

# The Industrial Scrimmage for Dwindling Supplies

As a precursor to this brief article, many of you may already be familiar with the dramatic rise in palladium prices over a four year period beginning in 1997. By the year 2001, the metal had risen from just above \$100/oz to a high of \$1100/oz. This was a result of industrial users (e.g. Ford Motor Company) panicking about a lack of supply and consequently building the necessary inventories so that factories would not need to be shut down. Silver should experience a similar price rise due to future industrial desperation, only unlike palladium, which has since cooled off, the industrial scrimmage for silver will be only one of many unique forces putting pressure on the price. This should then result in significantly higher (relative terms) and much longer sustained gains in silver.

## But what would cause such desperation?

The answer isn't very hard to understand:

First of all, **silver, aside from petroleum, is used in more applications than any other commodity.** However, unlike petroleum, the amount of silver used in its myriad of applications is but a tiny percentage of the item's total cost. This means that silver is basically price-inelastic when it comes to industrial demand, meaning that end-users would not readily substitute other metals even in a dramatic price rise. Thus, a significant price rise would more than likely lead to the build-up of inventory than the elimination of silver due to substitution of some kind.\*

Secondly, because of the now 25 year old "just-in-time" policy developed and popularized by the Japanese, all inventories of commodities have been reduced significantly. Overall, this has helped to create a much more lean and mean industrial machine, but such 'leanness' is very vulnerable in lieu of any transportation disruptions. Therefore, this fear of unavailability could easily lead to panic among industry giants causing them to stockpile bullion.

Having been in 'deficit-mode' for so long (between 15-60 years), a shortage at some moment in time is inevitable. The only way for these end-users to protect themselves will be to build up inventories by buying all available physical silver. It is only a matter of time folks, so I urge you to position yourself accordingly.

\*Build up is the only feasible option for industry at the moment. Due to silver's low price environment, there hasn't been significant motivation to look for viable alternatives. Of all the metals, it is the best conductor of electricity, the most lustrous, strongly resistant to corrosion, not easily oxidized, and is quite soft and malleable. Though the advent of digital photography is an obvious exception to the rule of silver's 'monopoly', its effect (or lack of) on the silver market shall be thoroughly analyzed in a future article.

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