



TB AMATI STRATEGIC METALS FUND

Silver - Poised To Catch Up



By Georges Lequime, Fund Manager





While copper and gold prices are trading at or above their 2011 highs, the silver price remains languishing less than 50% below the highs that it reached in 2011. This report looks at the highs that it reached in 2011. This report looks at the fundamental drivers for the silver price and why, with the industry facing multiple years of continued supply deficits, strong industrial demand growth and inelastic supply, the silver price could be headed for a strong upward correction over the coming years.

\$Silver:QQQ - CMX-Silver 5000 OZTRc1/Invesco QQQ Trust



Source: Amati Global Investors, Refinitiv Datastream

Gold and silver have long been recognised as valuable metals and were highly coveted by ancient civilisations. We see precious metals as a great risk diversifier in any investor portfolio that can act as a hedge against inflation and the debasement of FIAT currencies. For this reason, precious metals will always occupy a part in the Amati Strategic Metals Fund portfolio. The current high weighting in precious metals equities in the Fund (48% versus a targeted weighting of 10-20%) is motivated by the significant relative value that we find between precious metals stocks and other mining stocks, a function of the sector being so out of favour right now. Silver’s growing application in energy transition and the automation of the automotive industry as it shifts to EVs, will enhance silver’s strategic role in the global economy going forward.

What differentiates silver from gold is its role as an industrial metal as well as a store of value. In 2022, industrial demand accounted for 52% of total demand. If one adds in demand for jewellery and silverware, this figure rises to 75% of total demand. The industrial supply/demand equation for the metal exerts an equally strong influence on its price as investment demand. For this reason, price fluctuations in the silver market are more volatile than in the market for gold.

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➔ Silver Supply and Demand - The industry is facing large deficits in the years ahead

