



SNAPSHOT

- Though consider as a bullion but mostly used as an industrial metal.
- More demand of the metal as compared to gold.
- In the recent past silver has provided better returns than gold.
- Mines produce around 72% of the world's silver.
- Though demand from non-digital photography went down, the total demand of silver is going up.

INTRODUCTION

Silver is soft, white, lustrous transition metal, it has the highest electrical conductivity of any element and the highest thermal conductivity of any metal. It occurs as a pure free metal (native silver) and alloyed with gold, as well as in various minerals, such as argentite and chlorargyrite. Most silver is produced as a by-product of copper, gold, lead, and zinc mining. Silver has been known since ancient times, and it is used as a bonus metal. It has long been valued as a precious metal used to make ornaments, jewellery and high-value tableware and utensils (hence the term "silverware").

Today, silver metal is used in electrical contacts and conductors, in mirrors and in catalysis of chemical reactions. Silver is found in native form, alloyed with gold or combined with sulfur, arsenic, antimony or chlorine in ores such as argentite (Ag_2S), horn silver (AgCl), and pyrargyrite (Ag_3SbS_3). The principal sources of silver are the ores of copper, copper-nickel, lead, and lead-zinc obtained from Peru, Mexico, China, and Australia. Peru and Mexico have been mining silver since 1546 and are still major world producers. A major use of silver is as a precious metal and it has long been used for making high-value objects reflecting the wealth and status of the owner. Jewellery and silverware are traditionally made from sterling silver (standard silver), an alloy of 92.5% silver with 7.5% copper. Sterling silver is harder than pure silver and has a lower melting point (893 °C) than either pure silver or pure copper.

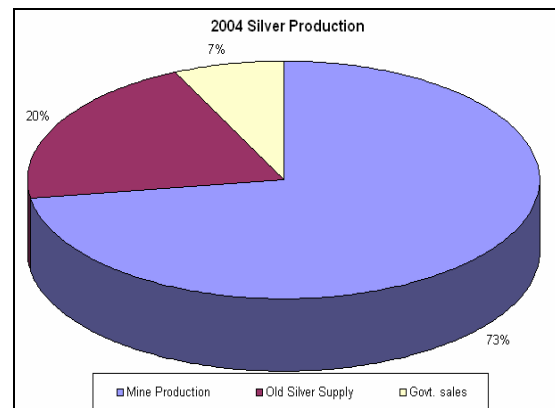
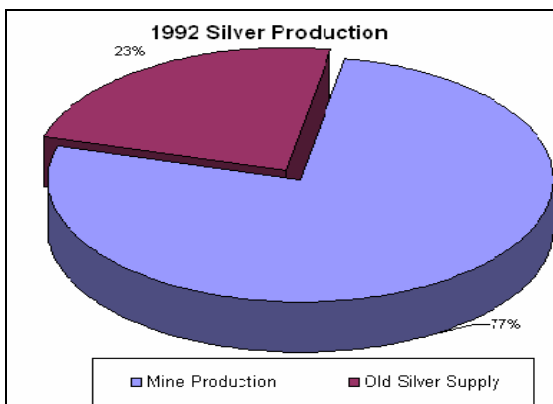


