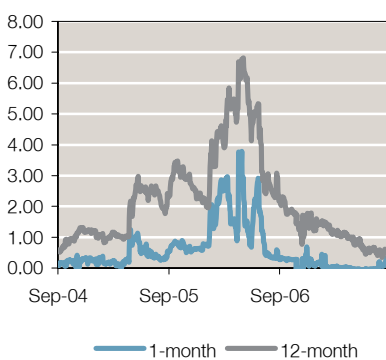
Source: London Bullion Market Association

Comex: Non-commercial net position (tonnes)



Source: Comex

Silver lease rates



Source: Reuters Ecowin

News

- Sept 18th: Hochschild reiterated its aim of becoming the world's biggest silver producer by 2011 with 50 Moz/year. In August its first silver mine in Argentina, the San José operation, was reported by a partner in the project as incurring start-up costs of \$94.1m, a fifth more than expected, because of construction delays.
- Aug 31st: Mexican silver output in June rose 24.8% to 225,580 kg compared with the same month a year earlier.
- Aug 21st: Poland's KGHM raised its forecast for the amount of silver it expects to produce this year to 1,148t from an earlier estimate of 1,125t.
- Aug 17th: Pan American Silver said an earthquake in Peru caused it to temporarily suspend some production for safety checks.
- Aug 8th: Coeur d'Alene, the largest US silver producer, said second quarter production fell 5.6% to 3 Moz.

Analysis

- Loses out on the recovery

Silver, like most commodities in August, was a casualty of the global equity and debt market fallout; it plunged to a ten-month low as investors liquidated assets to raise cash. After touching a low of \$11.67/oz, the metal rose to \$11.95/oz as of 31st of August, that's still well short of the \$12.77/oz at which it started August. Based on the London fix the precious metal's price fell 7.6% in August and while it has since recovered, it has been overshadowed by gold. The US Federal Reserve's decision to cut its discount rate by 50 basis points in a bid to calm markets provided some support but silver has fallen far behind where it probably should be, if it were truly tracking gold.

Outlook

By the week ending 11th September silver investment both on Comex and in the Barclays Global Investors ETF was looking very fragile. During that week the silver price rose \$0.48/oz to \$12.57/oz, but investment interest flagged – investment on Comex rose by 169t to 4,511t, while the ETF added 29t, totalling 4,325t. The point to consider about silver is that when gold was last above \$700/oz, in May 2006, silver was almost \$15/oz. The fact that with gold again above \$700/oz silver is more than \$2/oz shy of that, suggests either that this is a great buying opportunity – or that some potential investors are concerned about the metal's very poor fundamental prospects. Global silver supply in the past five years has been about 27,000t/year and the rapid expansion of zinc, lead and silver output should see this rise to more than 30,000t year by the end of the current decade. We estimated earlier this year that 2007 would see a global surplus of 5,636t, allowing for an offtake of 2,000t into the silver ETF and following an ETF offtake of 3,768t in 2006. If anything, we were too generous – by almost 1,500t. The surplus this year might tip over into 6,000t-plus. London daily fix short-term: \$12/oz-\$13/oz.

Market data (August unless stated)

Prices	c/oz	Yuan/kg	Yen/gr	Imports	kg	Lease rates	1m	3m	6m	12m	Option volatility (end month, %)	
Average	1,240.4	3,022	47	USA (Jun)	450,869	Average	0.07	0.19	0.35	0.49	1-month	21.00
High	1,310.0	3,185	50	Japan (Jul)	329,649	High	0.21	0.30	0.42	0.59	3-month	21.50
Low	1,167.0	2,844	43	China (Jul)	435,791	Low	(0.05)	0.10	0.27	0.34	6-month	24.75
											12-month	25.00

Source: Prices: London Bullion Market Association, Others: VM Group.