(in million ounces)	2013A	2014A	2015A	2016A	2017A	2018A	2019A	2020A	2021A	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
Mine Production																		
Mexico	187.1	185.4	192.1	174.3	187.0	194.5	187.8	180.2	195.7	213.0	234.0	246.0	250.0	241.0	219.0	207.0	205.0	194.0
China	118.1	119.0	119.1	121.3	116.4	110.6	111.5	109.5	112.9	117.0	120.0	117.0	117.0	116.0	112.0	107.0	102.0	98.0
Peru	123.0	126.0	135.6	152.3	155.0	146.5	135.1	101.6	107.9	106.0	111.0	110.0	109.0	123.0	116.0	118.0	112.0	108.0
Australia	59.2	59.4	46.0	45.6	36.0	40.3	42.6	43.0	42.9	42.0	44.0	39.0	40.0	36.0	32.0	30.0	28.0	26.0
Poland	38.8	38.4	39.2	40.9	41.7	40.9	40.4	39.4	42.0	42.0	42.0	42.0	42.0	42.0	42.0	42.0	42.0	42.0
Bolivia	41.4	43.1	42.0	43.5	38.5	38.3	37.1	29.9	41.5	44.0	41.0	39.0	59.0	69.0	63.0	53.0	53.0	53.0
Chile	37.6	50.2	48.1	46.6	40.4	40.0	38.2	47.4	41.2	42.0	48.0	53.0	52.0	50.0	51.0	51.0	50.0	47.0
Russia	44.4	46.1	51.1	46.6	42.0	43.1	44.7	42.5	39.0	35.0	38.0	37.0	27.0	27.0	26.0	22.0	16.0	16.0
Rest of the World	195.7	214.5	223.7	228.9	206.7	196.0	198.5	187.6	199.5	207.0	240.0	248.0	251.0	245.0	230.0	215.0	204.0	193.0
Total Supply	845.3	882.1	896.9	900.0	863.7	850.2	835.9	781.1	822.6	848.0	918.0	931.0	947.0	949.0	891.0	845.0	812.0	777.0
Mine Supply as a % of demand	80%	87%	85%	92%	91%	87%	85%	89%	78%	74%	80%	85%	85%	84%	77%	72%	67%	63%
YoY % Change		7%		7%		-4%		3%	-10%	-4%	6%	5%	0%	-1%	-7%	-6%	-4%	-4%
Additional supply																		
Recycling	180.3	161.3	147.3	145.9	147.2	148.6	147.7	162.2	173.0	180.5	160.0	160.0	160.0	160.0	160.0	160.0	160.0	160.0
Het Hedging Supply		10.7	2.2				15.2	8.5	0.0	5.0								
Het Official Sales	1.7	1.2	1.1	1.1	1.0	1.2	1.0	1.2	1.5	1.5	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2
Total Secondary Supply	182.0	173.2	150.6	147.0	148.2	149.8	163.9	171.9	174.5	187.0	161.2	161.2	161.2	161.2	161.2	161.2	161.2	161.2
Secondary Supply as a % of demand		0.2	0.1	0.1	0.1	0.1	0.2	0.2	0.2	0.2	0.1	0.1	0.1	0.1	0.2	0.2	0.2	0.2
Total Supply	1027.3	1055.3	1047.5	1047.0	1011.9	1000.0	999.8	953.0	997.1	1035.0	1079.2	1092.2	1108.2	1110.2	1052.2	1006.2	973.2	938.2
Demand																		
Industrial																		
Photovoltaics	50.5	48.4	54.1	93.7	101.8	92.5	98.7	101.0	113.7	127.0	135.0	155.0	175.0	195.0	215.0	235.0	255.0	275.0
Automotive	48.0	50.0	53.0	56.4	58.6	59.8	59.6	51.0	60.0	65.0	75.0	80.0	85.0	90.0	95.0	100.0	105.0	110.0
Other	351.1	340.5	334.0	325.2	343.2	347.3	339.8	312.9	334.5	347.6	360.0	360.0	360.0	360.0	360.0	360.0	360.0	360.0
Photography	45.8	43.6	41.2	37.8	35.1	33.8	32.7	27.8	28.7	28.4	28.4	28.4	28.4	28.4	28.4	28.4	28.4	28.4
Jewelry	186.9	192.9	201.7	188.4	195.2	201.9	200.3	149.8	181.4	201.8	200.0	200.0	200.0	200.0	200.0	200.0	200.0	200.0
Silverware	46.5	53.6	57.9	53.9	59.6	67.6	62.1	32.4	42.7	52.7	55.0	55.0	55.0	55.0	55.0	55.0	55.0	55.0
Net Physical Investment	300.6	283.1	310.4	212.0	155.7	165.2	186.8	205.0	278.7	320.0	295.0	220.0	208.0	200.0	200.0	200.0	200.0	200.0
Het Hedging Demand	29.3			12.0	2.1	7.7			9.4									
Total Demand	1058.7	1012.1	1052.3	979.4	951.3	975.8	980.0	879.9	1049.1	1142.5	1148.4	1098.4	1111.4	1128.4	1153.4	1178.4	1203.4	1228.4
YoY % Change		0.0	0.0	-0.1	0.0	0.0	0.0	-0.1	0.2	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Market Balance																		
Net Investment in ETPs	-31.4	43.2	-4.8	67.6	60.6	24.2	19.8	73.1	-52.0	-107.5	-69.2	-6.2	-3.2	-18.2	-101.2	-172.2	-230.2	-290.2
Net Physical Investment	4.7	-0.3	-17.1	53.9	7.2	-21.4	83.3	331.1	64.9	-137.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Market Balance less ETPs	-36.1	43.5	12.3	13.7	53.4	45.6	-63.5	-258.0	-116.9	29.5	-69.2	-6.2	-3.2	-18.2	-101.2	-172.2	-230.2	-290.2
Average Silver Price (US\$/oz)	23.8	19.1	15.7	17.1	17.1	15.7	16.2	20.6	25.1	23.9								