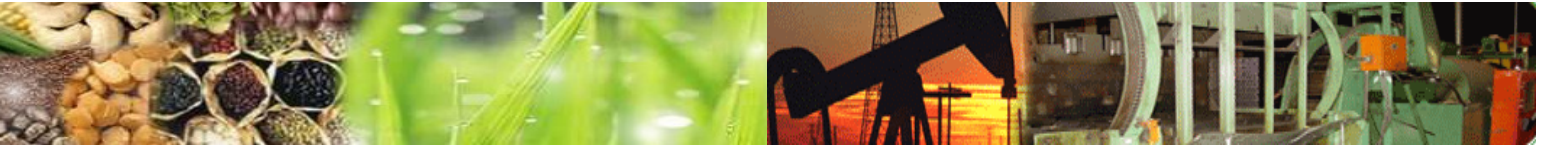
Silver – A worthwhile investment

Silver- which is often quoted as the poor cousin of gold is the cheapest among the precious metals. Silver which costs \$17.85/ounce whereas gold costs \$915.40/ounce. Historically too, gold had been preferred investment tool for the investors compared to silver. In the recent rally experienced in the precious metals both- gold & silver had given descent returns but silver's return on investment had been better than gold. Historically too silver had provided better returns than gold. In the bull run of 1970-80 silver touched the high of \$ 50/ounce from the base price of \$1.39/ounce, a return of mind blowing 3600% whereas gold in the same period touched \$875/ounce from the base price of \$40.80/ounce a return of 2100%. So we can see that even though gold may be costlier than silver but it is a better investment avenue for the investor compared to gold- silver's wealthier cousin. If history is any indication of the future we can say that silver would continue to out play gold in providing returns to its investors.

Supply- Demand Dynamics

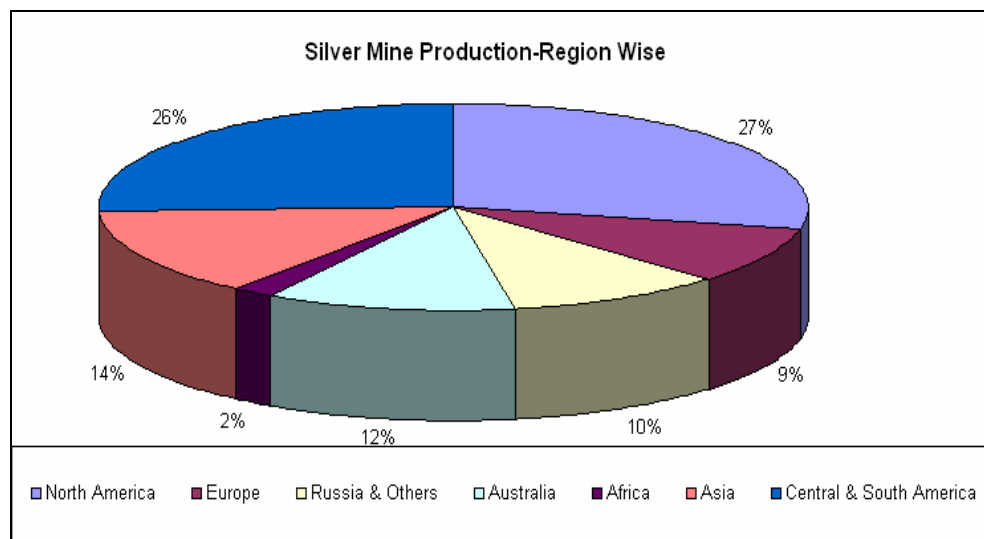
Like all metals silver cannot be artificially created and occurs naturally. The main source of silver are the mines but we may consider the central banks (who have huge reserves of the metal) as another source which is also termed as above ground supply.





Mines had been the major source of the metal, almost producing 72% of the total silver. But in the recent past other sources such as silver scraps and govt. sales are also becoming good sources of silver in order to meet the ever increasing demand of silver .Govt. sells its silver in order to stabilize the market price of silver or to suck extra liquidity in the economy.

