December 20, 2023 – One Down, One To Go

Although I had been following up regularly with the staffer in my local congressmanâ??s office to see if any response had been received Â from either the Securities & Exchange Commission or the Commodity Futures Trading Commission to my Nov 13 petition about the possible double-counting of the 103 million oz of silver in the JPMorgan COMEX warehouse and in the silver ETF, SLV, I found out this week that the S.E.C. had responded on Nov 27. Â As a refresher, hereâ??s my original petition â??

https://silverseek.com/article/answer-long-overdue

Iâ??ll summarize the S.E.C.â??s response since it didnâ??t say much, but if anyone would like to read the actual response, just send me an email and Iâ??ll forward a copy (only because itâ??s technically hard for me to include it here and the last time I attempted to do so, it turned out to be a royal pain). Simply put, the S.E.C.â??s response was simply an acknowledgement that it had received my petition (through my congressman) and nothing more.

My petition was professional, polite and specific, so my first reaction to the S.E.C.â??s response was getting a bit upset, because it avoided completely the gist of the issue, namely, were the 103 million oz in question separate holdings or was it one and the same holding, effectively, being double-counted? However, upon further reflection I came to realize the S.E.C.â??s simple acknowledgement was the only way it could answer the issue I raised.

I suppose the S.E.C. could have stated that it had uncovered evidence that the two silver stockpiles were separate and distinct and that any suggestion of double-counting was incorrect and ended the matter then and there; so, the fact that it didnâ??t keeps the issue unresolved. On the other hand, the S.E.C. could never confirm the holdings were one and the same, without taking investigative procedures â?? which it is precluded by law from announcing before any investigation is undertaken or completed.

So, it appears to me that the response I received from the S.E.C. is the best and only response possible, Â if the 103 million oz in JPMorganâ??s COMEX warehouse and in the SLV are one and the same. Additionally, the fact that the S.E.C. responded so quickly (as it should have, considered the simplicity of the matter) and that Iâ??ve been informed that no response from the CFTC has been received is curious, to say the least.

Come to think of it, I did receive a similar response from the S.E.C. as this one in the past. Last year, when I wrote to the S.E.C. on a few occasions about the extremely large short position on SLV (directly and not through my congressman), I did receive what was, essentially, the same response as I did this time, namely, an acknowledgement, with no indication that anything would be done about the short position in SLV. But, lo and behold, the short position dropped as much as 75% in time.

Of course, there is no way of knowing how much my petitions on the short position in SLV had to do with the subsequent sharp reduction, but a connection cannot be ruled out. Similarly, while many have wondered about the 103 million oz in question being â??double-countedâ?•, to my knowledge, no one has thought to directly petition the regulators before I did. So, we await any future developments in this regard.

Therefore, Iâ??ve decided to wait until the response from the CFTC is received before addressing what I intend to do next. Maybe Iâ??m making too big of a deal out of this than appropriate, but I still find it more than interesting that the same day (and time) that I sent (emailed) my petition to the S.E.C. and CFTC (along with copies to the CEOâ??s of BlackRock, JPMorgan and the CME Group) has turned out to be the absolute price low for silver on Nov 13 thru today.

Turning to other developments, there was a fairly large deposit of more than 2.7 million oz into SLV on Monday, roughly half of the 5 million oz or so that I felt was â??owedâ?• to the trust as a result of the sharp price jump and heavy trading volume last week, so I would take that as a partial confirmation of my premise. I was originally taken aback by the very large 6.5 million oz announced on Monday as being added to the Swiss silver ETF, ZKB, but it turned out to be the result of a merger with another Swiss silver ETF and not straight new investor buying (hat tip to Ed Steer).

There have also been a series of deposits into the COMEX silver warehouses, apparently connected to HSBC for the purpose of making deliveries against the remaining contracts open in the December silver contracts (both the 5000 oz regular and pending on 1000 oz micro-contracts). It does appear the recently deposited silver may have had to have been brought in since the vast majority of the 272 million oz in the COMEX silver warehouses is held by those not interested in selling at current prices.

Over the past two weeks, close to 15 million net oz of silver have been deposited into the COMEX warehouses and intoÂ SLV, whose combined holdings I report on weekly. Admittedly, two weeks is too short of a time to base any firm conclusions on, but it has now been at least four months that the combined holdings on the COMEX and in SLV have been, essentially, unchanged.

As you know, I have been contending that after declining by 400 million oz from the start of 2021 thru four months ago, the combined silver holdings on the COMEX and in SLV are now, essentially, unchanged for the past four months. From the start of this year (2023) to August, some 50 millions oz of the total decline of 400 million oz occurred, indicating a very sharp reduction in the rate of inventory reduction. Since August thru today, the rate of reduction has stopped completely.

Early this year, I began to contend that we had reached the bedrock bottom in the combined COMEX and SLV silver inventories because my sense that the remaining inventories were held by investors making it unlikely that these inventories would decline much further. The combined silver inventories did, of course, decline further, but at a much-reduced rate until this August â?? when inventories stopped declining at all.

