August 5, 2015 – Silver Fundamentals 2015

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I had a recent conversation with a long time reader and subscriber, in which he implored me to write more about the supply/demand fundamentals in silver rather than the steady stream of COMEX price control I usually feature. I've referenced Barry in the past and he is a large holder of silver intent on convincing his ultra-wealthy friends to buy silver. His reasoning is that what persuaded him to buy silver in the first place, starting around 15 years ago, was my writings on actual supply and demand, particularly how little metal is available for world investment; and not detailed analyses of COMEX manipulation, which he claims the very mention of scares off potential investors.

In the broad sense, Barry is completely correct; actual silver supply and demand was all I wrote about in the Â?beginningÂ? Â? and now, not so much. While I plan to address the fundamentals today, I'd like to explain how my writings evolved over the past 15 years as the changes were, for the most part, quite intentional. Having become aware of the COMEX silver manipulation in 1985 (which was when I first began to petition the regulators), my introduction to the Internet in 1996 mostly featured articles on precious metals leasing and COMEX short selling, with some mention of silver supply/demand fundamentals. But that changed in late 2000, when I began writing articles for Investment Rarities.

The president of IRI, Jim Cook, after a number of conversations, asked me back then if I would write an article or two for the newsletter he mailed to clients of his firm to see if I could persuade them to buy silver. He never told me what to write (true to this day), but did point out the obvious that most of his readers probably wouldn't understand the intricacies of the COMEX manipulation, so maybe I could concentrate on other reasons silver was such a good potential investment. Since I had plenty of other reasons, having become obsessed with the metal 15 years earlier, I mostly wrote of those other supply/demand reasons in trying to convince IRI's customers to buy silver.

I could see for myself back then that writing about manipulation wasn't likely to convince anyone to buy silver, so instead I wrote about supply and demand and how little silver existed, particularly in dollar terms and in relation to gold. Barry was one of those early customers/readers and, like countless others, did become convinced of silver's outstanding investment value. As I said, he is correct about the change in my writings, but may be missing a key point Â? if the silver fundamentals are so good (and I believe they are), then why the low price? That's the definition of manipulation Â? it creates an artificial price level divorced from what the actual supply/demand fundamentals would dictate.

In simple terms, if there was no manipulation in silver, then the price pattern would demand that the fundamentals must be bearish Â? otherwise why would the price be so low? In fact, I would go so far as to state that the low price proves that silver is manipulated and to sidestep the word because it might dissuade potential investors from investing in a market that was manipulated would be unprofessional on my part. How can I possibly overlook the most important price factor of all?

The truth is that actual supply/demand fundamentals have had little, if anything to do with silver prices these past few years, although that won't remain the case forever, in my opinion. In other words, changes in mine production or industrial and total fabrication demand have had a near zero impact on silver prices. That's why I have gotten away from specific discussions of such factors as time has gone by. I feel my responsibility is to write about the most important influences on the price of silver and actual production and consumption of silver has not been anywhere near the top of the list.

That said, the actual fundamentals in silver are powerfully bullish for the long term and cannot help but assure higher prices in time. Like any industrial commodity, changes in production and consumption do not vary dramatically from year to year; certainly no big changes in either have accounted for silver price changes recently. Looking ahead, the biggest prospective change in silver would seem to come from increased demand for solar generation of electricity, but like every other feature of silver supply and demand, none of these factors exerts the slightest influence on price presently.

What separates silver from every other industrial commodity is that it is also a basic investment asset. Silver has a long history and a certain future as a basic investment asset and that cannot be said of any other consumable commodity. Corn, copper, crude oil nor any other consumable commodity can be considered investment assets. Of all commodities, silver is the only one with true dual demand Â? regular utilitarian commodity demand plus investment demand. I understand that silver's highly unique dual demand profile is overshadowed at times like now by prices brought low by manipulation, but that's not permanent.

What is permanent is the equation that any eruption of investment demand in silver will be supplied by the amount of metal that exists and the amount that is made available to the market. By definition, the amounts are very different and this is true in every commodity, not just silver. Every ounce of existing silver inventory is owned by someone and the owners of that inventory will determine at what price their inventory is available for sale. Just because a sudden investment rush might develop for silver does it mean that there will be a commensurate increase in the supply of metal made available. In fact, when an investment rush has developed in the past for silver (or any investment asset), usually holders of existing inventory get more reluctant to sell for the very same reason that propels the buyers – the expectation of still higher prices to come.

Additionally, silver is highly unique in that one form of existing inventory dominates like no other, namely, the inventory in the form of 1000 oz bars. No other commodity, including gold, has this particular characteristic. Virtually, the entirety of world investment and industrial inventory is in the form of 1000 oz bars, including all ETF and exchange holdings. As and when a physical shortage develops in silver, it will be in the form of 1000 oz bars. This the form that both industrial users and fabricators will rush to buy, as well as institutional and other large investors. I'm hard pressed to think of another commodity where inventories are so rigidly defined by form.

