

December 16, 2020 – The View From 30,000 Feet Up

It's easy to become intensely focused on anything you develop an avid interest in and that certainly includes silver for me (and most of you). Combined with modern technology, one can easily slip into paying attention to every price tick and chart squiggle. The problem with this, of course, is that an extremely short term focus can work against long term investment results and it is the long term where investors stand the best chance for real success.

That's why it's important to try and fight to maintain a long term perspective, measured in years, not days, weeks or months – like the perspective one gets by looking down from a great height. Sure, this can be easier said than done on a daily basis, but fortunately it's not terribly hard to do once in a while. So let me summarize my own personal perspective on silver, not from 30,000 feet up, but after 35 years of intense study.

Actually, my involvement with silver began some 15 years before that as a commodity broker in the very early 1970's, so I lived through and experienced the rise and fall of the Hunt Bros and even before the price peak of \$50 in 1980, I brokered what was at the time, the largest retail transaction ever at Drexel Burnham – a tax straddle involving tens of thousands of silver contracts. That said, in looking back, I didn't know Jack Squat about silver. It wasn't until Izzy Friedman challenged me in 1985 that I got down to try to learn as much about silver as I could.

In a nutshell, here's what I learned. Silver has had a history as rich as the history of mankind itself. Prized, along with gold, from the dawn of civilization as money and an object of adornment and beauty for thousands of years, wars were fought and lands were exploited (and discovered) for the control of silver. Silver has existed before any man and will exist long after any man's life has ended. It's a case of how silver can affect our time while we're here.

There was always the presence of strong government involvement in silver, since it was considered a form of money throughout history. In more recent times, say the time shortly after the great Civil War, largely as a result of the discovery of the Comstock Lode, the US Government acquired massive amounts of silver, many billions of ounces. So much silver was held by the USG, that it was used freely in common coinage. By the start of World War II, the US Government held roughly 6 billion oz of silver of the total 10 billion oz thought to exist in the world.

At the same time the USG and other world governments were accumulating (without really trying) billions of ounces of silver, a series of highly unusual developments were occurring simultaneously, namely, the discovery of certain modern day chemical and other qualities inherent in silver. Such discoveries included photography and electrical applications given silver's ability, to this day, to conduct electricity better than any other element. After thousands of years of being a highly sought and desired item, it turns out silver's chemical properties were indispensable to modern life. Who would have ever imagined such a development – certainly not those shipping silver exploited from Mexico and Peru to Europe on small wooden ships hundreds of years ago.

So voracious was the appetite for silver as an industrial commodity, along with its continued use in coinage in the US and elsewhere into the 1960's, that the world began consuming more silver than it was producing from new mining, even though mining output steadily increased. Remarkably, for

nearly 65 years, from 1940 through 2005, the world consumed more silver each year than it produced. Stated differently, there was less silver in the world each year than the year before for 65 years. All told, the 10+ billion oz of silver that existed above ground in 1940 got depleted to 1 billion oz around 2005. The US government, which held 6 billion oz in 1940, ran out completely around the year 2000.

Since 2005 or so, as a result of an increase in the price which spurred an increase in mine production, the structural deficit was eliminated and the world inventory of silver has risen to around 2 billion oz in the form of industry standard 1000 oz bars. Yes, there are other forms of silver in coins and small bars, most likely in amounts approaching one or two billion ounces, but converting those forms into bullion is no easy task. Plus, there have already been large melts in 1980 and 2011 in response to sharply higher prices and once other forms of silver are melted into 1000 oz bars or consumed, they can't be melted again.

Here's where a comparison of silver to gold is required. In 1940, when there were more than 10 billion oz of silver in above ground world inventories, the comparable amount of gold was less than 2 billion oz (in all forms). In other words, there was roughly five times as much silver than gold 80 years ago. Today, there are 6 billion oz of gold and 2 billion oz of silver, so silver is now more rare than gold. It's not that gold doesn't have many industrial applications (although not near as many as silver), but what prevented it from being more consumed was an inherently high price (it was worth its weight in gold).

A reasonable person would conclude that the complete reversal of the relative amounts of silver and gold in the world would be reflected in the relative prices of each with silver now much more highly valued relative to gold today than it was 80 years ago. Such a reasonable person would be dead wrong, as silver is much cheaper today than it was relative to gold back then (and forget about how cheap silver got to gold this past March).

