April 22, 2020 – Gold and Silver Relative Valuation

Particularly at times like these, when weâ??re experiencing things few would have imagined, itâ??s important to reach out for that which gives long term perspective and grounding. These days, itâ??s easy to get wrapped up in the short term and lose track of the long term. Itâ??s no different for gold and silver. And I freely admit this is one of those â??do as I say, not as I doâ?• things, as itâ??s hard for me not to focus on the here and now in matters related to gold and silver.

Fortunately, there is something readily available that helps to filter out short term noise and provides long term perspective. That something is relative valuation. In fact, relative valuation is something widely followed and discussed in the form of the silver/gold price ratio and Iâ??d like to take a closer look at it today.

One thing that makes the silver/gold price ratio so special is that itâ??s hard to come up with a measure of relative valuation between two highly comparable items that has a longer history. Quite literally, the silver/gold price ratio goes back to the dawn of civilization, some 5000 years ago. The great thing about relative price comparisons is that they eliminate all outside macroeconomic influences, like changes in currencies or rates of inflation. Both gold and silver, for instance, have witnessed the birth and death of every currency in history, as well as every economic boom and bust, great migration and pandemic ever recorded.

Gold and silver have been imbedded in the very fabric of the human existence, serving as money and objects of value since history has been recorded, providing the motivation for wars, to the search for new lands, to even the betrayal of Jesus Christ (for 30 pieces of silver). For 97% to 98% of the past 5000 years, both gold and silver were valued for the same reasons, namely, as money or stores of value or as objects of value, including jewelry and adornment.

As such, up until the past 100 or 150 years or so, the amount of gold and silver in existence and above ground accumulated in the world roughly parallel to the amount extracted each year from mining. After all, no one would willingly discard an ounce of either gold or silver. The ratio of each metal imbedded in the earthâ??s crust and mined was roughly 10 ounces of silver for every one ounce of gold. Therefore, up until a hundred some odd years ago, there were ten times as much silver above ground as there was gold, and it is somewhat curious that monetary officials, including Alexander Hamilton, the first Treasury Secretary of the US, set the value of silver to gold at closer to 15 to 1, rather than at 10 to1.

Regardless, something previously unimagined occurred to dramatically alter the relative amounts of gold and silver in the world. Remarkable new industrial and chemical usages were discovered for silver, such as photography and the discovery that silver was the best conductor of electricity and reflector for light known to man. Starting around the year 1900 and for the first time in history, silver started to be consumed for reasons away from serving as money or a store of value or in valuable objects.

So intense and growing was the industrial demand for silver that over the past 100 years or so, not only did the demand for silver exceed its annual mine production, it wasnâ??t enough and more than 90% of all the silver accumulated above ground over 5000 years was depleted in the need to balance supply with demand. This surge of silver industrial demand radically altered the amounts of above

ground silver compared to gold to the point where there is now less silver bullion in the world than there is gold.

Talk about a radical change in relative world inventories â?? from there being 10 times as much silver in the world for nearly 5000 years changing to there being less silver in the world than gold today. To be sure, there were new industrial applications discovered for gold as well, but since gold was so much more expensive than silver (averaging 50 or 60 times more expensive than silver over the past hundred years), industrial gold demand was kept in check and more gold was added to world inventories every year throughout history.

A reasonable person, therefore, would likely conclude that given the historical reality of silver going from being ten times more plentiful in world inventories relative to gold for 5000 years running, to being less plentiful than gold over the past hundred years or so that the price ratio between the two precious metals would reflect that radical physical inventory adjustment. Such a reasonable person would, as you know, be dead wrong, as not only has the price of silver not grown more expensive relative to gold as would be expected, it has actually gotten more undervalued relative to gold than at any time in history – hitting 120 to 1 recently and not yet adjusting much below that level.

That same reasonable person, therefore, would be compelled to uncover the reason why the price of silver would be cheaper relative to gold than at any time over the scope of world history in light of it being less plentiful and rarer in terms of above ground world inventories. He would likely ask if there was some sudden new supply of silver relative to gold, but would quickly discover there was no such increase in silver supply. He (or she) would then likely ask if there was some sudden surge in demand for gold relative to silver, but would uncover that public data (in the form of physical inflows into gold and silver ETFs) would show the opposite, namely, that roughly ten times as much physical silver has been demanded compared to gold over the past months or so.

At this point, a reasonable person would throw his (or her) arms up in the air and question the basic facts as I have laid them out – or conclude that something outside those facts was exerting an unnatural price force superseding the basic facts. The facts as Iâ??ve presented them are entirely accurate (and since I raised the point), please allow me to offer my explanation for why silver could be the cheapest it has ever been relative to gold when the most basic facts would call for silver being more expensive relative to gold than ever. I donâ??t know if there could be a greater disparity â?? something being the cheapest in history when I would contend it should be the most expensive.

My answer is simple and anticlimactic (since you likely anticipated it) â?? the price of silver has been and is artificially depressed in price on the worldâ??s leading precious metal exchange, the COMEX (owned and operated by the CME Group). This manipulation has been long running (for more than 35 years) and is evidenced by the fact that silver has the largest concentrated short position of any commodity in terms of real world production and consumption. No commodity has a larger concentrated and uneconomic paper short position, held by an incredibly small number of traders than does COMEX silver futures.

As regular readers know, I have not stammered or half-stepped in my efforts to get the regulators to end the obvious manipulation and cause for silverâ??s super-depressed price. Those regulators have, in turn, done everything in their power to ignore the blatant manipulation in silver and have allowed the leading silver manipulator for the past decade, JPMorgan, to operate and manipulate at will.

