Branding Silver – Why Does Gold Take the Lion’s Share?

By David Jollie, Consultant, Glaux Metal

For example, as deputy chair of the organising committee of the 2015 LBMA/LPPM Precious Metals Conference in Vienna, I noticed the dominance of gold in terms of bandwidth – the time spent in discussing this metal in the presentations but also informally elsewhere in the Conference – in comparison to palladium, platinum and silver too.

To an extent, the size of the gold market could be seen as one rational factor driving this focus on gold. Based on metal prices at the end of December 2014 and production data published by GFMS Thomson Reuters for the corresponding year, it is possible to estimate that the gold market should have been worth close to US$120 billion in 2015, based simply on the weight of metal newly mined (although other calculations, for instance using trading volumes, could give a substantially higher figure). By comparison, one year’s supply of silver was worth only some $14 billion (and the respective figures for platinum and palladium were only $6 billion and $5 billion respectively on the same basis). If trading and transaction volumes are included, this discrepancy could be expected to grow, with gold becoming even more dominant. Only when the value added in manufacturing each metal is considered do the white metals compete more closely, with their greater industrial utility boosting the overall value of their individual markets.

It seems, therefore, quite appropriate that gold takes the lion’s share of attention in the precious metals sector as well as in the public’s mind: it is simply a larger market with, potentially, higher profits to be made for industry participants.

What we talk about when we talk about the white metals

When they do gain some attention, the platinum group metals are often discussed in terms of their supply and demand dynamics, with issues such as the automotive market and the political environment in South Africa seen as particularly relevant. Although it is a matter for debate whether this focus on fundamentals aids accurate price forecasting, this does at least provide a common framework for market participants to use in understanding market dynamics.

In contrast, when silver is discussed, it is most often simply treated as a hybrid between gold and a base metal such as copper, a description which is valid but has little interpretive or predictive power. The complex nature of both the supply and demand sides of the equation for silver encourages individuals to take this high-level, top-down approach to this metal rather than focusing on the details of individual applications or analysing the prospects for mine output in a very wide range of countries.

The size of the silver market, its complexity and the relative lack of visibility of silver compared to gold limit the amount of understanding that many people have of this metal. But does this relative lack of understanding and appreciation of silver act against it, reducing either its perceived worth or its actual value?

A historical comparison between gold and silver

It is common knowledge that gold is simply worth more than silver – at the time of writing (December 2015), the gold:silver price ratio was close to 76:1 and gold had traded above silver in price terms for a very considerable time. However, gold has not always been the more expensive metal. In ancient Egypt, only 4,500 or so years ago, Heterephes I (mother of Khufu, otherwise known as Cheops, the builder of the great pyramid at Giza) was buried with a number of silver bangles at a time when silver was priced considerably above gold on account of its utility and relative scarcity within Egypt. This at least makes clear that there is no obvious magical ratio that should exist between the prices of these two metals.

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Given current price levels, it seems unlikely in the extreme that silver will trade above gold again within the working life of any of the current market participants. However, the white metals have some unique and highly useful properties which one might expect to attract attention and add to their value both in absolute terms and relative to gold.
For silver, in particular, its electrical conductivity, its thermal conductivity and its reflectivity are amongst the highest of any metal, and it frequently finds use in applications where these are important (including light switches, touch screens and the photovoltaic sector).

Yet, despite these and other properties, silver has not only been considerably cheaper than gold in the last few years, as the market might typically expect, but the price of silver has underperformed since reaching near-record nominal highs in US dollar terms in 2010. Some of this absolute price weakness can doubtless be attributed to growth in mine output for silver over this period, a slowdown in the remarkable rate of growth within China, a decrease in investor interest in commodities and other fundamental factors. However, it is interesting to examine whether silver’s brand itself was part of the issue.

It seems that silver is a thoroughly modern metal in comparison to gold. Its greater utility in a range of industrial applications should support interest in this metal. It is possible to see how silver may have fared in comparison with gold over the last few thousand years by looking at how often each metal is mentioned in some key texts during the period, as an indication of the relative importance of the white metal at those times.

