

**THE SILVER INSTITUTE**



# **World Silver Survey 2006**

## **A Summary**

***Produced for The Silver Institute  
by GFMS Limited***

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### **Coeur d'Alene Mines Corporation**

Coeur d'Alene Mines Corporation (NYSE:CDE / TSX:CDM) is the world's largest publicly traded primary silver producer and has a strong presence in gold. In 2005, the Company produced almost 14 million ounces of silver at a cash operating cost of approximately \$4.26 per ounce. In 2005, the company also produced more than 130,000 ounces of gold. Coeur operates silver mines in the U.S., Australia, Chile, and Argentina. It also has a silver mine under construction in Bolivia and a gold mine under construction in Alaska. At the end of 2005, the company had 221 million ounces of proven and probable silver reserves and more than 1 million ounces of proven and probable gold reserves. With a primary focus on silver, the company's growth strategy is to increase production, reserves, cash flows and earnings through on-going exploration, project development, operating performance, and acquisition. The company maintains a strong balance sheet and, as of the end of 2005, had more than \$240 million in cash and short-term investments and no net debt.

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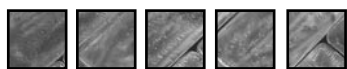
### **Industrias Peñoles, S.A. de C.V.**

Peñoles is a mining group with integrated operations in smelting and refining non-ferrous metals, and producing inorganic chemicals. Peñoles is the world's top producer of refined silver, metallic bismuth and sodium sulfate and the leading Latin American producer of refined gold, lead and zinc. Its mission is to add value to non-renewable natural resources in a sustainable manner. The company was founded in 1887. Its shares have traded on the Mexican Stock Exchange since 1968 under the ticker PE&OLES.



### **Silver Wheaton Corp.**

Silver Wheaton is the only "pure" silver company with 100% of its revenue from silver sales. The Company purchases silver from existing mines that produce the metal as a by-product. Since the first contract for silver production completed in October 2004, Silver Wheaton has grown from start-up to approximately 15 million ounces of annual silver sales in just 18 months. The Company expects to increase silver sales to 20 million ounces by 2009 through its existing contracts with three separate mines. Silver Wheaton's management and board of directors have demonstrated a strong track record of creating shareholder value through acquisitions and Silver Wheaton plans to become the leading silver company in the world.



The **World Silver Survey** has been published annually by The Silver Institute since 1990. Copies of the full *World Silver Survey 2006* can be obtained by contacting The Silver Institute at the address and telephone number on the cover page. For copies outside of North America, contact GFMS at the address on the front cover. The price per copy for the 2006 edition of the Survey is US\$195, €160 or £115.

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## Notes

### Units used:

supply and demand data are given in units of million troy ounces (Moz) rounded to one decimal place.

1 Moz = 31.103 t (metric tons)

1 ton = 32,151 troy ounces

1 ton = 1,000,000 grams (g)

### Terminology:

"-" = not available or not applicable

0.0 = zero or less than 0.05

"dollar" refers to the US dollar unless otherwise stated.

### Prices:

Unless otherwise stated, US dollar prices are for the London Silver Market fixing.

### Table Rounding:

Throughout the tables, totals may not add due to independent rounding.

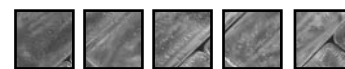
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**This report is a summary of *World Silver Survey 2006* which was released on May 24, 2006. The *World Silver Survey* (WSS) is an annual review of the international silver market. It contains the only truly global analysis of the world's silver markets and has been produced by GFMS Limited, the London-based analysts of global precious metals markets, on behalf of the Silver Institute in Washington DC since 1994. The WSS is a unique source of silver supply and demand statistics for more than 60 countries. It contains a comprehensive analysis of investor activity, worldwide silver stocks and bullion flows as well as a lucid and concise account of the financial, economic and social factors underlying market trends. Details on how to order the full 88-page WSS can be found on Page 4.**

## 1. Review and Outlook

Silver's extraordinary run over the last two and a half years has seen its price more than triple. Remarkably, this has occurred in spite of a notable expansion in mine supply and far more modest growth in fabrication demand. The principal explanation for why the price has nevertheless performed so strongly is the establishment of investment on the demand side of the equation. The sustained net disinvestment that characterized the market in the 1990s gave way first to a more neutral situation in 2001-03, with this, in turn, followed by more substantial net investment in 2004-05.

