

Silver broke \$100 an ounce this month. Then it kept going. At one point it touched \$120 - a price that would have seemed delusional twelve months ago when it was trading around \$30.

We've been trying to understand what's happening and whether it makes any sense. The short version: silver is caught in a collision between people who want it as money and people who need it to build solar panels. Both groups are competing for a metal that nobody can produce fast enough.

This is either the beginning of a structural repricing or a speculative blow-off that ends badly. We genuinely don't know which.

What actually happened

Silver rose approximately 270% year-over-year. In January 2026 alone, it gained around 65%. For context, gold - which had an extraordinary year - rose about 18% in the same month.

The numbers are so extreme they're hard to process. If you'd bought £10,000 of silver a year ago, it would now be worth roughly £37,000. If you'd bought it at the start of January, you'd be up 65% in four weeks.

Of course, if you'd bought at the \$120 peak and are reading this a few days later, you might be down 15%. Silver doesn't do calm.

Why is silver rising?

Silver has always been gold's more volatile sibling, but the current rally has specific drivers worth understanding.

The dual-engine problem

Gold is mostly a monetary asset - people buy it as a store of value, a hedge, a thing to own when they

Silver is different. Roughly half of silver demand is industrial. It's the most electrically conductive metal on Earth, which makes it essential for electronics, solar panels, and anything involving efficient electrical contacts.

This means silver responds to two separate forces simultaneously:

1. **Monetary demand** - same as gold. Inflation fears, currency debasement, geopolitical chaos, central banks behaving strangely. All the reasons people are buying gold apply to silver too, often more aggressively.
2. **Industrial demand** - completely separate from monetary concerns. Solar panel production is booming. AI data centres need high-performance electrical components. Electric vehicles use more silver than combustion engines. None of this cares about the Federal Reserve.

When both engines fire at once, you get what we're seeing now.

The China factor

On January 1, 2026, China implemented export restrictions on silver.

This is a bigger deal than it might sound. China is a major refiner and has historically been a source of supply for Western markets. The restrictions were implemented to prioritise domestic needs - China manufactures an enormous share of the world's solar panels and needs the silver for its own production.

The immediate effect: physical silver in London and New York became harder to source. Lease rates (the cost to borrow silver) spiked, which typically signals genuine physical shortage rather than just paper-market speculation.

Whether this is a permanent shift or a negotiating tactic in the broader trade war is unclear. But for now, it's removed a meaningful source of supply from Western markets.

The supply problem

Silver has been in a structural deficit - demand exceeding supply - for five consecutive years. This isn't new, but it's becoming harder to ignore.

The awkward thing about silver supply is that most silver is mined as a byproduct of other metals. Lead, zinc, copper, gold - silver often comes out alongside these. Only about 25-30% of silver supply comes from primary silver mines.

This means when silver prices rise, miners can't simply "turn on more silver production." They'd need to expand lead and zinc operations, which they'll only do if lead and zinc prices also justify it. Supply is sticky in a way that doesn't respond cleanly to price signals.

Meanwhile, solar demand keeps growing, AI keeps building data centres, and investors keep buying

The price forecasts

Citigroup thinks silver could hit \$150 by mid-2026. Other analysts are more cautious. Some are genuinely worried.

The bull case is straightforward: supply can't keep up with demand, China has restricted exports, and both monetary and industrial buyers are competing for limited metal. In that scenario, prices have room to run.

The bear case is more interesting. It centres on something called "thriftling."

The thriftling risk

At \$120 an ounce, silver becomes expensive enough that industrial users start looking for alternatives. Solar panel manufacturers are reportedly accelerating R&D into copper-based alternatives. If they succeed - even partially - industrial demand could fall sharply.

This has happened before. In 2011, silver spiked to nearly \$50, then crashed to \$14 over the following years. Part of that decline was the photography industry finally completing its shift to digital, eliminating a major source of silver demand.

The question for 2026-2027: does the current price accelerate substitution efforts to the point where demand collapses just as supply catches up?

We don't know. What we do know is that solar manufacturers are very motivated to solve this problem, and \$120 silver provides a lot of motivation.