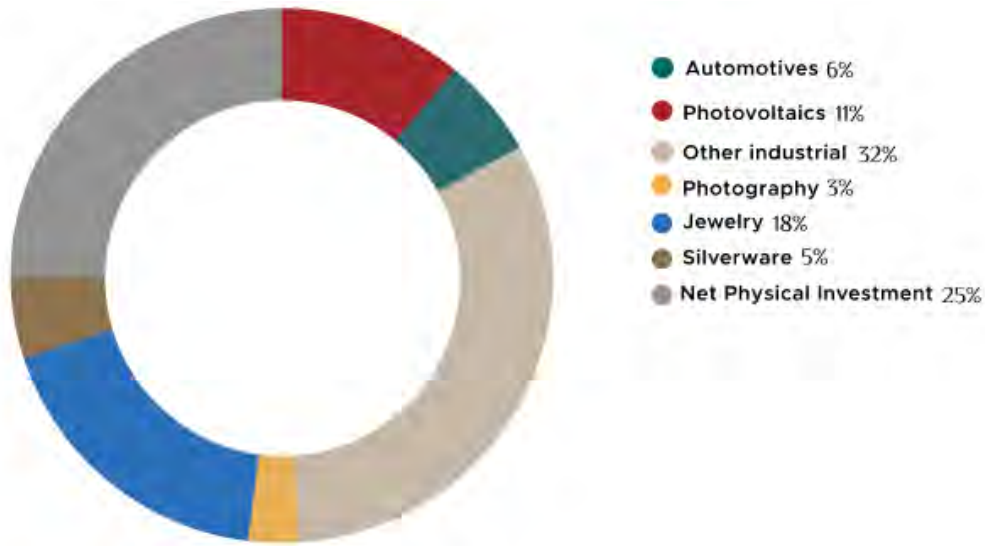
Source: Amati Global Investors, various broker reports

The silver market right now is interestingly poised from a supply and demand point of view. After many years of oversupply, the market moved into a deficit in 2021 and 2022. If one includes net buying into exchange traded products (ETPs), the market was in significant deficit in 2020 as investors rushed to purchase silver as a safe haven alongside buying silver in anticipation of strong demand from environmentally friendly technologies like solar panels and electric vehicles.

With precious metals becoming out of favour in 2022, investors were net sellers of 137 Moz of silver, correcting what would have been another year of deficits in the silver market. Looking ahead, assuming no net buying or selling of ETPs, the market is finely balanced until 2027 when it once again starts moving into large deficits again as supply tapers off and industrial demand continues growing.

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→ Silver Demand 2022

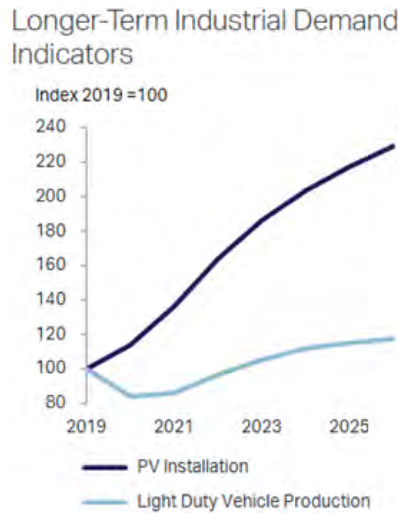
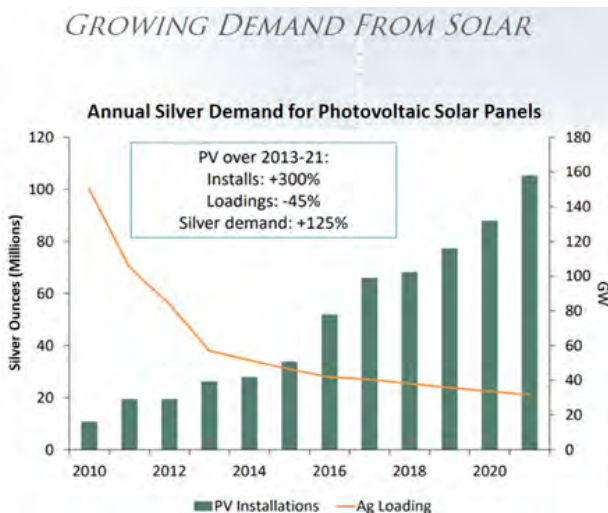


Source: Amati Global Investors, The Silver Institute, broker reports

From electrical switches and solar panels to chemical-producing catalysts, silver is an essential component in many industries. Its unique properties make it nearly impossible to substitute and its uses span a wide range of applications.

