



The Outlook for Silver Supply, Demand and the Price in 2009

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Scotia Capital Commodity Outlook Conference

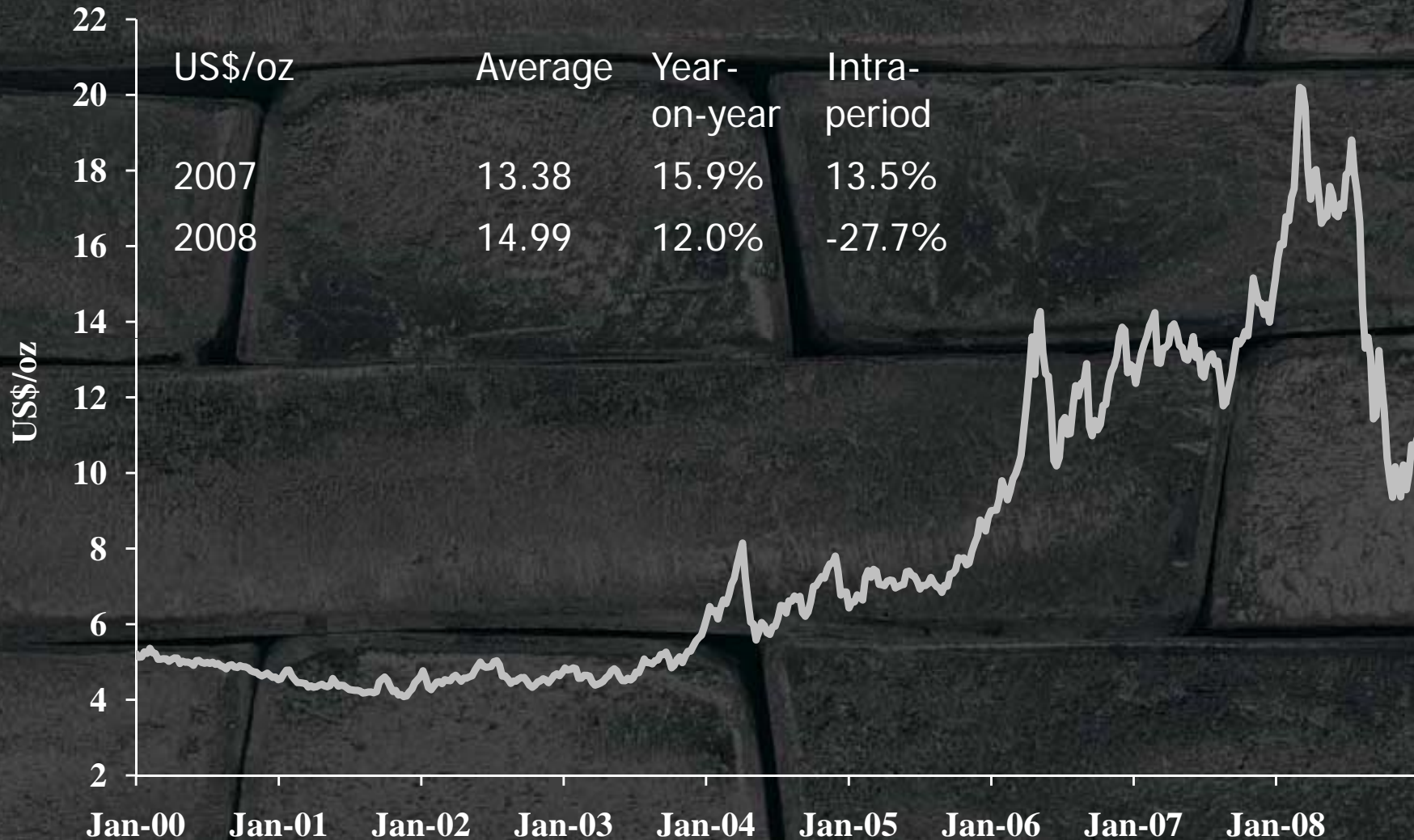
Toronto, 13th January 2009



Silver: Presentation Outline

- Silver Prices
- Demand
- Supply
- Investment
- Price Outlook

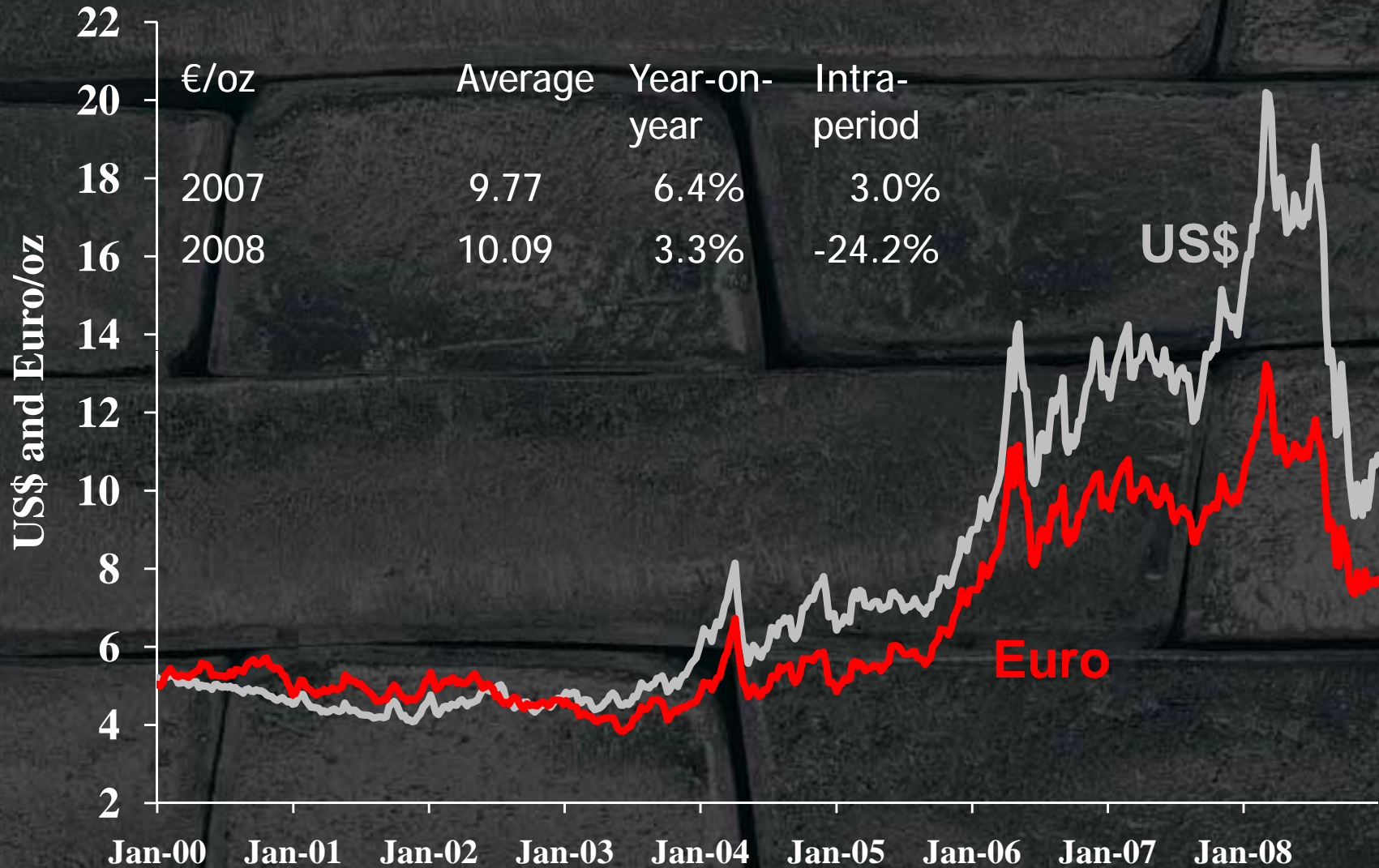
The Silver Price – US\$/oz



Source: Reuters EcoWin