Total supply in 2005 increased by almost 4% to 911.9 Moz (28,364 t). Growth in global silver mine production exceeded expectations, with an increase of 3% or 21.1 Moz (657 t) in 2005, to reach a new high of 641.6 Moz (19,954 t). Total scrap supply rose a perhaps surprisingly modest 3% in 2005 despite the increase of 10% in the silver price. Last year, government sales rose 2% to 68.0 Moz (2,114 t), still more than a quarter down on the level recorded in 2003.

As for future supply, higher silver and base metals prices have improved the outlook for mine production, with fairly significant growth expected from 2007 onwards. In addition, there is scope for an increase in producer hedging, although we would not exaggerate its potential. On the other hand, scrap supply (in stark contrast to, for example, gold) is proving to be relatively unresponsive to higher silver prices. Government sales will remain a feature of silver supply but, because official stocks are reasonably low, again unlike gold, they do not represent a substantial threat to the price.

The 3% rise in total fabrication last year hides some varying performances of the key sub-components. The pace of the decline in photography quickened last year to

World Silver Supply and Demand (Moz)		
	2004	2005
<b>Supply</b>		
Mine Production	620.4	641.6
Net Government Sales	66.5	68.0
Old Silver Scrap	181.2	187.3
Producer Hedging	10.0	15.1
Implied Net Disinvestment	-	-
<b>Total Supply</b>	<b>878.1</b>	<b>911.9</b>
<b>Demand</b>		
Fabrication		
Industrial Applications	368.3	409.3
Photography	181.0	164.8
Jewelry & Silverware	247.8	249.6
Coins & Medals	42.3	40.6
Total Fabrication	839.4	864.4
Net Government Purchases	-	-
Producer De-Hedging	-	-
Implied Net Investment	38.7	47.5
<b>Total Demand</b>	<b>878.1</b>	<b>911.9</b>
Silver Price (London US\$/oz)	6.658	7.312

a 9% fall, although these losses were more than offset by gains within industrial fabrication, which comfortably surpassed its 2000 peak. When it comes to fabrication demand in the short to medium term, there is little price elasticity for most areas of silver use. Even in the jewelry and silverware sphere, the raw material value, in contrast to for example gold and platinum, represents only a low share of the retail price for the majority of articles. On the photographic front, high silver prices are having a marginal impact but nothing like as great as that of digital technology. Most industrial uses of silver are also largely insensitive to price over the short run. However, we would sound a note of caution over the longer-term prospects for an area that now consumes 47% of all fabricated silver were double-digit prices to be sustained.



## 2. Silver Price - Developments in 2005

The silver price rose a solid 10% last year to an annual average of \$7.312. As in 2004, this increase was the largest of the main precious metals, with gold up 9%, platinum gaining 6% and palladium falling 13%. Silver's intra-year gain was far more dramatic at 38%, reflecting the strength of the fourth quarter rally that took the price to an 18-year high of \$9.225. The chief driver of prices during 2005, especially in the fourth quarter, was again the surge in investor interest. However, industrial demand's strong growth, the fact that jewelry and silverware did not collapse and supply's response to higher prices proving quite restrained also featured.

Conditions in 2005, in isolation, however still merit the title of a bull market, given that the rally broadly extended into prices in other currencies. Increases for the yen and euro price, for example, were slightly higher than in dollar terms, though rupee price gains were much more modest. The increase in local prices for the top three producers, namely Peru, Mexico and Australia, were also slightly smaller at between 6% and 8%.

An analysis of prices in real terms also comes back with a bullish verdict since, on this basis, the annual average was last higher in 1989. Real prices also provide some insight as to how sustainable today's double digit prices might be; during the 1980s on this real basis, the annual average silver price was only below \$10 in two years and was above \$15 in five.

After a quiet start to 2005, lease rates entered a new phase in early May when a rate spike began a volatile but ultimately upward move. The percentage gains were greatest at the short end; the 3-month rate rose from almost zero to a more respectable 0.6% or so over the year. Gains at the longer end were still impressive; the 12-month rate's annual average almost doubled to 1.8%. As with prices, further strong gains have been seen so far in 2006; the average for the January-April period for the 3-month and the 12-month rates, for example, jumped to 2.3% and 3.9% respectively.