In 1985, when Izzy first challenged me to uncover why silver was so cheap (around \$5), the silver/gold price ratio was around 50 to 1 and would hit over 100 to 1 five or six years later, further highlighting that silver was dirt cheap. Cutting to the chase, the same explanation applies to the absolute and relative price of silver being and staying cheap - the concentrated short position in the COMEX.

Putting things on fast-forward, the next big development in silver was the emergence of JPMorgan from being a participating short to head short in 2008 as a result of its government-assisted takeover of Bear Stearns. JPM quickly succeeded in rigging silver and gold prices sharply lower following the takeover and remained in total price control until the run up in prices in 2011. JPMorgan took it on the chin temporarily, being out a couple of billion dollars at the price highs of 2011, but didn't blink and run to cover shorts and succeeded in rigging prices lower again for the next near 9 years, but with a twist that I contend has been the biggest development in silver ever (yes, I know, ever is a long time).

What JPMorgan conceived in 2011 was the criminally genius plan of all time of taking advantage of its ability to depress silver and gold prices to do something no one (not me, not Izzy, not anyone) had ever dreamed of - buying untold quantities of physical metal as it depressed prices by paper short sales. It took me a couple of years to recognize what the crooks at JPM were up to, but not once did I not marvel at the criminal genius of the solution of covering its paper short position. I always thought it would be impossible to buy back paper shorts on a plain vanilla basis and here comes JPM with a completely outside the box solution - buy physicals instead.

When it became apparent to me what JPMorgan was up to, I began trying to calculate when they would have enough physical silver and gold to offset completely its paper short positions on the COMEX. As early as 2014, or even earlier, it seemed that JPM had enough physical metal to cover its short positions, but still it didn't allow prices to rise. It then dawned on me that JPMorgan realized what a great racket it had going for itself - continuing to profit from shorting and buying back from the managed money traders on the COMEX, while accumulating physical silver and gold on the cheap - that there was no reason for it to stop until it had to stop. And what would most likely make JPM have to stop was an inability to add more physical silver due to such metal not being available. Thus, JPM turned a genius defensive solution - buy as much physical metal to cover paper short positions - into an even more perfect offensive maneuver - accumulating more physical silver than any entity had ever acquired.

As previously discussed, not for a moment do I think that JPMorgan had any idea of what it would come to achieve in silver and gold over the next 12 years following its acquisition of Bear Stearns in 2008 - no one could possibly have that type of foresight. But like any truly bright individual or entity, it could and did learn from its mistakes and failures. In JPMorgan's case, one blunder, temporary as it turned out to be, was finding itself on the short side of silver in the great run up to \$50 in April 2011. After dominating and controlling prices since taking over Bear Stearns, unexpected physical demand drove prices sharply higher in early 2011 and at the peak, JPM was out around \$2 billion on its COMEX silver short position.

However, it did not panic and buyback its short positions, but arranged for the price smash that began on Sunday evening May 1, 2011 and that set prices lower for what would be the next 8 or 9 years. I'm convinced the brush with what would have been a crushing loss (possibly exposing the silver manipulation) wasn't lost on JPM and it realized it was only a matter of time before prices would ultimately explode for real and quickly decided to protect itself by buying as much physical metal as it could, while it could still control and suppress prices. The necessity of insuring itself against the inevitable historic advance in silver prices was JPM's epiphany and mother of invention for accumulating physical silver and gold. And no one was better equipped and capable of doing what JPM did.

As it has turned out, JPMorgan was even more resourceful and criminally genius than I gave them credit for because in the end, not only did it buy and accumulate physical metal in a variety of methods in quantities way beyond what was required to offset its paper short positions (and in names of proxies and affiliates to conceal control), it succeeded in buying back all its paper short positions in open market operations to boot; thus leaving the other big shorts potentially holding the bag. Remember, I'm not sitting around dreaming up these things - I rely on public data, as I have chronicled on these pages for years. And as I've remarked more times than I care to remember, my imagination is not rich enough to invent any of this.

So, after 35 years of following silver intently and witnessing more important changes (mainly involving JPMorgan) than I ever could imagine, I am struck by the one constant that has prevailed since day one, namely, that the concentrated short position on the COMEX is what is responsible for silver's suppressed price. That the short position has been deftly passed along to other big commercial traders by JPMorgan, leaving those shorts at great risk of future financial harm, while JPM stands to profit mightily on its physical holdings is almost unbelievable - except it is borne out by the continuing flow

of data.

