



Silver Bullion

SILVER INVESTMENT

THE NEXT BIG THING

BY GREGOR GREGERSEN



Section 1

SILVER AS A STORE OF VALUE & THE MONETARY ROLE

MONETARY ROLES OF SILVER

The Piece of Eight - the foundation of most modern currencies

- The first globally accepted medium of exchange due to:
 - ✓ large scale high purity minting (millions of coins)
 - ✓ uniformity in standard and milling characteristics
 - ✓ most stable and least debased coin between 16th to 19th century
- The Silver Piece of Eight was the foundation of:
 - ✓ *Most European currencies (countersigned)*
 - ✓ *Most South American currencies*
 - ✓ *US Dollar*
 - ✓ *Canadian Dollar*
 - ✓ *Chinese Yuan of 1913*
 - ✓ *Japanese Yen*



A piece of eight
(~ 0.8 troy oz)

MONETARY ROLES OF SILVER

Between the 16th and 19th century standardized silver coins made global trade a reality.



Chart: Countries in which the word for 'money' is 'silver'

MONETARY ROLES OF SILVER

Until the 20th century huge amounts of Silver were used as coins directly or to back currencies.



e.g. US Dollar “Silver Certificates” series 1935 – A derivative backed and redeemable by Physical Silver.

MONETARY ROLES OF SILVER

- In 1933 the US **defaulted** on **Gold Certificates**
- Gold was also nationalized and ownership became illegal in US
- In 1968 the US **defaulted** on **Silver Certificates**
- In 1971 the US **defaulted** on **Dollar Gold Backing** (Nixon)



- Over the next 40 years the US Treasury and other central banks **dumped silver** providing a huge physical supply
- Much of this **silver was consumed** by the growing electronics industry over the next 40 years
- **Reserves are now a small fraction** of what they used to be

MONETARY ROLES OF SILVER

Summary:

- Silver used to be **synonymous with money** and a commonly acceptable silver coin standard enabled globalization
- In the 20th century Governments **sold their silver reserves** when their currencies first became derivatives of silver and gold (currency) and then FIAT currencies enabling the printing of currencies as needed [unlimited]
- A large portion of the silver was then **consumed by industry**, especially the booming electronics industry.
- In a world of unsustainable debt and boundless FIAT money printing **silver, like gold, represents a wealth protection** against systemic risk

Section 2

SUPPLY AND DEMAND & THE INDUSTRIAL ROLE

INDUSTRIAL DEMAND FOR SILVER

Called the “indispensable metal” because it is:

- The most **electrical** conductive metal
- The most **thermally** conductive metal
- An excellent **reflector**
- A natural **bacterial killer**

FACTOID



+



=

**Delayed
spoilage**

Silver coins prevent early spoilage of milk or water

DEMAND FOR SILVER

About 60% of silver is consumed by industry :

- Electronic, Photovoltaic & More
- Medical & Antibacterial

About 40% are accumulated as:

- Jewelry & Silverware
- Coins & Bullion Bars
- Others



Only a small portion of industrial silver is recycled

DEMAND FOR SILVER

Demand is **inelastic** because:

**Silver is difficult to
replace**

e.g. Thousands of unique
uses in electronics



**Silver is a small portion
of a product's cost**

e.g. A few grams of silver in a
keyboard



**INCREASING SILVER PRICES BARELY
REDUCE INDUSTRIAL DEMAND**

SUPPLY FOR SILVER

Supply by Source in 2013:

81% - came from Mining (819 Moz)

19% - came from recycling & sales (192 Moz)

Mining Supply:

- Over 70% came as a byproduct of other mining (e.g. Lead)
- Less than 30% comes from primary silver mines

Recycling Supply:

- Mostly traditional photography – which is in sharp decline
- Little from electronics – e.g. keyboard goes to landfill

SUPPLY FOR SILVER

Supply is **inelastic** because:

Majority (70%) of silver is mined as a byproduct

- A copper mine will not increase copper production if silver prices rise.

New Silver Mines take a long time to set up

- It takes 7 to 8 years to put a sizable new mine into production

Silver is in many products but in very small amounts

- Making most silver Recycling unprofitable even with higher price

RISING SILVER PRICES LEAD TO GREATER SUPPLY BUT VERY SLOWLY

SUPPLY & DEMAND SUMMARY

Year 2013 (Source: Silver Institute)	
Supply	Demand
819 Moz Mining	600 Moz Industrial
192 Moz Recycle & Sales	199 Moz Jewelry
	118 Moz Bullion
	164 Moz Others
Total: 1,011 Moz	Total: 1,081 Moz

Identifiable Bullion Stocks: **1,269 Moz** (1.5 Moz in TSH)
Representing about **25 Billion USD** (@ ~20 USD).