Almost every computer, mobile phone, automobile and appliance contains silver. It is the perfect substance for coating electrical contacts – like those in printed circuit boards – because of its high electrical conductivity and durability. Painting silver ink on any non-metal surface provides an electrical pathway, eliminating the need for wires. For example, Radio Frequency Identification Device (RFID) chips are replacing bar codes on many items in supermarkets and supply chain inventories. The chips’ paper-thin antennas consist of sprayed-on silver.

One of the most important areas of growth for silver demand is its use in photovoltaics (11% of current overall demand). Photovoltaic (PV) power is the leading current source of green electricity. It is of note that, despite COVID disruption, the PV market proved its resilience in 2020. Newly added solar capacity saw further growth, with the total estimated to have surpassed 130GW for the first time ever in 2021. Silver’s use in photovoltaics increased 13 percent to 113.7 Moz in 2021 and 12 percent to 127.0 Moz in 2022, as global solar installations soared.

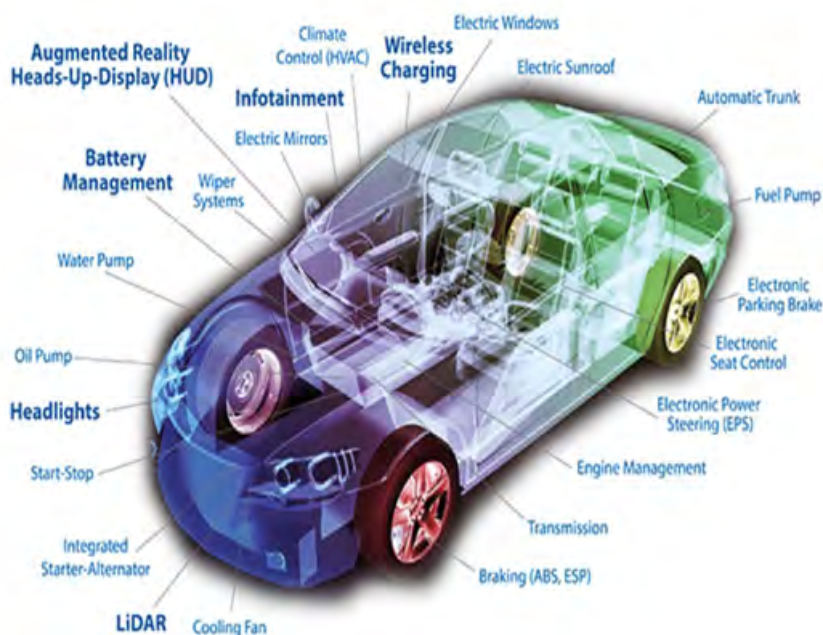


Source: The Silver Institute

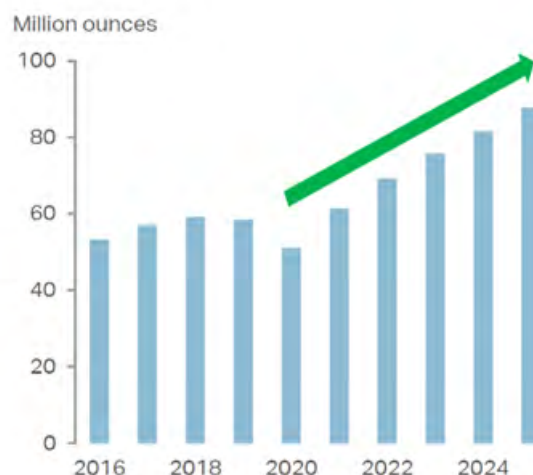
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Installations of solar panels increased 300% between 2013 and 2021 while efficiencies in reducing loadings by 45%. It is still translated into a net increase of 125% in silver demand.

The Silver Institute estimates that PV installations will increase by 80-100% over the next 4-5 years with annual silver demand for photovoltaics reaching 200Moz by 2026, almost 20% of current demand.



