

Silver primed for take off

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Silver ended the quarter bang on 36usd an ounce whilst Gold ended bang on 3300 an ounce. The exact round numbers are not a coincidence but the natural result of options expiry which coincided with month end. Namely if you were long 36 calls with only a day or two to go before they expire then any move above 36 you will either sell the underlying and exercise the call or just sell the option back to the dealer (who will then sell the underlying for the same reason).

If on the other hand you were long 36 puts any move below 36 and you will buy the underlying and exercise the put. This phenomenon assures all other things being equal that Silver (in this instance) Will settle at or close to a major strike price (36) when the options expire.

Now that this activity is behind us we get back to the underlying forces driving Silver which are

1) recent major upward break of 35usd which sets the stage for a move higher

2) seasonal low - the low point on the seasonal pattern averages is around the end of June

3) extreme relative cheapness of both Platinum & Silver starting to unwind - platinum up 35% in the last few weeks - Silver is only just above 1% of the price of Gold Vs it's long term average of 2% - implies 60usd an ounce as a realistic target

4) continued shortage of physical metal - according to Silver institute annual demand (which is growing) is 1.25 billion ounces whilst total supply (both mine and recycled scrap) is only 1billion ounces - the balance being met from above ground stockpiles

5) renewed investor interest - most investors missed out on Gold going from \$2,000 to \$3,400 - and are increasingly viewing Silver and platinum as the catch-up trade

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Important Information

The views expressed in this document represents the views of the author at the time of preparation and should not be interpreted as investment advice

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