April 12, 2023 – What Makes Silver Prices Tick?

A funny thing happened on my decades-long journey in studying what drives silver prices, namely, the more I think Iâ??ve come to know about silver (and gold), the less Iâ??ve become convinced about what drives prices in other asset classes â?? like stocks, bonds, real estate and, certainly, cryptocurrencies. Itâ??s an admission I donâ??t mind making, which may sound unusual in an age where so many believe they are experts in everything financial. I think Iâ??ve come to learn that each market has its own unique set of specific factors that measure buying and selling forces. I suppose thatâ??s the attraction of being purely technically-oriented as that eliminates the need to understand the underlying fundamentals and instead focuses on price-related factors alone.

As I have tried to make clear over time, the prime price driver of silver (and gold) has been the highly-deliberate positioning in futures contracts on the COMEX, as has been continually verified in government-published data in the form of the Commitments of Traders (COT) reports. While there exists a similar positioning contest that features commercial-type traders opposed to managed money and other speculative traders in most markets – what makes the positioning so clearly deliberate and controlled in COMEX silver and gold (as well as in platinum) is that the commercial entities are mostly banks and are always the largest net shorts to varying degrees. This is not the case in other markets.

In addition, itâ??s no coincidence that silver, platinum and gold (in that order) lead all other commodities in terms of having the largest concentrated short positions held by the largest 4 and 8 traders, in terms of actual world production. This is true despite the recent sharp reduction in the concentrated short position in silver from times past.

Still, the recent sharp change in the pattern of the largest commercial traders aggressively adding to short positions in silver on the fairly sharp price rally of $5 over the past four reporting weeks stands out as an important aberration from times past. That this happens to be, perhaps, the key factor to whether the end of the silver manipulation is at hand, as I have long contended, should become known in the relative near future. In other words, what I have discovered as being perhaps the sole force in driving silver prices for more than four decades â?? the ongoing COMEX price manipulation â?? is showing signs of radical change. To be sure, the change I believe that may be at hand, was expected by me to have occurred long ago, but there is a difference in timing an epic event than in understanding the reasons behind the change.

Just to be clear about what Iâ??m saying, I believe the lack of aggressive shorting by the 4 and 8 largest traders in COMEX silver is directly responsible for the steepness of the current price rally and prices should continue to rally should these large traders refrain from aggressive short selling. Except for the price run to $50 in 2011, I canâ??t recall a time when the large traders in COMEX silver didnâ??t add aggressively to short positions on price rallies. In fact, the concentrated short position of the 4 and 8 largest traders is less now than it was or grew by in 2011.

While the role of the largest commercial short sellers in COMEX silver futures has always been the key determinant in the continuing price manipulation and while I have petitioned the CFTC (and the CME Group) to address this issue for decades, as I indicated on Saturday, I donâ??t sense regulatory pressure behind the sudden change on the part of the big COMEX shorts. Instead, it looks like we may have come to the end of the line of the silver price manipulation due to the realities of the first genuine physical silver shortage ever.

Back in late 2010 to early 2011, there was a rush to buy shares of SLV and PSLV (which was just introduced) as silver prices raced higher and investors responded accordingly by buying the shares and creating an unusual demand for physical silver that fed on itself. Since there was no notable positioning changes in COMEX futures at the time, itâ??s easy to attribute the run up in silver prices into April 2011 to the ETF buying of roughly 60 million oz or more. But the epic (and deliberate) price smash starting on May 1 that year had the very visible affect of causing the liquidation of roughly the same amount of ETF shares (and physical metal) sold within two months and ushering in more than a decade of dismal silver prices.

This time appears quite different from conditions in 2011. For one thing, the price regime is starkly different, in that the investor demand for silver ETFs back then developed as silver prices rose from the mid-$20â??s to near $50. Today, despite the rally over the past month, silver prices are at the level where the big buying began in 2011. In other words, after 12 years and a pretty decent rally over the past month, silver prices are still half of what they were at the price peak in 2011. With the exception perhaps of platinum (another heavily-shorted CME Group commercial production), you would be hard-pressed to name another metal or commodity whose current price is half the level it was 12 years ago.

Remarkably, no one can point to any great physical surplus in silver over the past 12 years that would account for its price being half of what its peak was back then â?? alone among all commodities. Instead, we are presented with strong evidence of a severe physical shortage in silver. The only plausible or possible explanation for such a circumstance is that there is something wrong with the pricing mechanism.

Cutting to the point, it seems obvious that the reason the 4 and 8 largest commercial traders on the COMEX have refrained from adding to short positions in silver is because they also see the pronounced physical shortage that has developed â?? ironically, due to years and decades of price suppression by these very same traders. I suppose thereâ??s an outside chance that the manage money traders can be duped again into selling and short-selling on another engineered price decline, but whatâ??s different this time is that such potential price rigging would have to occur amid increasing signs of physical shortage.