Silver Automotive Demand



Source: The Silver Institute

Although the Silver Institute is not as aggressive in its outlook for the growth in demand in the automotive industry, it still projects nearly 90 million ounces of silver absorbed annually in the automotive industry by 2025, a growth of 50% over 2021. This figure could easily turn out to be conservative. Our motor vehicles are becoming more and more computerized as vast technological advances are incorporated into modern vehicles, and silver plays a vital role in their operation. For example, every electrical connection in a modern car is activated with silver-coated contacts. Starting the engine, opening power windows, adjusting power seats, closing a power trunk and important safety features are all accomplished using a silver membrane switch.

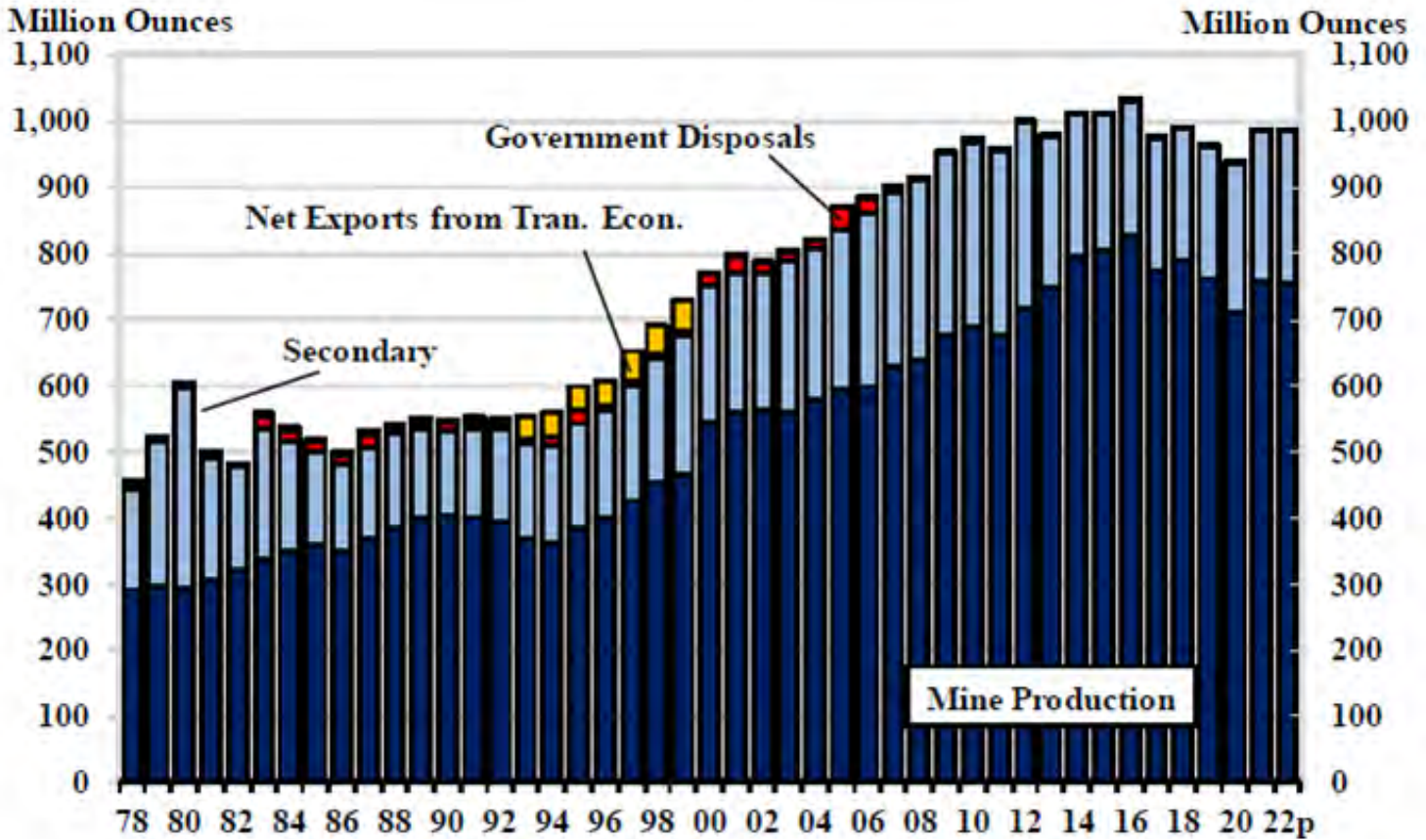
Beyond the industrial applications of silver in photovoltaics and in the automotive industry, the demand for silver is also on the rise with demand for industrial applications as a whole rising 9.3% in 2021 relative to 2020. Silver is found in virtually every electronic device. If it has an on/off button, it's likely that silver is inside. Other uses include brazing and soldering, as well as uses in medicine and water purification, among others. There was also little pressure from substitution and thrifting, primarily as silver prices were viewed favourably