Iâ??ll not re-litigate the manipulation argument today, as my prime intent was simply to ask and answer the question that should be on the minds of every reasonable person with a modicum of interest in gold and silver. And I would solicit any and all alternative explains for why silver is currently the cheapest it has ever been in 5000 years relative to gold when there is less silver bullion above ground compared to gold over that same time span.

But neither am I throwing my hands up in disgust and concluding that all hope is gone and woe to us all and that the silver manipulators on the COMEX will always prevail or even prevail for much longer. My second prime intent, next to providing the most plausible explanation for why silver is so darn cheap, is to urge everyone who is capable of buying silver (or buying more) to do so forthwith. When God gives you lemons, you make lemonade. When the crooks give you cheap silver, you buy it. Yes, it may go lower temporarily, either on an absolute or relative basis compared to gold, but since when has that not always been the case? And who will stand up and guarantee that it wonâ??t go substantially higher and soon?

Turning to other matters, there was a fascinating segment on CNBC TV today (Iâ??m sure you can look it up to retrieve it) that featured Harold Hamm, the CEO of Continental Resources and a regular guest on the network. Mr. Hamm turned some heads when he accused the crooks at the CME Group (my words, not his) of manipulating the price of oil down to an unbelievable negative $40 a barrel in the May NYMEX contract on Monday, very much along the lines of the article I wrote yesterday. Hamm openly called for an investigation into the CMEâ??s role in the matter (presumably before beating them and the CFTC with a big stick, as I would urge).

Hammâ??s call for an investigation resulted in an immediate statement from the CME that it did everything right, but despite that and given his public stature, I hope his calls are heeded. There was something truly rotten about Mondayâ??s unprecedented decline in crude oil futures to extreme negative numbers, which Hamm felt was as impossible to legitimately explain, as I contended in my article.

The only thing I regret about my article is not using the one word that summed up my feelings (it just got stuck in the jumble of thoughts in my head at the time and wouldnâ??t come out). That word was â??ambushâ?•. Mondayâ??s otherworldly move to extreme negative numbers in crude oil was nothing other than a deliberate ambush of unsuspecting g and unprepared longs by extremely connected and crooked shorts.

Furthermore, thereâ??s not a doubt in my mind that the leading beneficiary and instigator for the oil ambush was JPMorgan, based upon the Bank Participation Report data for April that I cited in my article. This JPMorgan is some crooked piece of garbage. First, it ambushes the unsuspecting longs in April gold futures on the day they had to exit positions by causing the April/June gold spreads to blowout to more than $30 and then JPM has the unmitigated gall to pull essentially the same dirty trick in May crude oil futures on Monday. The CME and CFTC will, undoubtedly, continue to ignore clear evidence of manipulation (by JPM) in all ways possible, but perhaps Hammâ??s accusations will at least make them sweat a bit.

As far as what to expect in Fridayâ??s Commitments of Traders report, itâ??s hard to imagine that there wonâ??t be some improvement in the market structures for gold and silver, meaning some amount of managed money and other speculative selling met with commercial buying. Of course,

thatâ??s based upon the sharp and persistent drop in prices for both gold and silver, which through yesterdayâ??s cutoff exceeded $100 in gold and $1.50 in silver at the extreme price lows.

Tempering the amount of expected managed money and other speculative selling and commercial buying in Fridayâ??s report has been continued low trading volume and relatively small changes in total open interest over the reporting week (up 3500 contracts in gold and down by 3800 contracts in silver). The biggest impediment to much larger net positioning changes, of course, is the already â??washed outâ?• condition of market structure (unless the commercials have figured out a new way to extract blood from a stone). Given all the above, while I do expect improvements in gold and silver net positioning, Iâ??ll continue to avoid handicapping the specific number of contracts (Oh, what the heck, 5000 in silver and 10,000 in gold)

A new thought occurred to me that might answer the question that perplexed me in Saturdayâ??s review. As you may recall, I indicated that the supreme crooks at JPMorgan likely provided much or all of the 50 million ounces of physical silver (and perhaps a couple of million oz of physical gold) recently deposited into the silver (and gold) ETFs. While JPM was the most plausible provider of this â??donatedâ?• physical metal, it did fly in the face of the logic that JPM would be the single biggest beneficiary of a price surge and its actions prevented said surge.

In trying to sort it all out, I speculated that JPMorganâ??s apparent actions in preventing an immediate price surge had it not provided the physical silver may have been camouflaged by it leasing the metal instead of selling it outright, thereby retaining true ownership of the â??donatedâ?• metal or had some otherwise more pressing derivatives operation offsetting the physical metal. To that, let me add another potential offsetting transaction.

Should it turn out, as I strongly suspect, that the new COT report on Friday reveals that JPM was a big buyer of silver and gold futures on the big price decline through yesterday, then that would be another explanation for why JPM donated physical metal when it did â?? it knew it could replace most of the metal donated with new futures longs. You canâ??t put anything passed these crooked sons of guns.

As far as the financial standing of the 8 big shorts in gold and silver, todayâ??s sharp rally erased much of the relief that the big shorts enjoyed on last weekâ??s sharp price declines. After reducing their total combined open and unrealized loss by $1.4 billion to $5.8 billion as of Fridayâ??s close, the big shorts still remain in the soup, as todayâ??s sharp rally in gold brought them back to $6.9 billion in open losses. I havenâ??t mentioned it in a while, but as long as these short positions remain open and are not closed out, the big shorts remain very much on the hook, subject to much larger open losses if and as prices continue to rise (which I anticipate).

Ted Butler

April 22, 2020

Silver – $15.30Â Â Â Â (200 day ma – $16.99, 50 day ma – $15.86)

Gold – $1737Â Â Â Â Â Â Â Â (200 day ma – $1532, 50 day ma – $1630)

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