CAN SILVER CONTINUE TO OUTSHINE GOLD IN 2013?

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While 2012 has proved a stellar year for the silver price, questions hang over whether the precious metal can replicate this performance and continue to outshine gold as we move into the new year.

Over the course of 2012, the silver price has risen by nearly 20%, outpacing gold's 10% rise. While gold is typically viewed as a safe haven and alternative currency, silver is viewed as more of a risk asset, making its price more sensitive to spells of risk aversion. Conversely, this also means silver is likely to rise further than gold when investors are in risk-on mode.

Indeed, some analysts are backing the latter scenario in the view that monetary policy will remain loose for the foreseeable future, especially following the re-election of Barack Obama in the US and the possibility Ben Bernanke will remain chairman of the Federal Reserve. Such a setting could be a boon for risk assets, including silver.

Ian Williams, chairman of Charteris Treasury Portfolio Managers, believes silver will rise over 500% in three years, based on technical and cyclical analysis rather than a reaction to the accommodative economic situation in the US.

Williams anticipates the precious metal is about to enter a bull market, which will take it from a current price of $32 an ounce to $165 an ounce by the end of October 2015.

So far it has risen from $8 an ounce in 2008 to around $32 an ounce, having peaked at $50 in 2011.

'We expect silver to continue to dramatically outperform gold as the bull market in precious metals is by no means over,' said Williams. 'Our forecast for gold is for a rise to $2,500 but that is small beer to what we expect to see in silver.'

Consequently, he has been shifting the Way Charteris Gold fund away from pure gold mining stocks towards shares that have a much higher involvement with silver.

'Also within our FTSE 100 equity fund, the Elite Charteris Income fund, we have made Fresnillo [the world's largest Silver miner & FTSE 100 constituent] the largest holding,' he says.

Silver lining

So what has fuelled silver's recent strong performance, and can it really continue its exceptional rally?

'The main reason silver has done so well is that people are looking at one of the better ways to play the move by the Fed to put in place an aggressive third round of quantitative easing,' said Nick Brooks, head of research and investment strategy at ETF Securities.

'So in the run up to, and in anticipation of, the QE3 announcement, silver rallied strongly. Investors have correctly looked at silver as one of the better ways to play an increase in risk appetite and an increase in economic growth - with silver benefiting from these more so than gold.'

However, despite the seeming correlation in performance, the fundamentals driving the performance of both metals differ substantially. Gold typically has an inverse relationship with the US dollar, which is why the depreciation of the currency on the back of QE saw the metal rise.

Silver demand is more purely related to industrial applications, so is more dependent on the state of the global economy and demand for the metal in growing economies. Nonetheless, as a risk asset, its course next year will be linked with the outcome of the impending fiscal cliff and global economy.

'To the extent the US Congress and Obama come up with a compromise, investors will be more keen to buy cyclical assets - and silver is near the top of the list,' said Brooks. 'Also, as long as the US and China continue to recover, silver will perform well.'

However, he warns if the fiscal cliff is not avoided, there will be 'a big correction' in risk assets and silver 'will be hit badly'.

Silver, often viewed as a leveraged play on gold, also tends to be volatile, having exhibited an average annualised volatility of 35% over the last 10 years. 'It's fair to say it's likely to remain volatile next year,' said Brooks.

Hi-ho silver