US Dollar and Euro Prices



Source: Reuters EcoWin

Silver, Gold and Base Metals Prices

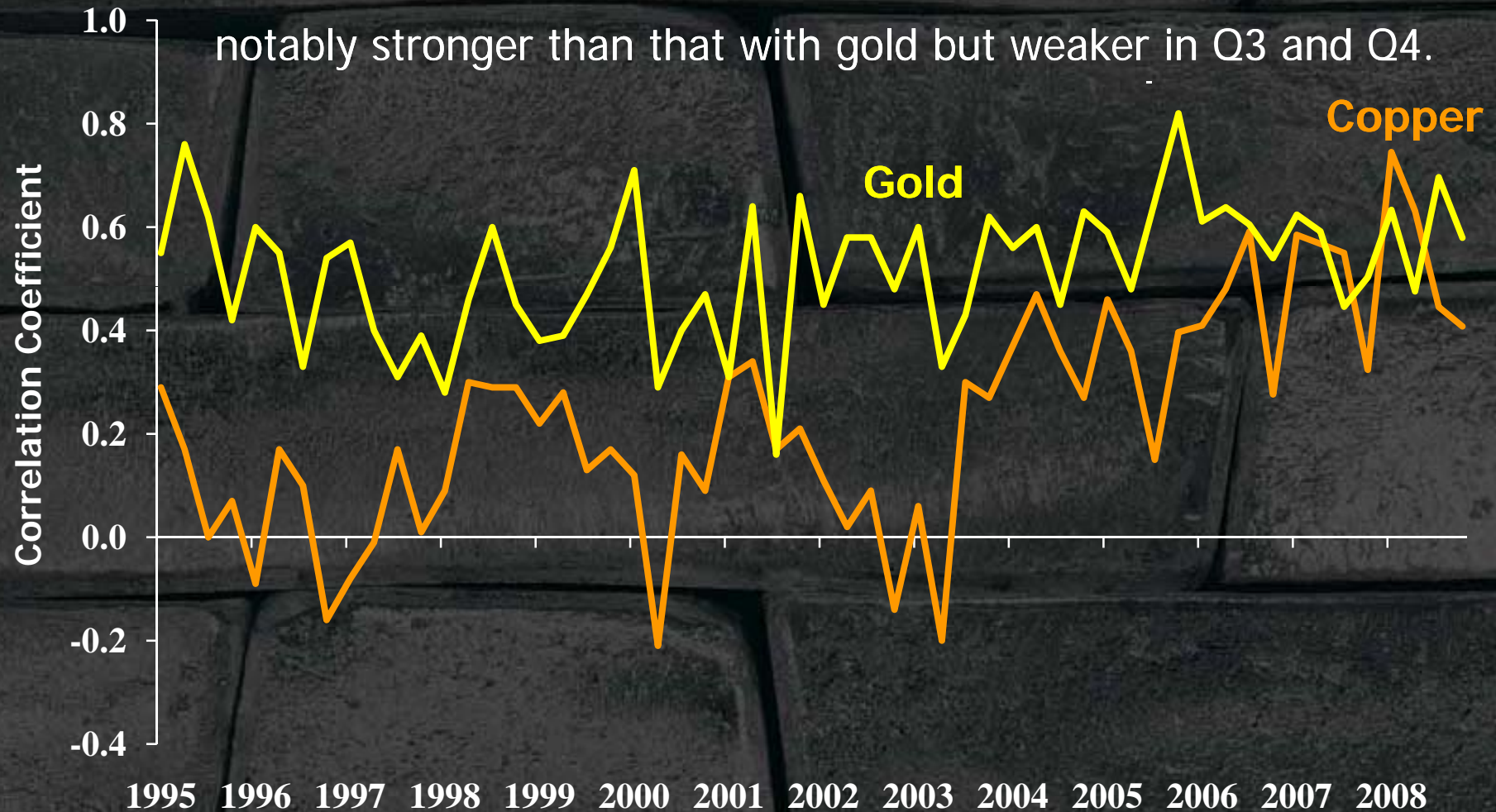


Source: GFMS Ltd.



Quarterly Correlation of Daily Silver Price with Gold and Copper Prices

Correlation against copper has increased; in Q1-Q2 2008 notably stronger than that with gold but weaker in Q3 and Q4.

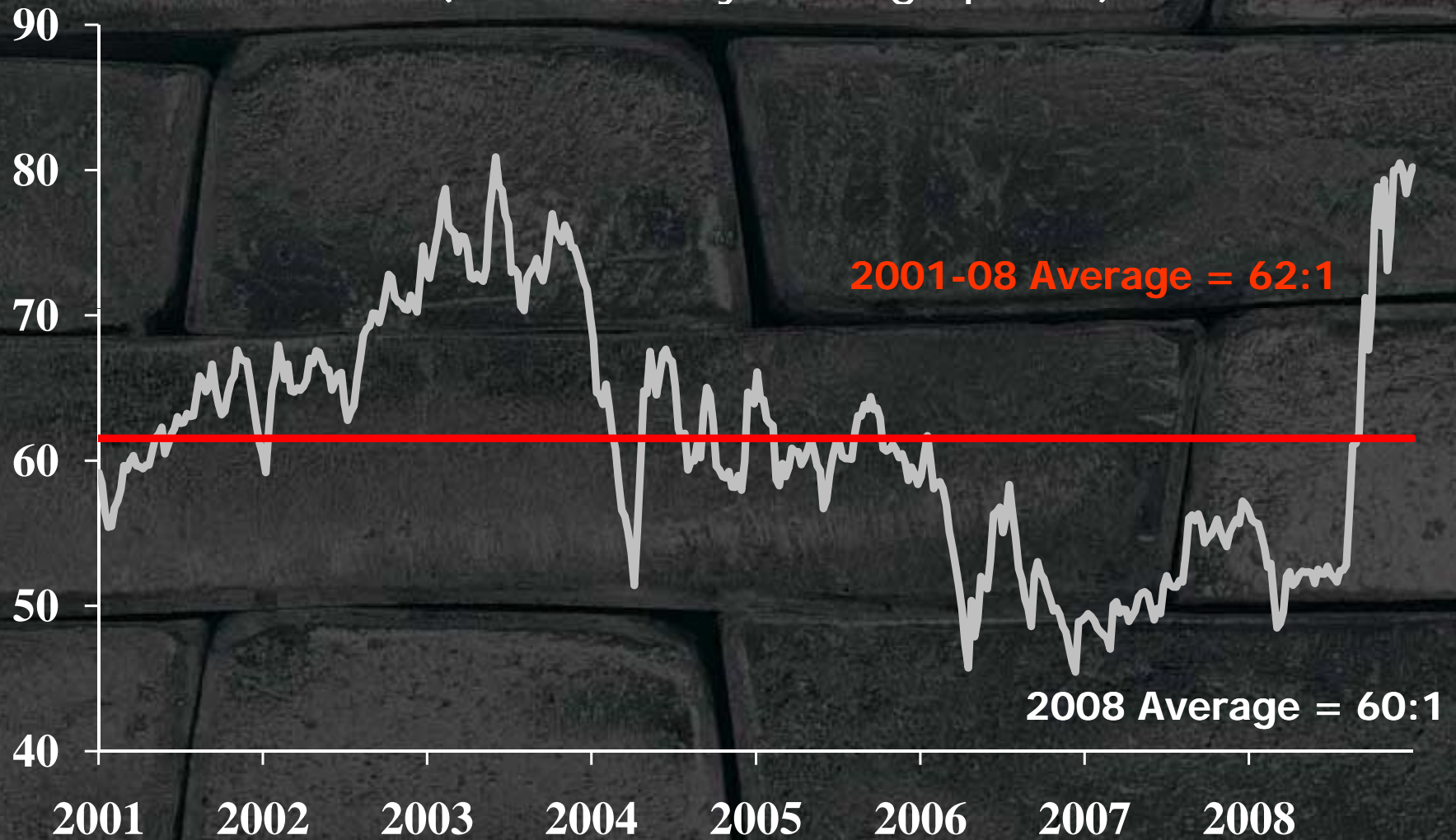


Source: GFMS Ltd.



