

April 28, 2021 – Hitting the Wall

It's an event I have been expecting, quite literally, for decades that appears to have finally arrived. It would be the culmination and logical conclusion for what I have contended for 35 years, namely, that silver has been manipulated and suppressed in price. The event in question is an undeniable physical shortage in silver and with the arrival of that shortage an explosion in price.

Certainly, if the price of silver has been suppressed and manipulated as I have long alleged then, according to the law of supply and demand, a physical shortage must occur at some point. No other outcome is possible, with just the timing in question. While I can't guarantee, of course, that we've finally hit the wall of a physical silver shortage, the signs that we've finally arrived at that point have never been clearer and more compelling than currently. What signs?

Well for one thing, the current documented physical shortage in retail forms of silver. Yes, I know that the shortage that I'm speaking of must involve silver in the form of 1000 oz bars, the industry and investment standard, but there is some overlap between retail and wholesale forms of silver in that persistent shortages and high demand for retail forms will in time draw some portion from the supply of metal in 1000 oz bar form. Certainly, the current physical shortage in retail forms of silver has resulted in premiums higher than previously seen and has persisted for far longer than any time in the past. Plus, retail demand that has found its way into the silver ETFs, particularly, PSLV, has been significant and is a direct investment in 1000 oz bars.

So, while the current shortage of retail forms of silver is nothing to scoff at and in some ways directly related to the shortage that I've claimed that is inevitable, a true shortage must involve a shortage in 1000 oz bars. This is the form of silver most directly relates to price. It is in the composition of the market for 1000 oz bars of silver that signifies we are close to a hitting of the wall.

The first point is the quantity of the total supply of silver in the world that exists in the form of 1000 oz bars. Please keep in mind this quantity includes both the amount of 1000 oz bars completely visible and recorded, such as the silver in the COMEX warehouses and in the world's silver ETFs and investment programs, as well as the silver thought to exist in private ownership and hidden from view.

As time has evolved and as investment demand has grown, the amounts of silver held in the COMEX warehouses and in the world's silver ETFs have grown and more and more of the total amount of 1000 oz bars have found their way into these highly visible and logical places to store silver. A 1000 oz bar of silver weighs around 70 lbs., making it cumbersome and impractical for personal storage and when you factor in the breaking of the chain of custody (which requires re-assay and transportation), the professional storage afforded by holding at a COMEX approved warehouse or in an ETF that provides a full listing of serial numbers, weights and hallmarks of all bars held, it is difficult to beat for an investor.

Given the practicality of holding 1000 oz bars of silver either in the COMEX warehouses or silver ETFs for investors, it's no surprise that over the past 15 years, most of the world's silver has found its way into such repositories. Just prior to the introduction of the first big silver ETF, SLV, in 2006, there were only about 150 million oz of silver in 1000 oz bars fully visible and recorded. Today, that number has grown to nearly 1.6 billion oz, up ten-fold, making up 80% of the 2 billion oz of total silver thought

to exist in the world in the form of 1000 oz bars.

But by no means has the tremendous growth in the amount of silver held in the ETFs and in the COMEX warehouses been a gradual, straight-line affair. Remarkably, in little more than the past year, the amount of silver in the silver ETFs and in the COMEX warehouses had grown by an astounding 500 million oz to the current levels. At the start of 2020, there were 1.1 billion oz of silver in all the silver ETFs and COMEX warehouses where today there are 1.6 billion oz (and this is down from 1.7 billion oz earlier in 2021). It is the tremendous growth over the past year in the publicly-visible holdings of silver in 1000 oz bar form that tells me we are very close to hitting the physical silver wall.

Certainly, the amount of silver held in the silver ETFs and in the COMEX warehouses can't possibly exceed the total amount of silver in 1000 oz bar form that exists in the world. The absolute limit of silver in the ETFs and on the COMEX can go to is 100% of all the silver in 1000 oz bar form that exists in the world and not an ounce more. Based upon my understanding that 2 billion oz of such silver exists in total throughout the world, 80% is quite remarkable for a number of reasons. One such reason is in the obvious comparison with gold.

In gold, there are just under 150 million oz of gold in bullion form (100 oz, 400 oz and in kilo bar form) in the world's gold ETFs and in the COMEX warehouses, or 5% of the 3 billion oz of gold in bullion form (there are another 3 billion oz of gold in non-bullion form - mostly jewelry and coins). Since gold ETFs were introduced before silver ETFs, what could account for there being only 5% of the world's gold bullion in the ETFs and in the COMEX warehouses, while the percentage in silver is 80%? No deep dark conspiracy, just common sense.

