August 19, 2020 – A Silver Mystery in Full View

For those who have come to be convinced of the silver price manipulation, as well as those who remain unconvinced, I ask you to put aside all thoughts about derivatives trading, concentrated short positions and epic double crosses and think about something completely different. Please accept this as an open invitation in which no prior experience in matters related to sophisticated financial transactions is required and in which all that is needed is common sense and logical thinking.

In essence, Iâ??ll lay out a series of documented facts which at their core present a silver mystery that cries out for explanation. Remarkably, the facts are beyond dispute and freely available to all, yet for some reason the data have been virtually ignored by everyone in the analytical community. While Iâ??ll provide my explanation for the mystery, my main point is to solicit any reasonable alternative explanations. This is very much a debate open to all to help solve a mystery that deserves an answer.

For more than 9 years, starting in April 2011, I have been observing and reporting on a highly unusual development that has continued to this day. Basically, out of nowhere, the physical movement or turnover of 1000 oz bars of silver being brought into and removed from the COMEX-approved silver warehouses erupted from what had occurred prior to April 2011. Please understand that I am referring to physical metal arriving on trucks and being deposited into the various COMEX warehouses as well as physical metal being taken out of these same warehouses and put on trucks and taken elsewhere.

While there is, obviously, some connection to paper futures trading and deliveries on futures, put that aside and focus on the actual physical metal being brought into and removed from the COMEX silver warehouses because thatâ??s at the heart of the mystery. Just for clarity – if one million oz of silver were brought in and deposited into the COMEX warehouses and another one million oz were taken out that same day, I would count that as a two million oz turnover. For purposes of daily physical silver movement, I exclude changes involving changes in category classification between eligible and registered, as such changes donâ??t involve physical movement. Just focus on actual amounts received and withdrawn. Detailed physical movement is provided (for free) on the CME Groupâ??s website daily â?? click on silver stocks

https://www.cmegroup.com/clearing/operations-and-deliveries/nymex-delivery-notices.html

Using these metrics, over the past 9 years there has been an average weekly physical turnover of some 5 million oz, or an annual turnover of more than 250 million oz. In recent years, the annual physical turnover, including that for the most recent 52 weeks ended last Friday, has been 300 million oz. Over the more than 9 years since the highly unusual and unprecedented extreme turnover of physical silver in 1000 oz bar form started to rush into and out from the COMEX-approved silver warehouses, more than 2.5 billion ounces have been physically moved. I would ask you to think about that for a moment.

Here we have conclusive and indisputable evidence that more than 2.5 billion oz of silver have been moved into and out from a small number (10) of warehouses in and around the New York metropolitan area over the past 9 years. Iâ??ve recorded the turnover daily and reported on it weekly for all that time. That total physical movement over this time is equal to or greater than all the silver in 1000 oz bar form that exists in the world. That should astound you and everyone with the slightest interest in silver.

Over this same 9+ years, there has been an increase in total COMEX silver warehouse inventories from around 100 million oz in April 2011 to 340 million oz today, but that only accounts for less than 10% of the total turnover. And much of the increase in total COMEX inventories can be traced to the JPMorgan COMEX warehouse, which started out at zero ounces in 2011 and now holds 166 million oz. Over the past 52 weeks, total COMEX silver inventories grew by 27 million oz, while the physical turnover amounted to 300 million oz. Silver investment demand is not the explanation for the extreme physical turnover in the COMEX silver warehouses. Investor accumulation wouldnâ??t account for the extreme turnover.

In fact, Iâ??m surprised that total investment holdings at the COMEX havenâ??t grown more than they have. After all, this is the source of physical silver bought by both the Hunt Bros up through 1980 and by Warren Buffett in 1997. And COMEX physical silver was always the main form in which my departed mentor, Izzy Friedman, owned his silver.

Back in the year 2000, long before the introduction of SLV and other silver ETFs, I wrote an article explaining how COMEX silver receipts (backed by physical silver in the COMEX warehouses) were the very best method for buying and holding silver in size. At the time of the article, silver was trading for $5 an ounce and while it has been higher and lower than it is today ($27), I would point this out to those critics who insist that everything I say is bogus.

https://www.gold-eagle.com/article/best-silver-investment

Over the years (decades), millions of silver ounces have been bought and held, at my urging, in the form of COMEX warehouse silver inventories. I raise this issue to make another, separate point, namely that this privately-owned investment silver is part of the total COMEX warehouse inventories, even though it is not available for delivery currently. And there are countless other millions of ounces in the COMEX warehouses held by investors which havenâ??t been bought at my urging, but simply because this is a great way to hold investment silver. In a very real sense, this investment silver artificially inflates the total COMEX inventories to levels not indicative of working inventories.

