IS THERE A POTENTIAL SILVER SQUEEZE COMING IN 2025?

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February 2025

In my last report, I wrote about the growing silver market and its prospects for 2024, highlighting a consensus among market experts that it would be a breakthrough year for the precious metal. After all, by May of last year it had crested the $32/oz barrier, an eleven-year high for silver, and was giving gold a serious run for the money.

However, I also warned of the stress being placed on the metal's supply chain, stress that was being driven, in part, by the industrial demands for it. Ever-increasing supplies of silver have become vital for sectors like artificial intelligence (AI), transportation, nanotechnology, electronics, healthcare and green energy technologies. For example, from 2022 to 2023, producers of solar panels increased their demand for silver by a staggering 64%.

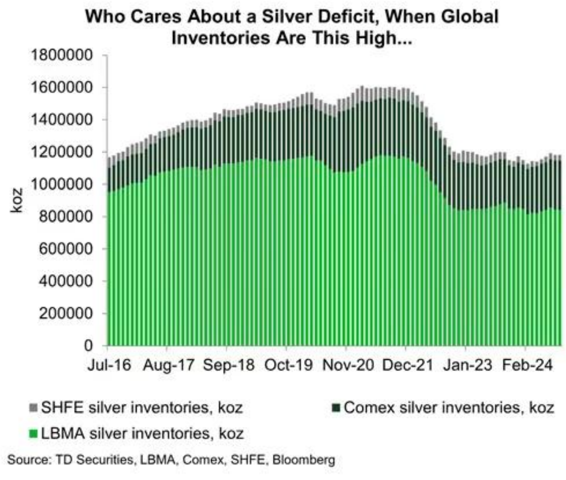
And though gold finished 2024 by appreciating higher (up almost 27%), silver wasn't far behind (up over 21%). So, yes, silver had a breakout year. Now, what might we see in 2025?

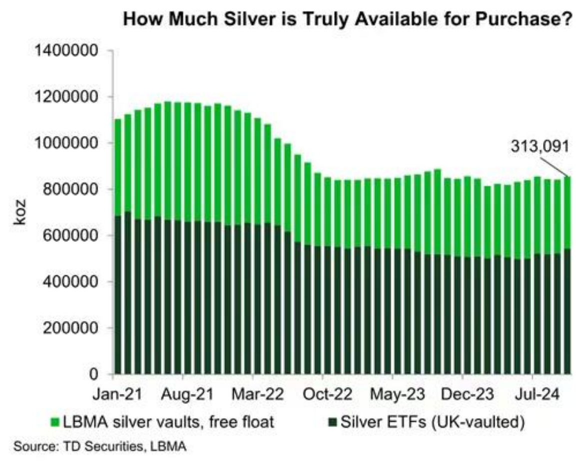
Well, many informed observers believe we will see an even greater squeeze on the metal this year as the stress on the silver market continues to worsen, which will result in pushing the commodity's value higher. There are a number of factors influencing this squeeze, but they essentially boil down to supply and demand issues within the silver market.

Looking at problems on the supply side, it's immediately clear that one factor is the sluggish level of silver production that has occurred over the course of the last ten years. As everyone got caught up in the lustre of gold's historic valuations and poured enormous resources into exploration, development and production of that sector, silver got left behind. This means that the total global supply of silver has remained fairly stagnant for the last decade, amounting to about one billion ounces a year. Of that amount, mine production accounts for roughly 800 million ounces of the total, with the remainder being sourced via recycling. Yet the demand for silver is outstripping production: according to the Silver Institute, 2024 demand surpassed 1.2 billion ounces, a 2% increase from a year earlier.

As well, most of the silver that comes to market is as a by-product from lead-zinc, copper and gold mines. The lack of sustained investment in developing silver-focussed projects has increased the valuation of the small group of primary producers currently operating.

The supply is being further decimated by demands for physical silver coming from primary producers themselves. Indeed, some miners are being asked by large institutional investors to retain physical silver from their operations. Take Mexico's **Fresnillo** (LSE: FRES), the world's largest primary silver producer, who made close to $1 billion in free cash flow last year and has over $1 billion cash on hand, plus no debt. They were urged by institutions to retain some of their cash as physical silver, and if other miners follow suit, this will affect supplies available for the global market.