Silver Supply

The total annual supply of silver to the market has averaged approximately 1 billion ounces for the past 10-15 years made up of 80% primary mine supply and 20% secondary supply (scrap). The majority of silver is produced as a by-product from mines targeting other metals. In 2021 72% of mined silver production came from lead-zinc, copper and gold mines.

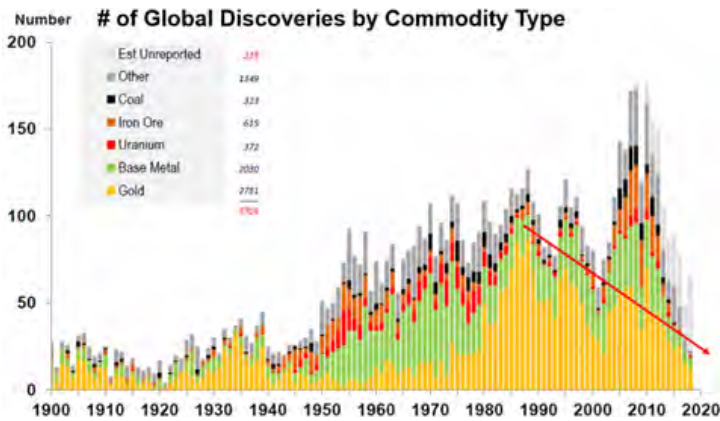
Mine production peaked in 2016 after two decades of mine developments and expansions that followed a surge in exploration activity in the 1980's, and then again between 2000 and 2011. Since then, mine discoveries globally have dried up considerably and new mine start-ups have virtually collapsed despite higher metal prices.

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Source: The Silver Institute

Even if exploration expenditure were ramped up considerably tomorrow, the longer lead times to production suggests that a continued decrease in primary production is unavoidable in the short-to-medium term. Being primarily a by-product metal, it is unlikely that we would see a meaningful supply side response to silver output even if the silver price were to rally 100-200% from current levels.



Source: Capitalight



Investment Demand

The supply and demand balance is expected to remain tight over the coming years irrespectively of the global economic outlook. Demand for silver should be less affected in a recessionary environment than other metals given that the major drivers of increased demand are the rollout of solar panels and electric vehicles. It is also difficult to see any change to the trend in the declining primary supply trend.

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This suggests that investment demand in the form of ETPs could play a major role in the price direction in the coming months and years.

Net physical investment (coin and bar sales) is likely to remain broadly flat, as a modest fall in western investment will be offset by gains in India. To be conservative, we have forecast a drop 37% drop in physical demand after 2023/24.



Source: BMO Capital Markets

There was a strong rise in net annual inflows in silver ETPs in 2020 and early 2021 as institutional investors sought safe-haven assets. The strong demand for the metal pushed the price up towards the US\$30/oz on a number of occasions, without breaching this level. However, the aggressive rate hikes in 2022 and continuing equity market strength resulted in significant net selling of ETFs in 2022. The selling of ETPs slowed from September onwards and seems to be once again benefitting from rising safe-haven demand amid geopolitical turmoil and growing inflationary expectations of late.