Gold / Silver Ratio 2001– 2008

(basis weekly average prices)



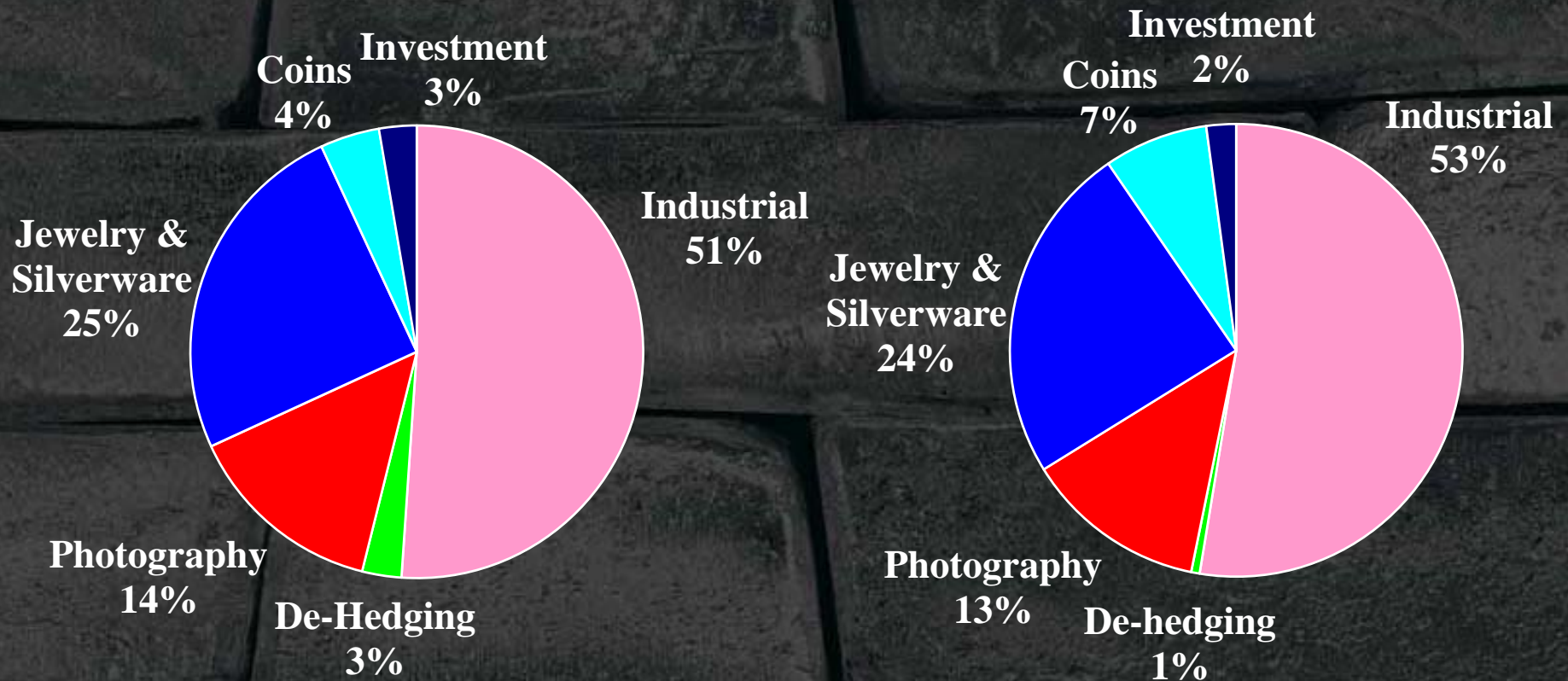
Source: GFMS Ltd.

Silver Demand

World Silver Demand

2007 Actual

2008 Estimated

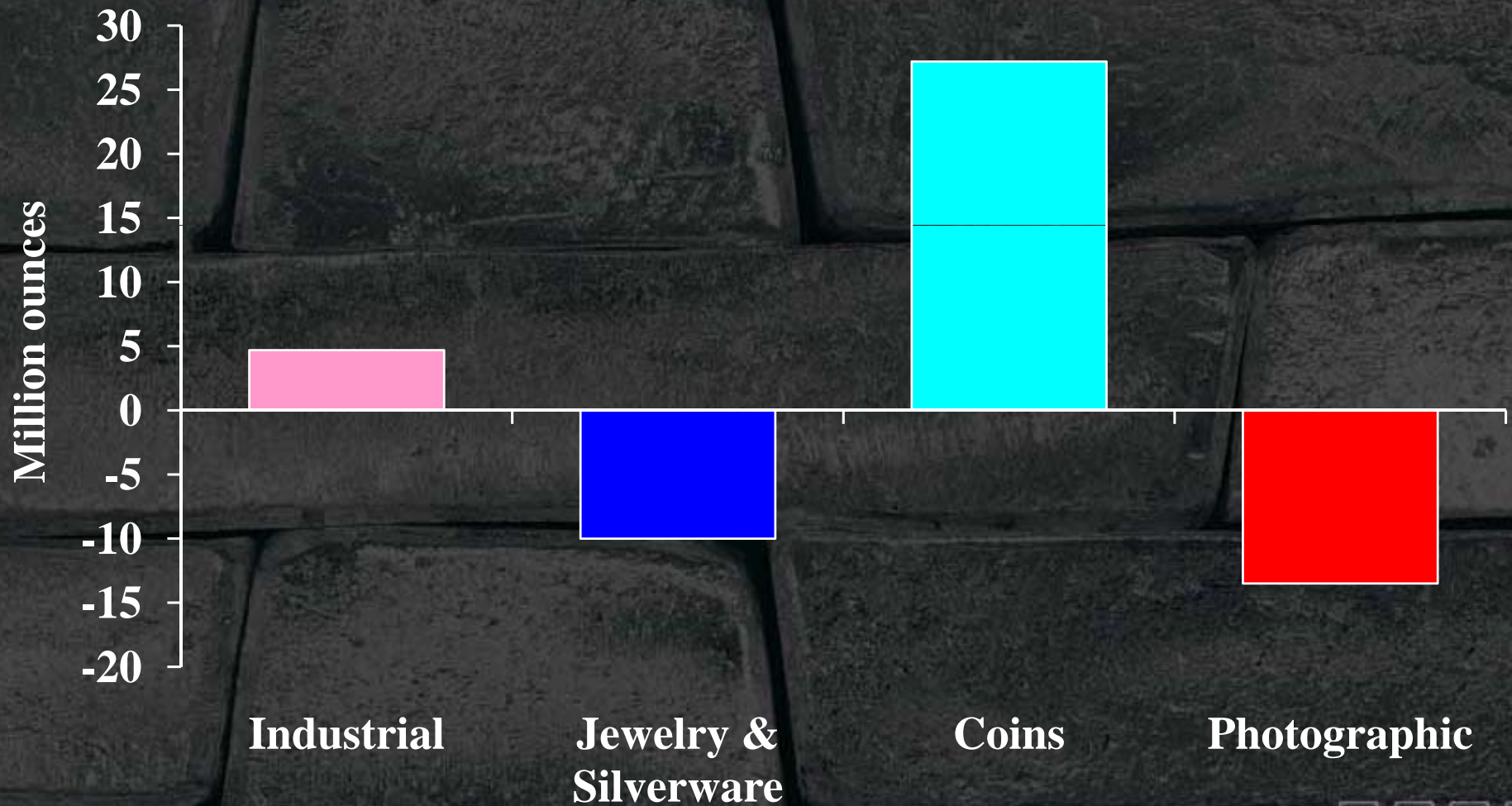


Source: GFMS Ltd.