A 100 oz bar of gold weighing about 7 lbs. is worth \$175,000 (one COMEX contract) and can be held, lifted and stored personally by just about anyone. A 1000 oz bar of silver weighing 70 lbs. is worth around \$26,000 and can be held, lifted and stored personally by very few. Five 1000 oz silver bars (one COMEX standard contract) weigh 350 lbs. and is worth around \$130,000 and can be lifted by no one outside Olympic weight lifting circles. My point is simple - if you are an investor, individual or institution, desiring to invest not-insignificant dollar sums in silver, you will end up storing silver on the COMEX or through the ETFs or some other legitimate professional storage program. With gold there are personal storage options that don't exist in silver.

The fact that such a large amount of the world's silver has found its way into the ETFs and into the COMEX warehouses is, therefore, not surprising; although the amount coming in over the past year or so still stands out. The first question you should be asking is how could 500 million oz come to be deposited into the world's silver ETFs and into the COMEX warehouses in a year when the world mined less than 800 million oz over that time (according to the Silver Institute)? There was no big or equivalent falloff in industrial consumption or total fabrication demand and even the Silver Institute documents increased physical retail buying of more than 200 million oz over this time.

<https://www.silverinstitute.org/global-pandemic-fueled-renewed-investor-interest-silver-2020/>

There is only one way that 500 million oz of silver could have come into the silver ETFs and into the COMEX over the past year (March 2020 to March 2021) and, as I opined all along (with a fleeting alternative explanation), that explanation takes us into the murky world of precious metals leasing. With silver mine production down and demand up (when including physical investment demand) how in the world was it possible that 500 million oz found its way into the silver ETFs and into the COMEX

warehouses without a true price explosion? The only possible answer is by silver leasing.

Unfortunately, while the answer is simple as to where the 500 million oz of physical silver came from over the past year, explaining silver leasing is not so simple. Even if you are as sharp as a knife when it comes to financial matters, fully understanding precious metals leasing will confound you. It certainly sounds simple enough, but let me assure you that is far from the truth. The very concept of precious metals leasing is so cockeyed and convoluted that it is fraudulent and manipulative on its face. Despite being inherently fraudulent, precious metals leasing is not illegal (although it should be).

24 years ago, when gold and silver leasing were in its heyday, I wrote to the Chairman of the Federal Reserve and the US Treasury Secretary, beseeching them to outlaw the practice.

<https://www.gold-eagle.com/article/letter-alan-greenspan>

In subsequent correspondence and conversations, both refused to do so, taking the side of the big banks involved and allowing the practice to continue. Several years later, when gold prices began to rise in earnest from the \$300 level, only then did it become apparent that precious metals leasing was a cockeyed and fraudulent scheme, causing the biggest practitioners, including Barrick Gold and AngloGold, to abandon the practice and book losses in excess of \$10 billion each.

But remarkably, even then the practice of precious metals leasing wasn't declared illegal (and stupid) and was instead allowed to pass into oblivion, without any official declaration of what a disaster it turned out to be. All parties involved, central and commercial banks and the mining companies, just pretended nothing really happened and all just stopped the practice. Ardent precious metals leasing foes, like myself, had to content ourselves with the satisfaction that the loony practice finally came to an end, although no one officially acknowledged same.

What made precious metals leasing loony and what should have been declared illegal was that the metal in question was dumped upon the market (depressing prices) at the outset of the lease to someday being repaid and returned to the original lessor (causing prices to then rise). The whole concept of precious metals leasing is daft because the actual collateral is sold to an independent third party beyond recourse. Because of this, I had assumed after Barrick Gold, AngloGold and others finally threw in the towel by 2008 or so, that the world had seen the last of this nutty concept. I was wrong.

Precious metals leasing hasn't come back in its previous form and I doubt you could get a mining company ever again to agree to borrow metal in order to forward sell as was practiced by Barrick or AngloGold back in the day. But precious metals leasing did come back in silver without mining company involvement, as I first noticed last year.

<https://silverseek.com/article/return-precious-metals-leasing>

This time it was JPMorgan leasing silver to other banks; in my opinion to enable close affiliates of JPM to buy more silver which would be impossible without leasing. Just a few weeks ago, my analysis seemed to be confirmed with the release of the Treasury Department's Office of the Comptroller of the Currency Quarterly Derivatives Report which indicated Bank of America's precious metals (silver) position had grown by the equivalent of 300 million oz at the end of the year from the end of March 2020. Up to 200 million oz of silver has been leased since the start of this year, fully accounting for the 500 million oz that have come into the silver ETFs and the COMEX over the past running year.

There is no other plausible explanation to account for how 500 million oz could be deposited and without causing prices to soar.

Again, to my knowledge, silver and gold leasing are not illegal, so petitioning the regulators on those grounds wouldn't seem to be productive. But the existence of silver leasing over the past year by JPMorgan more than explains where the 500 million oz came from that found its way into the silver ETFs and the COMEX warehouses. There was never any real doubt, for instance, that the 110 million ounces that were deposited into the big silver ETF, SLV, over three days into early February came from silver leased by JPMorgan and already in designated SLV warehouses.

