



How China Will Drive Silver to \$250

By Peter Krauth, Contributing Editor, *Money Morning*



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Once upon a time, the Chinese government forbade ownership of all precious metals.

But now the ban has been lifted. In fact, China just introduced silver bars specifically for investment. And state-run China Central Television (CCTV) has been running a campaign encouraging the population to invest in silver.

That means there are over a billion potential new silver investors hitting the market. This is especially significant when you consider the average savings rate in China is 30% to 40%.

But the flood of new Chinese silver investors isn't the only factor driving up silver prices. The increased use of silver in everything from solar cell technology to medicine is pushing up prices as well.

Read on to discover exactly why silver will make savvy investors rich in the year ahead... and find out the one stock to buy now to take your portfolio to new highs.

Chinese Demand for Silver

Take a second to think how much of an impact this will have on the silver market – the sheer amount of people, and at such a high rate of savings.

Then you factor in Chinese demand for things silver is needed to make – cell phones, computer, batteries, flatware, and jewelry. China's silver consumption already accounts for 70% of the global total of industrial use, and its middle class isn't even close to reaching its spending potential.

Analysts are now predicting silver prices can reach as high as \$100 in 2011 and \$250 by 2015.

Allow me to outline all the reasons silver is going to continue its ride to another record, and offer you a handful of ways to profit along the way.

Demoting the Silver-Gold Adage

China's impact on the market isn't the only thing catching the attention of silver analysts. The silver-gold ratio tells a compelling story about the price of silver.

Put simply, the ratio means how many ounces of silver it takes to buy one ounce of gold. Historically, that ratio has been about 15-to-1. Right now, that ratio is hovering around 62-to-1.

For silver to 'correct' by returning to its long-term silver/gold ratio of about 15, gold at \$1,360 means silver should be priced at \$90 already, far above even its 30-year high around \$21, where it stands today.

You'd be hard-pressed to find anyone who believes that 62-to-1 will hold up much longer, because it basically means silver is cheap compared to gold, which opens the door for investors to come in at a good price. Investors like China. All of China.

More Pressure on Silver Prices

As the global economy expands its size and reach... as technology advances... and as more ways to buy silver become available... as silver supplies have dwindled... more factors began affecting the price of silver more exclusively – for better or worse.

Some of those factors are:

- **Silver's Industrial Uses:** For decades, silver has been far more than a collector's item. It has dozens of uses outside the storage vault. It's used to make currency, jewelry, and flatware. Silver is used to produce highly reflective, architectural mirrors. It's heavily used in the medical field as an antimicrobial – a killer of some bacteria, algae, fungi, and viruses. In the labs, it is used in photographic films and as a catalyst in chemical reactions. And more applications are arriving soon, including using silver in photovoltaic cells in solar-power technology and in rechargeable silver-zinc batteries. In fact, silver's use for industry has gone from 35% of total annual production 10 years ago to more than 50% today. At least one source claims that figure is actually as high as 90%. Either way, one thing is clear: Silver is quickly gaining serious value in many highly profitable industries.
- **Silver Supply/Demand:** Supplies of available silver have dropped by 86% in the past two years. Commodities research firm CPM Group says the current amount of aboveground, refined silver has fallen from 2.2 billion ounces in 1990 to less than 1 billion today. At the same time that supply is falling, demand is rising... especially industrial demand. The pressure on silver prices will get even stronger as individual investment demand (including the whole Chinese market) goes up.

- **Silver Market Size:** Silver is a less active and lower-volume market than gold, which means that purchases, even by individual investors, can make an impact on prices. Better said, 100 silvers buyers purchasing the same amount of metal as 100 gold buyers will have a bigger impact on the market. Think how much prices can spike when millions of Chinese investors flood the market with bids to purchase silver. Now, combine that with the global return of industrial silver demand.

Silver Price Projections

Money Morning's Martin Hutchinson believes both silver and gold will continue climbing into 2011 and beyond. If enough investor momentum gains – and if China's push for individual silver investment intensifies – he believes silver could peak past \$100 in 2011.

But that's just the beginning. Silver could top out at \$250/oz. in the next five years, as global mine production crawls in the face of increasing consumer and industrial demand. That's an increase of more than 1,150% over current prices.

Bear in mind that silver prices have been moving faster than gold. So those who want to invest in silver better pull the trigger soon, or be prepared to watch from the sidelines as silver's price explodes upward.

The Best Way to Invest


Like investing in gold, the most popular ways to invest in silver are ETFs, mining company shares, and bullion/coins.

As far as ETFs go, silver investors might want to check out **ETFS Silver Trust** (NYSE:SIVR). The ETF can be bought and sold, just like any stock, and seeks to reflect the value and performance of the price of silver bullion, minus the Trust's operating expenses. The ETF is backed by physical silver bullion held by HSBC in London.

But, to really leverage the price of silver, take a look at Vancouver-based **Silver Wheaton Corp.** (NYSE:SLW).

Silver Wheaton is perhaps the heaviest hitter in the global silver-mining business. It gets its silver from all corners of the world, from the Aurcana mine in Mexico to the Zinkgruvan mine in Sweden.

As silver's price shot up 56% in 2009, Silver Wheaton's stock more than doubled that, with a 124% gain. And in that span, the company acquired competitor Silverstone Resources Corp. and entered into several long-term agreements, with Goldcorp and other major miners, in which Silver Wheaton will acquire silver mined by them.

Look for Silver Wheaton to skyrocket as silver prices rise. 

Editor's Note: Silver isn't the only commodity in high demand in China. Demand for a substance used in everything from medicines to nuclear bombs already tops production by 16 times... This supply/demand mismatch has doubled the price of this substance in just one year. But the boom has barely even started. Discover [the best way to play it](#) (it's not by buying the substance itself) before demand skyrockets even more.