

Affluent investors increase exposure to silver

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MUMBAI: Investment portfolios of affluent investors could soon sport a silver lining. Anticipating a surge in prices, coupled with factors like low inventory levels and higher global inflation, wealth managers have begun advising their clients to increase exposure to silver through structured products, overseas exchange traded funds and futures contracts on local commodity exchanges.

Apart from investing in overseas silver ETFs like I-Shares Silver, Powershares Silver, SPDR Silver Fidelity, Vanguard and other commodity funds, affluent investors are also investing in silver-based structured products of top investment banks like Barclays, RBS and Deutsche Bank. However, the scale of investments by resident Indians is small compared to non-residents due to lack of funding options, experts opine.

According to wealth managers, resident investors are using the \$2,00,000 window (under the liberalised remittance scheme of RBI) to invest in overseas assets, including silver. Buying silver in physical form or trading in silver futures contract on MCX are the only options for investors seeking exposure to silver. Capital market regulator Sebi is yet to give approvals for silver ETFs. A product approval document (for silver ETF) filed by Benchmark in mid-2008 is still awaiting the nod from Sebi.

India currently does not have an efficient mechanism facilitating investments in silver. There could be small amounts of investments in silver through structured products. Apart from that, investors are also using the liberalised remittance scheme route to invest in overseas ETFs, said **Maneesh Kumar, managing director, Burgeon Wealth Advisors.**

According to experts, higher global inflation and the weakening of dollar to euro would result in money flowing into precious metals. However, in the Indian context, investors have to be careful while investing abroad. Investing in overseas assets in times of rising rupee (vis-a-vis the dollar) could result in (currency) losses at the time of redemption.

Investors who are not willing to take currency risks have a few options to invest in local markets as well. Aditya Birla Group is planning to come out with a Silver Harvest™ scheme, which will enable investors to buy silver commodity contracts through MCX.

The group intends to come out with different lot sizes the default being of 5 kilograms. As in any futures contract, the client rolls over the contract to keep the position alive; he pays additional margin money in equated instalments over 1, 2 or 3 years and once the margin money covers the entire value of the contract, the customer takes delivery in demat form.

The most active silver futures contract on the MCX traded at Rs 27,787 on Monday. Silver spot price as polled by MCX closed at Rs 27,810 per kilogram, up Rs 135 from previous close.

We are expecting the product to do well when it is launched next month. This product will help investors take position at current prices and take delivery when it suits them, said Kanwar Vivek, MD of Aditya Birla Money and CEO, Aditya Birla Money Mart.

Industrial demand is expected to firm up the price of silver in international market. Silver is an industrial metal used in everything from flat-screen TVs to zinc-lithium batteries. The industrial uses for silver keep growing.

However, the outlook on silver in domestic market is negative over a shorter term. Analysts are expecting silver prices to correct deeply over the next in the short term. We are expecting prices to fall up to 22,000 levels, said Pranav Meer, precious metals analyst, Mangal Keshav Securities.

Domestic demand for silver is down because of firm prices. Also, a correction in gold prices could result in a sell-off in silver. Long-term investors should invest in silver only after a correction. Investors should be careful while investing in silver as it's a very volatile asset class, Mr Meer added.