Jewelry and silverware also added some support to prices, again particularly on dips, in the first three quarters of 2005 as this area's offtake looks to have been notably firmer, despite already higher prices. This sector weakened in the fourth quarter but signs of a slump

### Silver - Trading Details

Silver is predominantly traded on the London Bullion Market and on Comex in New York. The former, as the global hub of OTC (Over-The-Counter) trading in silver, is the metal's main physical market. Here, a bidding process generates a daily reference price known as the fix. Comex, in contrast, is a futures and options exchange. It is here that most fund activity is focused. Silver is invariably quoted in US dollars per troy ounce.

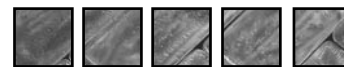
anywhere were largely absent until December. This overall stable performance is testament to the importance of rapid GDP growth in the likes of India and China.

That scrap failed to derail the rally was largely due to structural factors, namely the high share of fabrication going to industrial ends (where recycling rates are low) and the ongoing retreat in the photographic sector (and therefore its scrap) due to digital inroads. Net government sales also showed a limited price response. There was some opportunistic selling on price upticks but overall volumes were constrained, particularly by the Chinese, adding support to previous assertions that the latter's stocks were heavily reduced on previous levels.

Mine production also did little to impact prices as its increase at 3% was modest and well telegraphed. Producer hedging grew fast in 2005 and much of this concerned secondary miners locking in what they perceive as attractive prices for their silver and some project hedging. However, the absolute scale of the increase was small and there was little evidence of a change in primary producers' typically negative attitude towards hedging.

**The Silver Price since January 2005**





### 3. Supply

- **Global mine production posted a better than expected 3% increase year-on-year to attain 641.6 Moz (19,954 t) in 2005.**
- **The marginal growth in net government sales in 2005 was the result of falling sales from China and Russia being replaced by disposals from India.**
- **Global scrap supply edged higher in 2005, largely due to growth in end-year jewelry recycling, which outweighed the fall in photographic scrap.**
- **The delta-adjusted hedge book at end-2005 was calculated at 76.6 Moz (2,383 t), equivalent to roughly 12% of global mine production and representing a 15.1 Moz (469 t) increase from the revised position reported at end-2004.**

Strong growth in Mexico and Australia assisted global **mine production** to a record high of 641.6 Moz (19,954 t), a 3% or 21.1 Moz (657 t) increase year-on-year. The improvement was partly explained by record performances at two of the world's largest silver producing mines, namely Peñoles' Fresnillo in Mexico and BHP Billiton's Cannington in Australia. Peru, ranked as the number one producer, also registered healthy gains,

with higher output at Antamina, El Brocal and Yanacocha all contributing to the country's 4% jump in recorded production volumes.

Offsetting the gains described above, lower output was noted, in order of increasing magnitude, in the United States, Bolivia, Poland and Canada. Canada generated the bulk of last year's losses, accounting for 52% of the gross decline in global mine production. Mine closures and reduced output at Eskay Creek, where reserves are expected to be exhausted by 2008, explained much of the fall. Elsewhere, Poland's KGHM reported substantially lower by-product silver at the company's copper operations, while in the United States and Bolivia losses were modest at a respective 1.0 Moz (30 t) and 1.1 Moz (35 t).

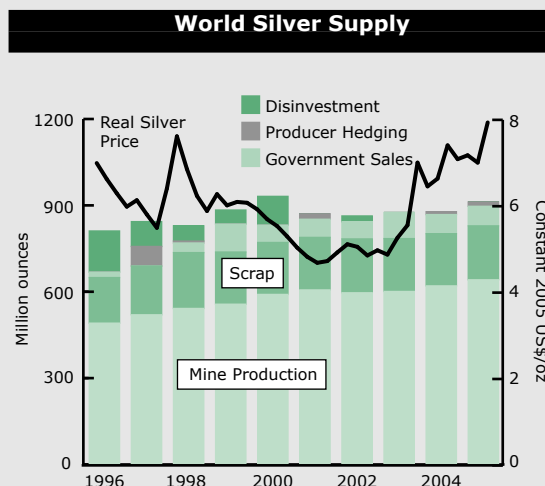
Last year, **net government sales** rose at the margin to reach 68.0 Moz (2,114 t). Supply fell from both Chinese and Russian stocks, substantially so in the case of the former. However, these declines were more than offset by the appearance of official sector sales from India, which were good for nearly 26 Moz (800 t). A small contribution to the overall figure was also made by modest sales from a handful of other countries.