World Silver Fabrication

Estimated Annual Changes: 2008 less 2007

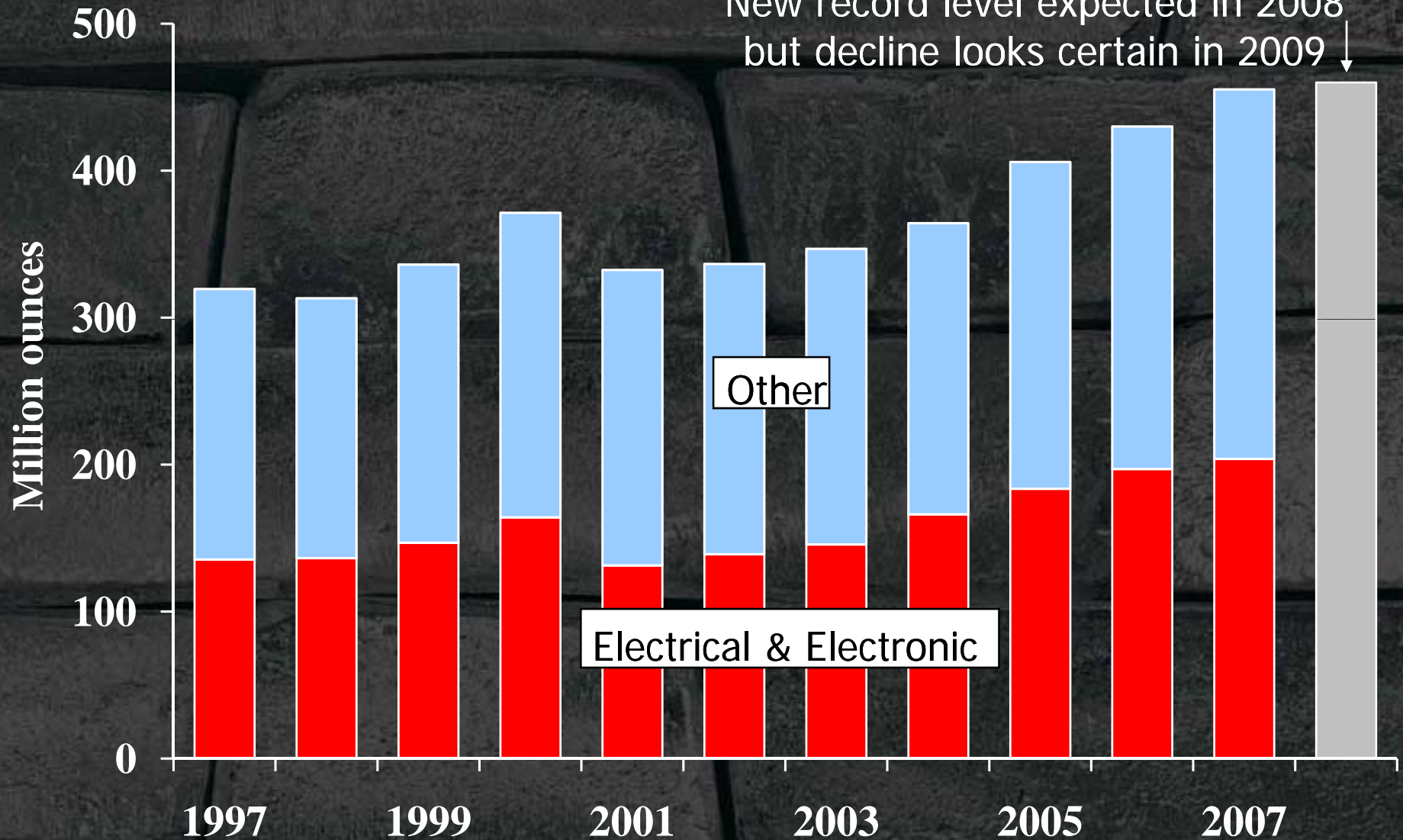


Source: GFMS Ltd.

GFMS

Industrial Fabrication

New record level expected in 2008
but decline looks certain in 2009 ↓

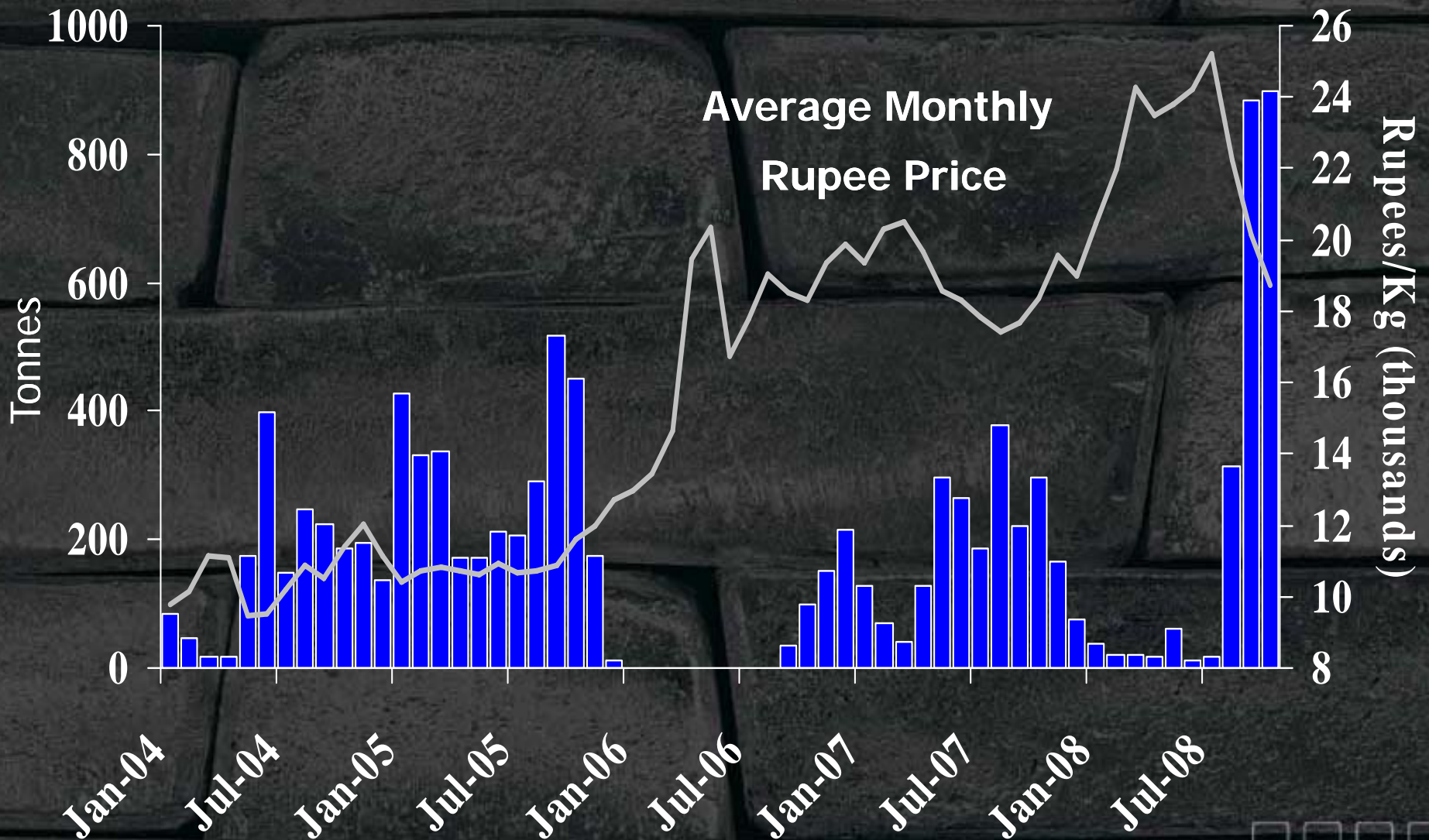


Source: GFMS Ltd.

GFMS

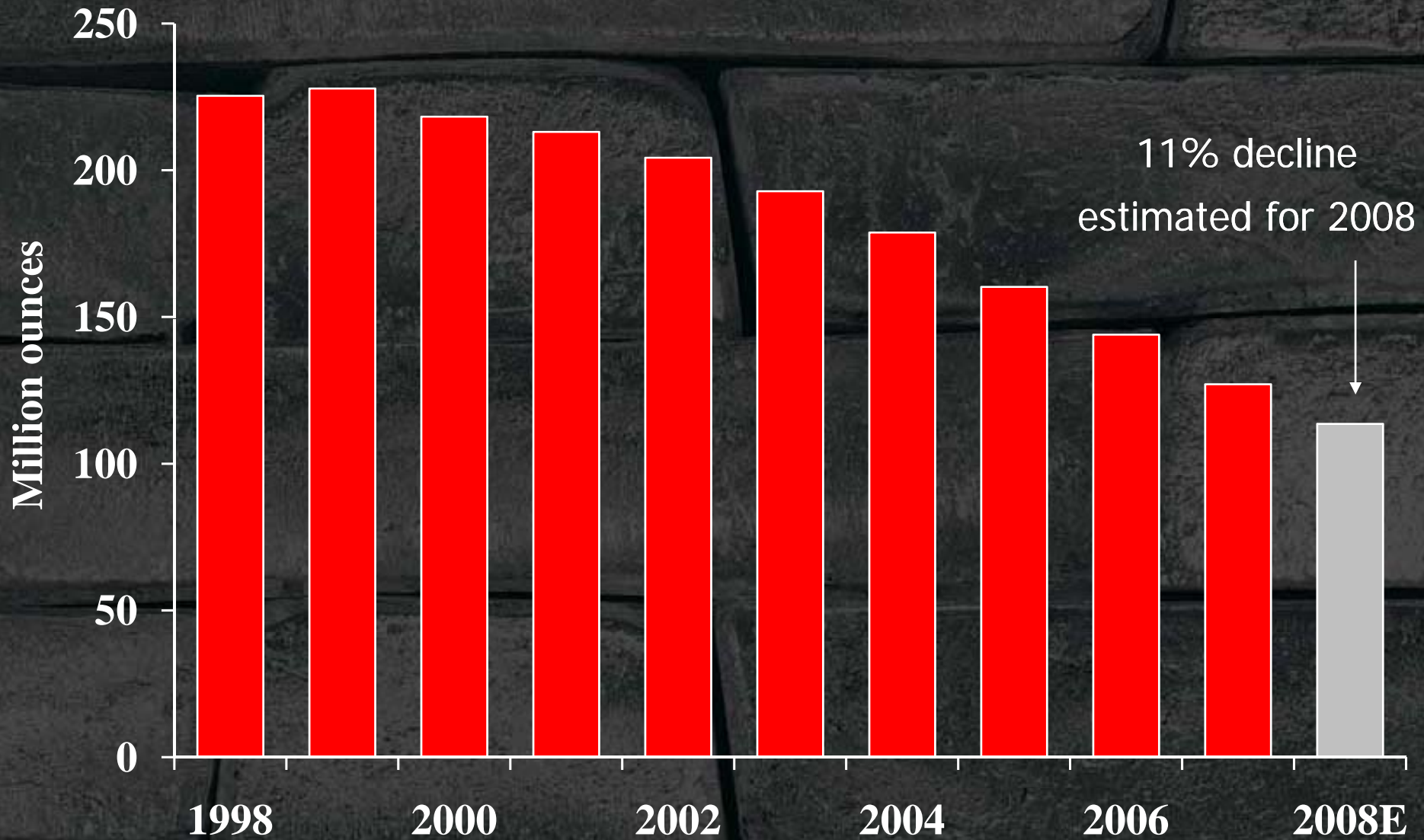
Indian Silver Bullion Imports (Jan 2004 – Oct 2008)