What this does, in effect, is make the inventory equation incredibly simple to measure in silver, in that it can be distilled to metal in the form of 1000 oz bars. Similarly, the whole measure of the current production/consumption equation in silver is made simple by confining the measurement to how much silver is Â?left overÂ? each year for investment after deducting total fabrication demand from total production (around 100 million oz currently). So what is the total world inventory of silver, in the form of 1000 oz bars? Just under 900 million oz of such silver can be documented, to which I would add another 400 million oz in unreported inventories Â? 1.3 billion oz total. Yes, there are additional quantities of silver in other forms, coins and small bars, but those forms will prove inconsequential when industrial users and institutional investors rush to buy 1000 oz bars.

The key fact is what the 1.3 billion oz of real world silver inventory amount to in dollar terms. The math is simple (1.3 billion oz x $15) Â? less than $20 billion. In modern terms, that is hardly a rounding error for most asset classes which are measured in the trillions, including gold. And that piddling amount is for total real world inventories, not the amount of silver that might be made available if a rush of investment demand develops. I'm convinced if even as little as one billion dollars were suddenly expended to buy silver, it would take the roof off in price. The real question is why that hasn't happened yet?

Here we go back to the main theme of what I've been writing about Â? the manipulation on the COMEX. Because prices have been continuously and artificially depressed, this, among other effects, has kept world investors in the dark and unaware of the real silver story. I can't possibly write about changes in mine production or industrial demand as if those factors had any bearing on current prices without focusing primarily on the only price factor that matters Â? COMEX positioning. I could and did do so 15 years ago, because I had no choice Â? few were ready to hear about manipulation, they had to be exposed to the actual supply/demand fundamentals first. But, having explained those fundamentals sufficiently in the past, how can I write of them now when the manipulation is all that matters?

I suspect Barry is correct in that those new to silver might be turned off by the thought of dealing in a manipulated market. But I'm getting too old to keep teaching first grade math and I suspect my main audience is past the challenge I first accepted 30 years ago from Izzy to explain why silver was so low. The challenge has evolved into explaining why the manipulation isn't obvious to everyone, given the flow of price and government data confirming it. Besides, there's so little actual silver available for investment that great numbers of new investors could never be accommodated anyway. If anything, the manipulation has become the very best explanation for why to buy silver now.

Bearing witness to the evolution over the past 15 years of folks becoming more aware of the silver (and other) manipulation, is the literal explosion of Internet commentary about the goings on at the COMEX and reference to the COT market structure. I'm still a bit perplexed on what took so long and some articles still get too complicated and veer off into questionable areas, but it's all mostly good. The one bedrock issue that should be brought out in every article is that paper positioning on the COMEX sets the price for metal everywhere and that's illegal and as wrong as is possible.

In developments since Saturday's review, the delivery circumstances in the COMEX August gold contract remain of interest. After two days of very light deliveries, JPMorgan delivered 2750 contracts (275,000 oz) today, or nearly nine times the total amount delivered over the first two delivery days. The deliveries came from JPM's house (proprietary) trading account and, as such, were for the banks own benefit (not clients). This is even more gold than JPMorgan issued in June (2468), which followed earlier in the year acceptance (stopping) of gold deliveries of 3200 contracts, all in the bank's house account. It's too early to draw specific meanings to the August gold delivery period, save one.

http://www.cmegroup.com/delivery_reports/MetalsIssuesAndStopsYTDReport.pdf

As is usually the case, the vast majority of the issuance and acceptance of COMEX gold deliveries are for the house accounts of major banks (today Goldman Sachs and HSBC were featured stoppers). What this proves, at a minimum, is the degree of dominance and control these big banks hold in COMEX dealings. Remember, I'm just referring to the actual deliveries involving their house or proprietary trading accounts, not to these banks dealings on behalf of clients. It's been a few years, but wasn't the prime purpose of Dodd-Frank and the Volcker Rule to get these big banks the heck out of commodity dealings in their own name? Based upon the documented data from the CME, these big banks exert stronger market dominance than ever before.

Price action this week continues in a dismal manner and if manipulation didn't exist, it would have to be seriously considered that excess silver (and gold) might be raining down from the heavens. In reality, the price is governed by COMEX futures positioning, where the managed money traders are massively short and the commercials are less short than ever. This is not just true in COMEX silver and gold, but also in COMEX copper and NYMEX platinum, palladium and crude oil (or nearly so). This is an unusual occurrence in that so many CME markets are close to historical record extremes.

The existence of so many historical positioning extremes in such a variety of CME markets further begs the question of how these extremes will be resolved. Have the managed money technical funds trapped the commercials in all these different markets or is it the other way around? Since the managed money short positions are very much open positions, the resolution won't be known until those open positions are closed out.

If the managed money shorts buy back their open positions at current or lower prices in all or most of these different markets, they will have soundly bested the commercials for the first collective time in history. If, however, the managed money shorts buy back their collective short positions at much higher prices, the commercials will have bested these technical funds yet again, as is their custom. Interim price action before the eventual resolution doesn't really count for much (except the daily emotional toll it exacts on us all) and, therefore, shouldn't be obsessed upon, but that's strictly do as I say, not as I do.

There's no question in my mind that the managed money technical fund shorts will buy back on much higher prices, but that's something everyone has to decide for themselves. Beyond any question is that this will be the determination of how this matter is resolved and that it is a matter that must be resolved.

Ted Butler

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Silver – $14.55

Gold – $1085

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