

## April 25, 2018 – The Physical Silver Perspective

Although there can be little doubt that silver prices have been dictated by paper positioning changes in COMEX silver futures for more than 30 years, I thought it appropriate to examine the market from the old-fashioned perspective of actual metal supply and demand. Despite being fully immersed in COMEX market structure considerations (some may say too immersed), I have always been convinced that, in the end, silver prices will be determined by physical supply and demand. As a result, I've always been an avid student of world production and consumption data.

The two most popular sources for world silver production and consumption statistics have been GFMS and the CPM Group and both have recently completed their accounts for 2017. The Silver Institute, along with others, sponsors the GFMS version and in years past had sponsored the CPM version. Here's a pdf link for the latest GFMS report, but I would warn you it is quite long and detailed –

<https://www.silverinstitute.org/wp-content/uploads/2018/04/2018WorldSilverSurvey.pdf>

Summing up the report, the GFMS version estimates world silver mine production at 852.1 million oz for 2017, down around 35 million oz from the prior year. I don't have access to the full CPM version, but a Reuters article commenting on the report indicates that world silver mine production in 2017 was around 775 million oz, or a difference of around 10%.

<https://www.reuters.com/article/silver-cpm-group/silver-price-could-increase-in-2018-on-safe-haven-demand-cpm-idUSL1N1S0234>

Although one would think that world mine production would be a lot easier to compile than statistics involving recycling production and any of the demand components, there has been a continual variation of about 10% for silver mine production between the two versions for many years. My point is to take both versions with a large degree of skepticism as to pinpoint accuracy and only use the data in a broad sense. The last thing you want to do is focus too closely on the specifics of either report and get hung up on the details. And please be aware and forewarned that the one and only thing that both versions agree upon is that there is no chance that the price of silver is manipulated or that JPMorgan plays any unusual role in setting of silver prices.

With that in mind, please allow me to present my takeaway of both versions of actual supply and demand in silver as I have come to view them over the past three decades. Year-to-year changes in either total world silver production (mining plus recycling) or total fabrication consumption have never had much, if any influence on price. It's something many obsess over, but in terms of price change, it is a waste of time. Take it from someone who may have wasted more time on this than perhaps anyone else.

The only component of actual world silver production or consumption that has ever influenced price is investment demand; and even that has had only a momentary and fleeting effect on price (the last time into the run up to near \$50 in early 2011). If silver is destined to truly run up in price again (as I believe to be the case), then that can only come from a surge in investment demand. At some point, that surge in physical investment demand appears inevitable to me.

It's true and somewhat important that world silver production has been stagnant for the past several years and industrial consumption has been more than steady as world economic activity has continued to expand. It's also true that there has been enough silver produced to satisfy total fabrication demand and the term "deficit" used by GFMS is completely misplaced in that my definition of the word means less silver existing in the world than the year before. We did have true deficits in silver for 65 consecutive years, in which the world chewed up and depleted billions of ounces of above ground inventories, but that came to an end in 2006. We haven't added all that much silver since then, but I don't know why GFMS insists on using the term deficit.

Here's the way I look at actual world silver supply and demand. The world produces close to a billion ounces each year, between mine production and recycling or somewhat less, which I'll round off to 80 million ounces per month. The world consumes almost 900 million oz each year in total fabrication demand, which includes industrial consumption, jewelry and investment in coins and small bars, leaving around 100 million ounces "leftover" and available for investment in the form of 1000 oz bars. Over the past seven years, I would calculate the leftover amount to be somewhere around 100 million oz, which I'll round down to 8 million oz monthly.

Therefore, on a monthly basis (and this is important), there are about 8 million ounces of silver available to the world's investors in the form of 1000 oz bars, the industry standard, as well as the standard for ETF and COMEX delivery purposes. The reason it is important to think in terms of not more than monthly is because silver gets produced and consumed on a daily basis. It's not as if there is some type of lump sum annual physical deposit of 100 million ounces from which investors can accumulate that amount "the leftover metal is made available to the world's investors in dribs and drabs, not in annual chunks.

And this is precisely how JPMorgan came to acquire 700 million oz of physical silver over the past seven years, namely, in dribs and drabs and by hook and crook, in any way it could. I've described those means in the past "by COMEX deliveries, conversions of shares to metal in SLV, by buying and melting into 1000 oz bars Silver Eagles and Canadian Maple Leafs and syphoning off from the unprecedented COMEX silver warehouse turnover.

