April 21, 2021 – The Last Market Bubble

It has become almost trite to say that we live in extraordinary times, but on so many levels that seems to be the case. Narrowing it down to financial developments alone, however, I am seeing things I have never witnessed in more than a half-century of personal and professional observation. One such development is the number of market bubbles that have come into existence.

First, let me define a market bubble as an experience in which the price of a financial asset is driven to levels far above what any intrinsic valuation would justify and is based upon continued buying simply because the price has continued to rise. Hereâ??s a pretty good overall definition from a quick Internet search

https://www.investopedia.com/terms/b/bubble.asp

History is replete with examples of past market bubbles in everything from the South Sea bubble, to the tulip bubble, to conditions in the US stock market in late 1929. More contemporary bubbles include the Japanese stock market and real estate bubble of the 1980â??s, the US Dot Com bubble of the late 1990â??s and the US real estate bubble of 2005-6.

Whatâ??s currently so extraordinary is the remarkable number of potential market bubbles that seem to exist simultaneously in everything from individual stocks and stock categories to the overall market, to residential real estate, to bonds, and to collectibles of all types and in assets that didnâ??t even exist not that long ago, like crypto-currencies. It seems that everywhere you turn, examples of potential market bubbles exist. Therefore, it is perhaps no exaggeration to believe we may be in an era of multiple market bubbles.

As to the cause of the many current examples of overvaluation, itâ??s not hard to see that, at the core, there lies the unprecedented money creation by the US and other world governments and the prevalence of near-record low interest rates. The dangerous part is that market bubbles can only be confirmed in hindsight, that is, after a price crash that proves that the bubbles did exist. If that turns out to be the case, the extent of personal suffering to come is painful just to contemplate.

But there is one other thought that occupies my thinking amid the plethora of modern-day examples of potential market bubbles, namely, of the one bubble that has not yet formed. Here I speak of the market bubble to come in silver. Truth be told, Iâ??ve been expecting such a silver market bubble for more than three decades and contrary to my expectations, no such silver bubble has formed. The irony couldnâ??t be richer â?? despite all the apparent requisites for a silver bubble forming, no such bubble has developed at the same time bubbles have formed and formed again in other assets.

While itâ??s true that silver is up 5 or 6 times in price over the past 20 years (and had been as much as ten times higher), itâ??s also true that other items have climbed much more. Certainly, Iâ??m aware of no one claiming that silver is in a bubble, so the question becomes one of whether such a bubble will form in silver. All that is needed for a bubble to form in anything is a story that is plausibly good enough to explain a bubble and the coming together of enough people and buying power to propel the price of the asset to super-inflated levels.

As far as the silver story being good enough to influence enough people to invest in it, there is no question the silver story is about as good as it gets. The proof of this is the explosion of the interest in silver in Internet circles and on Reddit. Both on a retail and wholesale basis, demand is exploding and interest has never been higher â?? all against a backdrop of diminishing and limited supply. Because of the developing clash between growing demand and limited supply, the amount of additional investor demand required to propel silver prices higher is actually less than it has been in the past â?? at a time of demonstrably greater buying power overall.

Hereâ??s my point â?? since it is clear that the potential bubbles that have formed and are forming with greater regularity than at any other previous time, it will be far easier to set silver off on a price bubble path than previously. All it will take is a sufficiently higher price to bring out in silver the typical bubble behavior present in other assets â?? the point where investors collectively buy an asset simply because it is going higher in price. All thatâ??s missing for a silver bubble to begin forming is a sufficiently higher price. Thatâ??s not my brand of analysis and value investment, but it is the way of the world.

Of course, the biggest question is why a silver bubble hasnâ??t already formed, in the face of obvious growing demand and limited supply, or why the price still hasnâ??t climbed high enough to trip off the type of buying present in many other investment assets. Â Here, the answer couldnâ??t possibly be more specific or direct â?? because of short selling by a handful of large traders in COMEX silver futures – no more than 4 or 8 such traders. The proof of this, of course, resides in US government data in the weekly COT report from the CFTC, the federal commodities regulator.

Not only do COMEX silver futures have the largest concentrated short position of any other commodity in real world terms and never have the big shorts ever panicked and bought back short positions on rising silver prices, itâ??s impossible to come up with a legitimate explanation for why anyone would choose to be heavily short silver at this time.

Forget every other commodity, let me take it a bit further â?? none of the many potential bubbles that exist in stocks, bonds, real estate, collectibles or crypto-currencies have a concentrated short position or in some, even any short position. Thatâ??s the reason silver isnâ??t in a bubble or even at a particularly high price. However, the dissolution of the concentrated short position is precisely the formula for sharply higher silver prices and a probable eventual bubble.

The evidence of a long-term price suppression and manipulation, either in the underlying data or by simple observation of the depressed price certainly hasnâ??t gone unnoticed. This week alone a number of highly unusual developments have occurred. One involved a â??protestâ?• of sorts at CFTC headquarters in Washington, DC and another called for a concerted and organized effort for the buying of silver for the express purpose of breaking the backs of the short manipulators and sending prices higher.

While no one understands the frustration of living with an ongoing market manipulation as exists in silver due to the concentrated short selling in COMEX silver futures than me, thereâ??s a right way of doing things and a wrong way. Presenting the CFTC with a scattershot laundry list of grievances, including questions about SLV, the big silver ETF, doesnâ??t seem particularly constructive when SLV is not under the agencyâ??s jurisdiction (the SEC handles securities).