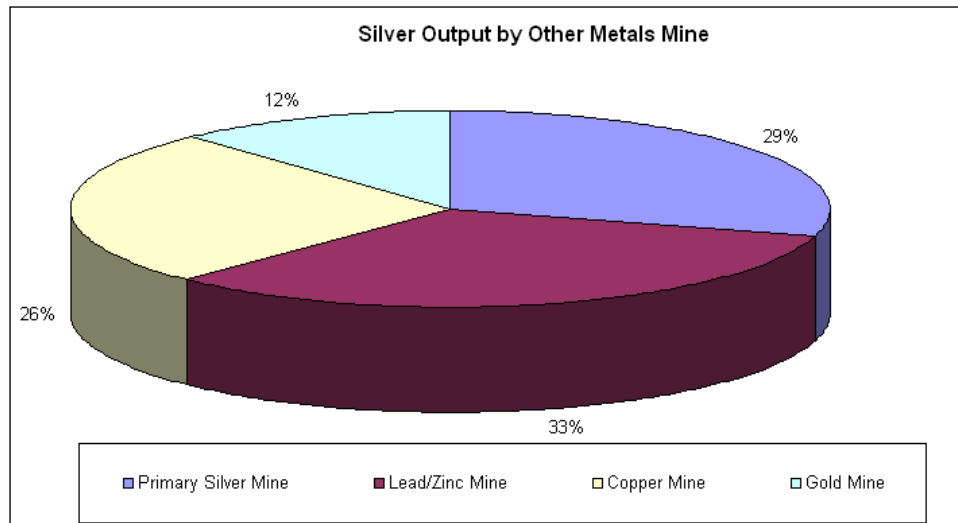
According to the silver institute global silver mine production in 2006 increased by a restrained 0.4 Million oz (13 t) to total 646.1 Million oz (20,095 t). Although strong rises were recorded in Peru, China, Chile and Mexico, tumbling Australian output (down 21.7 Million oz or 676 t) and reduced Canadian production neutralized much of the global growth. Furthermore declines were also reported in Indonesia, Russia and the United States. GFMS estimate that net government sales in 2006 stood at 77.7 Million oz (2415 t), up modestly on the previous year's level. The increase was largely driven by a significant rise in sales from Russian government stocks. Elsewhere, Indian sales were up at the margin, while Chinese releases declined further. Global scrap supply remained broadly unchanged in 2006, increasing by less than 1% to 188.0 Million oz (5,848 t).



As silver is mainly produced from the mines it is important to have a look at the break up of various metal mines and their contribution in the silver supply. It is very important to have a look at the break up of the



various source metal mines and their contribution in silver supply. Around 30% of silver comes from mines where the main source of revenue is silver.

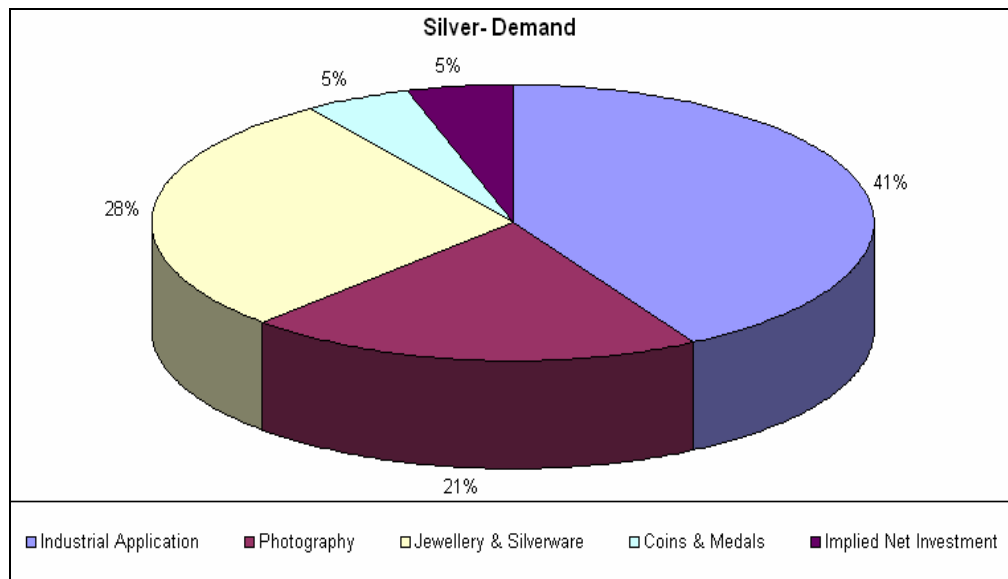


A study of the mining patterns would show that around the same quantity of silver comes from Lead and Zinc mines. This is an important factor (silver from other metal mines) to be taken into consideration while forecasting or analyzing the price movement of silver. Thus we can say that the price of other metals such as zinc, lead and copper have a major impact on the amount of silver mined from these mines.

The main demand of silver comes from mainly three sectors viz: Industrial applications, Jewellery and silverware and non digital photography. Total fabrication of silver in 2006 reached 840.5 Million oz (26,142 t), down only 0.9% despite the price rise. Industrial off take saw a fifth consecutive year of growth to a new record of 430.0 Million oz (13,375 t). Jewelry demand fell 5% to a seven-year low of 165.8 Million oz (5,156 t), chiefly through higher prices. Global jewellery fabrication fell 5% in 2006 to 165.8 Million oz (5,156 t). Much was due to India's 28% slump stemming from higher prices. Other countries also saw large losses (for example Italy and Mexico, respectively down 11% and 14%). However, these declines were more a function of market share loss in exports to Western Europe and North America.