Imports in 2008 year-to-date have been concentrated in Sep-Oct, particularly when the local price at times went below Rs. 17,000/kg



Source: GFMS Ltd.

Photographic Fabrication



Source: GFMS Ltd.



Demand Summary

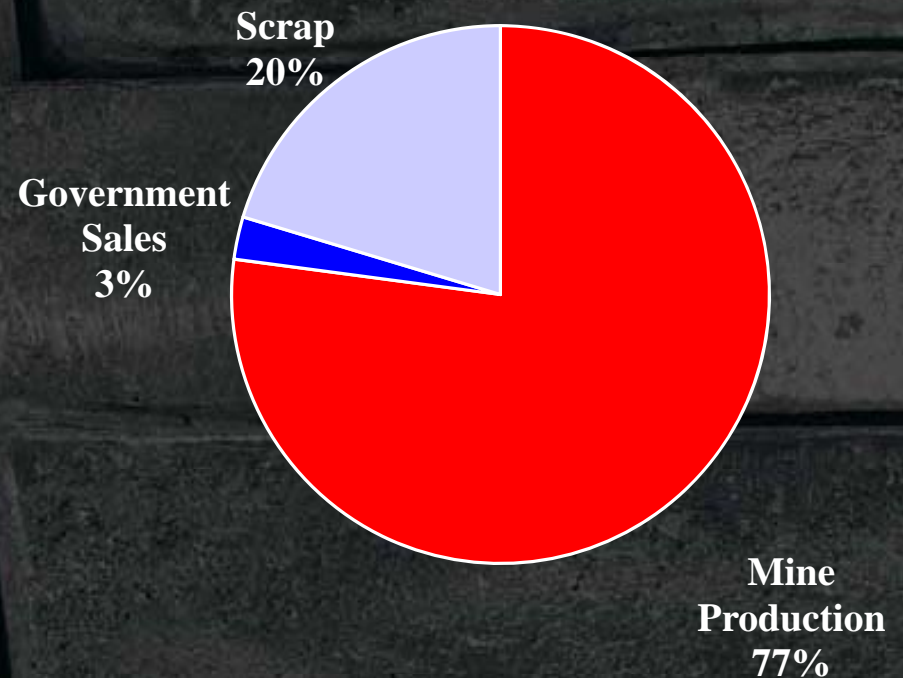
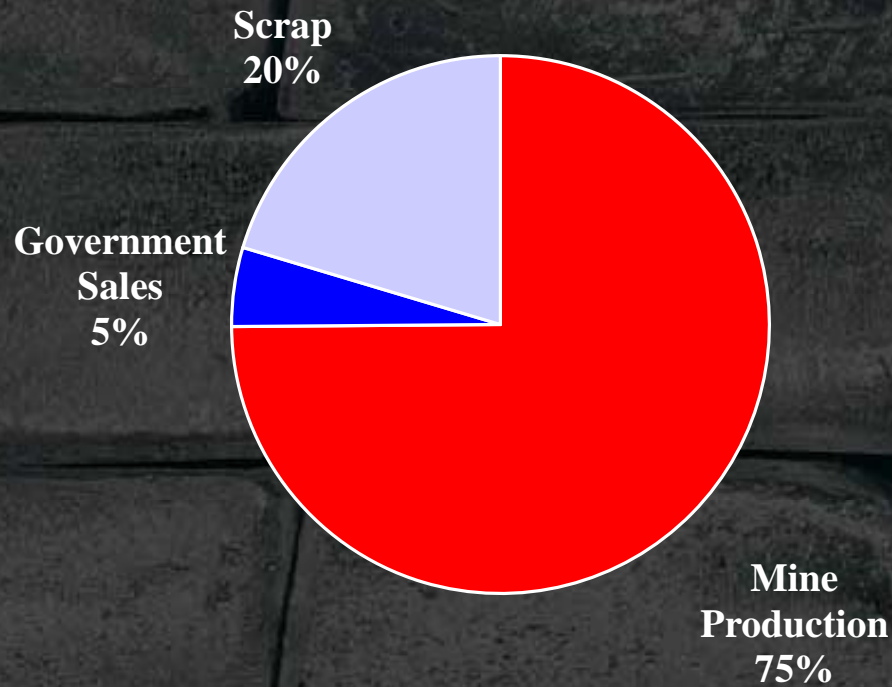
- Total fabrication demand estimated to be around 1% higher year-on-year in 2008 but will drop sharply in 2009.
- Industrial demand looks to have been up for full year 2008 but has slowed down a lot in recent months. Substantial decline is expected this year.
- Photographic demand continues to fall rapidly due to impact of digital technology and, at the margin, some increased thrifting.
- Jewellery & Silverware demand fell only slightly year-on-year in 2008, in part due to surge in Indian demand in Q4. However, global decline in offtake expected in 2009.
- Coin demand increased dramatically in 2008 and is set to remain strong this year.
- Investment demand positive overall but “two way”.