The UK angle: VAT and tax

For UK investors, silver has a significant disadvantage compared to gold: VAT.

The VAT problem

Investment gold is VAT-exempt in the UK. Silver isn't. You'll pay 20% VAT on physical silver purchases.

This means if you buy £1,000 worth of silver, you're actually paying £1,200 (£1,000 of silver plus £200 VAT). Spot prices need to rise 20% just for you to break even.

The CGT advantage

However, Silver Britannias - coins minted by the Royal Mint that are UK legal tender - are exempt from Capital Gains Tax.

This creates a genuinely strange situation. You pay 20% VAT upfront (bad), but if the price rises substantially, your gains are tax-free (good). For long-term holders expecting large price increases, this can work out favourably. But you need significant appreciation to overcome the initial VAT hit.

For comparison: Gold Britannias are both VAT-exempt AND CGT-exempt. This is why gold is generally more tax-efficient for UK investors.

Practical implications

If you're a UK investor who wants silver exposure:

- **ETFs avoid the VAT problem** - you don't pay VAT on exchange-traded products
- **If you want physical, Britannias make the most sense** - CGT exemption partially compensates for the VAT
- **Avoid physical silver for short-term trading** - the 20% hurdle is too high
- **Consider VAT-free storage options** - some dealers offer storage in jurisdictions without VAT, though this adds complexity

How to buy silver in 2026

Silver ETFs (most practical for UK investors)

ETFs sidestep the VAT issue entirely and offer liquidity that physical metal doesn't.

Ticker	Fund	Fee	Notes
PHAG	WisdomTree Physical Silver	0.49%	UK-listed, LSE, most accessible for UK investors
SSLN	iShares Physical Silver	0.20%	Lower fee, also LSE-listed
SIVR	abrdn Physical Silver	0.30%	US-listed, good for global accounts
SLV	iShares Silver Trust	0.50%	Most liquid, US-listed

For most UK investors, PHAG or SSLN are the practical choices. You buy and sell like a stock, no

The downside: you own a claim on silver, not silver itself. For most purposes this is fine. If you're worried about scenarios where the distinction matters, you probably have bigger concerns.

Physical silver

If you want actual metal despite the VAT, your options include:

- **Britannias** - CGT-exempt, minted by Royal Mint, the sensible choice if buying physical in the UK
- **Other coins/bars** - no CGT exemption, so you'd pay both VAT on purchase and potentially CGT on gains

UK dealers include BullionByPost, Atkinsons, Chards, and The Royal Mint direct. Premiums over spot are currently elevated because demand is high.

Expect to pay spot + 20% VAT + dealer premium (typically another 5-15% on coins). This means you might pay 30-40% over the paper price for physical silver in hand.

Mining stocks

If you want leveraged exposure to silver prices, mining companies offer it. When silver rises 10%, a well-run miner's profits might rise 30-50%.

Some options:

- **Fresnillo (FRES)** - FTSE 100, largest primary silver producer globally, dividend yield around 1.5-3%
- **Wheaton Precious Metals (WPM)** - not a miner but a "streaming" company that finances mines in exchange for the right to buy metal at fixed low prices. Lower operational risk.
- **Pan American Silver (PAAS)** - major producer, diversified operations
- **First Majestic (AG)** - pure silver focus, but concentrated in Mexico with associated political/labour risks

Mining stocks add company-specific risk on top of silver price exposure. Management decisions, operational problems, jurisdiction issues - all can affect returns independent of where silver trades.

The volatility warning

We need to be direct about this: silver is not a calm investment.

If you buy silver and it drops 20% the following week, that's not a sign something went wrong - that's just silver. If you can't tolerate watching a position halve in value during a correction, you probably shouldn't be in silver.

For context, silver's 2011 crash saw prices fall from ~\$50 to ~\$14 over about four years. A 70%+ decline. This happened after a rally that looked a lot like the current one.

Does that mean the same will happen this time? Not necessarily. The supply-demand fundamentals are arguably more supportive now than they were then. But the historical precedent exists, and anyone buying silver should be aware of it.

Gold vs silver: the ratio

The gold-to-silver ratio - how many ounces of silver it takes to buy one ounce of gold - has compressed from around 80:1 to roughly 43:1.

