December 27, 2014 – Weekly Review – By the Numbers

Weekly Review

The holiday trading week started off weak and ended strong, resulting in a near unchanged finish for gold and silver. Gold ended $2 higher, while silver was flat for the week. As a result, the silver/gold price ratio remained largely unchanged for the week, at just under 74.5 to 1. A year ago, the price ratio was close to 60 to 1 and this is the second full year running that silver has vastly underperformed gold, contrary to my expectations and understanding of the facts in both metals. I'll get into this a bit later on.

For the second consecutive week, the turnover or physical movement of metal into and out from the COMEX-approved silver warehouses remained well below the average weekly movement this year of close to 5 million oz, as Â?onlyÂ? 2 million oz of silver were physically moved. Perhaps it had something to do with the holiday shortened business week. Total COMEX silver inventories rose 1.6 million oz to 176.5 million oz, 2 or 3 million oz more than where total inventories stood a year ago.

2014 marked the most active year in history for the physical turnover of silver in the COMEX warehouses, a trend that commenced in April 2011, a time of record high silver prices amid signs of physical shortage. For the year, close to 250 million oz of metal were either physically moved into or were taken out from the six COMEX silver warehouses. This is an amount of silver twice as large as what the world's leading mining country (Mexico) produces annually and greater than any one country (India, China or the US) consumes or uses in a year.

In other words, there was a turnover of more than 140% of total COMEX silver inventories, while the level of those inventories remained largely unchanged. This Â?churnÂ? is an inventory pattern unprecedented in any other commodity or even in COMEX silver prior to 2011. When the working inventory of any physical item is turned over this frequently, it would seem impossible for that item not to be considered to be in great demand.

Not coincidently, about the only other instance of inventory churn in the commodity world that comes to mind is the turnover in the big silver ETF, SLV; which has also recorded an unusually active inventory pattern with the counterintuitive twist of deposits and withdrawals contrary to normal price and volume characteristics. I'm not sure I would include this week's nearly 8 million oz reduction in SLV holdings in the same category of counterintuitive movements I have previously attributed to a large buyer (JPM) converting shares to metal in order to avoid SEC reporting requirements. Coupled with an extremely large reduction of nearly 400,000 oz of gold in the big gold ETF, GLD, both reductions look related to year end index and portfolio balancing. Such adjustments, both withdrawals and deposits could continue into the New Year.

There was an increase of 1.1 million shares in the short position in SLV, to 16.5 million shares (oz), as of December 15, following a 2 million share reduction in the prior short report. Still, at 4.8% of total shares outstanding, the short position in SLV is well below previous extremes and does not appear to be a driving factor for the price of silver presently.
http://shortsqueeze.com/?symbol=slv&submit=Short+Quote%99

Somewhat surprisingly, the US Mint has continued to produce and sell Silver Eagles much later into December than in previous years and each new report equates to another new record. The 44 million (oz) coin level has just been recorded amid what reports from the retail front continue to suggest tepid retail demand. Even more surprising is the continued weakness of sales of Gold Eagles and Gold Buffaloes for the month of December. I had speculated that the Mint may have been sloppy in its reporting of sales of Gold Eagles and Buffaloes and was expecting a big revision upward. But the Mint has been updating gold sales reports slightly; so now I'm leaning to weak demand as the proximate cause for low gold coin sales.
http://www.usmint.gov/about_the_mint/index.cfm?action=PreciousMetals&type=bullion

For the last two years, in addition to the unusual turnover in COMEX silver inventories, the two most comparable and verifiable facts that stand out in gold and silver are the disparate results in ETF holdings and US Mint sales. Metal holdings in the big gold ETF, GLD, are lower by close to 50% from what they were two years ago, while holdings in SLV are still up slightly over that time (despite a near 20 million oz reduction over the past month). And there has been a notable counterintuitive movement in SLV holdings that has been lacking in GLD.

In terms of sales of Silver and Gold Eagles, there has never been a greater absolute and relative demand for Silver Eagles, while sales of Gold Eagles are down sharply from recent years. This year, for the first time ever, more money has been spent on Silver Eagles than have been spent on Gold Eagles and Gold Buffaloes combined. Demand for Silver Eagles accounts for 5.5% of annual world silver mine production, while the combined demand for Gold Eagles and Buffaloes accounts for 0.7% of world annual gold mine production.

While there have been non-stop reports of strong demand for gold from India and China, there is no doubt very weak demand for gold from the West, particularly in the US, according to data deemed to be reliable (ETF and US Mint statistics). Certainly, the reported massive buying of gold from China and India has not caused its price to rise to date. It's different in silver, where there appears to be strong demand from both East and West. I believe the strong demand for silver from the West is largely a result of the buying from JPMorgan, but the overall data are still clear and conclusive.

That the price of silver would be so much weaker, both absolutely and on a relative basis to gold, in the face of much stronger physical demand, begs the question of how can this be? I don't see how there could be any answer other than a price manipulation on the COMEX, where, not coincidently, JPMorgan is the dominant force. Even those who report of strong gold demand from the East must acknowledge that demand has yet to cause the price to rise and the only plausible explanation must be price control from the COMEX. Someday, that COMEX control may dissolve and no one will cheer it more than me. In the meantime, it would seem proper for those writing about strong buying demand from the East to try to explain why gold prices haven't risen.