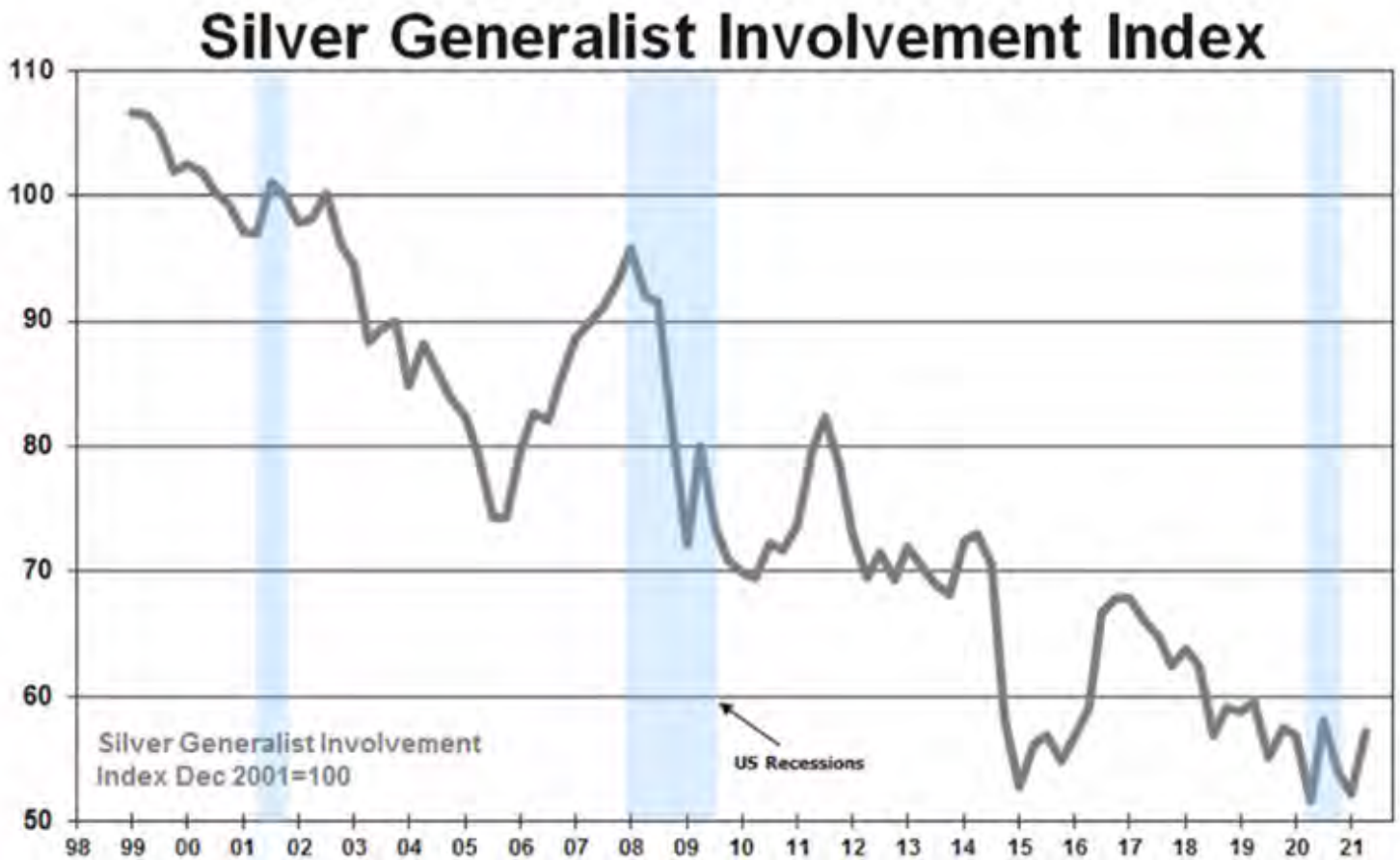
Source: Amati Global Investors

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Outlook for Silver and Silver Equities

We expect price fluctuations of silver to continue to be volatile in the short-term. The tight supply-demand balance, and the fact that the price held up very well in 2022 despite heavy selling of silver ETFs by institutions, suggests that there is more upside risk than downside risk to the current price, especially if investment demand were to return. Although, after years of oversupply, there should be abundant above-ground stocks of physical silver to keep the market in balance for some years. The precise amount of available above-ground stocks of physical silver is very difficult to quantify accurately and much of this material could be already pledged against derivative products. We will never know. This market feels like the palladium market in the mid 1990's which was held down by the fear of Russian stockpile sales.