Silver Supply

World Silver Supply

2007 Actual

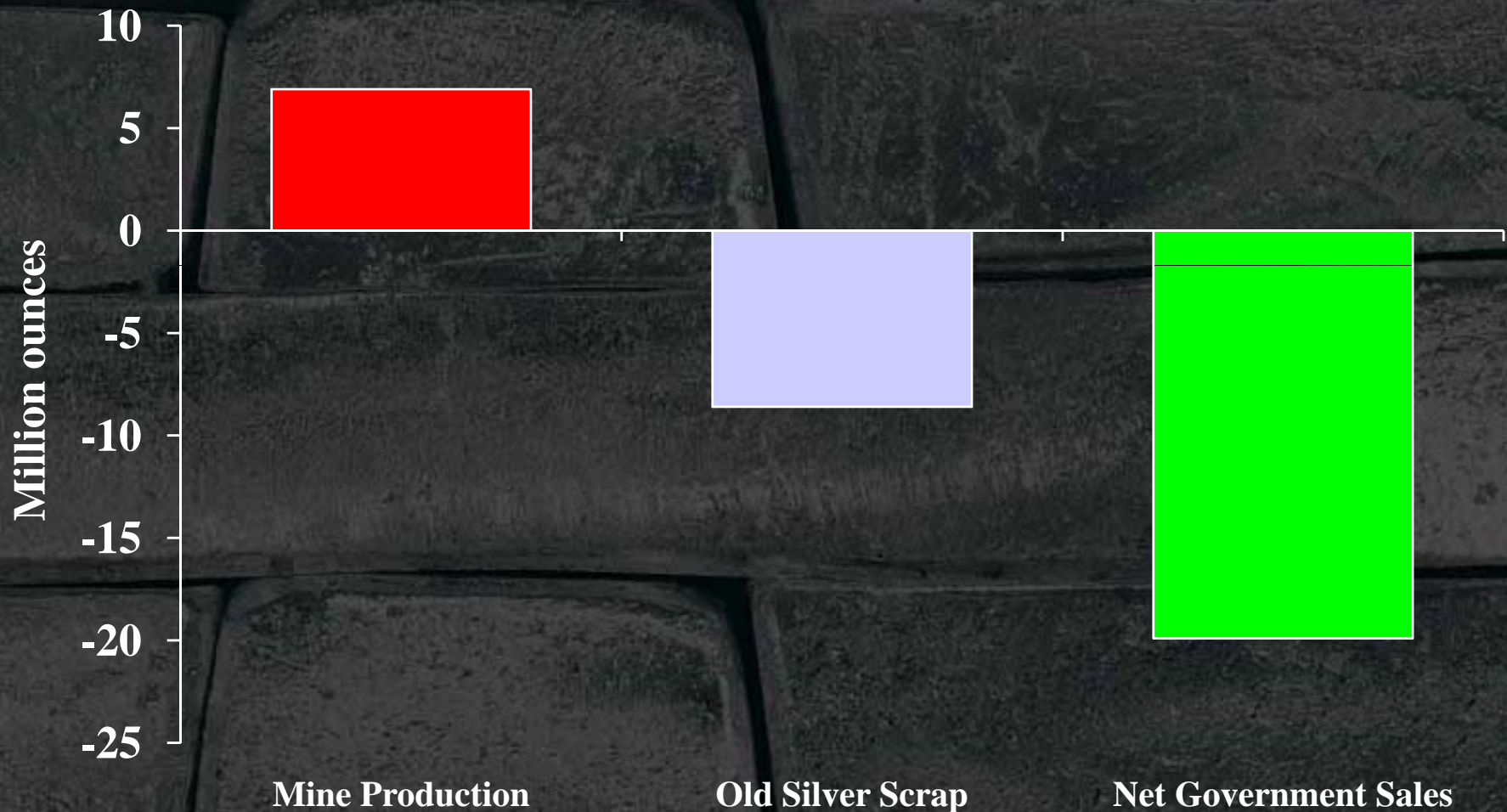
2008 Estimated



Source: GFMS Ltd.

World Silver Supply

Estimated Annual Changes: 2008 less 2007

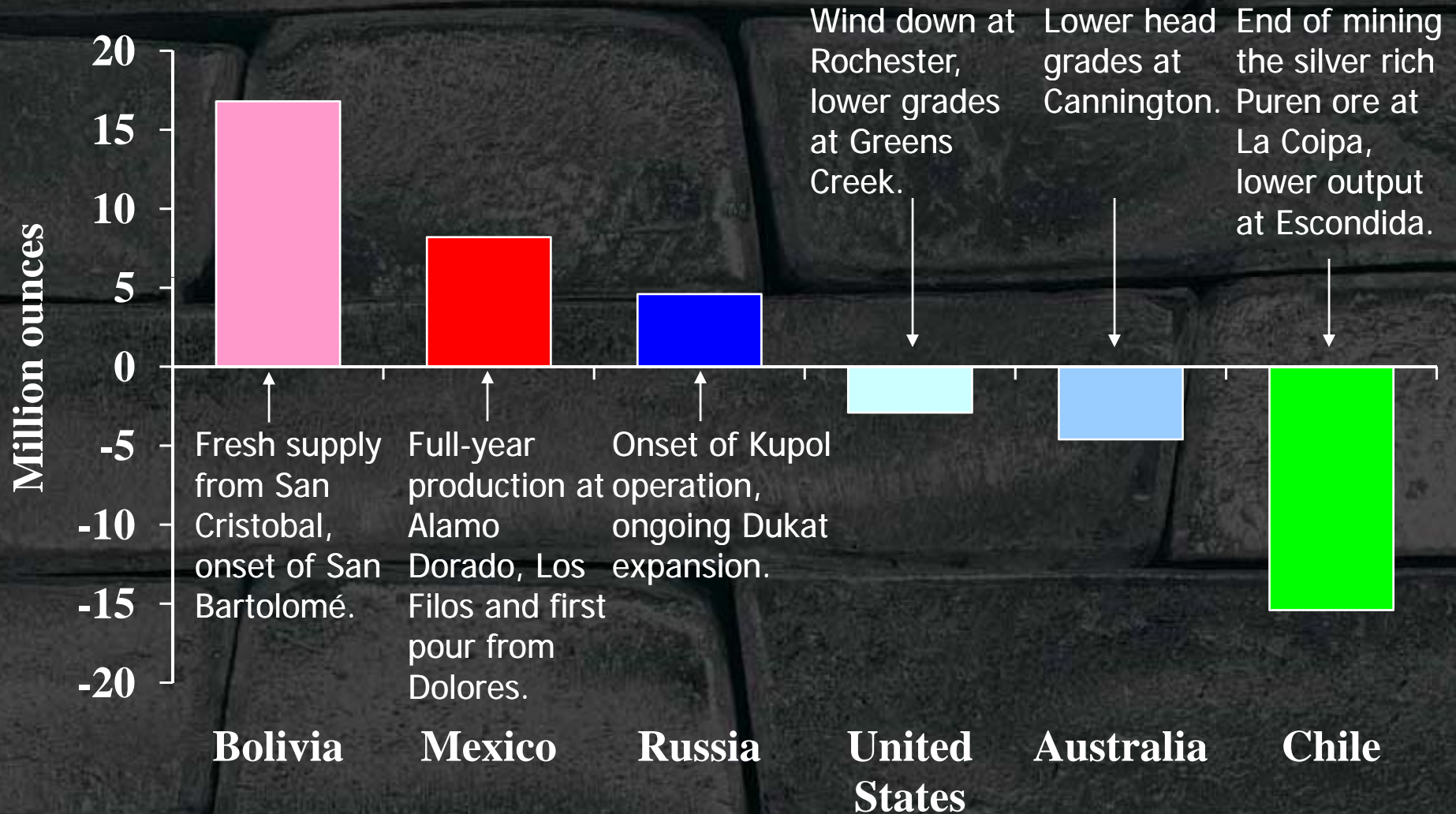


Source: GFMS Ltd.



