CPM Group

Market Commentary

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Gold:Silver Ratio Realities

Silver people keep talking about the gold:silver ratio. The ratio is around 85:1 on a spot basis as this is being written, having averaged 85:1 in October. Commentators, producers, and others keep saying that whenever the ratio has gotten to 80:1 in the past it has quickly reversed and fallen sharply as silver has gained value relative to gold.

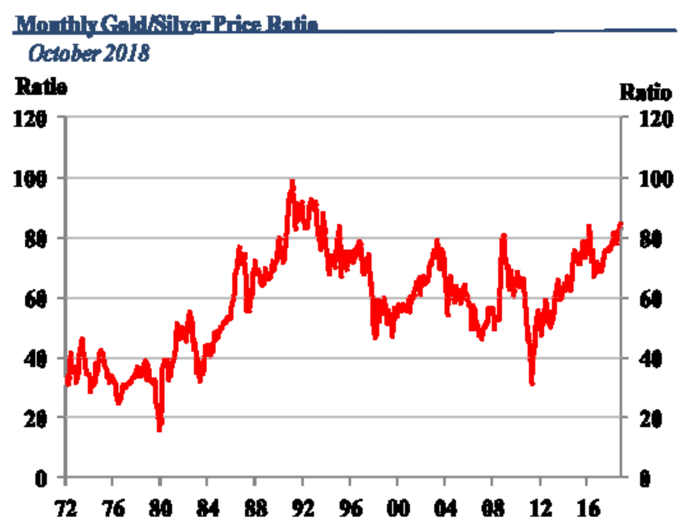
That is almost true.

There was an important period of more than three years, from August 1990 until November 1993, when the ratio reached 80, blew right past it, rose to 100, and stayed above 80 for maybe five years. Just because the ratio is above 80:1 and a great deal of people are desperate to find reasons to say they are bullish about silver, there is no reason to believe that this ratio will soon fall sharply.

In fact, the experience from 1990 through 1993 is very important, and bears important warnings about the current situation in silver prices. There are similarities between the two periods which could bode ill for silver prices.

The surplus in the silver market had fallen from 226.6 million ounces in 1980 to a mere 17.4 million ounces in 1990. Much of the surplus represents investor buying. As investors were increasingly disenchanted with silver over the 1980s they were reducing their net silver purchases and actually selling silver. The Silver Institute was so concerned about this trend that it signed a five-year agreement with CPM Group to produce and distribute stripped down versions of what was then CPM's quarterly **Silver Surveys**, creating the **World Silver Survey** in order to try to stimulate investment demand.

The silver market slipped into a deficit of 34.6 million ounces the next year, in 1991, which represented net selling by silver inventory holders. Most of those inventory holders were investors, although part of the selling was from bullion banks and dealers' inventories. These merchants had bought silver as market makers because more newly refined silver was coming onto the market than fabricators and investors wanted. Market makers make markets: They buy when no one else wants to buy and sell when no one else wants to sell.



This was the time when the silver market turned from a surplus (investors being net buyers of silver) to a deficit, in which investors were net sellers of silver. **This period of deficits coincided with and was the cause of the period of lowest silver prices since 1973, touching $3.51 in 1991 and $3.52 in 1993.**

This is the risk the market faces today.

The net amount of silver investors have been buying has been declining since 2012. The surplus has fallen from 198.2 million ounces that year to around 43.9 million ounces in 2018. The market is at a critical junction, just as it was in 1990. (Yes, there is a surplus. Those who say the silver market is in a deficit either do not know what they are speaking about, or are trying to sell silver with bogus 'analysis' based on faulty statistics.)

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