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# COULD NOW BE SILVER'S GOLDBLOCKS MOMENT?

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In the story of Goldilocks and the Three Bears, the hungry protagonist tries three bowls of porridge after entering a seemingly vacant house in a forest. She prefers the bowl that is neither too hot nor too cold but just right. The term Goldilocks has been adopted from the fairytale to describe a situation in which something is or must be precisely right. With silver being a hybrid metal, drawing defensive properties from being precious and cyclical properties from being industrial, conditions that are 'just right' can be achieved when there is an optimum balance between the two dimensions. Could now be that moment?

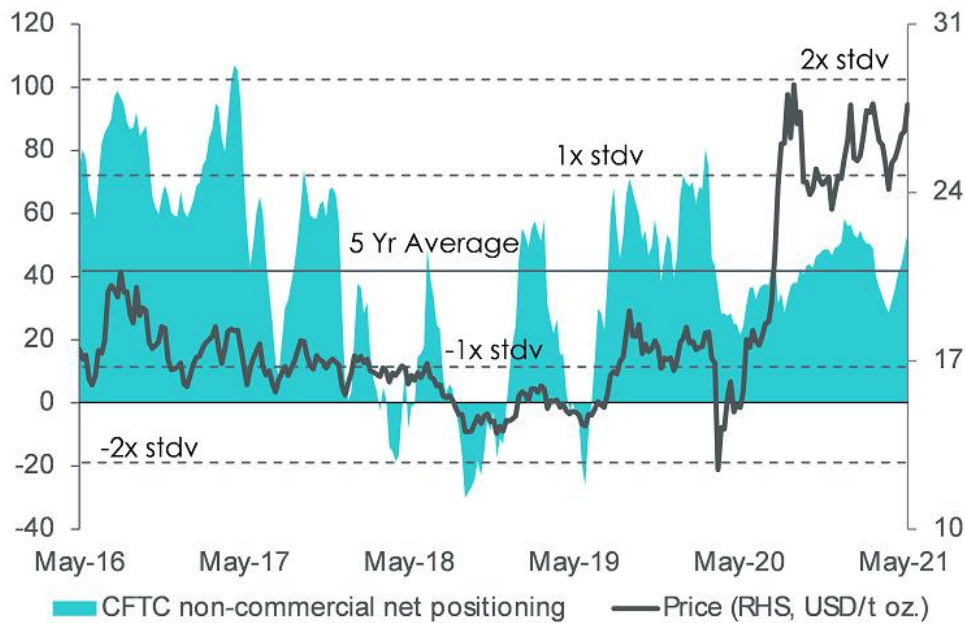
## The right amount of support from gold?

Silver's historically high correlation with gold (70-80%)<sup>1</sup> makes it a safe-haven alternative to the yellow metal. But gold's defensiveness is not limited to economic downturns like last year. It extends to economic upswings too, especially when inflation is on the rise. For example, when the US consumer price index (CPI) inflation spiked sharply in April to 4.2%<sup>2</sup>, well above consensus estimates, gold found support. The correlation effect kicked in, and silver has rallied too since then. Given the prospect of persistently high inflation, relatively steady US Treasury yields, for now, weakening US dollar, and frequent bouts of market volatility, gold may remain relevant for investors. Silver, sometimes seen as a leveraged play on gold, will draw support if that happens.

## The right amount of support from industries?

Manufacturing Purchasing Managers' Indices (PMIs) provide a useful barometer to gauge industrial activity. China's Manufacturing PMI bounced back into expansionary territory in April after contracting in the first quarter. The same indicator for the US is showing continuously steady improvement this year<sup>3</sup>. Economic data, in recent months, has generally helped boost industrial metals – the top-performing commodity sector over the last 12 months<sup>4</sup>. Given that more than half of silver's demand comes from industrial applications such as photovoltaics, electronics, and automobiles (especially electric vehicles)<sup>5</sup>, improving economic conditions bode well for the metal.

Figure 1: Silver's speculative positioning is rising but is not stretched



Source: WisdomTree, Bloomberg. Data to 17 May 2021. Positioning in '000 contracts. CFTC refers to the Commodity Futures Trading Commission. Stdv stands for standard deviation.

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### Sentiment improving but not stretched

Is silver striking the right balance in terms of drawing support from gold's defensive characteristics and the cyclical properties of industrial metals? One clue lies in investor sentiment – as evident in net speculative positioning in silver futures. While speculative positioning – which can be an important driver of commodity prices – is on the rise, it is far from being stretched (see figure 1). This suggests that there is still further headroom for investors to take the view that conditions are neither too hot nor too cold but just right.

### Sources

- 1 WisdomTree, as of May 2021, observing price data over the last 30 year.
- 2 Trading Economics
- 3 Trading Economics
- 4 Bloomberg as of 17 May 2021 using Bloomberg Commodity Subsector Total Return Indices.
- 5 Silver Institute

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