World Silver Mine Production

Winners & Losers: 2007-2008F*



Source: GFMS Ltd; *forecast mid-November

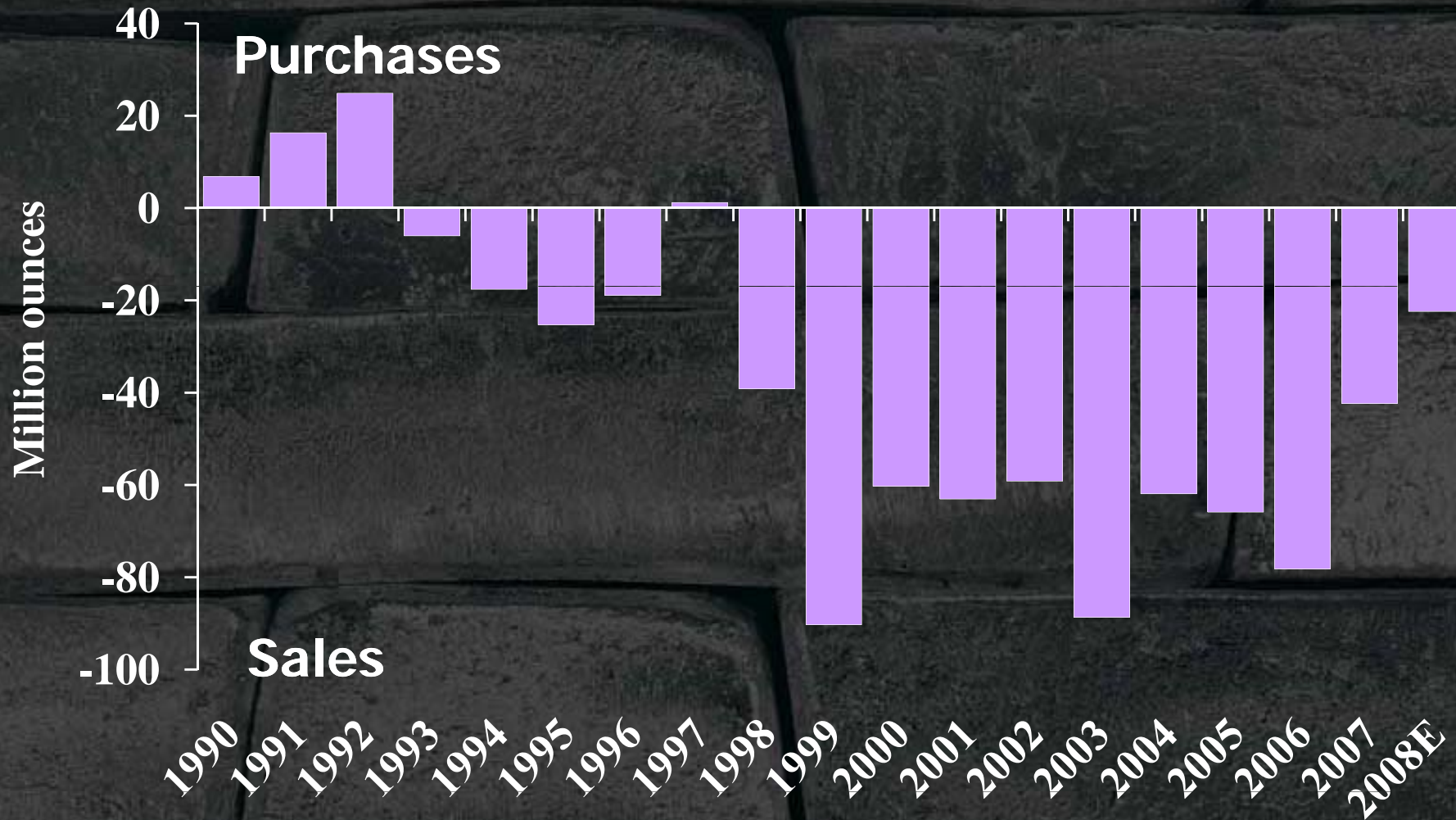
Mine Production + Hedging

- World silver mine production up moderately (<1%) in 2008; at beginning of this year 3% plus was looking probable (“shortfall” of approx. 15 Moz between the two).
- Silver mine output expected to push towards 700 Moz in 2009: Full year production at Kupol, San Bartolomé (Bolivia) plus anticipated growth in Mexico (Peñasquito). However, downside risk if base metal closures continue. Also, prior to crash in silver/base metals prices output in 2009 was expected to reach close to 730 Moz!
- De-hedging expected to have slowed this year from the elevated level seen in 2007.

Scrap Supply

- Scrap expected to fall just over 2% in 2008 due to the decline in volumes from photographic sources. Further drop probable in 2009.
- Price not high enough to stimulate much scrapping of jewellery and silverware, except in India.
- Scrap supply for silver far less price-sensitive than for gold due to different composition of above-ground stock of fabricated products and much higher margins over metal value on silver than gold jewellery.

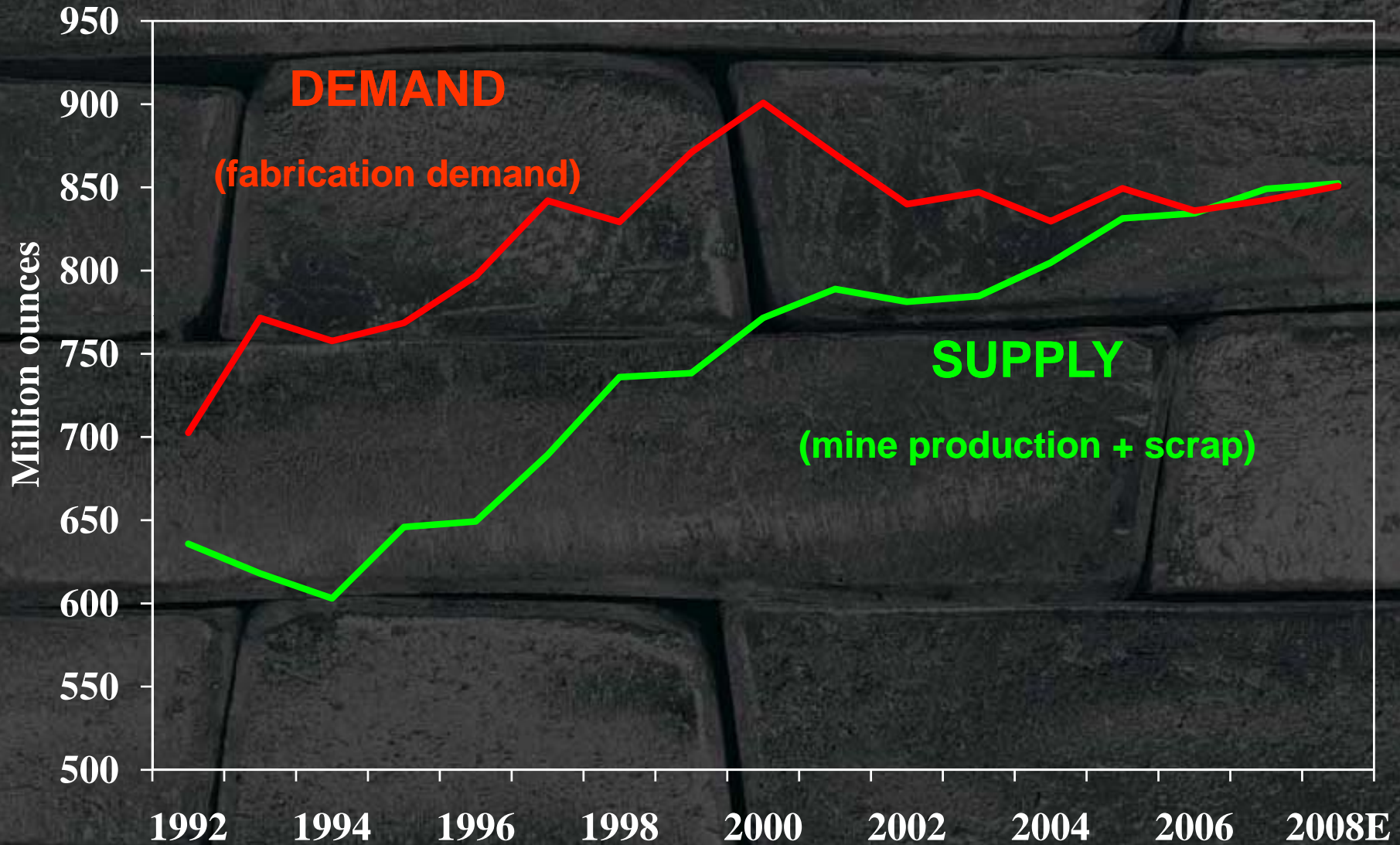
Changes in Government Stocks



Source: GFMS Ltd.



