

Gold and Silver Annual Short-term Outlook

Gold closed 2018 down 1.5% while Silvers 9% losses joined most other commodities including base metals and energy *and* other key macro asset classes broad declines in 2018. It was a year which started with strong hopes of synchronized global growth, an outlook for a lower \$ and a relatively calm, steady outlook for most economies as political risks were underestimated. That abruptly changed mid year as trade tariffs proved to be more bite than bark, cracks emerged in emerging markets, fears developed over slowing corporate earnings and Q3'18 saw outsized price falls first across base and precious metals, then Q4 delivered a large blow to overweight consensus trades in everything from Oil to US equities (FAANG) and bitcoin. That wasn't enough... Unhealthy technical breaks in US equities, a far more hawkish Fed meeting pre-Christmas, thin liquidity, and finally US politics (a partial US government shutdown) all worked together to drive the worst December in US stocks since the Great Depression

Gold and Silver price performance in 2018 is not surprising in light of the persistently perky US\$, which appreciated almost 5%, the lack of convincing investor subscription and a hiking hawkish-leaning Fed muddying an already uncertain global growth profile amongst both EM and DM countries. Overall, Scotiabank equity research expects Gold to average slightly around the forward curve and the streets outlook in 2019, with Silver to average decidedly higher vs these other estimates. Gold and Silver prices in the last 2weeks of 2018 have already taken out most forecasts for 2019; a good and early start which should continue into the seasonally strong Q1 period. Global political and geopolitical risks have become mainstays (and no longer tail risks) since 2016 at a time when business cycles are maturing and recession talks grow forcing investors to search for a stable, cheap, un-political hedges against increased geopolitical uncertainty, a weaker \$, fragile global risk/macro and a sustainably higher volatility environment

CONTACTS

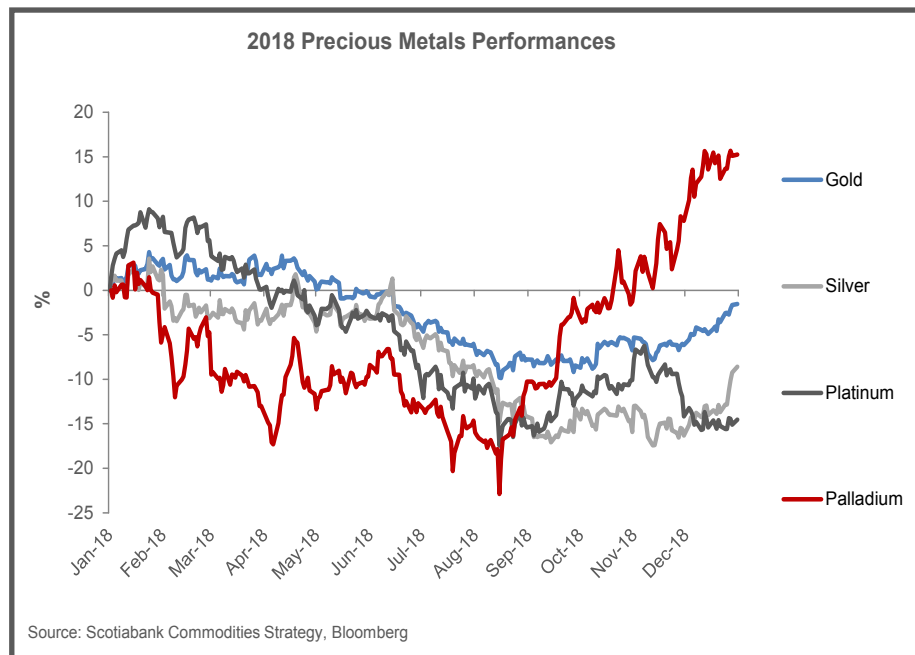
Nicky Shiels

Commodity Strategist (Metals)

212-225-6724

Commodities Derivatives

nicky.shiels@scotiabank.com



Gold & Silver Summary Table—page 2
 The \$ outlook and Gold & Silver forecasts — page 3

Gold:

Macro backdrop: how we got here—page 4

The Fed & US outlook—page 5

The political and geopolitical outlook —page 6

Debt & deficits—page 7

Investor interest—page 8

Official Sector demand & global supply—page 9

Physical investment & jewelry demand: India—page 10

Physical investment & jewelry demand: China—page 11

Silver Outlook—page 12

Silver investment & physical demand—page 13

Silver supply—page 14

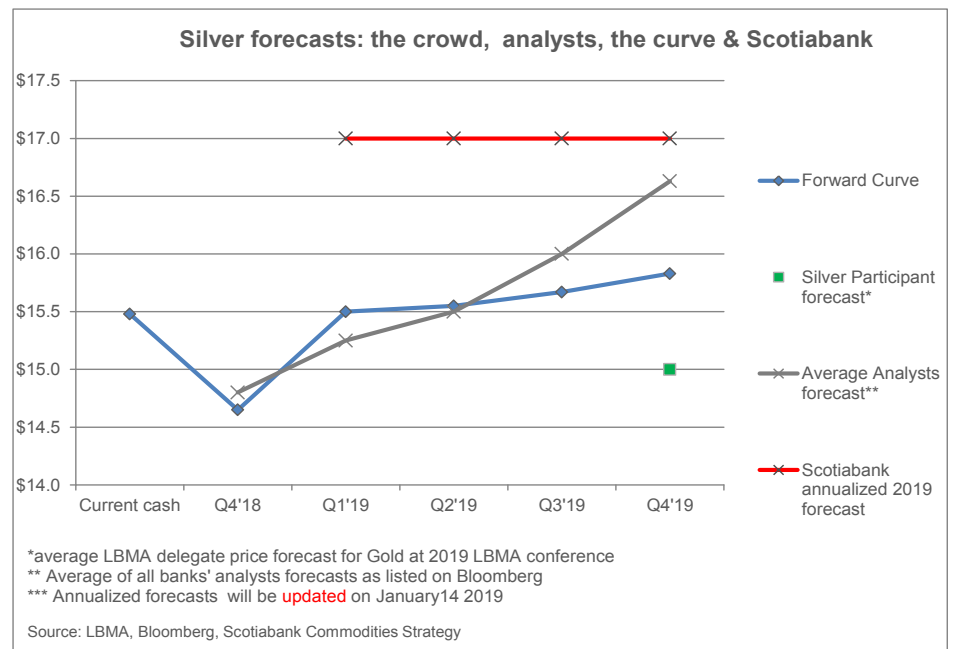
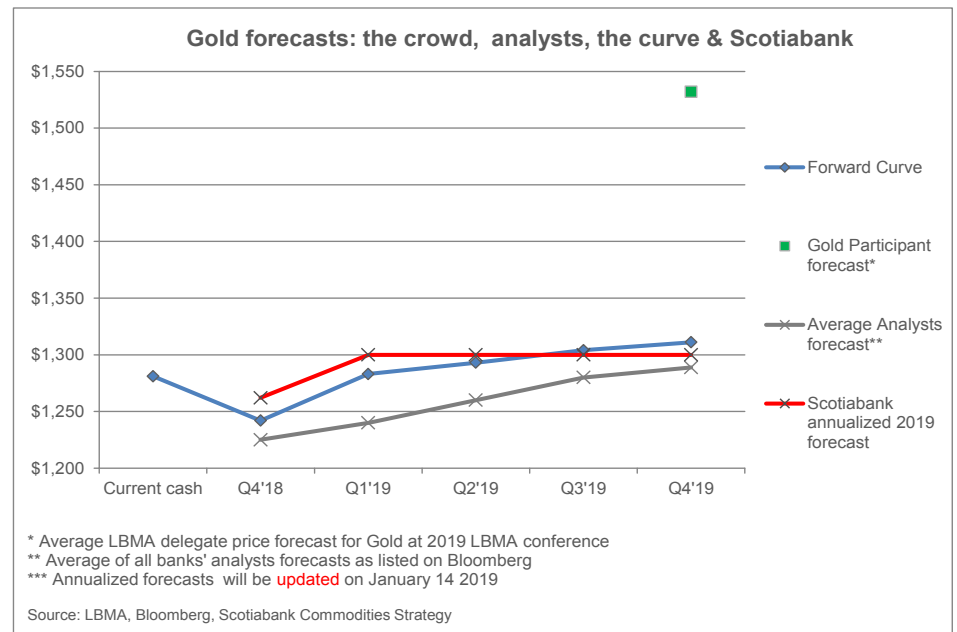
Summary Table:

Gold driver	General Outlook	Comment
\$ outlook	bullish	Core \$ weakness in 2019 due to fading of relative US growth outperformance (as effects of fiscal stimulus declines), potential less hawkish Fed stance, reduction in overweight \$ positioning and a refocus on US twin deficits
Macro short-term	mildly bullish	Late cycle fears & new higher vol regime given unstable global equities & unresolved trade & political policies. Q1 event risk includes potential "Fed pause" at March FOMC, US/China trade talks, Brexit vote, & Chinese lunar NY. Upside oil risk & seasonally strong investor inflow period.
Macro medium-term	neutral-bearish	Lack of \$ liquidity & tighter financial conditions as Fed continues hiking and other CBs (ECB) begin tightening with large Fed & corporate issuances in 2019. Gold has not (yet) internalized any structural themes, like swelling twin deficits, and a rise of protectionism globally, which is \$ negative
Technicals	mildly bullish	Floor at \$1200 is both confirmed and respected. Momentum turned positive with 50 DMA crossing over 100 DMA.
Market positioning	neutral-bullish	Extreme paper short positioning almost fully unwound (neutral), but net COT positioning still very under owned with upside for paper longs to increase positioning. Recent ETF additions is stickier interest & constructive
Physical demand	neutral-bearish	Stable-to-weaker Indian demand is offset by modest increases in Chinese jewelry & investment demand; with higher prices in both \$ and local (INR, CNY) terms, physical demand is either compressed or deferred
Central Bank demand	mildly bullish	Good structural support with (typical & atypical) CBs quietly accumulating Gold & diversifying at highest pace in ~3yrs