The winners here were mainly China and Indonesia, with respective fabrication gains of 16% and 18%. Jewelry consumption in western markets may have continued to grow (thanks to factors such as heavy brand promotion), if at a slower pace than before (due to such drivers as a shift to gemset).



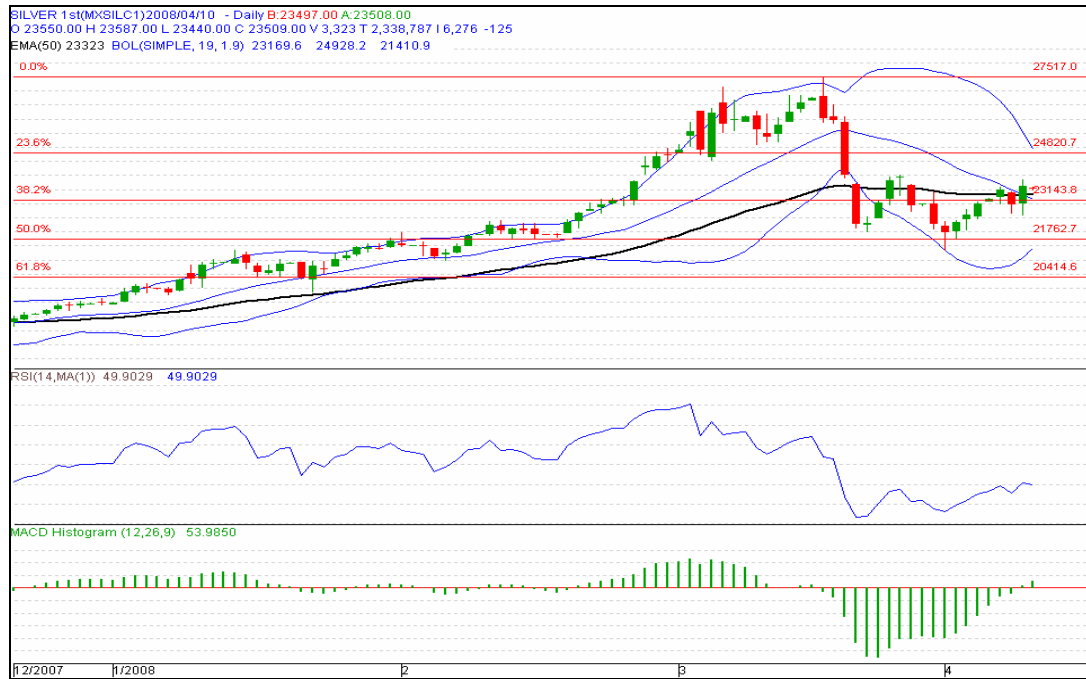
Most regions contributed to silverware off take's 11% drop in 2006 to 59.1 Million oz (1,838 t), though around 60% of gross losses were due to just India, where demand was hit mainly by the price rise. Western markets were affected by the ongoing taste shift away from traditional heavy pieces, though fabricators there were also hit by export competition from China, whose fabrication rose.

The use of silver in photography continued its downward trend, with the 2006 total falling by 10% for the second consecutive year, to 145.8 Moz (4,535 t). The reduction was again predominantly due to weaker consumer film production, the product of further inroads made by digital technologies.

So we can conclude that demand of silver in non-digital photography is getting diminished but demand coming in from other uses make up for it.



TECHNICAL OUTLOOK



Silver (MCX) is trading at 23490 levels and is presently trading above the 50 days EMA and 23150 (38.2% retracement) level indicating bullishness in the counter. In the short term the counter seems to trade in a range with levels of 24800-25500 being a good resistance range. Heavy profit booking in the counter at 26000-27000 levels had taken away most of the speculative money from the counter slowing the volatility in the counter. Along with this the strength in USD against other major currencies are also pulling down the silver prices. In the forth coming trading sessions we expect silver to remain rangebound within 22000-24500. A confirmatory breakout or break down of these levels would confirm the respective trends.

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