It is perhaps this uncertainty to the supply and demand equation that causes fund managers to avoid the sector. In the meantime, most of the silver companies have a large gold production component to their production mix and many are trading at enterprise value to EBITDA multiples of 3-6x and price to cashflow multiples of 3-7x, with sound balance sheets, suggesting very good value without any need to speculate on prices appreciating higher.

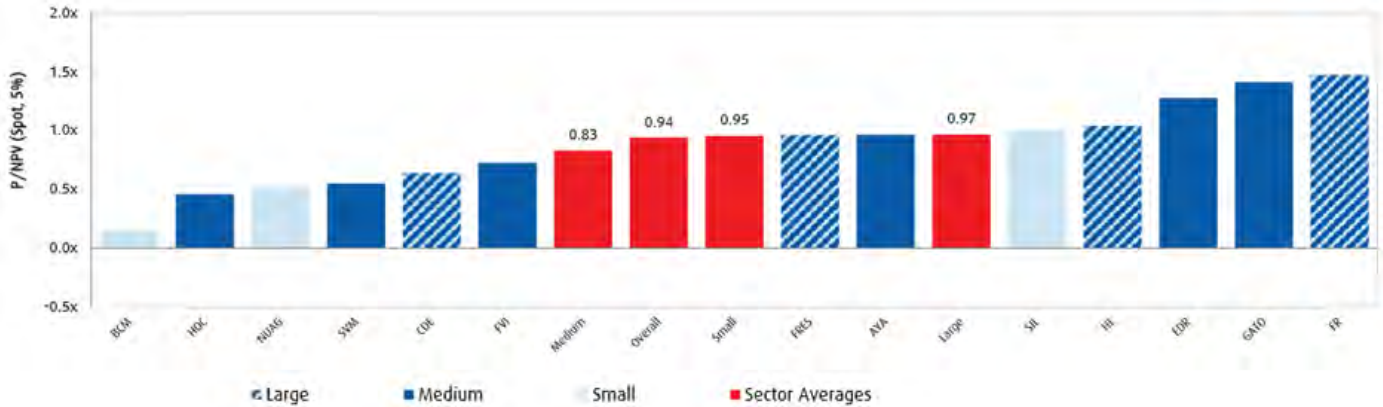


Source: Capitalight

The low weighting of silver shares in generalist portfolios and the undemanding multiples suggest that this sector remains out of favour for now. It is also a function of the specialised nature of the sector, where the financial issues suffered by a number of the precious metals between 2011 and 2015 have still not been fully understood nor fully forgiven.

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Silver Sector Valuation at Spot



Source: BMO Capital Markets 30/01/2023

To avoid speculation, we always consider the value of precious metal companies assuming spot metal prices at any time. The latest research by BMO Capital substantiates our own in-house financial models with regards to valuation multiples. Historically, silver stocks typically traded at 1.8-2x NAV justified by scarcity of available silver companies to invest in, as well as the constant maintaining or increasing of their reserve base through exploration.

Today, the silver stocks are virtually all trading at a discount to NAV, assuming spot prices, with the better value to be found in the medium sized companies.



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The value of investments and the income from them may go down as well as up and investors may not get back the amount originally invested. Past performance is not a reliable guide to future performance.

The investments associated with this fund are concentrated in natural resources companies, which are subject to greater risk and volatility than companies held in other funds with investments across a range of industries and sectors. The return on investments in overseas markets may increase or decrease as a result of exchange rate movements. There may be occasions where there is an increased risk that a position cannot be liquidated in a timely manner at a reasonable price. In extreme circumstances this may affect the ability of the Fund to meet redemption requests upon demand.