Silver driver	General Outlook	Comment
\$ outlook	bullish	see above. Note, a sustainably lower \$ trend is relatively more bullish Silver vs Gold
Macro short-term	mildly bullish	see above. Silvers industrial characteristic implies it should be less elastic to large macro de-risk episodes
Macro medium-term	bearish	see above. Silver will asymmetrically fall (more so than Gold) if/when \$ and general market liquidity withdraws, if EM underperforms DM due to hawkish-leaning Fed
Technicals	mildly bullish	constructive base formed <\$15 but short-term momentum indicators still negative and MA remain an overhang.
Market positioning	neutral	ETF's are topy and a large overhang unable to draw in safe haven flows, but COT paper positioning is very underweight
Physical demand	neutral	Industrial fabrication demand has flat lined for 3 years; Indian jewelry and coin/bar demand remain price sensitive

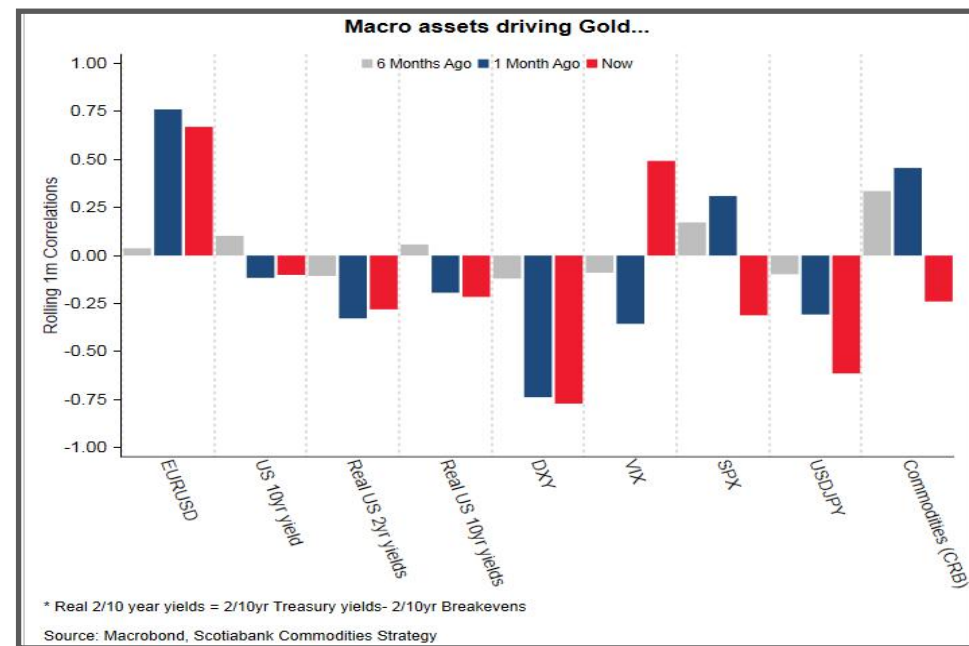
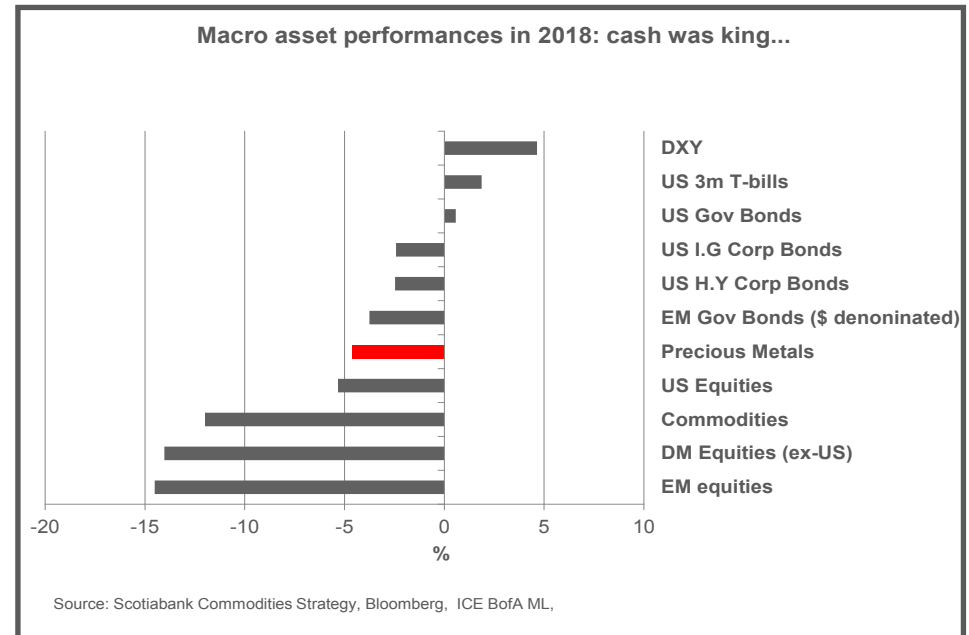
The \$ outlook and Gold & Silver forecasts

- Our core \$ house call on the \$ for 2019 is for the DXY to average 89.4, a material drop from the current levels of around ~97; peak dollar is simply behind us. This view is not wrong and also mirrors the general streets outlook on a weaker \$ in 2019, which underpins plenty of bullish metals and commodities calls.
- The underlying driver for upcoming \$ weakness is the 1) the fading of US fiscal stimulus, 2) stalling of US growth or “US exceptionalism” as monetary policy starts to bite, 3) a reduction in overweight \$ positioning as most positive news on relative US growth & monetary policy is already priced in
- In the longer-term, the \$ should continue to come under renewed pressure as markets refocus on the accumulation of dual current account and fiscal deficits and the fact that its relatively “expensive” vs other G-10 currencies on purchasing power terms.
- A risk to this bullish \$ outlook is the \$s ability to dominate and reaffirm its role as a reserve and safe haven currency post 2016; it internalized relative growth outperformance and monetary policy instead of the subsequent political uncertainty which kick-started a global shift to protectionism— that didn’t derail \$ strength despite the views of many post 2016s US election. Subsequently, given the recent troubled developments across the pond (Brexit saga, Italy’s economy and sustainability over its public debt, Frances struggle to implement structural reforms and overall slower Euro-zone growth), the markets are reminded that the \$ has been the best dirty shirt
- Thus, *before* sifting through internal Gold and silver dynamics, using their 2 year weekly correlation (Gold & DXY of -76), with the DXY at 89.4, the regression-implied Gold price is \$1322. Note, Silvers 2 year weekly correlation with the \$ is an unimpressive 0.01 so a similar approach isn’t deserving
- Overall, Scotiabank equity research expects Gold to average slightly around the forward curve and the streets outlook, with Silver to average decidedly higher vs these other estimates. Overall, Gold and Silver prices in the last 2weeks of 2018 have already taken out most forecasts for 2019; a good and early start which should continue into the seasonally strong Q1 period.



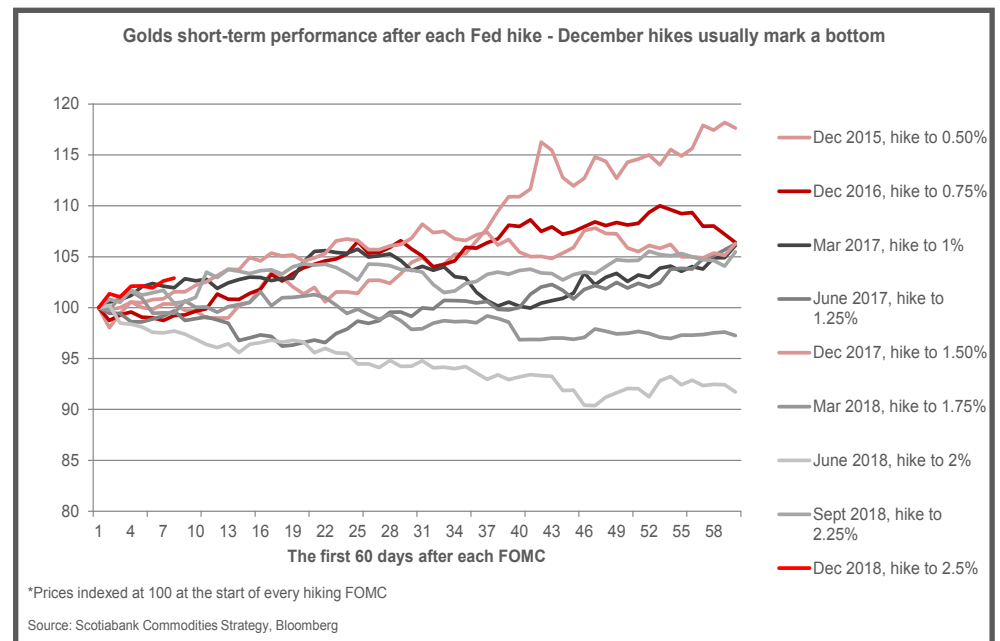
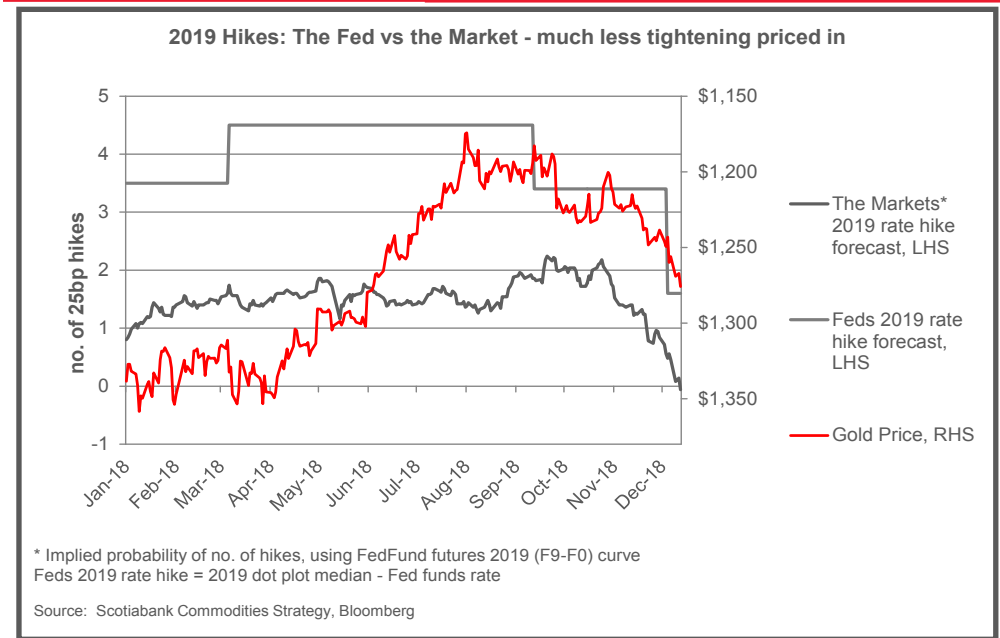
Macro backdrop: how we got here