And whereas I thought the open recognition of the concentrated short position would lead to an almost immediate price explosion (which clearly didn't occur), I can only conclude the resultant developments only enhance the prospects of a more explosive price explosion than ever would have occurred decades ago. While it is true that very few have come to recognize the continued existence and effect of the excessive short position, among those very few are certainly JPMorgan itself and now perhaps some influential traders in the other large trader category.

But with so many truly sharp and well-funded investors abounding throughout the world, all scouring the globe for opportunities in a zero interest rate environment, it must surely be only a matter of time before enough of them discover the real story in silver and position themselves accordingly. It's not like they have to invest 35 years of their lives learning all this on their own. Either that or someone may come with a decent rebuttal to the facts as I've presented them - something no one, including the regulators, have been unable to do to this point.

I received an interesting question from a subscriber this week. Adam wanted to know what version of the competing narratives I had decided on to explain the circumstances of how the 400 million oz of physical silver came into the world's silver ETFs and COMEX warehouses earlier this year. Originally, I had surmised that the silver had been leased by JPMorgan to other commercial entities which in turn deposited it into the ETFs and into the COMEX warehouses. Then I came up with the premise that JPMorgan had to "donate" the metal (say 300 million oz) as a result of a settlement with the DOJ and CFTC. Finally, I reverted to my original leasing premise - where I still stand.

Please know this is speculation on my part, but largely based upon data that can be verified. First off, the 400 million oz of physical silver had to come from JPMorgan, as it was the only entity capable of providing such a quantity, particularly considering the mild price reaction at the time. So the question came down to whether JPM was forced to donate the metal or did it do so voluntarily (and with a big hook attached)?

The mild wrist slap the regulators agreed on in order to close out the investigation into manipulation by JPMorgan came to a record \$920 million, but the odds of JPM ever paying that full amount seems remote since much is supposedly set aside for victim restitution - if anyone can prove damages from spoofing. I'd be surprised if JPM eventually had to cough up even half the posted amount and the total original amount was a pittance when considering what the Justice Department should have demanded.

So, for JPMorgan to have agreed to part with 300 million oz of silver, worth roughly \$6 billion at the time and more than \$7.5 billion as I write this today, would seem overly generous by JPM, not an entity exactly noted for easily parting with great sums of money. In fact, it borders on the absurd to conceive that JPM would give up that much without a bitter and extended fight.

Further, by leasing out the 300 million oz (or more) of physical silver, while it doesn't necessarily increase the one billion oz of silver I claim JPM has amassed over the past near decade, it sure puts the borrowers of the metal at much greater risk of loss in the event silver prices rise sharply. Most likely, the borrowers of this leased silver are the same big traders short on the COMEX and I wouldn't be particularly surprised if the borrowers were the very biggest shorts. The last COT report indicated that the 4 largest shorts in COMEX silver held 300 million oz short, so if these were the

borrowers of the leased metal, then it effectively doubles their short exposure to 600 million oz (meaning every dollar higher involves a \$600 million additional loss).

What I'm suggesting is that if JPMorgan leased out the 300 million oz (or more) physical silver oz, that metal has to be returned - likely at a time when it's most inconvenient and difficult to return the metal. Not only is coming up with physical metal difficult in a future time of tightness, I can't think of an entity I'd rather owe anything to other than JPMorgan. I think I'd rather owe money to Ebenezer Scrooge (before the ghosts of Christmas visited him) than JPM. But hey, that's just me.

Bottom line - I believe JPM leased out the 300 million oz of silver or more and didn't just donate it as part of a settlement. And, I'm starting to think much of the same may have occurred in gold, where the sudden infusion of 30 million oz into the COMEX warehouses and a like amount of physical gold came into the world's gold ETFs is fully documented. That metal had to come from somewhere and someone and I wouldn't doubt JPMorgan's involvement. Yes, this is also quite bullish for gold prices.

As far as the price action since Saturday's review and what to expect in Friday's Commitment of Traders (COT) report, the sharp silver price rally on yesterday's cutoff for the report (which has continued into today), throws a bit of a monkey wrench into expectations. But as you may know, I've been shying away from contract predictions in upcoming COT reports because there are so many crosscurrents.