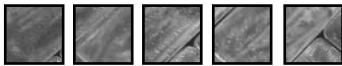
#### Silver Supply - Its Components

Mine production remains by far the largest component of silver supply, normally accounting for around two-thirds of the total (last year was higher at 70%). However, mine production is not the sole source; the others being scrap, disinvestment, government sales and producer hedging. Scrap, or more properly "old scrap," is the silver that returns to the market when recovered from manufactured or semi-manufactured goods. This could include old jewelry, photographic chemicals, even discarded computers. However, it excludes silver that is returned untransformed by the manufacturing process or that never becomes an end product - so called "process scrap".

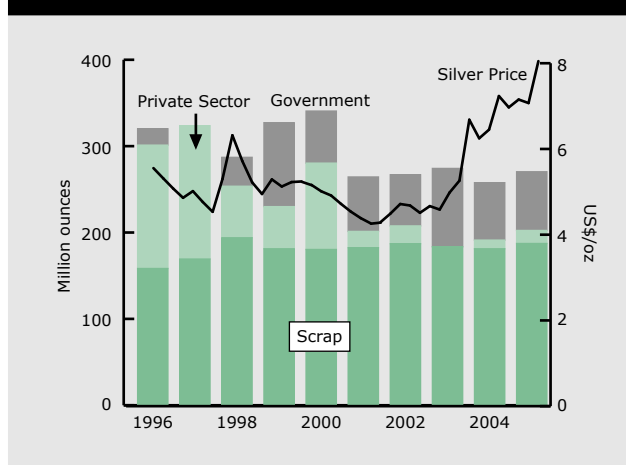
Old scrap normally makes up a little over a fifth of supply. Disinvestment and government sales are similar in that both comprise the return to the market of old coins or bars respectively by the private sector or governments. It is worth bearing in mind that these sources may not add to supply every year on a net basis. In some years, individuals have been net investors (as was the case in 2005) and governments net buyers (as occurred most recently in 1997). The final, though normally minor, component of supply is producer hedging or the

early sale by mining companies of future production. Hedging may also not appear every year as part of supply on a net basis as it can contribute to demand as de-hedging.





### Supply from Above-ground Stocks



Total global **scrap** supply rose modestly in 2005, up by 3% to 187.3 Moz (5,826 t). Considering the 10% rise in the dollar price, it might have been expected that the increase would have been greater. One reason this was not the case is that a substantial component of silver scrap recovery is now quite price inelastic, being driven by environmental and other legislative constraints. Consequently, recovery (for example from electronics) tends not to respond dramatically to price increases. Secondly, the recovery of silver from photographic applications dropped sharply in most of the main markets (including the United States and Japan). This partially offset growth in recovery from the electronics and electrical sectors.

Higher prices did, however, impact more markedly on recovery from the jewelry sector. Both India (largely from private individuals) and Italy (mainly through heavy trade destocking) recorded substantially higher levels of jewelry scrap in 2005.

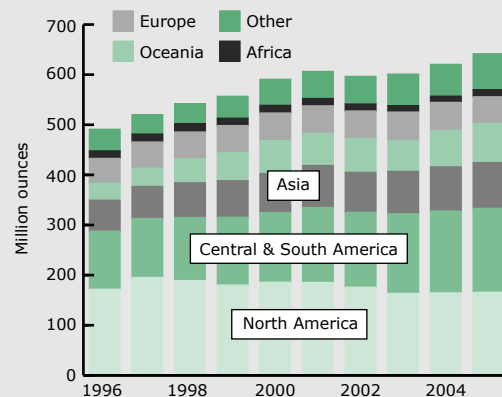
The outstanding delta-adjusted silver hedge book in 2005 increased by a substantial 24% compared to the corresponding position at end-2004. The hike in **producer hedging** was restricted to the options portion of the book, while forward sales experienced a modest contraction. Fresh hedging by Bema Gold and Apex Silver Mines, respectively related to financing requirements of the construction of Kupol in Russia and San Cristobal in Bolivia, made an important contribution to the measured rise. A further lift was provided by the higher price used to value the options book (\$8.83 versus \$6.82 at end-2004), which contributed to a rise in the implied delta against the contracts.

### Silver Mine Production - Where It Comes From

Geographically, just over half of mined silver comes from the Americas with Peru, Mexico and the United States respectively, the first, second and eighth largest producing countries. The third largest is Australia. Of greater market relevance, however, is the type of mine that silver comes from - most silver emerges as a by-product of the mining of other metals.

Only around 29% of output comes from mines where the main source of revenue is silver, a so-called primary silver mine. As shown in the table below, around the same amount comes from lead/zinc mines. This is important as the price of silver will only have a direct impact on primary output, which means the amount of silver mined is more a function of the price of other source metals.