- Gold closed the year down 1.5% while Silvers 9% losses joined most other commodities including base metals and energy *and* other key macro asset classes broad declines in 2018. It was a year which started with strong hopes of synchronized global growth, an outlook for a lower \$ and a relatively calm, steady outlook for most economies as political risks were underestimated. That abruptly changed mid year as trade tariffs proved to be more bite than bark, cracks emerged in emerging markets, fears developed over slowing corporate earnings and Q3'18 saw outsized price falls first across base and precious metals, then Q4 delivered a large blow to overweight consensus trades in everything from Oil to US equities (FAANG, Bank stocks) and bitcoin. That wasn't enough... Unhealthy technical breaks in US equities, a far more hawkish Fed meeting pre-Christmas, thin liquidity, and finally US politics (a partial US government shutdown and turbulence & interferences between the Fed, Treasury Sec. Mnuchin and Trump/White house) all worked together to drive the worst December in US stocks since the Great Depression.
- Gold and Silver price performance in 2018 is not surprising in light of the persistently perky US\$, which appreciated almost 5%, the lack of convincing investor subscription and a hiking hawkish-leaning Fed muddying an already uncertain global growth profile amongst both EM and DM countries. Golds performance in Q4'18 is historically fair given the resurgent macro volatility and fragile equities, highlighting Golds portfolio benefits; it begrudgingly rallied but should remain contained within its \$1150—\$1350 comfort zone. The VIX (which arguably has put in a rather steady rally despite Decembers equity bloodbath) and the DXY are currently the core drivers of Gold pricing in this new late cycle regime, where investors and macro prices are on edge and skittish
- Silvers positive response to the macro developments is somewhat unfair as it should shoulder much of the negative moves in risk assets and base metals while running into oversupply. Silver didn't source on any safe haven related flows that Gold managed to secure (via ETFs), but the thin liquidity, seasonally quiet period for corporate activity and relative price underperformance ensured Silver prices outperformed in December driven by auto-pilot computerized trading.



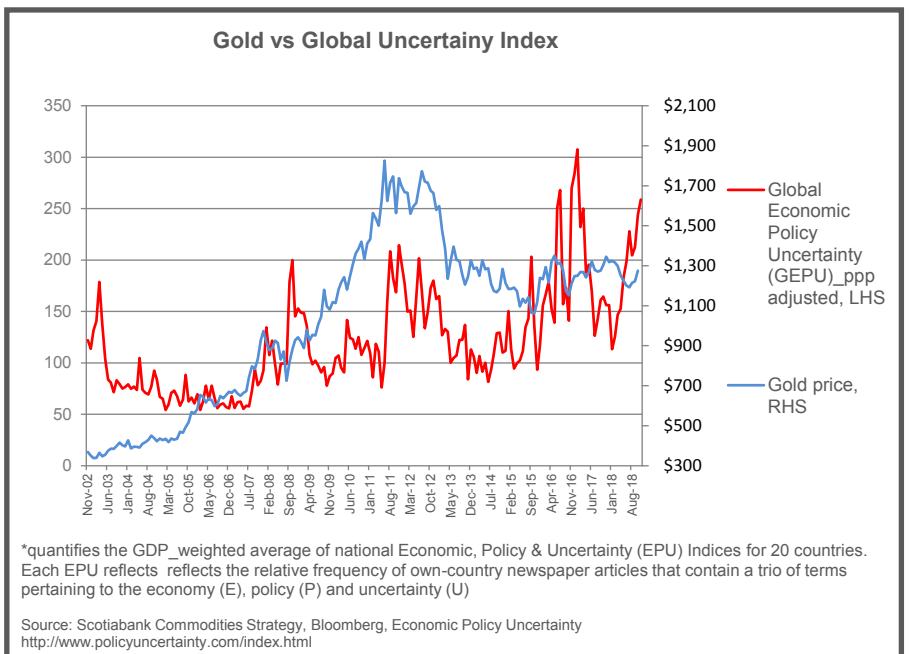
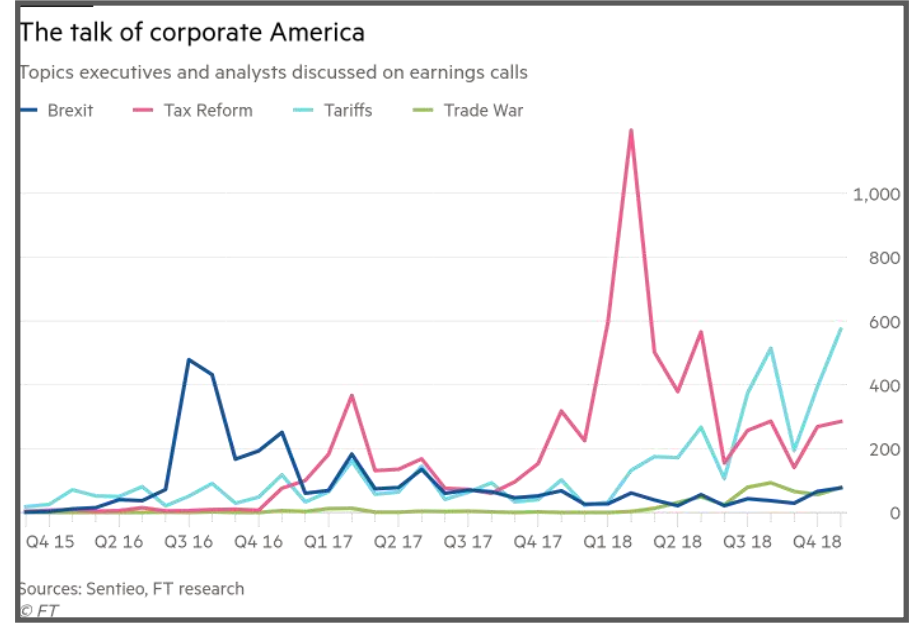
The Fed & US outlook:

- Gold is largely not a commodity but trades as a complex macro asset that internalizes various currency, interest rate and risk appetite metrics. The Fed's December meeting was an important inflection point this year, as it not only laid out the expected 2019 hiking path, but it also managed to solidify a top in risk assets while Powell's decision continues to draw in fresh criticism from the President to well-respected investors. The Fed raised rates to 2.5% and lowered its forecast to 2 hikes in 2019 (from 3x) as largely expected by the market, but Powell was stubbornly hawkish reaffirming his commitment to further rate hikes and did not see the Fed changing its "autopilot" quantitative tightening stance.
- The US economy is already hitting the Fed's dual mandate but they need to refrain from overtightening and steer a soft-landing. Gold is a hedge against Powell's ability to master what historically is pretty tough given 2 base Fed risks: 1) the Fed applies a 2019 rate hike cycle that matches 2018's stellar growth profile, not 2019's steady (not great) growth which will continue to inject volatility into risk assets just as late cycle and recessionary fears grow louder calling for a Fed pause, 2). The Fed sustainably pauses: We've been here before—in Q1'16 plummeting oil prices and US equities dragged down growth and inflation expectations which was enough for the Fed to swing from expecting 4x hikes in 2016, to only fulfilling 1 rate hike in Dec'16. Overall, Gold can mildly rally in a quantitative tightening cycle if the Fed's outlook creates enough uncertainty to global risk assets and/or if the Fed remains behind the inflation curve ensuring real rates remain close to zero. Gold will suffer if there's certainty around QT and confidence for a soft-landing increases.
- There's been plenty of references to America's economic cycle—by mid-year, it could break its record for the longest uninterrupted expansion since 1860, but note 1) it's not the strongest cycle (Bloomberg noted that the current cumulative GDP is 23% during this cycle, vs 43% in the late 1990s cycle), 2) there's already been 2 intra-cycle "resets" in 2011 and 2016 that recalibrated risk and leverage lower (ie: 2018 could be the 3rd reset), and 3). Commodities—especially metals—are not exhibiting typical late-cycle rallies (i.e.: recessionary calls are too early and we're closer to mid-cycle than late with upside potential across metals). Regardless, conventional late cycle bear markets typically don't take months, but years to play out, which argues for a sustainably higher volatility environment.



