The silver boomlet

Is the doubling of the silver price since June a signal of a turn in metals prices, or just a maneuver?

Until the Nov. 2 elections had passed—and the stock market appeared to be grabbing all the headlines on speculative money flows—major financial journals had given barely a word of coverage to the 100 percent rise in the price of silver from July to the end of October.

On Nov. 4, the press playdown ended. Dow Jones headed its morning market report with a 13 cent rise in the silver price which had just occurred in the first hour of trading. The same day, the leading Swiss financial daily commented, "Were there only a shift in the market mood . . . considerable rises" in metals prices might occur.

What has happened is that silver, which was sitting at a four-year low last June at $4.98, is now trading at $10.60. A big part of that rise occurred in a few weeks, between Oct. 4 and Oct. 22, when the price rose 32 percent. Copper has also gone into an upswing: end of October, three month cash bars were trading 11 percent higher than at the beginning of the month. These compare to a gold price rise of 12 percent during October.

Various rumors are circulating as to why metals prices have shifted.

According to a financial source plugged into Switzerland, "There is a group of people trying to put a squeeze on December silver." A Wall Street brokerage house reports "a strong underlying demand by investors for physical silver."

These fellows explain the demand by referencing that old yarn about a "recession-based recovery": the metals market has been in a slump for so long, that there's no bottom left. Also, secondary supplies (scrap, jewelry), have already been consumed. "Metals are so depressed," the Wall Street source laid out, that "even in the absence of a demand recovery, the downtrend in supply could promote a substantial price recovery."

On copper, Switzerland's *Neue Zürcher Zeitung* suggests that a major copper-for-oil deal may have just been executed by a top copper producer. Copper producing countries, *NZZ* notes, are now working up annual contracts for delivery, and there is nothing they would like better than to post a price rise on the London exchange as a reference for pricing.

Most sources downplay the rumor circulated in the *Wall Street Journal* Nov. 1 that the Soviets induced the silver price rise. It appears that the Soviets did in fact buy 10 million ounces of silver on the London Metals Exchange during October, but came on board after somebody else was already in on the market.

Who will benefit from the silver and copper price rise?

Silver is a favored speculative investment among a readily identifiable group of international investors. They have a preference for silver because it is a "monetary" metal, which, similar to gold, is a convenient stepping stone for shifting portfolios out of one speculative area into another. When short-term considerations are dominating investment shifts, silver is even preferable to gold, because it is cheaper, and therefore can be deployed with smaller sums.

Around the City of London, there are plenty of investors who are convinced that, somewhere down the line, the only investment that will be worth anything is investment placed in raw materials. One of the chief spokesmen of this group, Sir George Boulton (who died recently), a director of the Lonrho mining interests, proposed a few years ago that a new international monetary arrangement should be set up, linking the value of all currencies to nations' raw materials output.

Sir George typifies both the thinking and milieu of investors who have a particular affection for silver as a vehicle for shifting portfolio investments.

The dilemma this London circuit faces is that at some point soon, they must move substantial margins of funds. They've watched multi-billions going through the stock market, U.S. real estate, and into purchase of Treasury bills. With the exception of T-bills, which will remain safe longer than the rest, the stock market and real estate bubbles are heavily overplayed, and certainly will not last forever. A silver price rise becomes a convenient vehicle for this crowd in preparing their next round of speculative ventures.

Note that if the copper price rise sticks, we can be sure a lot of high-level, political deal-making will follow in its stead. Developing country producers of primary metals are in a big debt squeeze. Their bank creditors have told them that a U.S. economic recovery will improve their balance of payments, by upping demand for primary metals. If the absorption of secondary supplies helps bolster metal prices, we can be sure the creditors will hold this up as proof that a settlement of the debt crisis on the banks' terms is feasible.