Circling back to the basic premise of this article, namely, hitting the physical wall in silver, leasing has played a key role. Every ounce of silver that has been leased out by JPMorgan and that has found its way into the silver ETFs and into the COMEX warehouses is one less ounce that can be leased again. Once an ounce of silver has been leased, effectively, it can't be leased again. The 500 million oz that have been leased and deposited into the silver ETFs and into the COMEX warehouses over the past year all came from the unrecorded pile of silver in 1000 oz bar form and put into the fully visible and recorded pile of silver in recorded form, now amounting to 1.6 billion oz or 80% of the 2 billion oz that are thought to exist.

So, while there may be nothing currently illegal about silver leasing, there does exist the practical limit of how much more silver can be leased and that practical limit would appear to be at hand. Certainly, the Authorized Participants of SLV and SIVR, the two largest silver ETFs, should have a pretty good sense of how much more silver could be leased and provided to those ETFs than anyone else. I would contend that it was the precise knowledge by these insiders that not much silver remained to be leased that accounted for the infamous changing in the wording of the prospectuses of both trusts shortly after Feb 2. Who would know better about how much silver remained to be leased than those directly involved in the silver leasing?

When there is no more silver to be leased out as certainly appears to be the case based on what I just described it would appear we would be hitting the wall. However, I'm not a prophet, just an analyst looking for clues at the scene of the crime. Time will determine how much silver, if any, remains to be leased. In the interim, there still remains the other key point that has shaped the price suppression and manipulation for more than 35 years the matter of the concentrated short position of the 4 and 8 largest traders on the short side of COMEX silver futures.

Certainly, if, as and when we hit the physical wall in silver, the influence of the 4 and 8 largest COMEX shorts would seem to go by the wayside, as all the paper short selling in the world won't satisfy physical demand. The only reason the big shorts have been able to suppress silver prices for decades is because no true physical shortage occurred. But it will be a completely different world in a period of physical shortage. Industrial silver users need physical silver more than they need artificial low prices and any sudden denial of physical metal will not and cannot be tolerated.

Then there's the matter of the CFTC and its pending response to my rather specific questions of March 5 about the concentrated short position in silver. For the Commission to evade specific responses or to deny the price suppression of the big shorts, as it has in the past, could and should have far different consequences if we shortly hit the physical wall in silver. Perhaps I may be off in my timing as to when we hit that physical wall, but the evidence that we may be very close is all around us from the ongoing retail physical shortage, to the role of leasing, to JPMorgan slipping out the back

from its short positions, to the open declaration by the two biggest silver ETFs that silver suddenly looked hard to come by.

On top of all that is the obvious sharp move up in commodities of every type, from grains to lumber, to steel and other metals, like copper at ten-year highs and palladium (and other PGMs) at all-time highs. Silver is starting to look suspicious and out of line with other commodities and metals even if you exclude the COMEX price suppression. And it's near impossible to imagine the growing grassroots silver movement going away anytime soon.

While anything is always possible, I don't think I'll be writing many months or a year from now how hundreds of millions of more silver ounces came into to ETFs and the COMEX from leasing and that the 4 big shorts continued to aggressively add to short positions on rallies and bought back on lower prices. And if that were to be the case and silver remained suppressed in price how the Reddit crowd and the CFTC would somehow bind in a kumbaya-like friendship. Again, time will tell.

Turning to other matters, the new short interest report on securities indicated a slight decrease in the short position on SLV to just under 23 million shares (ounces), as of April 15. While not particularly large in terms of total shares outstanding (at 3.7%), I still get the feeling that it is as large as it is in physical ounces held short due to the same physical tightness as discussed above.

<https://www.wsj.com/market-data/quotes/etf/SLV>

As far as what to expect in Friday's COT report, both gold and silver prices were mostly higher over most of the reporting week ended yesterday, with silver a bit stronger than gold. Total open interest also increased modestly in each, with gold up less than 2000 contracts and silver total open interest up by 3000 contracts. I would imagine some moderate deterioration (managed money buying and commercial selling) but I will be more interested in category changes, particularly by the 4 big shorts in silver.

I still get the impression that recent price moves have been orchestrated by the smaller commercials (the raptors) in silver as opposed to the 4 and 8 big shorts. But that's the beauty of the COT reports - one only has to guess for no more than a few days before a new report establishes what transpired in great detail.

Price action has been choppy and dominated by the rollover in silver from May to July ahead of Friday's first delivery day. When rollover trading volume is netted out from total trading volume, not much true volume remains, meaning not much actual positioning has occurred. This is the type of illiquidity that makes it easier for the raptors to move prices around. At publication time, and with gold and silver prices now up a bit from Friday's close, the 8 big shorts look to have total losses of \$10.4 billion, up \$100 million for the week so far.

Ted Butler

April 28, 2021

Silver – \$26.20 (200 day ma – \$25.40, 50 day ma – \$26.00, 100 day ma – \$25.95)

Gold – \$1780 (200 day ma – \$1858, 50 day ma – \$1745, 100 day ma – \$1802)

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