

What Dubble?

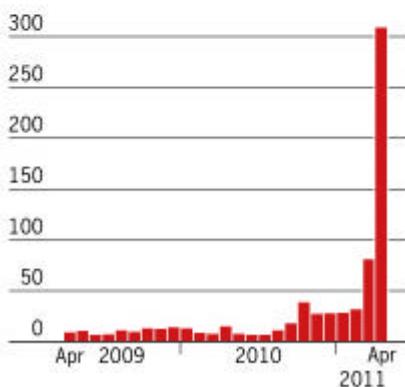
Prices (rebased)



High-low silver!

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Monthly turnover of iShares Silver Trust (m)



Sources: Thomson Reuters Datastream; NYSE

The poor man's gold has just made some men poorer. After the Comex exchange raised margins on silver futures – in response to extraordinary volatility and price gains – prices dropped more than 18 per cent in three days. The fall was even harder in speculative vehicles used by retail buyers in search of physical silver, particularly some that traded at a hefty and inexplicable premium to underlying assets.

That premium, along with the violent price decline, should dispel any lingering doubt that silver's recent rise was driven by speculative frenzy. Before Comex acted, silver had risen 57 per cent in 2011, while gold was up 10 per cent. The leading vehicle for US retail speculation, the iShares Silver Trust, has traded the equivalent of nearly 2bn ounces since the beginning of April – close to three times the annual new global supply from mines.

The sudden enthusiasm for silver may be explained by the fact that it was somewhat late to the precious metals party. For investors who felt they had missed the boat with gold, or wanted to get in on the ground floor for the next big thing, silver beckoned last year. The ratio of the price of gold to silver dropped to around 32 by last week, well below the 20th century average of 50. The ratio is useful only as a gauge of relative froth though. Just based on relative rarity in the earth's crust it should be around 16 times, but silver, as both a precious metal and an industrial commodity, is more useful than gold.

That duality is a double-edged sword. Manufacturers such as [Kodak](#) have an incentive to find alternatives, feeding more of the metal into the investment market. Last year's net investment demand grew tenfold from 2008. Even with investors rushing for the exits in unison, those traditional end-users are scarce.

Relative value still matters. That man in Jerusalem a couple of millennia ago might have done the deed for just 20 pieces of silver today.