Another limitation on the metal's supply chain is that all those ounces that are supposed to be out there – the amount of actual silver available for delivery – is, in fact, far less than meets the eye. Some analysts believe there are about 300 million ounces currently available for delivery, but I dispute that figure as being too high, given that there is a global silver deficit running in the range of about 200 million ounces annually. However, even if the larger figure is taken as correct, that only amounts to just under US$10 billion of available silver. Add in the silver derivatives exposure – there are an estimated 4-5 billion ounces of contracts – and one can see how tightly squeezed the sector is.

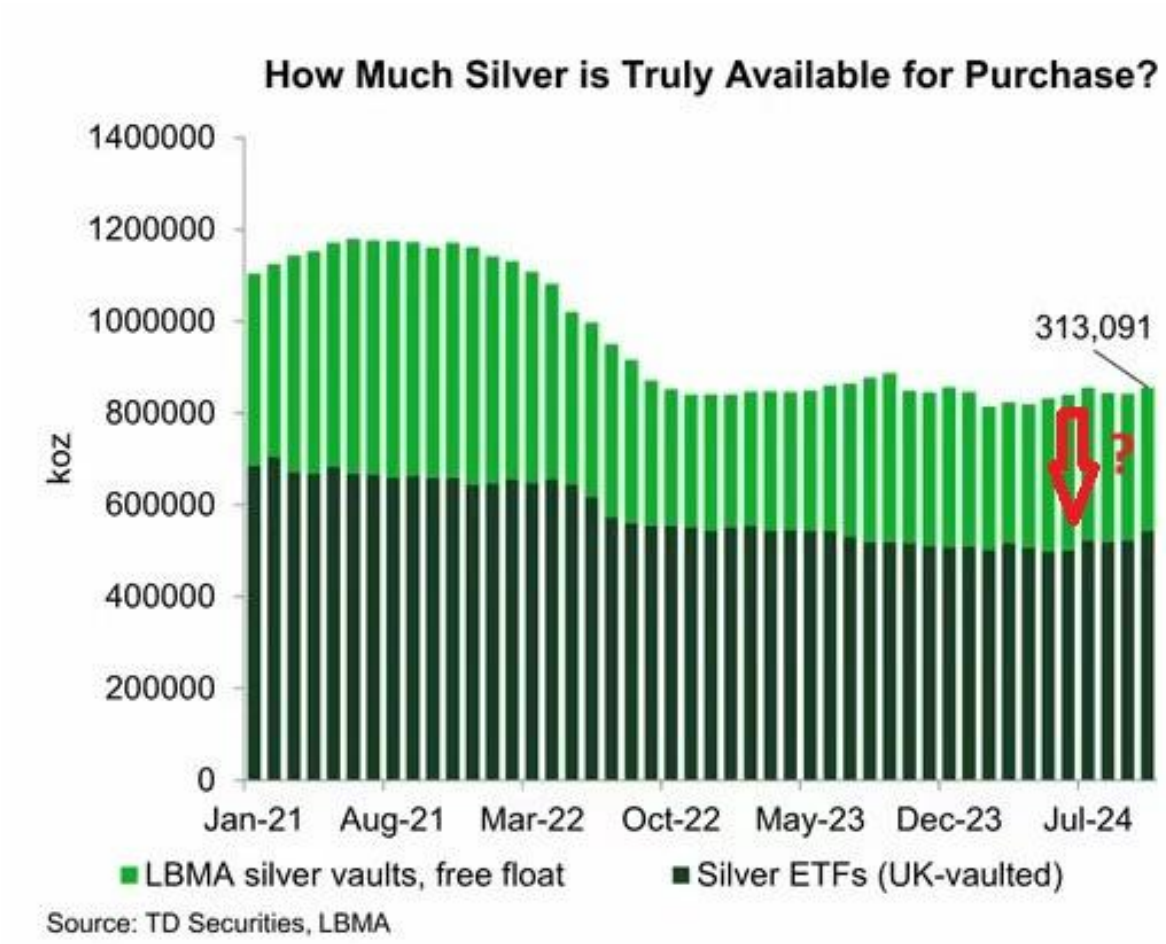
And then there is the Trump factor.

