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As social media zeroes in on silver, they could trigger palladium

◆ Silver prices have rallied 16.5% in three trading sessions, after Reddit forums called for retail investors to buy ETFs backed by the metal.

◆ The speed of the rise and the depth of the silver market, however, suggest institutional investors hitched a ride on the trade.

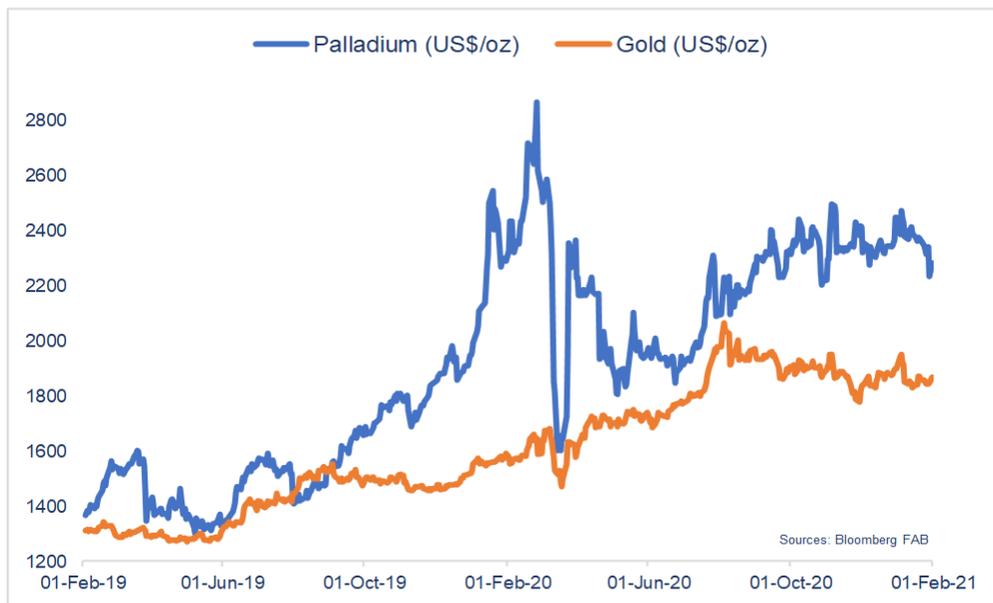
◆ The metal is relatively oversupplied, however, and the rally could fizzle.

◆ The gains, however, could remind some investors of palladium, which was widely traded by hedge funds before the market crash in March.

◆ The FAB AAC is overweight in equities, IG and EM bonds, and gold, and is underweight alternatives.

As the Reddit saga continues and Wall Street chroniclers become ever more fascinated by the army of retail investors moving markets, the focus has shifted away from stocks of ailing companies to silver. On Thursday of last week, some of the people in the above-mentioned forum suggested investors focused on buying silver-backed ETFs, and triggered a rally in the metal.

Since the social media call, silver prices have rallied 16.5% to US\$29.4/oz as of 6pm in Abu Dhabi. Silver-backed ETFs saw massive inflows in the past three days and reports suggested that American Eagle silver coins sold for as high as US\$43/oz over the weekend amid huge demand. Despite such reports, such big moves mean some big investors have probably joined the frenzy, given the depth of the silver market.



Industry estimates suggest there are close to 3 billion ounces of silver above the ground, which, at today's price, would put the market cap of physical silver at about US\$88.38 billion. It is not a lot, but the derivatives market related to silver is estimated to be as big as 250 times that.

While most ETFs for the metal tend to hold physical silver, which seems to have been the target of the Reddit crowd, the overall market for the metal is so deep that a retail-driven move is likely to be short-lived.

Still, retail investors often fancy playing with silver, a desire probably driven by the famous coup on this market that Nelson Bunker Hunt and William Herbert Hunt played in 1980. Then, the 'Hunt brothers' managed to acquire nearly a third of the physical silver in existence and pushed the price of it up eight-fold in about a year. This actually led to restrictions on buying metals on margin and helped spur the futures market for this and other precious metals in the following decade.

Palladium prices crashed with the stock market in March and are yet to fully recover

Because the derivatives markets developed so much in the past 40 years, the current rally in silver prices probably cannot last very long. It could, however, remind many investors of the volatility, and potential gains, of trading precious metals.

For years some funds built large positions in palladium, which drove the metal used in catalytic converters to a record high of US\$2,866.2/oz last 27 February. Prices fell after that, bottoming at US\$1,533.23/oz on 23 March, the day of the S&P 500's recent nadir. Palladium has recovered to US\$2,281.4/oz since, but remains shy of its record, despite tight supply. Hence, the silver rally could prompt some funds to focus on palladium, which has a smaller market. Again, the Reddit crowd's moves may have side-effects.

Investment Strategy Update

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