

FOCUS:Silver Lags Behind Gold Lately;Eventual Catch-Up Possible

By Allen Sykora
Of DOW JONES NEWSWIRES

Silver may have trouble gaining more ground on gold--other than temporary surges--until industrial demand picks up sufficiently to give silver a stronger boost.

So far in 2009, silver far outperformed gold along with some industrial metals, with copper roughly doubling in response to strong Chinese imports and hopes that eventual economic recovery in Western nations will spur more consumption. Through Thursday, December silver on the Comex division of the New York Mercantile Exchange was up 54% year to date, while December gold was up 22%.

But in recent weeks, silver has lagged behind. December gold Friday hit a most-active-contract record of \$1,101.90 an ounce. However, December silver still remains below its mid-October high of \$18.175 and its March 2008 high of \$22.

Silver is often called "poor man's gold" but has more of a dual role as a precious and industrial metal, with uses including photography and electronics. While metals like copper rose during much of 2009, concerns are emerging that anticipated industrial demand hasn't picked up yet, with copper warehouse stocks rising in recent weeks.

"So the base metals have lost traction over the last few days, whereas gold has been pushing higher on its own course," said James Moore, analyst with TheBullionDesk.com. "The weaker industrial fundamentals are sort of slowing silver's progress."

Kitco Metals analyst Jon Nadler noted that demand for silver for all types of fabrication, including photo, jewelry, electronics and others, is projected this year to be 641 million ounces. This dwarfs investment demand expected to be around 182 million.

Meanwhile, gold attracts more fund and institutional money than silver, analysts said. There also has been increased central-bank interest in gold--as shown by a recent 200-metric-ton purchase by India--while central banks don't hold silver, said David Morgan, analyst with Silver-Investor.com.

"Silver is too small of a market, really, for any central bank to purchase in a size that would do them any good," Morgan said.

Nadler said the August-September time period tends to be seasonally slow for industrial demand in silver. The strongest period tends to be the end of the first quarter and start of the second, he said. Meanwhile, autumn tends to be gold's seasonally strong time due to gift-giving holidays in India and later Christmas in Western nations.

Silver could catch up to gold's recent strength if silver can break through resistance at the October highs, Moore said. "With the fact gold is pushing to new highs, I do think we will start to see investors turn to silver as a cheaper alternative," he said.

But then again, gold instead could pull back to silver in the short term, Morgan said. Although he is a long-term bull calling for gold to hit \$1,250 and silver to hit \$25 in 2010, Morgan said he suspects gold might temporarily correct lower. Silver's inability to get back to the 2008 highs despite gold's new records may be a sign that gold is "overdone" for now.

"Most people say gold leads silver, and you can say that since gold is definitely ahead of silver at this point," Morgan said. "But you can look at it the other way--silver is signaling that gold may have gotten ahead of itself."

If gold's bull run continues into 2010, eventually silver could accelerate faster.

"The million-dollar question is, when is consumer spending going to pick up? Over the long run, silver has far more upside potential. But it's probably going to happen later rather than sooner," said Rob Kurzatkowski, analyst with optionsXpress.

Silver would undoubtedly gain on the heels of gold if the latter rises further, Nadler said.

"Then it would depend on how much more robust the economic recovery will be in the New Year," he said. "If seasonal [silver] strength in February-March-April happens to coincide with some fresh advances in gold, you could get back to the \$19 to \$21 area."

-By Allen Sykora, Dow Jones Newswires; 541-318-8765;
allen.sykora@dowjones.com