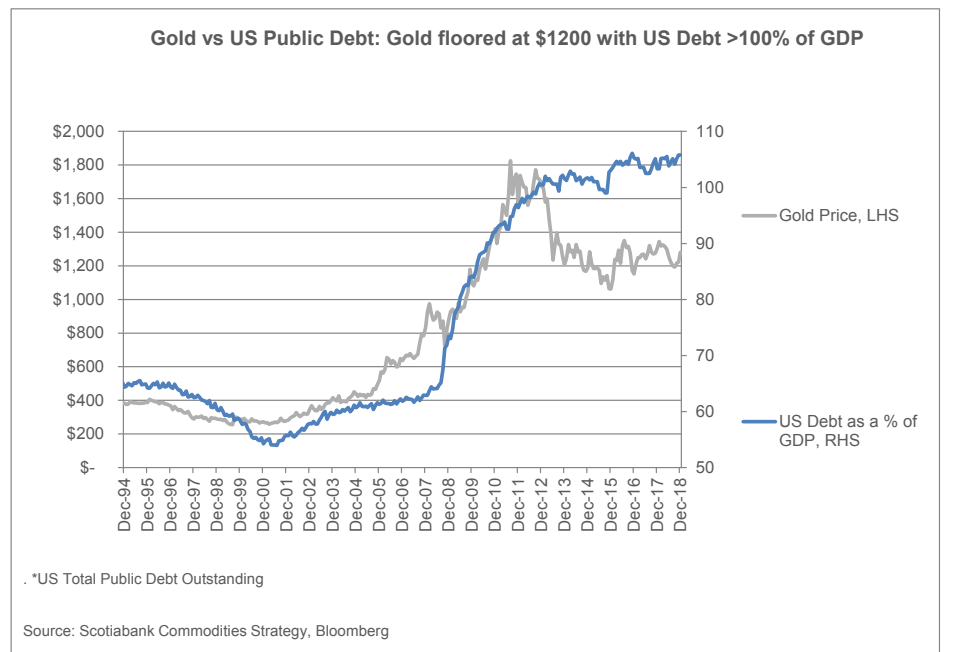
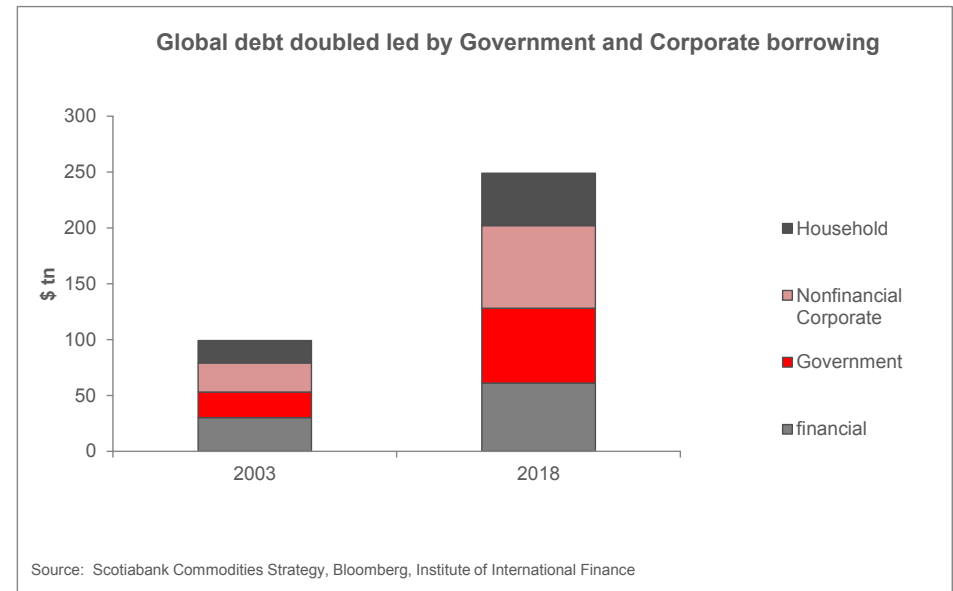
The political and geopolitical outlook: the same, but likely more uncertainty

- The global war against globalism arguably started in November 2016; now merely 2 decades after walls were torn down in Europe, governments are being partially shutdown over building a new wall, and populist waves are spreading not contracting (through Italy, Mexico and Brazil for example), .
- Trade war = Cold war: As FT reported, US executives and analysts have now shifted their focus from (the historic) tax reform to trade war concerns like tariffs, highlighting the rising anxiety over Trumps foreign policy. There has been standoffs not only between the US and China, but also Canada, Mexico, South Korea and Europe, and its still unclear the price the US (and others?) will pay for weaponizing tariffs. Plenty are looking for a “deal” or trade outcome in Q1’19 between China & US to provide direction, which is possible, but theres also a better chance this is a sustained cold war despite the fact that both parties view China as a strategic threat.
- In 2019, Trump faces larger constraints at home with the Democrats controlling the House. The US political system and the new intake of representatives post-midterms is arguably now more ideologically divided than ever before and Decembers partial government shutdown is simply a preview of gridlock ramifications due to dwindling partisanship. US politics is entering a particularly turbulent 2years given the Democrats newfound clout with impeachment proceedings and investigations into Trumps affairs to the potential for Mueller to discover any damaging evidence, all potentially on the cards. With both sides already combative after a sticky start (gov shutdown), this creates an environment for further (uglier?) Trump backlashes on targets ranging from his opponents to the Fed, especially if his perceivable favorite barometer (US Stocks) continues to crumble.
- Brexit & EU changing of the guard: Britain is (supposed) to leave the European Union in March 2019 which should be followed by political retaliations and economic ramifications, while the EU is due to get a new ECB head, a new commission and a new parliament that creates some uncertainty over how European leaders will handle the indebted nations like Italy (and France).
- Election years: Some large nations hold nationwide elections in 2019—India, Nigeria and Indonesia (together accounting for the 1/3rd of the worlds population) all vote, adding to political uncertainty risk as the hope lies that these nations liberalize more despite the spreading protectionist backdrop .
- Overall, rising geopolitical risks are no longer a tail risk, and are becoming more frequent but also less ‘tradeable’ by the human/discretionary actor given the rise of big data and HFT. Gold is a stable, cheap, un-political (currency) hedge against uncertainty surrounding Brexit, key elections in large/important countries, EU parliamentary elections and the US-Sino trade dispute, in 1H’19.



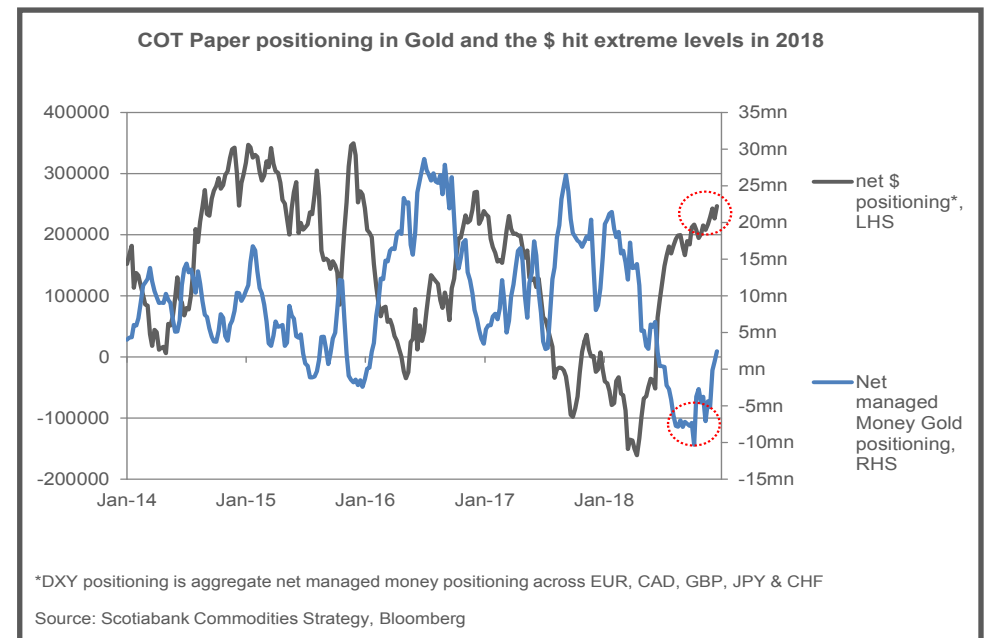
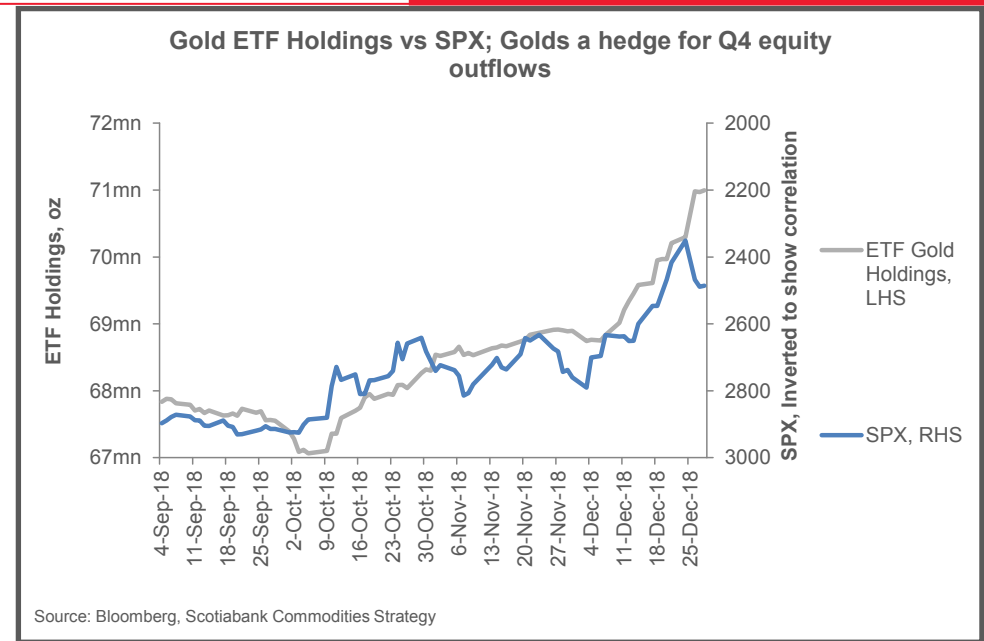
Debt & deficits: a structural theme for Gold may come home to roost