Of more concern are the calls for organized buying of silver with the prime intent of goosing the price to break the shorts. The main problem with that is that it potentially runs afoul of US commodity law which holds any deliberate intent to influence the price of a commodity used in interstate commerce is unlawful. Yes, I know that the big COMEX shorts have manipulated the price of silver to the downside, but it is still potentially against the law to intentionally attempt to manipulate the price higher. Under the law, two wrongs donâ??t make it right.

I know those attempting to organize a buying attack are not interested in violating commodity law, no matter how frustrated they may be about the ongoing downward manipulation and it would be a shame if the do-nothing CFTC was given reason to go after the longs. Similarly, I understand the frustration of those calling for mining companies to band together and withhold silver production to boost prices and break the shortsâ?? control. But that flies directly in the face of the number one concern of US antitrust law, namely, producers colluding to withhold production in order to boost prices. Again, two wrongs donâ??t make it right.

So, what am I saying â?? just sit there and take whatever the big shorts dish out? Of course not. The way I see it, weâ??re in the homestretch of seeing the big silver shortsâ?? backs broken by legitimate market forces and it would be a shame if having the winning runner on third base in a close baseball game, get picked off for taking too much of a lead off base. Certainly, buy silver, just donâ??t promote it as an organized effort to manipulate prices higher. Doing so threatens to set things back and actually benefits the shorts. Plus, it opens the would-be organizers and sites that carry their message to official reprisals.

I still hold that things should be done by the book and in the most efficient manner. In this case, that means utilizing the best ways available to get the CFTC to do its job and that involves pressure from elected officials. Everybody has a boss and the boss of the CFTC and every other federal agency is Congress. The CFTC knows this and will respond to every inquiry from every elected official which contacts it. Soon the Commission will respond to the inquiries I sent to my elected officials, as well as all of those who also wrote to their senators and congressmen and women. While I donâ??t know what the Commission will find, it may open up new avenues to take.

While I am advising caution on the part of those attempting to organize a coordinated buying campaign in silver to drive prices higher (particularly those simultaneously insulting the very agency which could determine if such actions are illegal), the Commission should also recognize the groundswell of public opinion against its handling of matters related to silver. In many ways, silver and the CFTC seem joined at the hip.

In fact, over the last 20 years, the CFTC has investigated silver on numerous occasions, including a formal investigation by its Enforcement Division, and two public â??white papersâ?•. All these matters were related to the concentrated short position on the COMEX and were the result of readers responding to my requests to write in. In the history of the Commission, no other commodity has come close to silver in the number of public comments and complaints sent to the agency. It would appear that the Commission would be well-advised to try and fully address the publicâ??s concern on silver for the very first time.

One of the most remarkable developments is the growing focus and groundswell surrounding silver. Even though I have always had a specific interest in silver, I canâ??t help but be amazed at the level of attention placed on it. Even those who had previously been almost exclusively gold-centric, seem to be singing the praises of silver. And while I hope I have been clear in portraying my current feelings as being quite bullish on gold, the near-universal attention surrounding silver is noteworthy for a number of reasons.

Compared to silver, gold is a much larger market. In terms of annual world production in dollar terms, the amount of gold produced equates to $200 billion, ten times the value of silver mine production and larger than any other metal, including copper. In terms of aboveground bullion inventories, the value of goldâ??s 3 billion oz comes to $5.5 trillion, more than 100 times greater than the $50 billion value of silverâ??s 2 billion oz inventory. Yet in every measure, the concentrated short position in silver is way larger and more intense than it is in gold.

Why anyone would want to short such an undervalued market like silver is baffling. Why silver would have the largest concentrated short position of any commodity is beyond baffling â?? it just canâ??t be legitimate.

As far as what this Fridayâ??s new Commitments of Traders report will indicate, if past is prologue, the safe bet is on deterioration or managed money buying and commercial selling. In gold, prices did rise as much as $40 over the reporting week and upwardly penetrated goldâ??s 50-day moving average for the first time in months. In addition, total open interest grew by 11,000 contracts over the reporting week. Iâ??d be happy if net commercial selling was close to that or even 5000 contracts more than that.

In silver, prices rose as much as a dollar over the reporting week, penetrating and closing above silverâ??s 100-day moving average and penetrating, but not closing above the last remaining key moving average, the 50-day ma. Â (It should be pointed out that the 50-day moving average in gold is the lowest of the three key moving averages, while in silver, the 50-day moving average is the highest of the three key moving averages, given goldâ??s more price drop since yearend).

Silverâ??s 50-day moving average was decisively penetrated today, putting the price above all three key moving averages, but yesterday was the reporting weekâ??s cutoff. Â Total open interest in silver rose a bit more than 5000 contracts over the reporting week and I would be happy if total commercial net selling was close to that. If the all-important category and concentrated position changes were on the order of last weekâ??s report (no new shorting by the big 4), Iâ??d be ecstatic, but that is likely too much to hope for.

Todayâ??s price surge puts renewed pressure on the 8 big shorts. At publication time, the 8 big shortsâ?? total losses in COMEX gold and silver grew by $500 million since Fridayâ??s close to $10.8 billion. Of note is that silver prices are back to yearend levels, while gold is still down close to $100 from yearend, although I would imagine not for long.

Ted Butler

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Silver – $26.58Â Â Â (200 day ma – $25.22, 50 day ma – $26.10, 100 day ma – $25.79)

Gold – $1793Â Â Â Â Â Â (200 day ma – $1858, 50 day ma – $1750, 100 day ma – $1803)

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