Yes, I am saying, clearly and unequivocally, that JPMorgan has been the sole accumulator of the world's leftover amount of physical silver for seven years running. Not only was this a criminal masterstroke on JPM's part, it was also the only possible way for the bank to pull this off. It's certainly not as if JPMorgan could put in a single order to buy 700 million oz of silver and for that to remain undetected or not cause the price of silver to explode. What makes it criminal, of course, is that JPMorgan was also, at all times, the largest short seller on the COMEX and as such was the principle actor in keeping the price of silver depressed.

For the past seven years, JPMorgan has had its crooked physical silver accumulation scam to itself and has not wasted a month along the way. Now, however, there finally appears to be competition for

the monthly flow of the roughly 8 million ounces of physical silver left over and available to the world's investors. As I have reported recently, Goldman Sachs may have emerged as a buyer of physical silver, having taken around 15 million oz between the December and March COMEX deliveries and in which JPMorgan appeared to have to back down in March. We may get a clue as to Goldman's intentions in the coming May deliveries and I'll report what it does as the delivery unfolds (starting late Friday). There was also the curious case of the big deposit (14 million oz) in the Deutsche Bank ETC and the unusual withdrawals in SLV and in the JPMorgan COMEX warehouse which I reported on Saturday.

The point to keep in mind is the importance of the monthly availability of around 8 million oz of physical silver which is leftover after all other physical silver demands are satisfied. This is the amount of silver at the margin which will determine prices at some point. COMEX futures positioning still has a death grip control on price, but only until the world's silver investors demand more than 8 million oz monthly or a piddling \$130 million.

Yes, JPMorgan is in position, should it so choose, to "donate" and release enough of its accumulated physical silver hoard (at a loss) to satisfy outside investment demand so as to contain the price of silver. Furthermore, this crooked bank has apparently done so recently in the face of physical demand from Goldman Sachs and in the Deutsche Bank ETC. The question is how much physical silver will JPMorgan be willing to donate and supply to the market in order to keep silver prices depressed? I say enough to enable it to buy back as many paper short contracts as possible, in the same manner that JPMorgan sold COMEX contracts short to enable it buy physical silver all along. Based upon price action up thru today, that JPM operation is still in force.

If one believes that JPMorgan intends to continue to release, at a loss, most or all of its accumulated physical silver in order to keep the price depressed and manipulated indefinitely, then one would be hard pressed to continue to hold silver as an investment. In fact, that's the only bearish argument possible in silver and as an analyst I am bound to consider and present it.

While I do believe that JPMorgan is as scummy and corrupt as there are words to describe, I also believe its manipulation of the silver price will end the instant it has configured its paper short position to what it considers the practical minimum. I also believe that point is very close and trying to time and gauge it is impossible. Nothing could be worse than to get cute and end up missing the silver price liftoff, by trying to read JPMorgan's criminal mind.

One point I must raise in talking about coming physical investment demand is the inherent demand built into the existing investment infrastructure. Having just noted the recent large purchase of 14 million oz in the Deutsche Bank silver ETC, I feel compelled, once again, to remind you that the mechanism for automatically converting investment buying into physical silver is already in place. Chief among those mechanisms is the big silver ETF, SLV, which long ago was termed by Carl Loeb as the Death Star, destined at some point to absorb every available physical ounce of silver on the planet. Remarkably, that premise is still in place, even though the Death Star has been somnolent for the past seven years.

When the price of silver moves sufficiently higher, say by a few dollars, it can be expected to set off technical or momentum type buying. This buying is not to be confused with the technical buying and selling of managed money traders on the COMEX, which deal exclusively in futures contracts and who are continually snookered by the commercials. I'm talking about the buying of SLV shares by retail

and institutional stock investors because the price is moving higher. There are not many investors which don't have a stock account and the capability of buying stocks on a moment's notice.

I would further stipulate that the vast majority of those investors which are capable and might buy SLV don't know or even care that any net new purchases of SLV require the physical deposit of a commensurate amount of physical silver according to the prospectus for the trust. But whether new investors know or care, such physical deposits must be made. (The same circumstance exists in gold in the form of GLD and other physical ETFs). It is this feature that creates the Death Star likelihood in silver.