- The world, as a whole, is more indebted today than before the financial crisis as defined by the BIS's recent stat of global debt at 217% of GDP (+20% since 2007, whereas EM debt is up 50% by the same metric), fueled by government and corporate borrowing.
- This year, rising interest rates have tested the ability (and the currencies) of South Africa, Turkey, Argentina and Brazil to repay dollar-denominated debt while the US' tax cuts will push the US budget deficit to 6% of GDP in 2019 (a metric more closely associated with a country fighting a recession or a war). As of Nov '18, the US pays 10x more than any other G-7 country (Italy is 2nd) a day to service its debt load while the IMF warned in June that now (at higher growth rates) is the time for US policymakers to address the gnawing structural debt problem before the next crisis hits. Rising rates—led by the Fed, the global Central Bank—and climbing debt is bringing to light these deep-seated concerns both in the US and abroad.
- The US twin (budget and CA) deficit is a core reason for expected \$ weakness *and* the thinking that the Fed will be 'handcuffed' from raising rates too high. But while the inability for Congress to balance the Federal budget is worrisome, a larger structural concern is that the large driver of these deficits is the unrestrained growth of mandatory entitlement spending, at a time when our largest trade foe (China) is whom the US is reliant on for funds.
- China: Chinas deleveraging campaign will be put on hold as it fights the impact of the trade war by cutting corporate taxes (in 2019) and making it easier for cities to issue infrastructure bonds. Total debt in China already exceeds that of the US and has more than quadrupled since 2007 (at around ~320% of Chinese GDP in 2018) fueled by shadow banking and real estate.
- Overall, while the increasing 'short-termism' amongst investors has ensured its been rather easy to look through the public debt issue largely in the US, history reminds us that the confluence of risky and unpredictable policies, excessive borrowing and higher interest rates pose a toxic threat. Gold is a real asset and currency hedge against unchecked and massive US and global debt growth...



Investor interest: early signs of interest and inflows

- ETF investors added almost 3m oz of net Gold to positioning in 2018, after clawing back the Q2 & Q3 outflows and more in Q4. While paper (COT) positioning put in large net outflows of almost 13m oz; its largest annual set of outflows the past 10years.
- However, since US equities toppled in the beginning of October, investor interest has decidedly shifted gears. The daily pace of global ETF accumulation since then is a healthy +70K oz / day. In addition, the unseasonal nature of these inflows (on average the last 10years, ETF have bled out ~570k oz in December, vs the 2.25m oz of inflows in Dec '18) is both interesting and constructive.
- This year saw the longest stretch of sustained net short positioning (since the data began in 2006) as investor sentiment toward gold soured mirroring the upbeat US growth and \$ outlook. However, December marked a key inflection point as net positioning swung net long for the first time since the June 18 Fed hike which kick-started a broad shunning of all metals.
- This recent development—the ability for broader market participants to rotate out of riskier assets and into Gold (and not only cash or \$) as either a safe haven or late-cycle hedge is constructive as we continue to see sustained equity volatility and a high probability of US equity weakness in 2019 (all else equal).

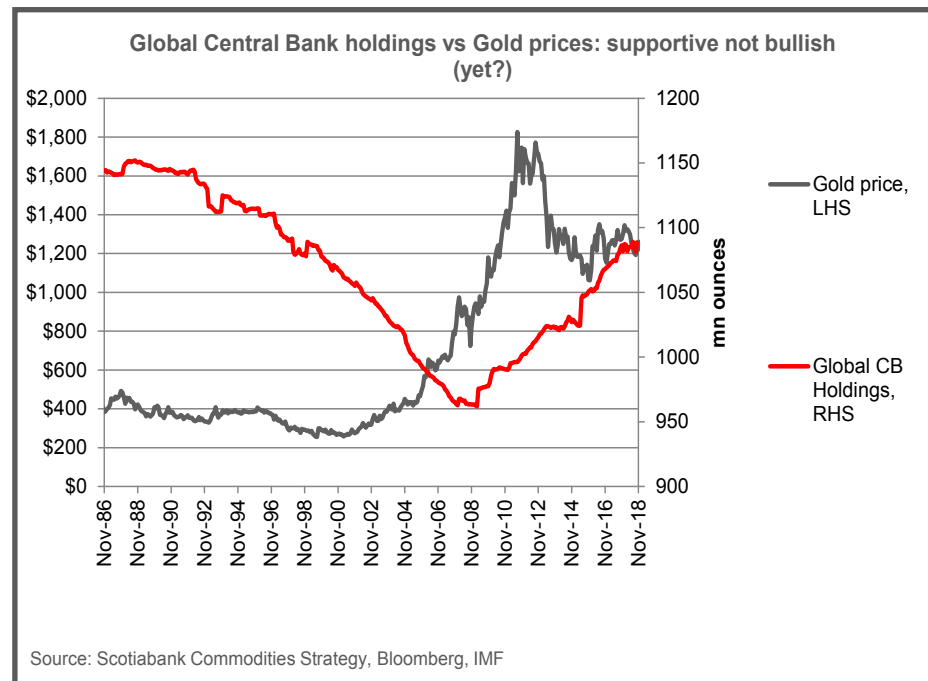
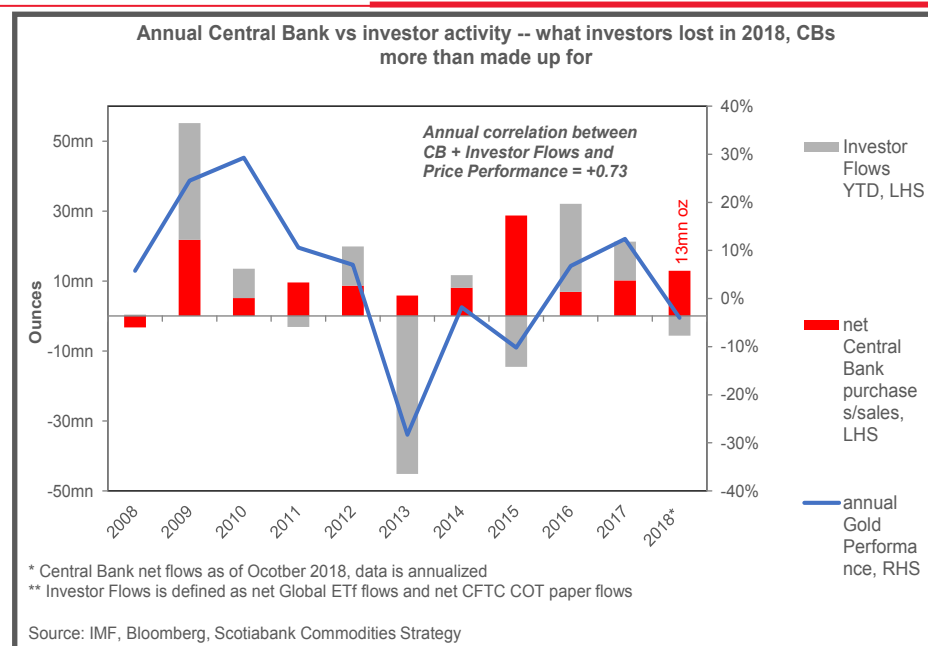


Official Sector demand: becoming more active and more supportive

- Central Bank activity kicked it up a notch in 2018, with 10.8m oz accumulated in the first 10 months; on an annualized basis that's ~13m oz, the highest annual buying pace since 2015 and one which more than offsets total investor outflows so far (ETF + COT length of 5.6m oz).
- Emerging Markets (who traditionally have a much smaller share of FX reserves in Gold) have been avid Gold purchasers in 2018 – China, Turkey, Mongolia, Russia, India and Kazakhstan have all seen consistent activity this year. And this trend, especially amongst China, Russia and Turkey is expected to continue in 2019, with new/atypical CBs also adding
- Global political and geopolitical risks have become mainstays (and no longer tail risks) since 2016 at a time when business cycles are maturing and recession talks grow. Gold is an anti-globalization hedge, an “anti-USA” hedge; its completely a-political and fits in well with “de-dollarization” policies some developing nations are adapting to so theres an increasing likelihood that support from Central Banks for Gold in 2019 grows. Russia, once a top 10 holder of US gov debt, sold most of its Treasury holdings (from >\$100bn to <\$15bn) and diversified against “America” in 2018, as telling example of this thinking.