What prompts this thought is the recent refusal by the COMEX and BlackRock, sponsor of the SLV, to comment on whether the 103 million oz held on behalf of the SLV by JPMorgan in New York is part of the 340 million oz in total COMEX silver â??inventoriesâ?•. I believe the refusal by either to confirm or deny the 103 million oz is being â??double countedâ?? means that is likely the case. If my suspicions are correct about investor holdings being included in total COMEX silver inventories that means the true actual amount of working inventories in much less than the 340 million oz being reported. Why does this matter?

It matters because when compared to the actual documented physical turnover, it makes a big difference whether the 300 million oz annual turnover is occurring on a 340 million oz inventory or an inventory much less â?? say 100 or 150 million oz. Please donâ??t misunderstand what Iâ??m saying â?? there is no commodity in the world that has or ever will experience the type of physical turnover that has existed in the COMEX silver warehouses these past 9 years â?? with no exceptions. But there is a big difference between whether the total inventories are 340 million oz or some much smaller amount. And when it comes to the COMEX, itâ??s wise to assume the most devious explanation.

OK, so the open question is why, among all commodities, has the physical turnover in COMEX silver been so extraordinarily large and persistent for all these years and not in any other commodity? You donâ??t need to be a commodities or derivatives expert or other professional with years of hands-on experience to venture an answer to a very simple question â?? why just silver? This is a debate open to all and no pre-qualifications are required â?? just something that makes sense.

Since Iâ??m the one raising this issue, Iâ??ve obviously thought about it a lot. My take is that the incredible physical silver turnover has very little to do with silver investors and that leaves only one other source for the physical demand that is driving the extreme turnover. That source is the industrial silver users. There is such large and persistent demand for physical silver by industrial and fabrication consumers that it is both flying into and out from the COMEX warehouses. You may recall I recently wrote about the silver users, both privately (in the archives dated July 29) and publicly on Aug 7 – https://silverseek.com/article/dont-forget-silver-users

I believe there is such strong and persistent demand for physical silver by industrial consumers of every type draining metal from the COMEX that it has been necessary for new silver to be brought into the COMEX warehouses to meet the demand. I donâ??t think the reverse can possibly be true, namely, that so much silver is coming into the COMEX warehouses that someone needs to withdraw it aggressively to keep total inventories from exploding.

If I am correct in my take, what Iâ??m describing is persistent near white-hot industrial demand that might be on the verge of panic if the physical flow of silver is interrupted for any reason. One thing Iâ??m not sure of is whether the industrial users of silver may have started to build up physical inventories in anticipation of a developing silver shortage. Whereas I always agreed with Izzy that it would take actual delays in physical deliveries to set off a user inventory buying panic, it dawns on me that the industrial silver users today are much different from the users of 35 years ago.

Companies like Apple Computer and Tesla Motors were in their infancy or years from being born in 1985 and it would be hard to argue that these companies arenâ??t smart and keenly aware of whatâ??s going on in the world. Itâ??s not difficult to imagine that some of todayâ??s industrial silver users may have figured out that silver is likely to be in short supply in the future and it would be wise to secure future supplies now.

Further, itâ??s quite possible the recent increases in COMEX silver warehouse inventories reflect user inventory building, as thereâ??s no way of knowing exactly who holds the metal â?? investors or users. Recently, JPMorgan issued (delivered) 40 million oz in its house account, yet none of that metal has been shipped out of its COMEX warehouse, even though ownership changed hands. As much as I condemn the COMEX for price manipulation, the fact is that its approved warehouses are a great place to store silver. A user taking delivery of that silver would have no compelling reason to move it out from the COMEX until needed. Same with an investor taking delivery.

Where this distinction is important, however, is in future silver delivery demands. Some have speculated that delivery demands in the fast-approaching September COMEX futures contract would be extremely large and bullish for the price. That may or may not be the case, but I can attest to something far more certain. If it develops that purely speculative demand gets lined up to take delivery and there is anything that suggests those speculators are interested in â??goosingâ?• the price by taking delivery, the regulators are sure to intercede (as they should). But when the day comes that legitimate silver users are demanding delivery, then there is little the regulators can do.

One final point. Imagine if you would that instead of the physical turnover of silver exploding in the COMEX warehouses out of nowhere 9 years ago that the physical turnover occurred in some other industrial metal, like copper or zinc or nickel. Would that not become the talk of the analytical world in those commodities? Would not the conclusion quickly turn to sharply increased industrial demand as causing the sudden burst of physical warehouse movement? Why is that not the case in silver?

I am hard-pressed to construct a more bullish price set up than what I just described. How it is not at the forefront of every silver commentatorâ??s list of reasons to be bullish is a puzzle to me. Be assured it is at the very top of my list of factors that could and should send silver prices soaring. If you have any thoughts on this matter, please let me hear from you. Something is responsible for the unprecedented physical metal turnover in the COMEX silver warehouses and it is high time it be examined.

