facing facts

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An Interim Review of Silver Production

At the recent Annual Silver Industry Dinner in New York City, hosted by the Silver Institute, the GFMS team delivered a statistical update on the market, including expectations for mine production. On the back of this and in light of the moves lower by the silver price, it seems an appropriate time to take a closer look at some of the trends in the silver mining space.

Despite the decline in silver and most by-product metal prices seen over the year, we expect that global silver mine production will rise by 32 Moz in 2014. A significant portion of the increase we are witnessing this year can be attributed to three major silver-producing mines, in Guatemala, Mexico and Chile, which combined are on track to contribute an increase of around 32 Moz year-on-year. Other major producers' expected output is detailed in the table below.

Top 15 Silver Producing Countries

Ranking			Output (Moz)	
2013	2014F	Country	2013	2014F
1	1	Mexico	187	199
2	2	Peru	118	121
3	3	China	118	119
4	4	Australia	59	55
5	5	Russia	45	45
7	6	Chile	39	44
6	7	Bolivia	41	42
8	8	Poland	38	37
9	9	United States	34	36
10	10	Argentina	25	27
15	11	Guatemala	10	25
12	12	Kazakhstan	20	16
11	13	Canada	21	16
14	14	Sweden	11	12
13	15	India	12	10

Source: GFMS, Thomson Reuters, The Silver Institute

Guatemalan production has been on the rise in the past year and is expected to grow by 144% in 2014. Commercial production was achieved at Escobal during the first quarter of 2014 with silver grades, mill throughput and recoveries in line with the mine plan. In the 9-month year-to-date period, Escobal produced 15 Moz of silver – a comparable order of magnitude to Canada's output for the year. Escobal has overtaken Marlin as Guatemala's largest silver producer and is on track to produce between 18-21 Moz by year-end.

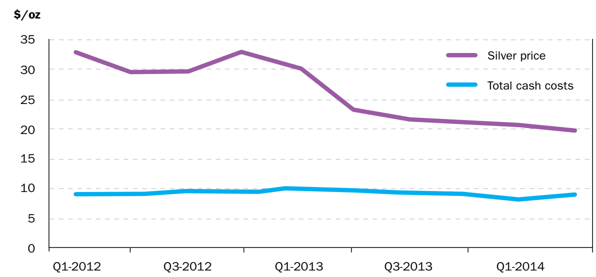
In Mexico, official statistics point to a 12 Moz increase year-on-year to just under 200 Moz. Over the first nine months, Peñasquito has produced an additional 5 Moz compared to last year, explained by a 29% increase in processed silver grades. In 2013, silver yields were lower owing to more refractory ore.

Elsewhere in the country, the ramp-ups at Del Toro, Saucito and San Jose have added a combined 4 Moz in the year-to-date.

Chilean output, meanwhile, is expected to record a gain in the region of 5 Moz to a total of 44 Moz, aided by new supply from the primary copper mine, Ministro Hales. Over 2014, the 15% devaluation of the Chilean peso has aided miners in the country to contain cost inflation of energy and labour wages. Total silver production is estimated to reach 44 Moz, extending gains for a second consecutive year.

However, gains in the aforementioned countries were partially offset by losses in Canada (-5 Moz) and Kazakhstan (-4 Moz), explained by mine shutdowns and lower grades. In addition, we forecast Australia will register a 4 Moz drop year-on-year, predominantly led by a fall in production at the world's largest primary silver mine, Cannington. The drop in mine output is due to an 18% fall in silver processed grades year-on-year, which substantially outweighed a 4% increase in throughput.

Total Cash Costs vs Silver Price



Source: GFMS; Thomson Reuters

The sharp decline in the silver price, which fell by 25% year-on-year in the first half of the year, has had a marked effect on the financial performance of primary silver producers – a group that will account for some 30% of global mine supply in 2014. In response to this squeeze, as has been the case in the gold industry, costs are being reined in wherever possible. Primary producers' Total Cash Costs in the first half of the year averaged US$8.51/oz, a 13% decrease year-on-year from US$9.77/oz. This implies a 56% simple cash margin, the leanest for a decade. At first impression, this might appear to be an attractive margin, though it should be made clear that Total Cash Costs exclude capital expenditure, corporate overheads and exploration costs. Last year, these items comprised some 30% of incurred cash expenses.

To demonstrate, in the first half of 2013, the aggregate financial performance of four leading primary silver producers (Fresnillo, Coeur Mining, Pan American Silver and Hecla) recorded a narrow loss, of $32 million. Over the year that followed, these producers' exploration expenditure was cut by 42% year-on-year and, over the same period, capital expenditure was reined in by 27%. As a consequence of these cost reduction initiatives and broader optimisation efforts at the operating level, the group of producers brought aggregate net income back to positive $61 million in the first half of 2014. With spot prices having recently traded down to $16/oz, it is clear that further rounds of rationalisation will be needed in the silver industry.

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Having joined GFMS Ltd as a Metals Analyst in 2005 to cover the mining sector, William was brought across to Thomson Reuters in GFMS' 2011 acquisition and holds the role of Research Director – Precious Metals Mining, within Thomson Reuters' Commodity Research & Forecasts division. He has accountability for the mining team's research output of global production, mining costs and producer hedging research across the precious metals.

Dante Aranda began his career in the commodity market in 2010 when he joined Thomson Reuters in Toronto as a commodities specialist, working with a broad range of natural resources companies. Now based in London as a precious metals mining analyst, he is heavily involved in the team's modelling of mine production and industry costs using Matlab and VBA and is also a leading contributor to the GFMS team's technical analysis. Prior to Thomson Reuters, he worked at Banco de Credito del Peru as a Junior Trader on the FX structured products desk. He holds a BSc. (Honours) in Financial Economics & Applied Statistics from the University of Toronto, where he specialised in Econometrics.