CRITICAL STRATEGIC METALS

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Your monthly guide to the latest information on the world's strategic metals

SILVER: A Critical Strategic Metal?

The global demand for silver has exceeded annual production since 1990. In fact, demand has grown by close to 26% since 1995. The demand for silver originates from both industrial and investment sources and that gives the metal a high potential for growth.

Emerging technologies have brought silver to the limelight once again. As most of the new uses have become available for mainstream use only recently, therefore making the market global promising. Silver is used in the electrical, medical, pharmaceutical, and water purification industries. In fact, the technology sector was the driving force behind the 18% growth in the industrial production of silver in 2010.

The metal is becoming an important component of solar panels, cell phones, and computers. Silver zinc batteries may soon replace lithium ion batteries in laptops and cell phones. Such batteries have a 40-50% higher longevity than lithium ion batteries. The technology is already being promoted by Apple Inc. Display screens and plasma TV use about an ounce of silver in every screen.

Mechanical uses of silver include the treatment of windows with double layers of silver to reflect heat from the sun. Silver is a natural biocide and has many bio medical uses too. It is used in medical devices, bandages and clothing. In recent times, the highest demand for silver has come from the solder industry. The annual demand from the industry has grown by almost 100% over the last decade.

China may soon become the leading market for silver with increasing demand from the country's industrial and fabrication sectors. In fact, China may soon compete with USA and Japan in terms of requirements. China has seen a 20% increase in its demand for silver. Whereas the country earlier exported 100 million ounces of silver, it now imports 112 million ounces.

Statistics show that the amount of silver available per capita is at its lowest today while the investment power is at its highest. In China and India, the demand from the investment industry is quite significant. Analysts are of the opinion that as the economic crisis continues to plague nations and civil unrest becomes more common, citizens will continue to lose faith in their governments' abilities to manage crisis situations and in such cases, prices of precious metals such as silver and gold will always increase.

While banks around the world deal with fiscal issues, more and more paper currency is expected to flood the global marketplace. Silver is one of the few goods that this excess money will chase and that will also hike up the price of silver.

There is already a supply shortage that large investors are experiencing. According to Sprott Asset Management and others, the forward looking prices indicate a shortage too. The price 'backwardation' observed is also an indication of supply shortage.

Silver prices gained over 77% between February and the end of April this year, most likely as a result of loose monetary policies and low interest rates. On the positive side, silver prices are undergoing a correction. Between April 25 and May 12, silver prices fell by 32% from $49.79 to $32.65. However, in spite of the correction, the fundamental outlook for the silver market in the long-term is still very positive.

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Chinese Demand For Metals Expands

China's demand for resources is constantly increasing and Chinese companies have been bidding and acquiring overseas companies over the last few years. China has been importing all its oil from 1993 and last year, Chinese oil companies spent over $30 billion on deals overseas. In the metals and minerals sectors, China became a net importer only recently and last year spent about $4.5 billion on mining deals overseas. As if to make up for lost time, Chinese companies are in a rush to acquire metal and mineral resources overseas.

In January this year, China Shenhua Energy Co. along with Peabody Energy and Japan's Mitsui & Company, Ltd. bid for the Tavan Tolgoi coal mine in Mongolia, one of the largest coal reserves in the world. During the same month, Hong Kong's Minmetals Resources made an unsuccessful bid for Zambia's Equinox Minerals, a mid-size copper producer. Another high-profile unsuccessful bid was made in 2009 when the Aluminum Company of China (Chinalco), which in 2008 had purchased a 9% stake in Rio Tinto, made an attempt to more than double its stake to 19% in 2009. However, with a reversal in Rio Tinto's fortunes, the company succeeded in bailing itself out and Chinalco had to abandon its $19.5 billion deal.

Luo Tao, general manager China Nonferrous Metal Mining Co (Group) (CNMC), expects two of its large overseas projects – in Zambia and Myanmar – to begin functioning this year.

As the nation's demand for metals rises, the Chinese government has been encouraging domestic companies to explore opportunities for acquisition. Observers of the global mining market expect mergers and acquisitions to become more commonplace and at the same time, ensure a long-term supply of metals. In continents such as Africa that need foreign investments desperately, Chinese companies will always be welcomed while other nations will do anything to prevent Chinese takeovers. Mike Elliot, the head of metals and mining for Ernst & Young said, "In five years' time, when you talk about the major diversified global mining houses, there will be at least one or two that will be based in China."

The signing ceremony of Investment Promotion and Protection Agreement between CNMC and Zambian government on Sep. 9th, 2008 has led to projects which will begin production this year

China reportedly is the largest holder of American debt and owns $894.8 billion of US Treasury bonds. However, the nation is losing interest in the spending spree of the US and is slowly reducing its holdings and spreading its risks across several nations.

Reports also show that China is willing to use its huge holdings to influence the political and financial decisions of the US. The danger of the US handing over such massive financial clout to China is a much discussed topic in the US.

Wang Jun, an economist at the China Centre for International Economic Exchange suggests that China should look at other investment channels and instead of Treasury bonds, exchange US debt with shares in its infrastructure construction programs. He also suggests using the debt to fund China's overseas resource acquisitions. However, the proposal may not be completely feasible since many governments have various barriers set up for foreign investments.

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Another Brick In The Wall

During a trade meet last year, the leaders of Russia and Brazil agreed that the two BRIC (Brazil, Russia, India, China) nations should begin using their own currencies for trade instead of using one that neither produces or has any control over. During a recent meet on the island of Hainan in southern China, the leaders of the four BRIC nations restated the need for a new global monetary system that was less dependent on the US dollar. They said that the recent economic downturn showed the weakness of the existing monetary order, which centers on the US dollar. They stressed on the need for an international currency system that provided greater certainty and stability.

The four nations and South Africa (BRICS) also urged a stricter regulation of commodity derivatives in an effort to reduce volatility in food and energy prices. They said the two factors were obstacles in the recovery of the global economy. The BRICS fear that the large trade and budget deficits of the US will ultimately devalue the US dollar. The development banks of the five nations agreed to set up mutual credit lines in their local currencies and instead of that of the US.

President Hu Jintao of China said, "The world economy is undergoing profound and complex changes. The era demands that the BRICS countries strengthen dialogue and cooperation."

President Jacob Zuma of South Africa said, "We agreed on the need for the reform of international financial institutions in order to promote a just economic order."

The BRIC nations are capable of gradually decreasing the use of the American currency and Washington is quite aware of this fact.

Last year, one of the world's largest independent commodity traders Balli Steel said that the BRIC nations were driving the global steel market while more established markets are struggling.

Nasser Alaghband, CEO of Balli Steel said: "The BRIC countries are often referred to as emerging markets, but in terms of steel they have become the world's primary markets. This rapid growth over the past decade has largely been driven by China and has coincided with a decline in steel production from many of the more established world economies. More advanced countries are saturated with the types of infrastructure projects which generate large scale steel demand, whilst smaller emerging economies do not have the capital or access to credit required to invest.

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