

2010 SILVER OUTLOOK

Silver May Have Another Bright Year in 2010

We think silver is uniquely positioned to continue its stellar rally in 2010. Valuations compared to gold remain extremely attractive, demand from the investment community is robust and the metal's industrial demand will rise as the global economy recovers. Our base case is that silver has potential to trade well above \$20 in the year ahead.

Silver has markedly outperformed gold over the last year, turning in a stellar 53% year/year return through December compared to a 30% gain in the yellow metal. We do not expect this to change in 2010 and look for the value of silver relative to gold to continue to track higher. Gold is currently valued at 65 times that of silver. Next year we expect this ratio to revert back to levels that dominated between the better part of 2006-2008. In other words, a gold to silver ratio of about 50. Taking our expected range for gold into account, at \$1050/1250, this would mean silver returning to a zone closer to \$21/25.

The speculative position in silver is a net long 43,000 contracts as per December 11, a -20% decline from the nearby October highs. Thus unlike gold, silver is not at an extremely overbought level at the moment.

And while gold has clearly staked out new all-time highs, silver remains well below its post-1980 record of \$21.34 set back in 2008.

The industrial application of silver relative to gold is another factor that will lead to an outperformance of the former in the year-ahead. The latest data available show that 54% of total silver fabrication goes to industrial applications. The amount used for coin and metal production is a mere 8%. As such, even a flight away from silver as a *safe haven* asset would not necessarily dent prospects for higher prices. With the global economy conservatively expected to expand 3.1% in 2010 (IMF projections) and most of that growth coming from developing nations, silver is in a unique position to prosper.

The growing middle class in the developing world will have a budding appetite for things where silver is a critical component, with little possible substitutes. Most notable is silver's use in the electronics space. Including but not limited to silver membrane switches (used in buttons on televisions, telephones, appliances), printed circuit boards (used in phones, computers), and plasma display panels (computers, televisions). Thus it should not surprise anyone that silver and the S&P 500 Technology sector both enjoyed 50% gains in 2009 (compared to 22% for the overall market). Should the tech sector revisit even the recent 2007 highs, this should put silver prices comfortably back above the \$20 zone.



To any view, there are of course downside risks. Thus we will provide some technical levels to keep in mind as 2010 kicks off. For support, we are focusing on a daily up-trendline and the 100-day moving average which converge in the \$16.60/50 area as of this writing. A daily close below this zone would open up potential towards \$15 on the follow. The upside is likely to be challenged first and foremost at the \$18 level, which looks like a very good pivot on the daily charts (multiple highs/lows around there). Daily trendline resistance then comes in near \$19.50 and above there would target the \$21.34 high back to March 2008.

Disclaimer: The information and opinions in this report are for general information use only and are not intended as an offer or solicitation with respect to the purchase or sale of any currency. All opinions and information contained in this report are subject to change without notice. This report has been prepared without regard to the specific investment objectives, financial situation and needs of any particular recipient. While the information contained herein was obtained from sources believed to be reliable, author does not guarantee its accuracy or completeness, nor does author assume any liability for any direct, indirect or consequential loss that may result from the reliance by any person upon any such information or opinions.