Supply: primary & secondary

- Gold prices historically have an asymmetrical ‘response’ to physical sales vs physical purchases; its relatively more reactive to the latter because it fosters and supports general sentiment, another driver for Golds outlook. Thats probably because primary and secondary short-term flows are rather opaque whereas one can track consumer, import stats, CB activity and investor flows on a regular basis.
- Nonetheless, supply is one half of the balance sheet, and a large structural force that needs to be addressed. Primary gold supply has grown for 13 consecutive years, before dipping in 2017 and resuming its trend to new record high of 3300 tonnes in 2018 (GFMS) , with mine output set to retreat slightly in 2019 by 2%.
- Scrap contributes ~30% of total supply and is very price sensitive so with higher prices (expected in 2019) this should to attract additional inventories.

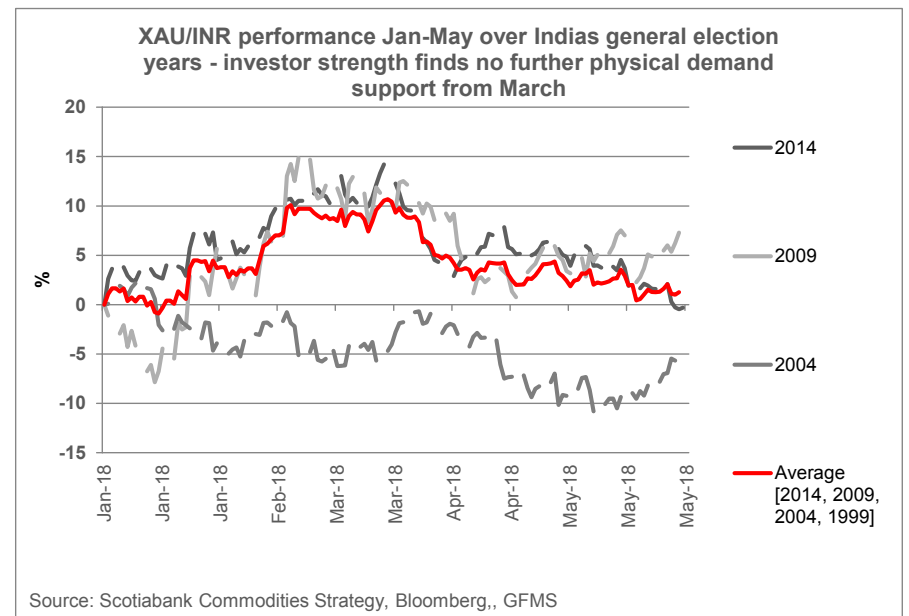
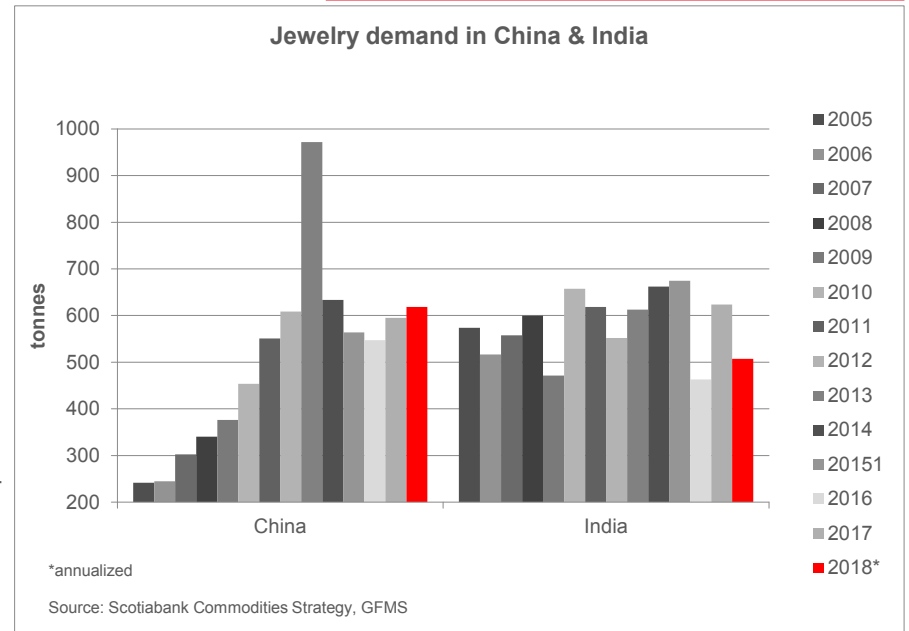


Physical investment & jewelry demand: Indian Gold demand still supportive

- In the 1st 9 months this year, Indias gold imports were down 13% and GFMS estimates that domestic Gold demand was down 8% YoY, due to 1). changes in regulation (the introduction of the Goods and Services tax last year which provided greater oversight by authorities to check compliance standards), 2). changes to import criteria by the Government of India in Q4'17 for nominated agencies, 3) the impact of a weaker INR on local demand (it lowers purchasing power) since it either compresses or defers near-term Gold demand
- However, imports stats aren't an exact picture of true Indian Gold demand. Overall jewelry demand still remains robust post monetization, which is being increasingly supplied by internal scrap/recycled material (scrap supply was up 64% in the 1st 9 months of 2018), and unofficial (smuggling) imports. This is due to a shift in tastes as the gold accumulated by the post Independence generation is passed on to younger family members who prefer to recycle and refine these into more modern pieces. As such, official demand from the ROW (imports) has remained largely flat-to-lower for 3years now
- Looking ahead to 2019, physical Indian demand should continue to be stable overall, after a potentially weaker Q1.
 - In April-May 2019, India holds general elections, with Modis BJP party looking increasingly less invincible (last year BJP lost a number of key state elections). The uncertainty and campaign period in the lead up to general elections every 5years has usually been deemed to be associated with weaker demand.
- Scotia has the INR strengthening somewhat toward 68 by Q4'18, so while theres less chance of any fear-related buying (extreme currency weakness reinforces the structural reason engrained in consumers to hold Gold), its weak enough on an historical basis and strong enough on a cyclical basis to not limit local purchasing power and meaningfully decrease consumption.
- Indias relatively high current account deficit makes it vulnerable to any oil price strength (which could subsequently threaten/induce higher import duties on Gold as was the case in 2013). That is not likely to be an issue in 2019; despite our call for higher oil prices, its coming off a relatively lower base and isn't averaging the levels seen pre-2014 when oil importing CA deficit EM countries were negatively affected.

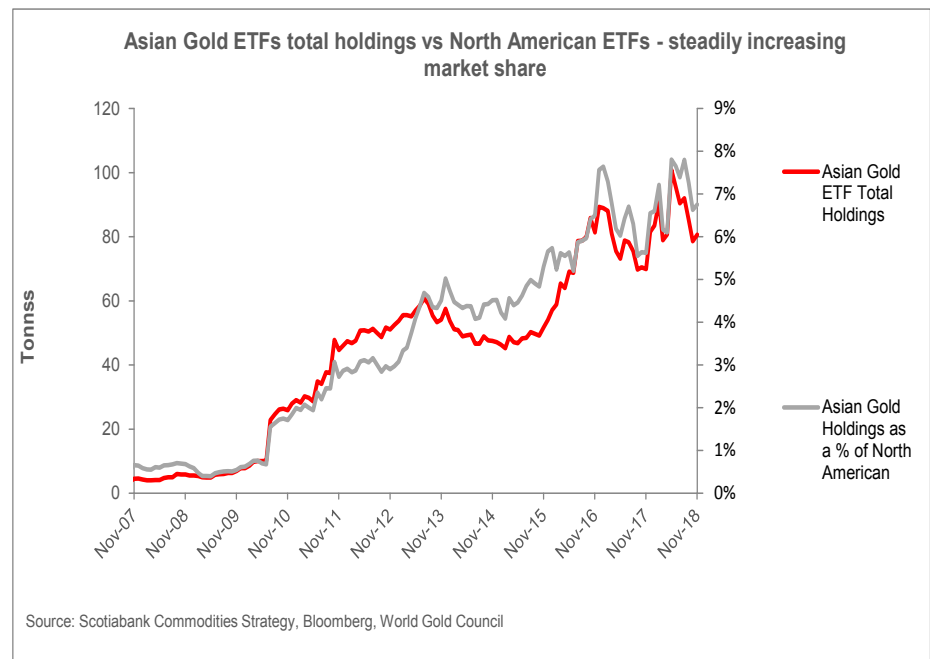
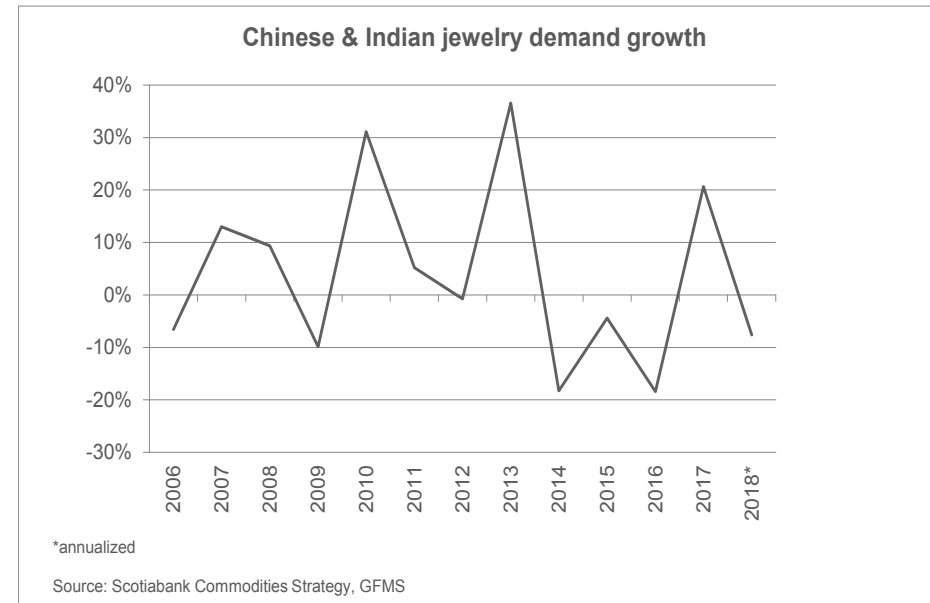
Industrial demand:

- Decent demand by the electronics sector, semi-conductor production (memory space) in 2018 was somewhat offset by the persistent decline in dental applications which is driven by substitution to cheaper and more attractive porcelain alloys.