Chart 1 shows the ratio of the number of times silver is mentioned in each of the texts shown compared to gold. This sort of analysis gives us an idea of the cultural presence and relevance of each metal and shows a good progression, with silver’s branding having improved notably in the 2,000 or so years between the publication of the ancient Sumerian Epic of Gilgamesh and the Bible.

Since then, progress has been less convincing. Google of course is a snapshot of the current use of each word but also historical uses, so perhaps a better guide to the present and the immediate future might be EDGAR, the Security Exchange Commission’s online system. Here, the number of companies with the word silver or the word gold in their names are almost equal, suggesting that people setting up companies do now see similar value in each metal despite silver’s traditional association as second in value after gold in metals and competitions, in financial terms and in cultural relevance, indicating an increasingly positive view of the white metal.

**Silver’s perceived value**

There has, though, been relatively little work carried out on individuals’ perceptions of the value of silver. One study is the intriguingly named The perceived size of coins in normal and hypnagogically induced economic states, which was carried out in 1951. The researchers were interested in how experimental subjects perceived the size of coins depending on whether they had been primed to think of being poor or rich. In the researchers’ view the perceived size of a coin indicated the perceived value of the coin.

They took a single white/grey coin and asked their subjects to indicate the size of the coin after being told it was made of different materials, from lead to silver, white gold and platinum. The results, shown in Chart 2 below, show that silver coins were typically perceived as larger, and hence more valuable, than lead coins, but were seen as less valuable than either white gold or platinum coins, again suggesting that there is a hidden psychological belief that silver is, or should be, worth less than these metals despite its undoubted status as a precious metal.

Interestingly, some of the experimental subjects (primarily those who had been primed to think ‘rich thoughts’ beforehand) saw the silver coin as smaller than it was in reality, indicating that they had particularly negative views of silver’s value. There is a good reason why Scrooge McDuck dives into a pile of gold coins and Smaug the dragon sits atop a similar pile in the Hobbit, rather than on a pile of silver, which is less highly valued due to preconceived ideas. Gold is simply viewed as worth more.

**Silver’s brand**

Of course, this research was carried out over 60 years ago at a time when the dollar was still, in some fashion at least, convertible to gold, so it is not entirely surprising that the mere use of the word gold demonstrated some value (although the fact that platinum was seemingly valued more highly than white gold suggests the rationale behind this may be more complex).

So, has the move since then from gold having an explicit monetary value to only having an implicit value in most cultures and countries had any impact on silver? To gain some additional insight, I carried out a small survey (with the associated issues of a limited sample size on the accuracy of the results) by asking a self-selecting audience to associate a given word with one metal chosen from amongst gold, silver, platinum and palladium. Given gold’s strong historical and cultural associations, we expected gold to score highly as a metal related to the past and silver to be seen as a more forward-looking element.

What I found can be seen in Chart 3 (the figures on the axis indicate the percentage of respondents who selected each metal from the four potential choices). What we found most interesting was that silver simply had a lower brand profile than gold in almost every area. It was seen as a fairly masculine metal, and a feminine one too, but the overwhelming response was that silver was cheap. Further investigation might be able to reveal whether this is simply cheap meaning good value or cheap meaning low quality. Given silver’s low scores in its association with the other words, it seems more likely to us that silver is seen as a lower-quality material rather than as providing good value.

Chart 4 shows the results of the same survey relating to the words past and future (with the percentage of answers relating to each metal shown on the relevant axis). As expected, gold scored very highly in relation to its past role, with 70% of respondents choosing it as the most closely linked to this concept amongst the four metals listed. Silver scored less highly on this measure, perhaps a positive factor.

**Overall, it seems that in Western cultures at least, silver is simply less well known and less highly prized than the yellow metal.**
However, the line shown in green here marks the metals most linked to the word future, a concept which seems to demonstrate potential utility and value. Here, the platinum group metals scored much higher. However, contrary to our expectations, silver actually underperformed gold on this measure too, with only a vanishingly small number of respondents choosing silver as the future metal, in contrast with a quarter of those surveyed who selected the ‘old-fashioned’ gold. In our view, this fits with silver being less well known than gold and perhaps underappreciated too, even compared to the platinum group metals, which are much less ubiquitous than either gold or silver.