Even if the cutoff day for this week's coming report were Monday, capping a week of down days, which would have strongly suggested managed money selling and commercial buying, the existing -washed out- nature of the market structures in silver and gold could be a countervailing force. But with yesterday's rally in both gold and silver and a resultant fairly sharp increase in yesterday's open interest suggesting managed money buying and commercial selling, I'm afraid I would end up babbling in trying to cover all the possibilities - so I'll spare you and just wait for Friday's report, with a particular interest in what those guys in the other large reporting category in gold may have done.

One thing I have been meaning to mention but haven't is the possibility that a good amount of the managed money long position in silver is other than technical funds. In last week's report the gross (not net) long position of the managed money silver traders was a hair over 66,000 contracts. So far in 2020, this gross long position has ranged from 90,000 contracts into late February and then down to 30,000 contracts on the epic selloff that commenced in March. It was the sale of this 60,000 contracts (300 million oz) that largely accounted for the selloff and upon which the commercials, particularly JPMorgan feasted on in buying back short contracts. Silver prices bottomed largely as a result of there being no additional managed money longs to be liquidated.

Therefore, it has been a bit of a concern that the managed money gross long position in silver is 36,000 contracts higher than it was at the bottom in the spring, especially since the corresponding managed money gross long position in gold is real close to the lows of the spring and for the last few years. In other words, the managed money gross long position in gold looks much more washed out than in silver.

Lately, however, I have been thinking that the silver selloff in March was so extreme that perhaps a good number of managed money longs not given to technical signals were overwhelmed and shocked

by the extent of the silver selloff and pitched positions in a panic. Seeing that the world of silver hadn't come to an end (as it appeared at the time), it's possible or even likely that many of the contracts originally pitched (say around 30,000 or so) came back into the market when the smoke cleared and the world hadn't ended.

Many readers may recall past discussions of buildups in managed money silver long positions over the years by other than technically-oriented funds. As a reminder, there is no requirement that managed money traders be guided by what type of methodology they employ. Inclusion in the managed money category simply means trading is controlled by a professional money manager and that manager can be technically oriented or value oriented. In gold, it's obvious up through now that the other large reporting traders are not following moving average signals. What I'm suggesting now is that a good portion of the managed money traders in silver may also be value motivated and unlikely to liquidate on lower prices. Time will tell.

About the only thing missing in silver is sharply higher prices. There seems to be a near-universal expectation of sharply higher silver prices (all for good reasons) with predictions for \$50 silver now seeming mundane. Therefore, as and when silver prices do move sharply higher, few will be genuinely surprised. Particularly in a world where more new price highs have occurred in every manner of investment asset possible. I still maintain the sole cause for why silver hasn't joined in the price parade is because of the concentrated short position. But this position is increasingly threatened by the same sharply higher prices now universally expected and further, any move by the big shorts to buy back shorts will truly ignite prices higher still.

That process may have begun with the sharp rally of yesterday and today, but at the same time, the final moving average all clear signal has yet to occur. Of course, I'm referring to the 100 day moving average in silver, which has been moving higher and is now at \$25.19. While we have been over that price level in today's trading, silver has traded mostly below it. Again, I don't give a fig about moving averages, but I am mindful that those that do abide by such signals can and do have an effect on prices. I don't sense an existing strong participation by managed money technical funds on the long side of silver (as suggested above) and if an all clear signal is given, I see no reason these traders wouldn't buy (adding additional pressure on the big shorts).

I can't guarantee the managed money technical funds will buy, just that they usually do when all clear signals are given. Certainly, I would imagine the big shorts are aware of all this and might be working to contain prices below these levels in the hopes of rigging prices lower. In that event, as I remarked to an associate today, a selloff instead of a breakout will be like yet another lash of a whip across the silver price prisoners' backs, but there have been so many lashes to this point that the resultant scar tissue has dulled the pain and the eventual day of price freedom will surely be at hand regardless. By the way, the equivalent all clear signal in gold is still \$1915, the current 100 day moving average.

At publication time, losses to the 8 big shorts have increased by \$800 million since Friday's close, putting those losses at \$12.3 billion. Greater relative strength in silver has meant the losses so far this week are fairly evenly divided between gold and silver.

Ted Butler

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Silver – \$25.15 (200 day ma – \$21.00, 50 day ma – \$24.25)

Gold – \$1859 (200 day ma – \$1815, 50 day ma – \$1876)

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