Physical investment & jewelry Gold demand: Chinese Gold demand picking up

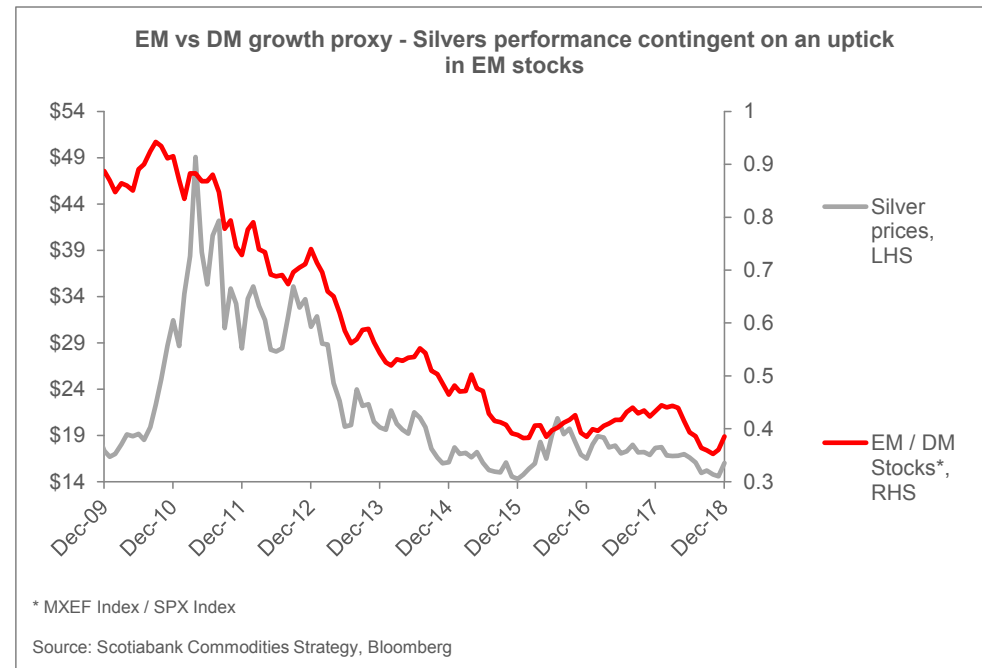
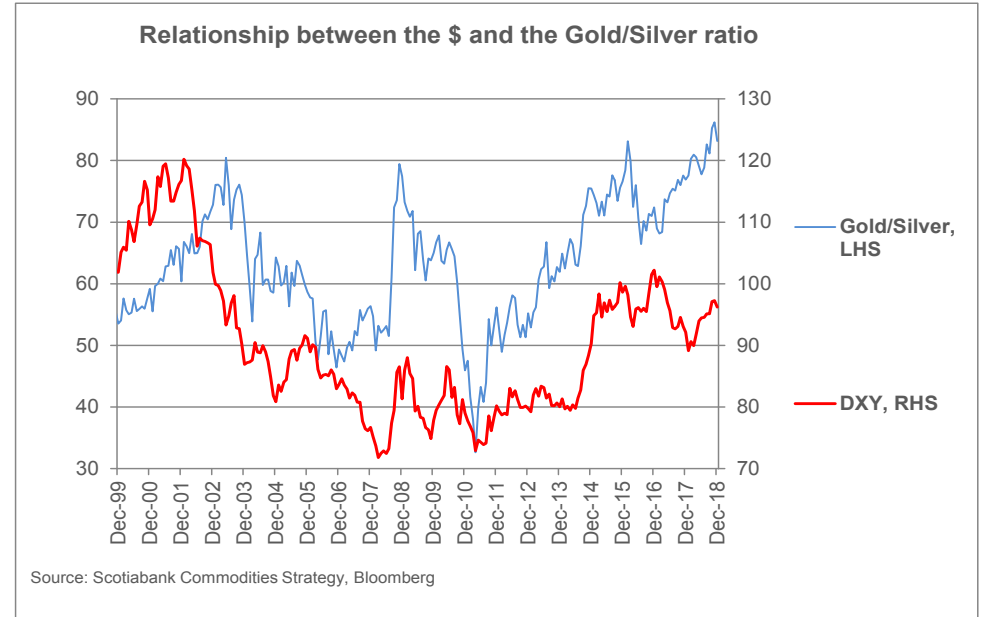
- The trend in 2018 has been of steady Chinese demand, with jewelry demand in the first 3 quarters registering 464 tonnes, up almost 8% over the same period last year. Gold imports from key Gold hubs—a proxy for overall incremental demand—rose 28% in the first nine months (China imported 1,065.2 tonnes of gold from HK, Switzerland, UK, Australia and Singapore combined). A volatile and unforgiving year in Chinese equities (a bear market in Shanghai Comp from Q4'18) and a weaker yuan helped spur jewelry inflows, but not investment inflows.
- The trade war between the US and China and subsequent uncertainty around the yuan outlook, global (and Chinese) growth and potential easing measures as a response to the impact on tariffs, has a mixed outlook for Gold. On one hand, the negative impact on sentiment boosts Golds appeal as a safe haven and as a hedge against any expectation that the PBOC loses control of the psychological yuan 7 handle vs the US\$. Alternatively, the PBOC may intervene further, or at least retain the 2017 level Gold import quotas handed out to banks, in order to provide further protection of the local currency if trade tensions sour in Q1'19, which'll limit the ability to make Gold purchases in near-term. Ultimately, as evidenced with Indian demand trends, any increase in regulation by the authorities on gold ownership merely kick-starts smuggling and drives an underlying bid by the people to own even more of the 'forbidden' metal in the longer-term.
- Ultimately, Chinese investor demand (as proxied by the trend in Asian Gold ETFs) is quite cyclical, momentum driven and highly dependent on volatility (and to some extent) yuan weakness; if dollar/yuan 7 handle breaks that will be a sentiment circuit breaker for most metals in the near-term (lower metals prices), but should see large fear-related hedge buying from a range of Chinese participants after the initial shock, since Gold (and precious metals) is still viewed as the ultimate EM currency hedge. The strong ETF inflows in 2016 (35 tonnes, more than doubling holdings) as the yuan depreciated >7% (vs the US\$) after the shock Aug '2015 devaluation, is a sound example of the willingness to use gold as an investment option against extreme currency moves.
- Chinese jewelry demand, is on the other hand, expected to rise modestly in 2019 by 3% (GFMS) as some recent structural and marketing changes carries over from 2018; larger fabricators—who're more likely to support the industry as a whole—have upped their market share and there's been a shift toward lower content gold pieces.



Silver:

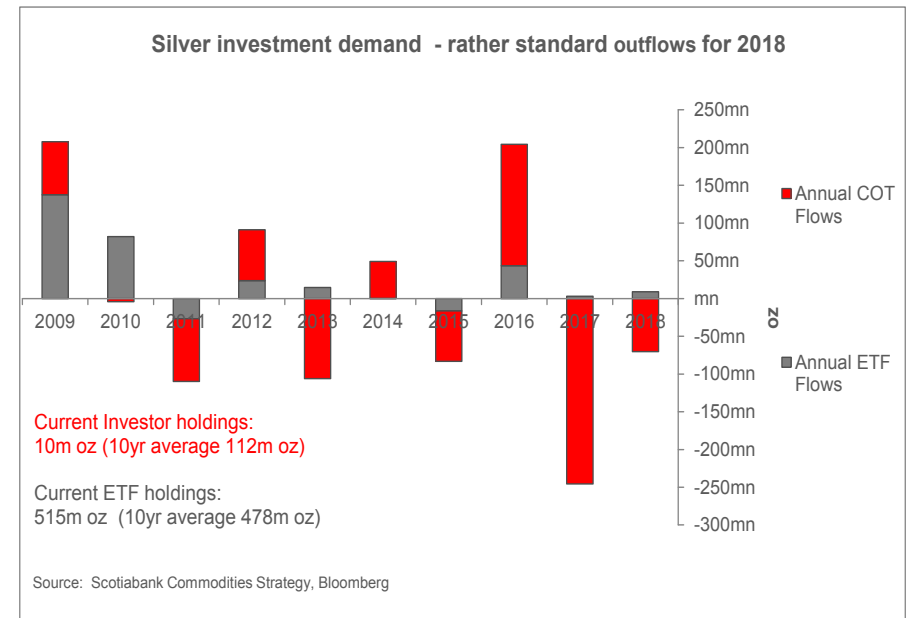
Outlook:

- Silver still remains very inexpensive vs Gold, despite putting in almost 9% gains in December '18 as equity volatility boosted most precious metals.
- Structurally, Silver remains oversupplied due both to a mix of primary & by-product production and a buildup of known and unknown inventories, which support the view for the Gold/Silver ratio to average near the top-end of the range (80-85).
- The confluence of the Feds quantitative tightening program which currently is undermining risk assets and the cyclical underperformance of EM Stocks VS DM, has kept silver subdued and poses a headwind going forward if the Fed leans hawkish which'll negatively impact EM assets.
- Tactically, 3 potential upside drivers lie in wait for Silver, 1). The cyclical low price and low vol environment (4 years trading below \$20) is constructive for new uses / technology to be developed, 2). Paper positioning remains under-owned 3). Silvers is the better outperformer vs Gold (lower GC/Si ratio) in a sustainably bearish \$ downturn, given its historical high-beta profile.