Even before returning to the White House, Donald Trump had been threatening to impose tariffs on a wide variety of goods from a long list of countries. As February began, he was on the verge of imposing 25% tariffs on all imports arriving from Mexico and Canada, including metals and minerals. And simple economics says that any cost increases caused by tariffs would be passed on to end users.

Currently, the U.S. tariff rate on imported silver ores and concentrates is 0.8¢ per kilogram on lead content, while bullion and doré are tariff-free. If Trump does decide to apply 25% tariff rates across the board on imports from Canada and Mexico, it would have a significant impact on the silver market. Keep in mind that between 2020-2023, 44% of the silver imported to the U.S. came from Mexico, while 17% came from Canada.

Trump did pause the imposition of those tariffs against Mexico and Canada, but only for an initial 30 days. Yet the chaos created by his on-again, off-again threats has already caused the implied lease rates to spike and set off a chain reaction as traders and buyers and end-users sought all available means of expediting deliveries of precious metals into the U.S. This run on the London vaults began even before his inauguration, in December, as shipping agents raced to book air flights of gold bound for America. Meanwhile, silver market bars, which take up much more space and were historically sent across the Atlantic via ocean-going ships, are now being airlifted to the US as well due to the huge price gap between London and NY.

This leaves an interesting situation and could be a once-a-lifetime opportunity for silver investors. In my recent presentations, I have raised doubts about whether the '313 million oz' of silver available for delivery is an accurate estimate. Based on the significant silver deficit over the past few years, this number should be much lower—even with silver ETF selling, the gap cannot be fully covered. Investors will soon find out as silver continues fleeing London to the US. If the amount of silver available for delivery is less than the stated 313 million oz, it could trigger the biggest silver short squeeze of our lifetime. Again, I only have doubts about the true number, so please regard this as a 'bonus' observation.



Whatever the outcome of the tariff chaos, it has added to the awakening of the silver bulls. The simple fact is that global consumption of it continues to exceed supply. Remember, while miners and recyclers can supply about a billion ounces of silver annually, the current demand stands above 1.2 billion ounces. This fundamental supply-demand deficit can only increase silver’s $32/oz price, which is why I remain confident that it will continue to offer positive, long-term opportunities for investors. Gold may be the metal of kings, but silver remains the people's metal.

Against this backdrop, I continue to recommend investing in silver production companies that demonstrate significant growth potential. Here are two companies to consider in the current market environment:

- **Silvercorp Metals Inc. (TSX:SVM; NYSE American:SVM)**: a Canadian pure-play silver mining company operating several low-cost, long-life mines in China. Over the past 12 months, Silvercorp produced 6.5 million ounces of silver at an all-in sustaining cost of under $12 per ounce, net of by-products. Silver accounted for 62% of total revenue, one of the highest percentages among its shrinking peer group of silver miners. Backed by US$355 million in cash, Silvercorp is constructing its fully permitted El Domo copper-gold project in Ecuador, targeting first production in the second half of 2026. El Domo is a high-grade open pit project with a compact footprint, expected to produce 25 million lbs of copper and 26,000 oz of gold over a 10-year mine life, with an all-in sustaining cost of $1.26/lb copper equivalent. The project has strong community and government support and will be Ecuador's third large-scale modern mine once in production.

- **Cerro de Pasco Resources Inc. (CSE:CDPR; OTCPK: GPPRF; FRA: N8HP) ("CDPR")**: is a Canadian mining company focused on advancing its 100% owned El Metalurgista mining concession in Peru. The asset encompasses the Quiulacocha Tailings Deposit, which contains 70M tonnes of silver-rich tailings from the historic Cerro de Pasco mine. In 2024, CDPR secured a long-waited easement enabling the advancement its Quiulacocha Project. In the same year, a drill campaign confirmed over 400M ounces of silver equivalent, plus critical metals like gallium and indium. With low mining costs and existing infrastructure, the project is nationally significant and prioritized by Peru's Ministry of Economy and Finance for its economic, environmental, and employment benefits.