

Silver Report - 2



Multi Commodity Exchange

Multi Commodity Exchange of India Ltd.

Malkani Chambers, 1st floor, Off. Nehru Road, Vile Parle (East), Mumbai – 400 099
Tel. No.: 022 – 2616 4146 Fax No.: 022 – 2611 8195
Web: www.mcxindia.com email: info@mcxindia.com

Silver Study

Facts and Figures

Demand for silver is built on three main pillars; industrial uses, photography and jewelry & silverware. Together, these three categories represent more than 95 percent of annual silver consumption. In 2002, 342 million ounces of silver were used for industrial applications, while over 205 million ounces of silver were committed to the photographic sector, and 259 million ounces were consumed in the jewelry and silverware markets.

Why is this indispensable metal in such demand? The reasons are simple. Silver has a number of unique properties including its strength, malleability and ductility, its electrical and thermal conductivity, its sensitivity to and high reflectance of light and the ability to endure extreme temperature ranges. Silver's unique properties restrict its substitution in most applications. Choose from the following list to learn more about some of the various applications of silver:

Sparkling tableware, shining jewelry, and living spaces brightened by silvered mirrors are the obvious contributions of silver to our daily lives. It is, however, the silver behind the scenes that makes our modern world function efficiently. Inside switches, silver contacts efficiently and safely turn on and off the powerful electric current that flows into our homes, our lamps and our appliances. It is silver under the keys of computer keyboards, behind automobile dashboards, and behind the control panels of washing machines or microwave ovens that switch on or off at the touch of the finger. And inside the 220-volt line circuit breaker boxes in our homes or inside the 75,000-volt circuit breakers in power stations, silver performs a safe and steady task of switching on or off our most dependable servant, electric power, throughout our lives.

Silver has been a multifaceted asset throughout history. It was found as a free metal and easily worked into useful shapes and was widely used by early man. The beauty, weight and lack of corrosion made silver a store of value, and hence one of the earliest of metals to be used as a medium of exchange.

The early discovery that water, wine, milk and vinegar stayed pure longer in silver vessels, led to its desirability as a container for long voyages. Herodotus (79 A.D.) wrote that Cyrus the Great, King of Persia (550-529 B.C.), a man of vision who established a board of health and a medical dispensary for his citizens, had water drawn from a special stream, "boiled, and very many four wheeled wagons drawn by mules carry it in silver vessels, following the king wheresoever he goes at any time."

In more contemporary times, when the first telegrapher tapped out his code in 1832, silver was the electrical contact that made the current flow. Earlier that century, when Joseph Nicéphore Niépce created the first photographic image obtained through a camera-like device in 1813, it was silver nitrate that made it possible. Finally, when the German obstetrician, Dr. F. Crede made his medical breakthrough in 1884 to halt the disease that caused blindness in generations of children at birth, it was silver that killed the virus.

Today, the demands of modern technology have revealed the remarkable range of electrical, mechanical, optical, and medicinal properties that have placed silver as the key metal in many applications.

Demand and Supply in 2002

Total silver fabrication demand totaled 838.2 million troy ounces (Moz), a 3.5 percent reduction over 2001. The decline was primarily the result of a 9 percent drop in jewelry and silverware offtake overwhelmingly due to a slump in Indian demand. In fact, if India were excluded from the global picture, total fabrication last year actually rose by 1 percent.

Industrial use of silver is the largest component of silver fabrication demand, with silver being used in a wide range of products. Electrical and electronics applications account for the largest area of industrial silver offtake, consuming nearly 140.9 Moz. Brazing alloys and solders are other important industrial uses of silver, taking up 37.5 Moz in 2002.

Jewelry and silverware fabrication demand accounted for 259.2 Moz, but a 9.4 percent reduction from 2001. Much of the loss was in India though European offtake also fell. In contrast, fabrication rose in East Asia, North America, the CIS and Middle East.

Global photographic fabrication was 4 percent lower to 205.3 Moz, its third consecutive annual decline. US demand was flat while Japanese and European offtake fell by 7 percent and 6 percent respectively. Much of the reduction was due to digital inroads though the sluggish world economy and the weakness of the tourist industry also contributed. Radiography remains an important component of silver photographic demand, consuming 90 Moz, while consumer photographic demand accounted for 66 Moz.