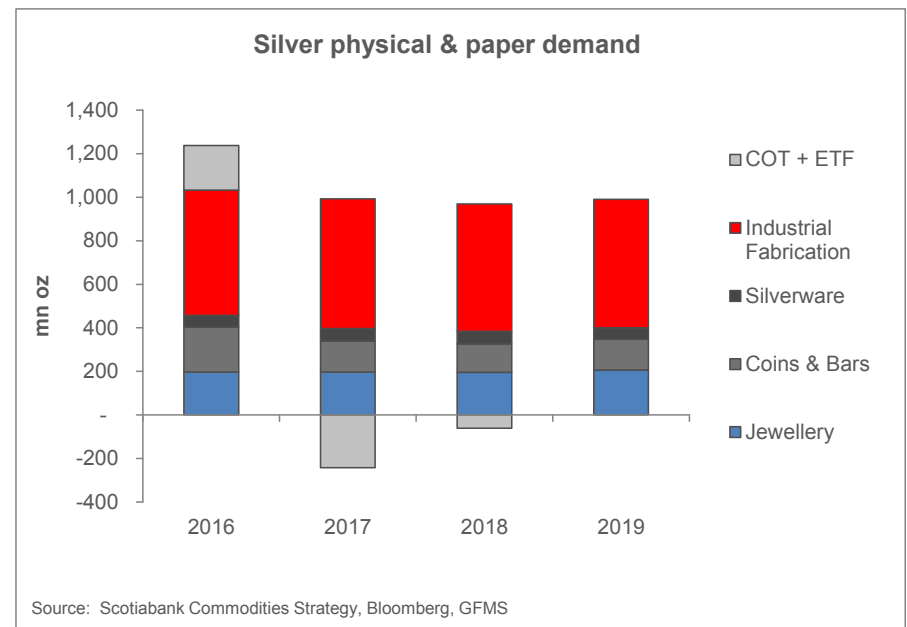
Investment demand:

- ETF holders liquidated over 9m oz in 2018, mostly all occurring in December as equity markets rattled long only holders and Silver failed to attract similar safehaven inflows witnessed in Gold ETFs. That's the 3rd worst annual liquidation over a 10 year stretch. Given that total holdings are still sitting at rather lofty levels (~515m oz, only 35m oz or 6% below peak holdings seen in 2017) and the fact that, so far, Silvers failed to attract discretionary safehaven inflows, the 2019 ETF outlook doesn't look too rosy, if macro assets continue to de-risk. Silvers other 'hope' is for momentum type paper players to enter...
- Paper investors also largely shunned Silver in 2018, liquidating over 70m oz, which is slightly less than the average outflow years. Similar to the 'investing' style in Gold, most of these outflows were driven by fresh short interest, rather than fresh longs. Given that COT positioning in 2018 reached a net short (almost net short a total of ~240m oz in Sept 2018), like Gold, there is upside potential for these extreme bearish views to thaw as investors pare back their strong \$ bets and/or if Silver manages a convincing technical breakout to pique interest. Currently, Silver paper investors own ~10m oz, almost 1/12th the size of the average length carried the past 10years.



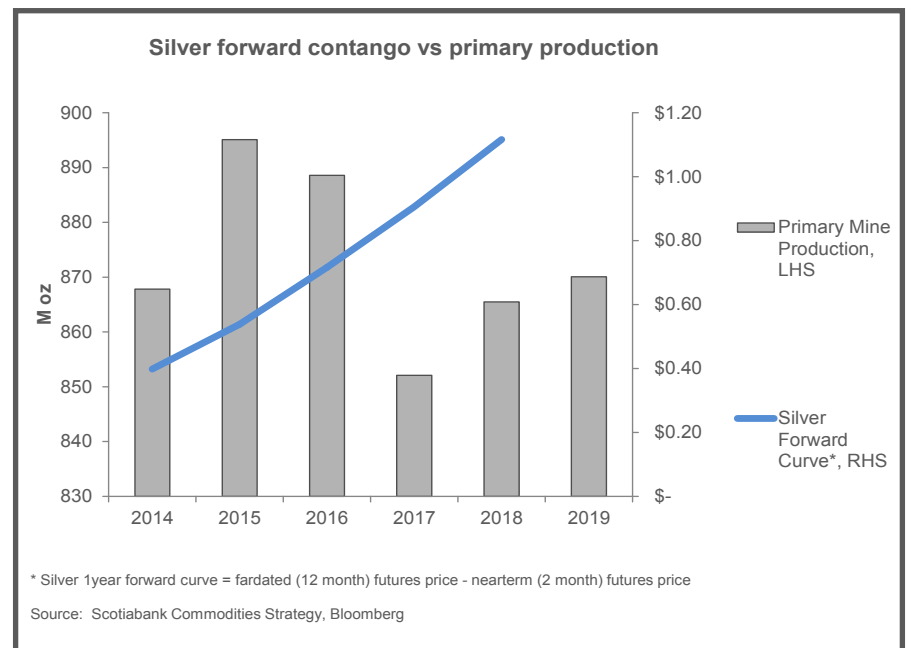
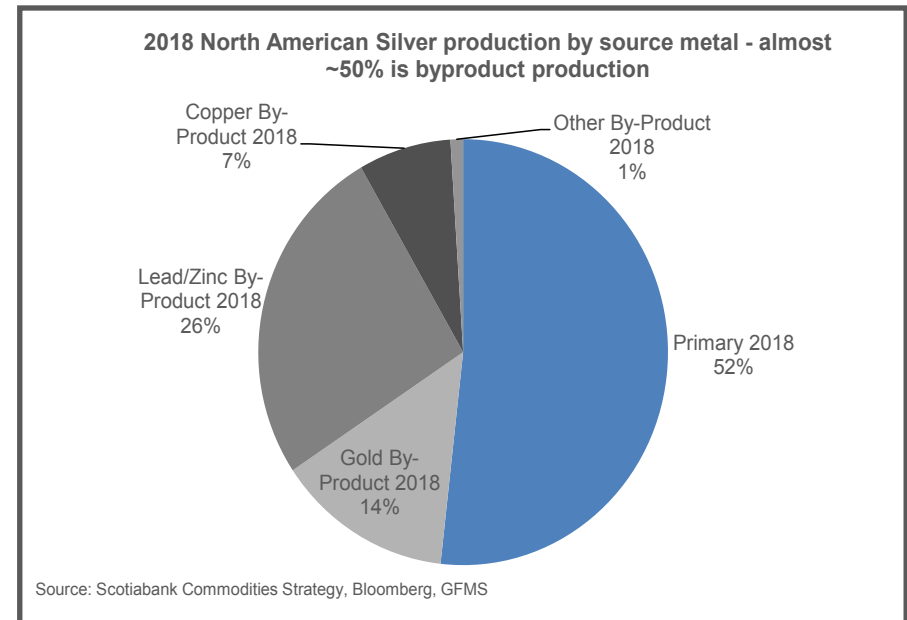
Physical demand:

- Physical demand in 2018 fell slightly to 970m oz (-2% YoY) according to GFMS but they expect this to rise back up to 990m oz in 2019 largely driven by a rebound in Indian jewelry demand and demand for silver bars and coins. 2018 was a very downbeat year in which coin sales from the US Mint were down 20%, but sentiment considerably improved in H2'18 as silver was viewed as a cheap alternative to Gold amidst the macro rout
- The US-Sino trade dispute has really taken a toll on silver fabrication in solar panels (Trump's introduced import tariff on solar panels and washing machines in the beginning of the year; later China retaliated with their own measures even after their subsidies in place have been exhausted given that renewable energy growth targets were achieved in 2018). Silver use in solar plunged 15% in 2018 and GFMS expects another 9% fall (to ~72m oz) in 2019. While the solar industry only accounts for 12% of industrial demand, it was the key marginal / swing physical 'darling' 7+years ago, and highlights the ability of industrial uses to quickly come and go.



Supply:

- Mine supply rose marginally in 2018 to 998m oz (the uptick in primary production alone was 13.4m oz or 2%). However GFMS expects mine supply to fall 2% (or 14.4m oz) in 2019 due to their expectation that by production (lead/zinc) and primary production should fall given output challenges and production delays particularly in China.
- Silver M&A deal activity rose almost 80% in 2018 (~\$640bn) which is a key risk to this outlook as more ounces could hit the market if the focus doesn't shift to profitability (vs volume creation).
- Silver prices, being relatively subdued both on an historical basis and vs Gold, aren't at attractive hedging levels for producers to lock in forward sales. However, the swelling contango forward curve and Silvers by-product nature creates a structural headwind going forward as both producers capitalize on the curve for appropriate financing purposes and fundamental investors remain sidelined.



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