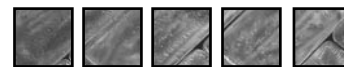
### World Silver Mine Production



### Silver Output by Source Metal

	2004 Output	% of Total	2005 Output	% of Total	Change y-o-y
Primary	173.8	28%	188.2	29%	8%
Lead/Zinc	204.1	33%	209.9	33%	3%
Copper	159.9	26%	164.5	26%	3%
Gold	77.9	13%	74.2	12%	-5%
Other	4.7	1%	4.6	1%	-1%





## 4. Demand

- **Total fabrication rose by 3% in 2005 to 864.4 Moz (26,885 t), its highest total since 2001.**
- **Industrial fabrication grew a strong 11% to a record 409.3 Moz (12,732 t) last year.**
- **Jewelry and silverware demand rose 1% to 249.6 Moz (7,763 t), thanks mainly to India and China.**
- **The fall in photographic demand accelerated to 9% in 2005, cutting offtake to 164.8 Moz (5,126 t).**
- **The 4% fall in coins and medals fabrication was mainly due to lower European minting.**
- **Implied net investment rose by 23% in 2005, to reach 47.5 Moz (1,478 t).**

**Industrial demand** in 2005 grew by a robust 11% to 409.3 Moz (12,732 t). The primary drivers of this impressive performance were buoyant global economic growth and strong consumer demand for products that in one form or another utilize silver. Demand for mass produced, low cost electronic items was, in particular, important in generating higher offtake. Growth was seen both in existing areas, such as cell phones, or newer ones, for example plasma display panel (PDP) flat screen televisions as these grow more affordable and are absorbed into mainstream use. What is probably most significant is that total industrial offtake in 2005 was 9% higher than the previous peak, recorded at the height of the 'tech bubble' in 2000. All of the major regions recorded higher demand last year, with the exception of Europe, where offtake was marginally down.

The most spectacular growth in both quantity and percentage terms for industrial demand was seen in India, up 19.8 Moz (617 t) or 59%, driven by higher demand in the **electronics and electrical** sectors as well as by a significant rise in plating of fashion jewelry. US offtake also rose strongly, pushing above 100 Moz for the first time (basis GFMS' series which starts in 1990). As was typical of most countries where offtake rose, electronics and electrical applications were the key drivers. Silver in these uses rose by 10% last year. Offtake of **brazing alloys** and solders rose more modestly, by 'only' 8%, reflecting somewhat weaker consumer demand (for products like air conditioners) compared to the electronics sector.

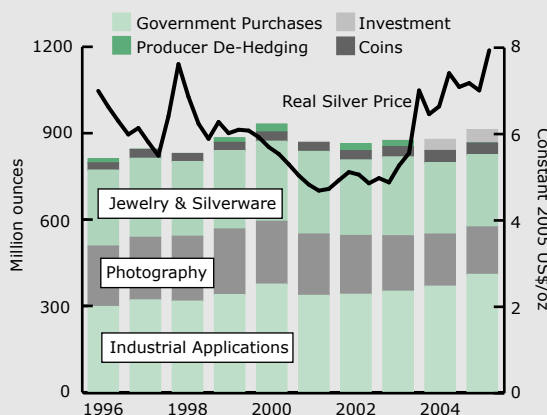
Despite higher prices, **jewelry and silverware** demand rose in 2005. However, this was only by 1% and the

total, 249.6 Moz (7,763 t), was the second lowest since 1995. The two main contributors to the gain were India and China, though a large rise was also seen in Russia. All saw robust domestic consumption, largely thanks to buoyant GDP growth, though the first two also enjoyed vibrant jewelry exports. The latter was largely due to these countries' lower costs, in particular for high labor, gemset pieces whose share of most consuming markets is growing. Increasing competition from India and China largely explains why the two other main fabricators, Thailand and Italy, saw respective falls in fabrication (including silverware) of 1% and 10%. Lower jewelry consumption within Italy and certain other western countries was another contributory factor. A continuation to the secular slide in silverware consumption in many

### Silver Demand - Its Components

Demand is dominated by three main categories: jewelry and silverware; industrial; and photographic fabrication. These accounted respectively for 27%, 45% and 18% of demand last year, though photographic's share has slipped over the last decade with the advent of digital photography. Coin demand, the final part of fabrication offtake, retained its just under 5% share of the total. The remaining elements of demand; government purchases and investment, are alike in that, on a net basis, they may not feature every year on the demand side. The official sector, for example, has not generated net purchases since 1997, while investment's role, as alluded to previously, was the fundamental component of last year's rally, in contrast to the sustained net disinvestment seen in the 1990s.

