

What's Next for Gold and Silver?

Q&A with Ian Williams, Chairman,
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It is said that gold is sanction-proof. What impact do you see for gold, moving forward, as large-scale macro issues continue to emerge?

Gold has outperformed all other major assets this year when measured in non-dollar terms as financial markets grapple with a litany of problems, ranging from inflation and rising interest rates to a global economic slowdown, as well as worrying geopolitical events. Equities, bonds, and even some commodities have seen sharp declines this year, whereas gold's value has appreciated in several major currencies such as the euro, sterling (up 9% year to date), and yen. Although its value has dropped in U.S. dollar terms, gold has demonstrated its safe haven appeal in a period of high global uncertainty such as we now face. That said, gold mining shares have not been able to buck the bear market, creating a valuation gap with the underlying metal that we believe will gradually be bridged as gold and silver mining shares look even cheaper than the shares of base metal miners, which are vulnerable to economic cycles.

Turning to the impact of the Ukrainian war, Western sanctions on the sale of Russian gold has stopped the supply of Russian gold on to world markets as well as prevented Russia from importing goods and services. All the gold being produced in Russia is therefore staying within its



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borders and being acquired locally, principally by the Russian central bank. However, unlike in the oil market, where the exclusion of Russian supplies has led to sharp increase in world energy prices, gold has not seen any price surge so far. This is because the sanctions have coincided with a significant erosion in investment demand for precious metals due to rising interest rates.

In our view, the recent hiatus in the dollar price of gold and silver prices is likely to end as soon as investors determine that the interest rate cycle is close to peaking, which may come around mid-2023. Safe-haven demand for the metal is also set to grow as macro-economic and geopolitical factors stoke currency market volatility amid mounting debts, stagflation, and economic weakness in many western economies. These conditions are ideal of a rally in precious metals

and a resurgence in investment demand in due course.

What makes you bullish on silver specifically?

Silver is highly geared to the gold price, which means that it significantly outperforms gold in a rising market (and vice versa). Moreover, the gold-silver ratio is currently very high, which means silver is very cheap relative to gold, setting the scene for a strong rally. Furthermore, there are some highly unusual technical indicators in place in the silver market which point to a potential shortage of the physical supply of silver over the next year or so. These indicators include silver lease rates and falling physical silver stocks on the London Metal Exchange.

Longer term, the decarbonization of the world economy and shift to electric



vehicles is also likely to increase industrial demand for silver, including its application in solar energy as well as communications.

What is the likely impact of the energy transition on silver's use and demand moving forward?

The largest beneficiary of the energy transition in the precious metals group is expected to be silver due to its application in solar. At present silver supply and demand are broadly in the balance at around 1Boz per year. However, due to silver's recent weak price and rise in oil prices, silver miners have come

under pressure from rising costs and squeezed margins, thereby curtailing new production. This is long-term bullish for silver as prices will eventually have to rise to satisfy demand.

What type of allocation to gold would you suggest for portfolio managers and other investors?

Obviously, level of asset allocation depends on individual investors' risk appetite but, in our view, gold and silver have a meaningful part to play in optimal portfolio diversification as demonstrated by the dramatic collapse of global bond markets in the last couple of years, which

has seen the value of long-dated fixed assets decimated. For many UK investors the only major asset to have delivered a positive return in the year to date would be through a holding in physical gold. Both bonds and equities have delivered negative returns. As gold and silver mining shares have also declined this has created a disparity between physical gold and mining shares, providing a potentially profitable opportunity for those with a risk appetite over the medium term. Such equity exposure may be gained through gold and silver miners with producing assets and a rising production profile, either directly or through a specialist fund. **A**