While I may be as premature in declaring the inventory decline as now having come to an end, as I was early this year, in the overall scheme of things it does look like weâ??ve hit bottom in the combined holdings on the COMEX and in SLV and for the specific reason I cited –Â because silver is the extremely rare item (one of a kind) that is both a vital industrial commodity and a primary investment asset. Once total silver inventories decline to bedrock investor holdings, only much higher silver prices can induce existing investors to sell. That was and is my continuing premise.

What makes this silver inventory reduction premise important (in case it wasnâ??t clear) is that when we do reach whatever the inventory bottom turns out to be, then it stands to reason that prices must then rise sharply and in accordance with the actual law of supply and demand. At some point, it is a dead-solid certainty that weâ??ll need sharply higher silver prices to balance actual supply and demand and when the paper price manipulation on the COMEX no longer matters. My sense is that â??some pointâ?• ranges from immediately to quite soon.

As far as what to expect in Fridayâ??s all-important COT report, I already laid out the various developments I hoped for in the weekly review, based upon the surge in prices and trading volume that ignited on the Fedâ??s announcement and press conference last Wednesday and into Thursday. The good news is that the subsequent apparent lack of significant COMEX positioning change since the close on Thursday promises to make this a â??cleanâ?• COT report in that the all-important positioning changes on Thursday should be evident in Fridayâ??s report. Youâ??ll recall the sharp drop on total open interest that day (and not the usual increase) strongly suggested a potential sea-change in that the 4 big shorts did not appear to add new shorts and may have bought back short positions on a rally for the very first time.

Of course, there was a previous time when neither the largest COMEX commercials nor the rest sold on a rally (as well as the managed money technical funds not adding to longs) and that time was the six-month rally from $25 to nearly-$50 into the end of April 2011. Having lived through that period (like many of you), as well as the subsequent absence of such a rally for the next more than 12 years, itâ??s only natural to look back to contemplate the similarities and differences between that time and now.

The similarities include a possible repeat of the biggest commercials not adding to short positions, along with the promise of actual short covering on higher prices, not something that has ever occurred in COMEX silver trading. The possibility also exists that the managed money longs may not get to establish big new long positions, as was the case back in late 2010 into the price peak of May 1, 2011. Â As a reminder, what did drive silver prices on the great price rally of 2011 was buying in the silver ETFs, mainly SLV, of some 60 million oz and I would be shocked if that didnâ??t turn out to be a similarly bullish force this time around, augmented by the increased number of silver ETFs that didnâ??t exist in 2011.

But it is the number of differences between 2010-2011 and today that is most compelling. For starters, JPMorgan was the biggest short in COMEX silver (and gold) back then, having settled into the role of most dominant and manipulative short seller since its takeover of Bear Stearns nearly three years earlier. Â While JPMorgan hit the road-to-profits on the short side of COMEX silver (and gold) from the day it took over Bear Stearns in March 2008, it temporarily lost its control of silver prices in early 2011 and was out (on an unrealized basis) two to three billion dollars as silver rose to $50.

Iâ??ve always contended (as I do now) that those rather sudden great unrealized losses served as a wake-up call Â for this great market criminal and JPM conceived the master criminal solution that it needed to acquire as much physical silver (and gold) as it could to guard against ever experiencing as dire a predicament as it faced in April 2011. Having done so to the remarkable tune of as much as one billion oz in silver and 30 million oz in gold over the next decade and having rid itself of being the dominant COMEX commercial short, there can hardly be a more significant change between 2011 and today than JPMorganâ??s remarkable positioning transformation. But wait, thereâ??s much more.

Back in late-2010 to early 2011, it was the buying of around 60 million oz in SLV (plus another 20 million oz in PSLV) that was largely responsible for the price run to $50. There was no other obvious physical silver shortage of note. Compare that to today, when the signs of a deepening physical silver shortage abound and where recorded silver inventories have fallen by 400 million oz (from 1.7 billion oz to 1.3 billion oz) over less than three years. This is a difference as clear as night and day from 2011 to today.

Finally (to keep this short), there is now the widespread awareness that the price of silver has been suppressed and manipulated to an extent that didnâ??t exist in 2011. Increasingly, the ongoing and long-term COMEX Â silver manipulation is the only explanation for why silver prices are so low in the face of obvious supply/demand facts that argue for sharply higher prices. As an example, hereâ??s a recent article on the subject that after more words than were necessary to highlight the growing physical shortage, includes very few words in conclusion pointing to the COMEX price manipulation. If a market is manipulated in price, as this article concludes, nothing could be more important and that should be reflected as the main feature of the article.

https://www.bullionstar.us/blogs/ronan-manly/surging-industrial-demand-for-silver-means-structural-deficit-set-to-intensify/

With an expectant eye out for Fridayâ??s new COT report, itâ??s hard not to notice what seems to me to be constructive price action in silver on what has to be considered low trading volume, which as far as I am concerned, is just what Dr. Bull would prescribe.

Ted Butler

December 20, 2023

Silver – $24.58Â Â Â Â (200-day ma – $23.66, 50-day ma – $23.49, 100-day ma – $23.38)

Gold – $2048Â Â Â Â Â Â Â (200-day ma – $1967, 50-day ma – $1993, 100-day ma – $1963)

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