Again, the big buying in run up to $50 in 2011 (as well as the first run in 1980), was investment demand on higher prices and when prices broke down, the investment buying shut down and reversed. This time, the investment buying has occurred on much lower prices than back then, as investors have become attracted to silverâ??s unusually low prices against the backdrop of compelling signs of developing physical shortage. Therefore, itâ??s hard to imagine current investor demand simply disappearing should prices move lower.

More than anything else, however, is the continued toll of lower prices since 2011 having on the world production and consumption of silver in total terms. World silver mine production has largely stagnated since 2011, while total demand has grown â?? precisely what one would expect given the price performance. Take a look around, and by any conceivable measure can you imagine there is any less industrial demand for the worldâ??s best conductor of electricity in a world still becoming more electrified daily?

In investment terms, despite a sharp reduction of 200 to 300 million oz in world recorded silver inventories over the past two years (most likely shipped to India), since 2011, holdings in silver ETFs and on the COMEX have doubled to roughly 1.4 billion oz. In other words, the continued depressed prices over the past 12 years has had the expected results in silver, namely, flat production and growing (and record) industrial and investment demand by value investors. What the heck is going to happen to prices when the inevitable investment buying kicks in by those investors (the majority) motivated by rising prices? Something I havenâ??t mentioned but sure appears likely to kick in at some point is the effect of option buying due to delta-hedging on a silver price run.

I believe the same big shorts that have dominated silver prices for decades as the short sellers of last resort know, chapter and verse, everything I just described and it is because of the clearly developing physical silver shortage that they have chosen not to add aggressively to their short positions on the recent rally. Something has to account for their rather drastic change in behavior from times past. Of course, this issue will be visible in the continuing flow of data from the COT reports, which Iâ??ll continue to monitor closely. But at the same time, if my suspicions are correct, what I have been describing is eventually likely to lead to much less influence from COMEX futures positioning and much more influence from the developments in the physical world of silver.

In the interim, however, all eyes should be placed on the COT reports to see what, in particular, the big COMEX silver shorts are up to. That certainly includes the new report scheduled to be published Friday for positions held as of yesterdayâ??s close. On the plus side, it wasnâ??t much of a price week in either silver or gold, as silver prices were mostly range bound over the four-day trading week, while gold prices dipped slightly. Also trading volume was particularly light and itâ??s generally hard to see significant positioning changes under light trading volume conditions.

The potential negative in silver is the rather large increase in total open interest of 11,500 contracts over the reporting week, with the implication being that it might be related to a significant deterioration (managed money buying and commercial selling). Iâ??m hopeful that most of the increase in silverâ??s total open interest has to do with phony spread creation as we are still in the prime time for such spread creation in silver (until the end of this week). There was absolutely no increase in total gold open interest on the same sluggish price movement and low trading volume as seen in silver, and I would contend that was because weâ??re not in the prime time for such spread creation in gold.

Therefore, Iâ??m hopeful for not much net positioning change in silver or gold and particularly hopeful that the biggest shorts in silver continued to refrain from adding new short positions.

It was, admittedly, disappointing to witness this morningâ??s abrupt move higher in gold and silver upon release of the new CPI report, only fade just as quickly. Then again, as I hope Iâ??ve been clear, inflation, interest rates, dollar values or whether the dollar remains the worldâ??s leading reserve currency, doesnâ??t matter much to me in terms of silver (or gold) price performance. My focus in silver remains overall positioning on the COMEX (with particular emphasis on big 4 activity), and developments in the physical silver shortage. I will say that the abrupt up and down today seemed clearly related to short-term commercial gamesmanship. I never said anything other than that the COMEX was a cesspool of dirty and corrupt pricing and that will remain until it doesnâ??t.

It is at times like this that it is imperative to focus on the things that matter most. Yes, considering the sharp price run over the past month, largely driven by managed money buying and the extremely over-bought technical position in silver, no one can rule out a deliberate price smash â?? particularly considering how corrupt is the basic price functioning of the COMEX.

At the same time, the developing physical shortage and the lack of big 4 and 8 short-selling, both for the first time in history (or nearly so, save for early 2011), seems an undeniable argument for holding silver tighter than ever before â?? on the simple proposition that a shortage caused by prices being too low canâ??t possibly be resolved with continued low prices. Therefore, never has the case for buying and holding silver been stronger than it is presently.

Add in the fact that only some very small percentage of the investing public, say less than 1%, has even the slightest awareness of the actual supply/demand story in silver and will only become aware that silver exists as an investment alternative as and when the price surges and the setup couldnâ??t be better. The most severe mistake one could make is not taking advantage of this situation.

Despite the smack down from the new highs seen early this morning, silver did manage to close at a new high for this move, and the silver/gold price ratio tightened to under-80 to 1.

Ted Butler

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Silver – $25.60Â Â Â (200-day ma – $21.14, 50-day ma – $22.44, 100-day ma – $22.80)

Gold – $2030Â Â Â Â Â Â (200-day ma – $1797, 50-day ma – $1911, 100-day ma – $1871)

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