Turning to other developments, the compelling bullish remarks I just made about silver are, clearly, different from the sharp selloff today, although for the week so far both gold and silver are mixed. While gold doesnâ??t share the potential for an industrial user panic that exists in silver (given the low industrial consumption profile for gold), both markets do share the same bullish futures market structures; highlighted by the relatively low net long position in each by the managed money traders and low commercial net short positions, including of the concentrated variety.

Bullish futures market structures, of course, are no antidote for selloffs, particularly in a volatile price environment. At least not while the crooked price system, featuring commercial bank dominance and control is still in play. As Iâ??ve reported recently, that bank dominance has come under severe pressure and I do believe the game has changed, but it is not quite dead. Yet.

A few moments ago, the CFTC announced major findings of wrongdoing, including lying, by the Bank of Nova Scotia, for what are, essentially, spoofing and price manipulation violations in COMEX gold and silver. What a shock. The total fine appears to be around $127 million, which by extension would suggest a fine for JPMorgan of at least a hundred times more or $127 billion. I guess Scotiabank should have unloaded this pig in a poke long ago.

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I particularly enjoyed the bows taken by the CFTC for their crackerjack investigation and especially for the praise it heaped upon all those agencies that assisted in finding what was under its nose for decades, including the Justice Department, the US Attorney, the FBI and the Post Office. Left out, for some inexplicable reason were the CIA, the FAA and the Food and Drug Administration. If you detect that Iâ??m sick and tired of the CFTC patting itself on the back for uncovering that which should have been uncovered years if not decades ago, then you would be correct. Itâ??s also no big surprise that a hefty selloff was somehow arranged for the day of the announcement (otherwise it might be suspected that the crooks at Scotiabank might have had something to do with the decades-old price suppression of silver).

Whatâ??s most remarkable is that the CFTCâ??s findings come close (but not too close, mind you) to the real crime in COMEX silver (and gold), namely, the decades-long price manipulation on the COMEX by the concentrated short sellers, of which Scotiabank was a long-time card-carrying member. I understand that the CFTC, along with the Justice Department, canâ??t possibly directly address the allegations of manipulation which are so clear to so many, as that would, effectively, put it out of business. Heck, the regulators canâ??t even dare address the allegations. Â Thatâ??s why they have to stick to spoofing.

Despite the abject failure of the CFTC and the Justice Department to uphold the rule of law, at least openly, all may not be lost. Todayâ??s findings at least show that the agencies are trying to do something and that goes a long way to supporting my recent contention that a â??perfect solutionâ?• to the real problem surrounding the master precious metals gangstaâ??s, JPMorgan, may have been reached behind the scenes, whereby JPM had to give up a chunk of its physical silver (300 million oz).

Another bright side to todayâ??s announcement is that the noose seems to be tightening on the big concentrated COMEX shorts. While the CFTC and DOJ canâ??t go too harsh on Scotiabank or any of the current concentrated shorts, nothing the regulators has done strengthens the hand of the big shorts. Besides, enough financial damage has been done to the 8 big shorts over the past year to rule out any intention by them to resume their manipulative ways in the future. Obviously, these big shorts are not dead yet, but neither are their prospects good for a return to the market control they demonstrated for decades prior to a year ago.

Weighed against the potential for sharply higher silver prices as and when the industrial users forcefully enter into the silver inventory building phase that lies ahead, the outlook for the big shorts is decidedly bleak. Yes, as todayâ??s price action indicates, the big shorts are not dead yet, but selloffs designed to shake out speculators will not be effective against users interested in securing physical inventories to maintain their assembly lines.

As far as what to expect in Fridayâ??s new COT report, despite gold and silver ending the reporting week higher, I donâ??t sense much of a real change in positioning. Certainly, changes in total open interest werenâ??t significant, as goldâ??s fell a bit over 9000 contracts and silverâ??s by 3000 or so contracts. Forget predicting by how many contracts, Iâ??m not even sure whether the commercials or managed money traders bought or sold on a net basis.

Todayâ??s sharp selloff brought the 8 big shorts much relief from their losses over the past two days, but less from Fridayâ??s close. At publishing time and with gold down about $5 and silver still up by 45 cents from Fridayâ??s close, the 8 big shorts are a bit behind from they were on Fridayâ??s close, when their total losses amounted to $15.3 billion.

Ted Butler

August 19, 2020

Silver – $26.95Â Â Â Â Â Â Â Â (200 day ma – $17.90, 50 day ma – $21.41)

Gold – $1950Â Â Â Â Â Â Â Â Â Â (200 day ma – $1662, 50 day ma – $1857)

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