And I would remind you that this feature is not just theoretical, but has already occurred in real time. The main reason silver prices rose from the introduction of SLV in 2006 to the silver price highs in early 2011 was because of SLV share buying and the requirement of actual silver being deposited into the trust on net investor buying. Specifically, it was the buying and deposit of 60 million oz in SLV from the fall of 2010 to May 2011 that propelled silver prices to near \$50. That price rally had nothing to do with COMEX futures contract positioning because there was little change in such positioning. And yes, the subsequent collapse in silver prices had much to do with the liquidation of the same 60 million oz in SLV starting in May 2011.

No one knows this better than JPMorgan and I believe it also knows that the time is short before the next buying wave commences in SLV. JPM knows that it must do what it can to reduce its COMEX short position before the next wave of SLV buying commences and that explains the current price weakness. The only other way to postpone the inevitable coming buying in SLV requiring physical deposit of metal is by shorting the shares, which negates and circumvents the physical deposit requirement. That's why I follow the report on short positions on SLV and GLD, which coincidentally, was issued yesterday.

For positions as of April 15, there was an increase in the short positions of both securities, but not to alarming levels. In SLV, the short position increased by just over 1.3 million shares to 11.3 million shares (ounces). In GLD, the short position increased by 2.4 million shares to just under 11 million shares (1 million gold oz). The risk is that the short position in SLV may climb to tens of millions of ounces (hundreds of millions in shares shorted) and we must be alert to that possibility. As I recall the short position reaching 50 million shares in SLV in the past. We're nowhere close to that now.

<http://shortsqueeze.com/?symbol=slv&submit=Short+Quote%E2%84%A2>

As far as what to expect in Friday's COT report, any predictions would necessarily be of the WAG (wild ass guess) variety in silver. That's because the price action thru yesterday's cutoff was of such extreme nature in both directions so as to condense positioning cycles that would typically take weeks or months to complete into a time period of a week or so. The only thing I'm sure of is that none of this was coincidental.

You'll recall that silver prices surged higher on the reporting week's first day (Wed) and into Thursday on extremely heavy trading volume, decisively penetrating the key remaining 200 day moving average, before just as decisively penetrating that same moving average on Monday to the downside. Therefore, it is reasonable to assume massive managed money buying (new longs and short covering) occurred on the upswing and that heavy managed money selling occurred on the downswing Monday. The question is how much managed money buying occurred on the upswing and

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selling on downswing.

My best guess for silver is that more net managed money buying and commercial selling occurred by the time the dust settled into yesterday's cutoff by a margin of perhaps 20,000 contracts, but that is strictly in WAG terms and not to be relied upon. Since gold didn't rally as much as silver on Wednesday and Thursday and then fell below its key 50 day moving average on Monday, unlike my expectations for silver, I would guess an improvement, of managed money selling and commercial buying in gold of around 15,000 net contracts.

One thing that has surprised me a bit is that after near universal commentary about how extremely bullish the silver market set up was prior to the sharp but brief and failed price foray to the upside, a sort of radio silence has occurred by most of those commentators previously voicing bullish projections. In my case, I certainly wasn't surprised by the sharp initial price surge, but I was taken aback by how aggressive the sellers were into the heavy managed money buying on the breakout.

In any case, it's hard to imagine a clearer example of COMEX futures market positioning completely dictating and setting prices in silver than what occurred over the past week or so. I would remind you that this is price manipulation in its purest form and I can't help but think that the widespread radio silence in the face of it may reflect a reluctance by many to say so openly.

Last, but certainly not least is that I put up publicly a (cleaned-up) version of Saturday's rant about the new interview podcast by James McDonald, Enforcement Director for the CFTC; including a letter to McDonald from Jim Cook, president of IRI that serves as a great template for anyone wishing to email the CFTC. Many have already done so and I would urge all to join in and do the same

<http://silverseek.com/commentary/avoiding-obvious-17229>

I know that JPMorgan and the CME Group are stone cold market crooks and I have no qualms about saying so in the clearest terms I can muster. I also know that the CFTC is somehow beholden to both JPMorgan and the CME and refuses or is unable to address my allegations. That's all the more reason to pressure them to respond.

Ted Butler

April 25, 2018

Silver – \$16.52 (200 day ma – \$16.78, 50 day ma – \$16.56)

Gold – \$1323 (200 day ma – \$1302, 50 day ma – \$1334)

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