Overall, it seems that in Western cultures at least, silver is simply less well known and less highly prized than the yellow metal. Further research in this area might be worthwhile. In retrospect, it would have been interesting to ask the survey respondents what they thought the relative prices of the metals were, to see how informed their views were by knowledge of the current financial value of each metal. It would also be fascinating to carry out a similar survey in a country such as Vietnam, where gold still de facto retains a monetary role.

The future for silver

Although silver seems undervalued (conceptually at least – it is never wise to argue with the market’s view) and underappreciated, we can reasonably ask whether this is likely to remain the case. Silver, as a metal, has some remarkable properties, often unlike those of other elements. Sometimes, the combination of these properties makes silver particularly useful, for example in the solar sector where its reflectivity, adhesive properties, electrical conductivity and formation of a passive oxide layer all provide specific benefits that are hard to find in a single other material.

Figure 1 shows the results of some meta-analysis of patents containing the word silver. A representative sample of patents granted in 2013 around the world was analysed for the most frequent words in the title of the patents themselves. In this figure, each word is shown at a size related to how frequently it occurs – larger words appear more frequently and suggest a stronger level of scientific interest in that property.

It is interesting to compare the results here with those obtained for the platinum group metals, where catalysis is rather dominant in terms of the amount of research carried out. Here, with silver, there is a much wider range of applications or end uses being examined. The word conductive appears, as do the words electrode and electronics, suggesting that silver’s extremely high electrical (or perhaps even thermal) conductivity is likely to generate new applications and be used in new technologies over the next few years. Words related to the solar sector, such as the word solar itself, paste and cell, reaffirm that silver is likely to play a role in the photovoltaic sector too over this timescale at least.

Closer examination reveals another new and growing application, in the form of silver wires on touchscreen devices (as indicated by the words nanowires and transparent in this case). And, the possibility of other entire new areas of applications being developed can be seen in the presence of words such as nanoparticles and antimicrobial. In our view, this suggests that new demand sources for silver are likely to come on stream over the next half decade and that, even with ongoing thrifting being seen, demand for silver could well rise at a faster rate than the rate of growth in the world’s economy. Although this is not in itself a sufficient condition to ensure that the silver price rises in the future, it is at least supportive of greater utility for this metal and the potential for higher prices to develop (or perhaps higher premiums for certain grades and forms of the metal) if other market conditions allow.

In general, the number of patents and weight of research being carried out on silver has also risen over recent years despite silver’s price excursion to close to $50 an ounce in 2010, which prompted some thrifting. As Chart 5 above shows, silver is at least keeping pace with each of the other major precious metals in terms of how much research is being carried out and is outpacing the other white metals. This again poses the promise of further demand being generated for silver in the coming years, both in absolute terms and in comparison to the other metals.

As far back as 1516, Thomas More wrote, in Utopia, that “nature granted to gold and silver no function with which we cannot easily dispense. Human folly has made them precious because they are rare.” No doubt a large part of the value of these metals does come from their scarcity and from their perceived rarity. I believe, though, that silver is a remarkable metal and that human ingenuity as seen here could eventually help it start to regain its rightful position in the public’s mind, and in scientists’ minds too, as a useful and valuable precious metal in its own right.

Dr. David Jollie, consultant, Glaux Metal, is a well-known analyst with over eighteen years’ experience of the precious metal markets. After gaining his doctorate in chemistry, he worked at Johnson Matthey from 1997 to 2010 in a range of roles focusing on the platinum group metals in particular, culminating in his role of writing the company’s market-leading published reviews of the market for these metals. From 2010 to 2015, he was employed by Mitsui & Co. Precious Metals as their analyst and Head of Research, covering all of the precious metals including gold and silver. One of his areas of interest is the interplay of supply and demand and public perception in determining value for these and other metals and materials.