**USD 25 Billion is equivalent to just 5 to 6 days of
typical US Government deficits**

DEMAND & SUPPLY

Summary:

- Both **Physical Supply** and **Demand** are **Inelastic**
- **The silver market and physical reserves are small** both in absolute terms and historically
- Above ground reserves are **decreasing due to industrial use**
- Inelasticity and the small market can easily **lead to shortages** and also cause silver to be **more volatile**



Section 3

THE GOLD & SILVER RATIO AND INFLATION ADJUSTED HIGHS

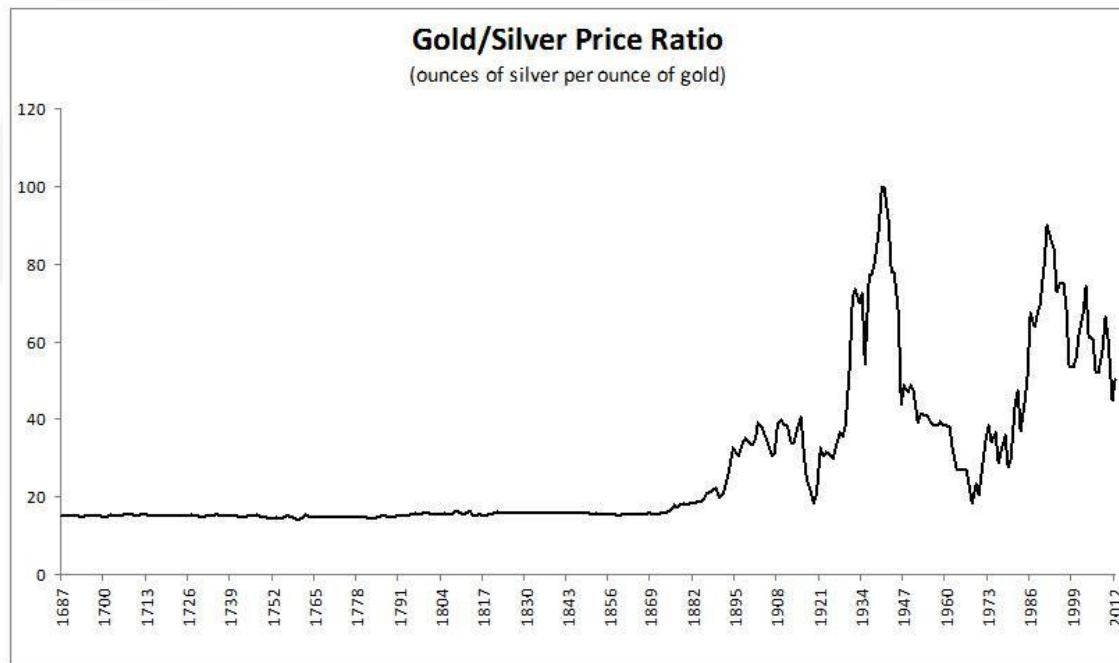
COMPARISON: THE SILVER TO GOLD RATIO & TODAY'S PRICE

Historically, the price ratio was roughly in line with natural supply:

- 1 oz gold = 16 oz silver

Today Silver to Gold Price Ratio is:

- 1 oz gold = 65 oz silver (**Gold @\$1250 / 16 = Silver \$78**)



COMPARISON: THE INFLATION ADJUSTED HISTORICAL HIGHS

In 1979 during US 'Stagflation' Silver and Gold reached:

- 49.50 USD for Silver, being around **250 USD** inflation adjusted

An increase in silver demand can quickly cause price to spike again

- To reach 1979 highs Silver would need to increase by 12x times.



Non-inflation adjusted silver price chart

Summary

- **Dumping of Silver by central banks** occurred after 1968, virtually eliminating governmental silver reserves
- Majority of Silver were, and still are, **consumed in Industrial processes**, demand is inelastic to price, and recovery (recycling) is often unprofitable
- Although above ground supplies are low and declining, **silver prices are still low** in absolute terms and relative to gold
- Once industrial or investor demand rises silver supply cannot increase quickly (inelastic) allowing for **rapid price increases**
- Silver's dual **Monetary & Industrial** uses make it a versatile investment



The 2.5 ton class I vault door to the silver depository



Pallet Cages hold bullion (1 ton) and are slotted into racks

QUESTIONS?

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100 oz silver bars in a Pallet Cage