Historically, this ratio has ranged widely. In the era of bimetallism, it was fixed around 15:1. In recent decades, it's averaged closer to 60-70:1. The long-term average going back centuries is somewhere around 50-55:1.

Silver bulls interpret the compressed ratio as silver "catching up" to where it should be relative to gold. If the ratio returned to 30:1, silver would roughly double from here even if gold stayed flat.

Silver bears note that the ratio can stay elevated (or compressed) for long periods and isn't a reliable timing indicator. The ratio was 100:1 in early 2020, which in hindsight was a screaming buy signal - but it took a pandemic and monetary chaos to realise that value.

Our view: the ratio is interesting context but not predictive. Don't buy silver just because the ratio says it's "cheap."

Our take

Silver in January 2026 is not an investment for the cautious. It's a high-volatility trade on the intersection of monetary policy failure and industrial necessity.

What we think:

2. **The thrifting risk is also real.** At \$120/oz, every industrial user is working hard to replace silver with something cheaper. If they succeed, demand could fall sharply.
3. **Volatility will be extreme.** 10-15% daily moves are possible in either direction. Position sizing matters enormously.
4. **UK investors face tax headwinds.** The 20% VAT on physical silver is a genuine disadvantage. ETFs avoid this but introduce different trade-offs.
5. **This is not the majority of your portfolio.** 2-5% allocation is reasonable for those who understand the risks. 20% allocation is speculation masquerading as investment.

If silver goes to \$150, this will look like an obvious opportunity in hindsight. If it crashes to \$60, it will look like obvious mania. We don't know which outcome is more likely.

What we do know: a lot of very real industrial demand is colliding with constrained supply and monetary uncertainty. That's created an extraordinary price move. Whether it continues or reverses depends on factors - technological, political, geological - that nobody can reliably predict.

Frequently asked questions

What is the silver price forecast for 2026?

Citigroup projects silver could reach \$150/oz by mid-2026, driven by continued supply deficits and strong industrial demand. However, forecasts vary widely - some analysts warn that sustained high prices will accelerate substitution efforts by solar manufacturers, potentially causing demand destruction. Silver's volatility makes precise forecasting particularly difficult.

Why is silver going up so much?

Silver is rising due to a "dual-engine" effect: monetary demand (investors buying silver as a hedge against inflation and currency concerns, similar to gold) plus industrial demand (solar panels, AI hardware, and electronics requiring silver's unmatched electrical conductivity). China's January 2026 export restrictions removed supply from Western markets, intensifying the squeeze.

Is silver a good investment in 2026?

Silver offers potentially higher returns than gold but with significantly higher risk. It's risen 270% year-over-year, creating both opportunity and danger. The supply-demand fundamentals are supportive, but volatility is extreme - 10-15% daily moves are common. UK investors face a 20% VAT disadvantage

How do I buy silver in the UK without paying VAT?

The main options are: (1) Silver ETFs like PHAG (WisdomTree) or SSLN (iShares), which trade on the LSE and don't incur VAT; (2) VAT-free storage schemes offered by some dealers where silver is held in non-EU jurisdictions; or (3) accepting the VAT hit on physical and focusing on CGT-exempt products like Silver Britannias to offset gains tax later.

What is the China silver export ban?

On January 1, 2026, China implemented restrictions on silver exports, prioritising domestic supply for its massive solar panel and electric vehicle manufacturing industries. This removed a significant source of supply from Western markets, contributing to inventory drawdowns in London and New York vaults and spiking lease rates - all signs of physical shortage.

Will silver outperform gold in 2026?

Silver has dramatically outperformed gold so far in 2026 (65% vs 18% in January alone), and the gold-to-silver ratio has compressed from 80:1 to around 43:1. Whether this continues depends on industrial demand holding up, substitution efforts failing, and the broader monetary environment remaining supportive. Silver typically outperforms in precious metals bull markets but falls harder in corrections.

This is the January 2026 edition of MetalsAlpha: State of Silver. We publish monthly updates analysing the precious metals market for UK investors. This is not financial advice - we're curious investors sharing what we've found.