### World Silver Demand





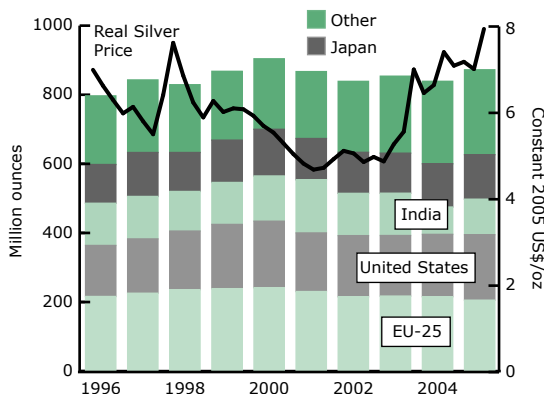
markets accounts for much of the drop in this area, which is thought to have been steeper than for jewelry alone.

**Photographic** demand for silver declined by a further 9% last year to 164.8 Moz (5,126 t). The bulk of the loss was due to sharply lower silver use in the production of color negative film, sales of which are falling due to consumers switching to digital image capture. Silver requirements for the manufacture of photographic paper and X-ray film also fell at the margin last year. Since its peak level in 1999, the use of silver in photography has slumped by 63.1 Moz (1,961 t) or 28%.

2005 saw **implied net investment** rise to 47.5 Moz (1,478 t). Over the last two years there has been substantial growth in activity from mainly institutional investors in silver futures and, especially last year, in over-the-counter market instruments. For much of 2005, investment demand in silver tracked moves in the gold price, as well as expectations thereof. From the latter part of the year and still more so in the first third of 2006, however, an important factor was speculative buying ahead of the launch of the much-awaited silver exchange traded fund. This started trading on April 28th and, in the first two months since inception, has amassed holdings of 78.5 Moz (2,441.6 t).

**Coins and medals** fabrication declined by 4% last year, as higher minting across much of North America and in Germany, in particular, was offset by weaker output in Portugal, Spain and China.

**World Silver Fabrication (by region)**



### Silver's Fabrication Uses

**Industry:** Silver can be found in many electrical applications, particularly conductors, switches and contacts. Contacts provide junctions between two conductors that can be separated and through which a current can flow, and account for the largest proportion of electrical demand. The main uses of silver in electronics include pastes for silkscreened circuit paths, multi-layer ceramic capacitors, silvered film in electrically heated automobile windshields, and in conductive adhesives.

The ease of electro-deposition of silver, mainly from the salts silver cyanide and potassium silver cyanide, accounts for its widespread use in plating. The joining of materials through silver brazing or soldering alloys is facilitated by the metal's fluidity and strength. These alloys are used widely in applications such as refrigeration equipment, automobiles and aerospace.

Miscellaneous industrial uses for silver include mirrors, batteries, as a catalyst in numerous chemical reactions and as a bactericide and algicide.

**Jewelry and Silverware:** Silver possesses working qualities similar to gold, enjoys greater reflectivity and can achieve the most brilliant polish of any metal. Pure silver (999 fineness) does not tarnish easily but to make it durable for jewelry, it is often alloyed with small quantities of copper. It is also widely used with base metals in gold alloys. Sterling silver, at a fineness of .925, has for long been the standard for silverware. Plated silverware usually has a coating of 20-30 microns, while jewelry plating is only 3-5 microns.

**Photography:** The photographic process is based on the presence of light-sensitive silver-halide crystals, prepared by mixing a solution of soluble silver, usually silver nitrate, with a soluble alkali metal halide such as sodium chloride. Within this sector, the radiography market is now the largest end user. Just a little smaller is consumer demand with the printed images taking slightly more silver than that used in the films themselves. The graphic arts account for much of the remaining offtake. Photographic film manufacturers demand very high quality silver.

**Coins:** Historically, silver was more widely used in coinage than gold, being in greater supply and of less value, thus being practical for everyday payments. Most nations were on a silver standard until the late 19th century with silver coin forming the main circulating currency. But after the gold rushes, the silver standard increasingly gave way to gold. Silver was gradually phased out of regular coinage, although it is still used in some circulating coins and in bullion coins for investors.