From "Deficit" to a Balanced Market

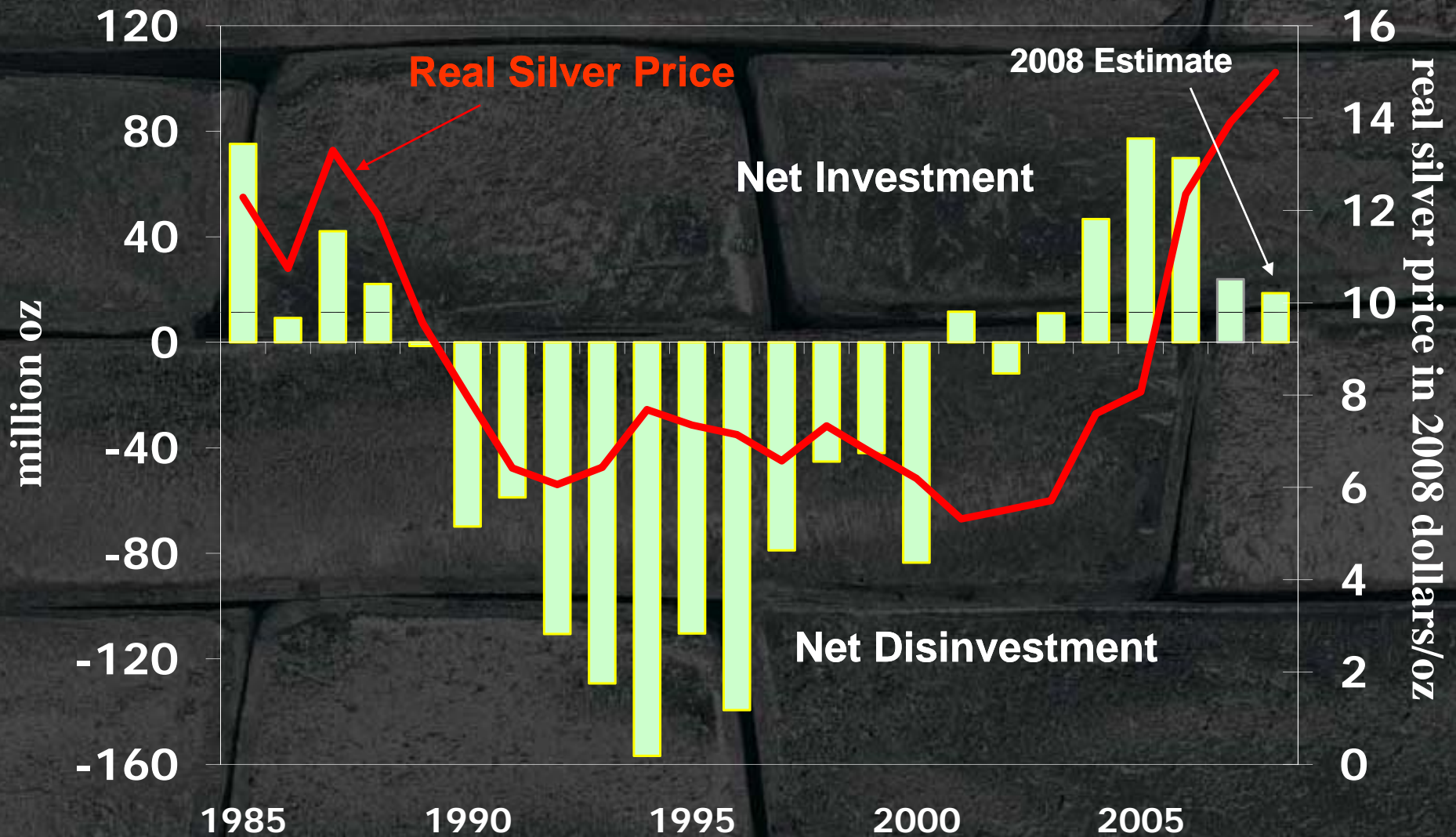


Source: GFMS



Silver Investment

Silver (Dis)Investment and Real Price



Source: Silver Institute, GFMS Ltd.

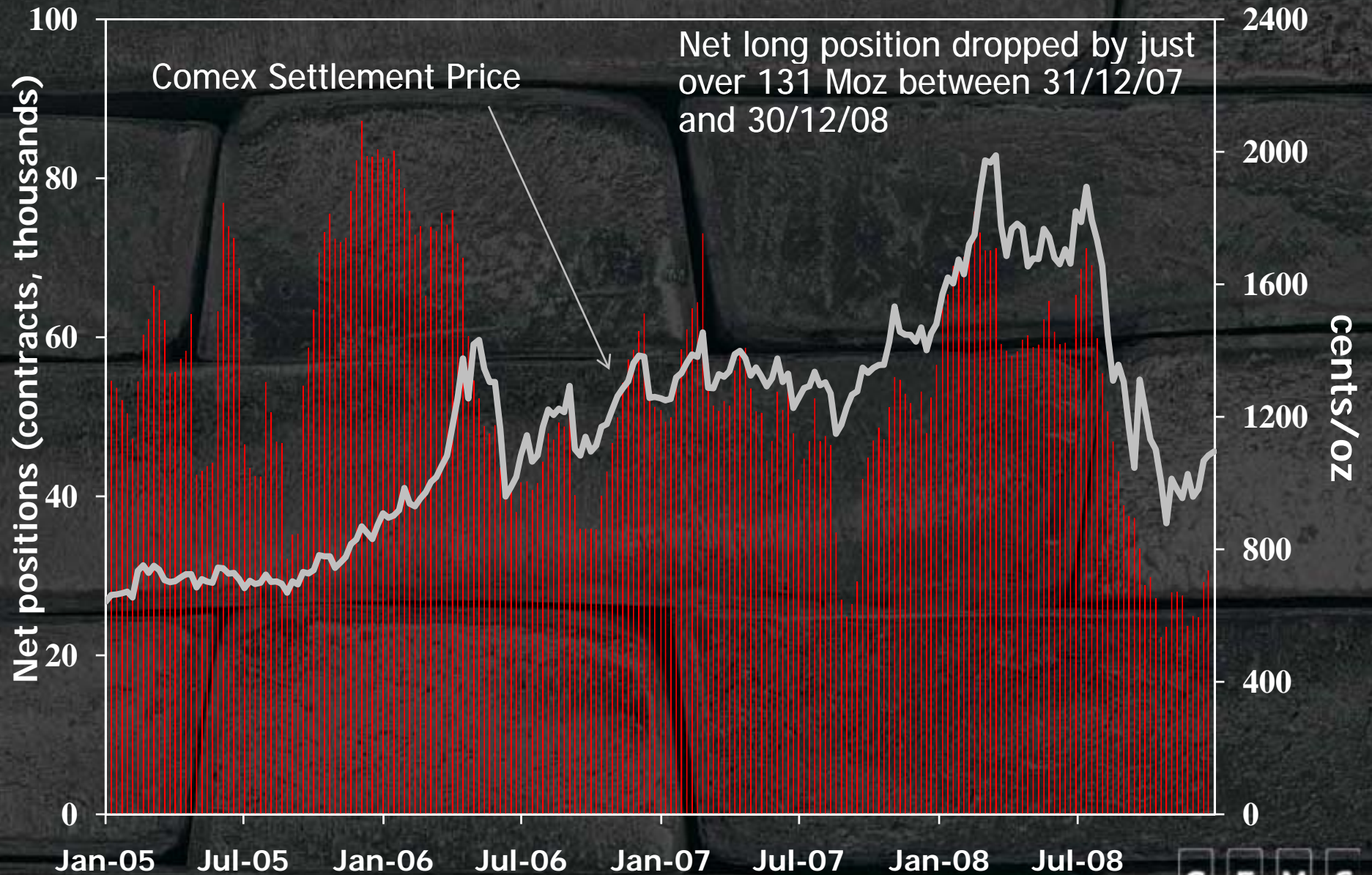
ETF Silver Holdings

Total at 31/12/08 = 265 Moz; 93 Moz rise intra-year.



Source: Respective ETF issuers

Investors'* Net Positions in Comex Silver Futures



*Non-commercial & non-reportable net positions in futures taken as proxy for investors' positions.

Source: CFTC



Investment - Summary

- Investment a key factor since Q4 2003 (n.b. two years after gold) and particularly relevant to the drive into double-digits.
- Silver generally led by gold and also to some extent base metals.
- Similar factors have been at work to those driving gold investment: US\$ devaluation, credit market crisis, inflation fears, growth in commodities as an asset class, etc.
- Trends largely positive in first half 2008: Rise of over 35 Moz in ETF holdings and over 44 Moz in speculative positions on the Comex.
- Since mid-July, in common with gold and other commodities, massive sell-off in silver via OTC market and on Comex (net spec long on latter, down just over 200 Moz since mid-July). In contrast, ETF holdings have actually risen over same period by close to 37 Moz.
- GFMS expect rebound in investment within next few months: Many longs cleaned out; US\$ move will be partly unwound; “deleveraging” will come to an end; economic and financial problems will get worse. Silver - likely to be seen as “cheap” on a ratio basis - will be helped higher by gold.

Silver Price Outlook

Silver Price Outlook

Supply

- Total supply now expected to fall moderately in 2009: Smaller rise in mine production more than offset by lower scrap and government sales.
- Mine production growth in 2009 still expected but much slower than previously forecast (due to impact of lower metals prices, project delays etc).
- Supply from scrap and government sales unlikely to grow and may well drop in 2009.
- 'Supply shock' from higher mine production, that was in the pipeline from higher mine production, looking like it will not now take place!

Silver Price Outlook

Demand

- Total fabrication demand set to fall sharply in 2009. Much of the impact of this may though already be “in the price”.
- Overall, price is less of an issue than slowdown in GDP growth.
- Industrial demand expected to drop by double-digit percentage.
- Jewellery: negative price and economic impact but also some substitution gains at gold’s expense; price-sensitive Indian demand a key factor.
- Photography: continued secular decline.
- Coin demand will remain robust, reflecting sustained investor interest.

Silver Price Outlook

Conclusion

- Silver's supply/demand fundamentals (excluding investment) turning negative in 2009 due mainly to lower fabrication demand, though supply side less threatening than formerly expected.
- Silver market will therefore move back into substantial surplus but this metal will be absorbed by investors.
- Silver prices will be volatile but tend to increase from current levels.
- GFMS forecast for LBMA is for average price of \$14.40 in 2009 (down 4% year-on-year). Recent \$9-\$10 seen as probable low; high could be around the \$20 mark but 2008's \$20.92 may not be bettered this year.

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