The Daily Check-In with Goldman Sachs

With Sarah Kiernan, Head of Americas Commodities
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Global Markets Division

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Liz: Hi, Sarah.

Sarah Kiernan: Hi, Liz.

Liz: You're head of Americas commodities sales for our Global Markets Division. We saw a significant rise in the price of silver recently fueled in part by the explosion in retail investing. What was the story behind silver starting in late January?

Sarah Kiernan: Sure. So in the middle of January, silver was trading at about $25 an ounce, kind of flat to slightly down from where we had started the year. And then as the world all got captivated by what was happening in equities with GameStop and AMC and, you know, GameStop going up 16 times, we started to hear that some of those same investors might be turning their sights towards silver and thinking about seeing if they could buy that and drive it up similarly.

I think just before that end of January it started to rally about, the 28th, the 29th. Over the weekend at the end of January there started to be media reports that silver coins and retail kind of physical purchases were getting bought up all over the country. So on the 1st, the market rallied a lot. It was up to a peak of $29. And, you know, before kind of settling back and calming down a little bit and now we're back to 27.

Liz: But the market for silver is different than ones for stocks in, say, GameStop. Who makes up the majority of traders in silver?

Sarah Kiernan: Yeah, so I think commodities markets generally are different than asset classes like equities in one key way, and that's kind of there's three main participants in the market. So the first two are similar to equities, and the last one is very different.

So the first one is investors, hedge funds, asset managers—companies that are looking to get some sort of either long or short exposure to whatever market it is and want to maintain that delta and net risk position.

The second, also similar to equities or other asset classes, are market makers like ourselves who exist to basically intermediate flows and ultimately match up buyers and sellers and who don't want to have net risk positions. You want to be flat at the end of the day or whenever you can be.

But in commodities where it's different is there's also this whole big world of companies, corporates who are inherently long or short a particular commodity just by virtue of what they do every day. So their position in the market, their trade, their buy or sell actually is neutralizing their net risk position rather than putting on a risk position where if prices move wildly they might change that view and want to take it off. So that makes some pretty strong hands for a long or short position because it actually is a flattening of the risk.

And it also means that there's a good amount of transactions that go on over the counter, so not cleared through something like COMEX futures. So positioning reports that you can look at for equities and get a pretty good sense of kind of the net balance of where everyone is positioned long or short don't really work as well for commodities markets like silver.

Liz: But silver is a physical asset, so there are all kinds of logistical complications around the way that it's traded. Can you explain those dynamics?

Sarah Kiernan: So that's probably kind of the biggest thing and, logistically, every commodities market—and silver in particular, since we're talking about it—is a physical market. So ultimately, if you're buying or selling, you are satisfying that obligation by delivering the physical metal at the end of the day. Unlike in equities where, if you are selling an equity, that short sale carries with it an obligation to buy back that same share in the future. In silver, if you sell a commodity, a silver future, then you can satisfy that by—you have to satisfy that actually by delivering the physical metal at the end of the day, and you can get that from a variety of different places.

And I think the scale of the market is hugely different. It's really important to understand that the amount of silver available that meets that spec to either deliver into Chicago or to London-based sales is hard to know exactly, but it's probably north of 50 or 60 billion between ETF, London physical, and COMEX positions. So there's a lot of supply out there. It's not a market where there's just a certain number of shares outstanding and you can never get any more.

And so when you think about Wall Street Bets or whoever it is that was five or six million people, if you're going to a company like GameStop, which has 50 million shares in float, that's a lot easier to really impact the price than a $50 or 60 billion sized market.

Liz: So Sarah, even before this recent activity, we talked to you last July about the rising demand for silver. How has this story around silver evolved since then?

Sarah Kiernan: So a lot of the reasons why people are interested in silver are the same now as they were in the summer. But people, I think, feel even more convicted in those views, and US investors and asset managers where they were probably interested as a thought experiment in the summer as to what could happen on either inflation or ESG investment are really focused on that now as a real risk to their portfolio, potentially, and something that they need to allocate into.

The first main thesis driving silver interest is as a currency debasement hedge. So people generally tend to like precious metals: Usually gold as a first thought as a way to store a value if you're worried about currency debasement or you're worried about inflation. And that is the case—people always, you know, go to gold.

But silver is also something that attracts investor interest. It's a much smaller market than gold, about one sixth the size. So as we see spillover, or people feel that they've missed the gold move, or for whatever reason, then people tend to be interested in silver as a currency debasement hedge.

And then on the other side, ESG is obviously a super important theme to everybody. Silver actually has true use in ESG, particularly in solar panels. About 10% of the demand for physical is for solar panels. And both the Biden administration and the Chinese over the next few years have pretty aggressive growth targets for solar power, which will just lift that even more.

So I think those two pillars are really driving investor interest in this space once again.

Liz: Thanks, Sarah.

Sarah Kiernan: Thanks, Liz. Thanks for having me.