World silver coin fabrication rose by a modest 2.6 percent in 2002, as higher North American demand more than compensated for lower minting in Europe. Total coin and medal fabrication in the United States rose to a record level of 14.2 Moz. Gains were also posted in Canada, Austria, and China.

Production

Global silver production edged slightly lower in 2002, slipping from the record levels set in 2001 to finish the year at 585.9 Moz, a decline of around 1 percent. Europe was the only region in the Western World to record an increase in production with gains posted in Russia and Kazakhstan. The Americas, Asia, and the African regions all reported output reductions.

In many instances, silver occurs in ores along with gold, copper, lead, zinc and other metals. In many mines, the primary product is one of these metals, with silver being a by-product. At some mines, silver is the sole product or main co-product.

In 2002, the major source of silver mine production was generated as a by-product of other metals. This is, in part, a consequence of the scarcity of large silver deposits, which can be economically exploited at prevailing silver prices. However, the dominance of by-product or co-product silver in total mine supply testifies to the fact that silver often occurs naturally with a

variety of other metals. Silver is typically found in the oxidized zones of ore deposits, or in the hydrothermal veins associated with sulfide ores. This natural association with lead and zinc (which often occur together), gold and copper, results in significant quantities of silver being produced at operations where it is not the primary target nor the principal earner of revenue - in fact, in many cases silver is regarded as a "bonus" of base metal or gold mining.

Silver is mined in many parts of the world. In 2002, Mexico, Peru, Australia and the United States were the top four silver producing countries. Mexico remained at the head of the ranking, and for the third consecutive year recording higher output. Nevertheless, strong growth in Peru left only 2.9 Moz between the two. Australia, the world's third largest silver producer, saw a noteworthy 5 percent increase in production in 2002. The United States held its fourth place ranking despite a sharp drop in production, meanwhile, Canada and Poland moved up the table as Chile slipped from 2001's sixth to 2002's eighth largest producer.

Top 20 Silver Producing Countries in 2002	
<i>Million of ounces</i>	
Mexico	91.7
Peru	88.8
Australia	66.8
Unites States	46.4
China	44.9
Canada	44.0
Poland	38.9
Chile	34.9
Russia	25.0
Kazakhstan	24.9
Bolivia	14.5
Sweden	9.4
Morocco	8.5
Indonesia	8.2
Argentina	4.3
South Africa	3.7
Turkey	3.7
Japan	2.6
Iran	2.5
Greece	2.4
Bolivia	14.5

Trading in Silver - Background

Silver is a commodity that is traded 24 hours a day in the world's market centers – London, Zurich, New York, Chicago and Hong Kong.

The London market started trading in the 17th century, and it – like other major markets – provides a vehicle for those who wish to trade in physical silver on a spot basis, or on a forward basis for hedging purposes.

The London market has a "fix" which offers the chance to buy or sell silver at a single price. The fix begins at 12:15 p.m. and is a balancing exercise; the price is fixed at the point at which all the members of the "Fixing" can balance their own, plus clients', buying and selling orders.

Although London remains the true center of the physical silver trade for most of the world, the most significant paper contracts trading market for silver in the United States is the COMEX division of the New York Mercantile Exchange. Spot prices for silver are determined by levels prevailing at the COMEX; and although there is no equivalent to the London fix, Handy & Harman, a precious metals company, also publishes a price at noon each working day.

A primary factor affecting the price of silver is the available supply versus fabrication demand. In recent years, fabrication demand has greatly outpaced mine production forcing market participants to draw down existing stocks to meet demand. As these available sources continue to decline, silver's fundamentals continue to strengthen. However, since silver is a tangible asset, and is recognized as a store of value, its price can also be affected by changes in things such as inflation (real or perceived), changing values of paper currencies, and fluctuations in deficits and interest rates, to name a few.

Disclaimer

This document is for information purpose only. Certain information herein has been acquired from various external sources believed to be reliable. While we have taken reasonable care during compilation of this document, we assume no responsibility for any error or discrepancy in the information herein. You must make appropriate judgement without any prejudice or compulsion.

Copyright

All rights reserved. No part of the newsletter can be reproduced or copied in any form by any means without the prior permission of Multi Commodity Exchange of India Ltd.

Contact Us

Multi Commodity Exchange of India Ltd.
1st Floor, Malkani Chambers, Off Nehru Road,
Vile Parle (East)
Mumbai – 400099
Tel: 91-22-26164146
Fax: 91-22-26118195
Email: info@mcxindia.com
Website: www.mcxindia.com