By The Numbers

With less than a week to go before year end, gold looks to finish 2014 roughly unchanged, after ending 2013 down 27%, its worst annual performance in memory. Admittedly, this is somewhat subjective on my part, but considering the general negative commentary concerning gold this year, that negative commentary doesn't seem to balance with an unchanged price year. I can't help but conclude that the negative commentary was more emotional than anything else, suggesting that emotions run high both pro and anti-gold.

Silver, after declining by nearly 35% in 2013, suffered a further loss of roughly 20% for 2014, making silver's two year performance the worst in its history. And I am measuring silver's two-year decline from $30, which, in turn, was down substantially from the peak price of $49 in April 2011. From the end of 2012, the silver/gold ratio widened from 55 to 1 to almost 75 to 1, indicating that silver underperformed gold by more than 35% over the past two years. At current prices, gold is down 37% from its peak price of $1900 in 2011, while silver is down an astounding 67% from its peak in 2011. Truth be told, if anyone had suggested to me in April 2011 that silver would be priced at $16 (or lower) at the end of 2014, I would have assumed they had lost their minds.

Of course, the price performance for gold and silver didn't begin at $1900 and $49 respectively; as both metals first climbed to those highs from very low prices years earlier – $250 in gold and $4 in silver. In fact, gold and silver were only at their price peaks for a figurative nano-second; gold was only above $1800 for a few weeks and silver spent only few more weeks than that above $40. Accordingly, not much metal could have been purchased at the extremely high price levels of 2011; just like not much metal could have been bought (or sold) at the extreme price highs in 1980 of $800 in gold and $50 in silver. Yet the price extremes take on a life of their own and those extremes, no matter how brief they may have been, become the measurement for the price action that follows.

While I have little doubt that the previous price highs in silver will be shattered and there may be a penetration of the gold price peak to some lesser extent, I find it instructive that from current price levels a move to the former highs in gold would result in a gain for gold of nearly 60%, while a move to the old highs in silver would result in a gain of more than 200% from here. This is different than projections I made prior to 2011 of silver going to $50, or $100, or $200, in that it had been 25 years since silver had been at $50 in my former predictions. Now we are less than four years removed from that price level and how can it be unreasonable to suggest we will see that level and higher in the future? On the day I wrote this article silver was around $5.65 and projections of $50 and higher must appear more extreme than projections from $16.
http://www.investmentrarities.com/ted_butler_comentary/06-14-04.html

But as regular readers know, I'm not given so much to price projections as I am to analyzing the facts and data surrounding silver and what the facts suggest for the price. Mostly, it comes down to rather simple math, particularly as concerns the comparison between gold and silver. Even more than the current low price of silver on an absolute basis, it is silver's extremely low price relative to gold that the simple math proves out. To me, the current 75 to 1 silver/gold price ratio is the strongest proponent suggesting much higher silver prices; particularly because gold does not appear to be overvalued in any important way. And if I am correct about gold not being overvalued, the combination of silver being extremely undervalued relative to gold sets the stage for a truly massive price revaluation of silver to the upside, especially if gold moves higher over time.

This year the world will produce from mining eight times as much silver as it mines gold (800 million oz of silver to 100 million ounces of gold). With a current production ratio of 8 to 1 for two of the world's most similar materials, why should the price ratio be almost ten times the ratio by which each material is taken from the earth? If someone wants to suggest the current 75 to 1 price ratio is because silver is cheaper to mine, I would accept that except to point out that the primary cost of mining silver is much higher than current prices compared to the current primary cost of gold. One need only look at the earnings of the primary silver miners and compare those earnings to the earnings of the primary gold miners.

And it's not just this year; from the dawn of civilization, the world has produced roughly 40 billion oz of silver versus 5.5 billion oz of gold, a production ratio of 7.3 to 1 – so why should the current silver/gold price ratio be ten times the actual production ratio of thousands of years? (I hope you realize these are rhetorical questions, answerable only by the manipulative practices of JPMorgan and other associated COMEX criminals). But the actual current and cumulative production ratio of silver and gold is only scratching the surface of the silver/gold price puzzle.

Whereas the world still holds and maintains virtually every ounce of the 5.5 billion ounces of gold it has mined over thousands of years in some fairly marketable form that is decidedly not the case in silver. Due to silver's always lower relative price and incredible array of unique and vital chemical and industrial properties, the vast majority of the 40 billion ounces of cumulative silver production has been industrially consumed or otherwise effectively removed from returning to the market. I have long estimated the amount of silver remaining in the world in the form of industry standard 1000 oz bars to be a bit more than one billion oz. This is the critical form of silver because it is the standard unit of trade demanded by industrial users and large investors alike and will be the form that will determine the inevitable physical shortage.

Adding in the amount of silver in small bars and coins to industry standard 1000 oz bars brings effective silver world inventories to 2 billion oz, or 5% of the 40 billion oz mined over the ages. In other words, 95% of all the silver ever mined in the world may be gone, in a very real sense. No doubt there is silver in other forms in private households and in jewelry, but given silver's absolute and low relative to gold price, that material is likely to stay where it is and not return to market at anything but extremely high prices. So let's delay a discussion of what happens to that silver when prices are extremely high for another day because it sure isn't going to come to market on this day.

That's the big difference between silver and gold Â? an ounce or half ounce of gold represents a significant amount of money to most of the world's citizens, where an ounce or half ounce of silver doesn't mean much to anyone except to the poorest of the world's citizens and those poor souls don't own much silver by definition. In fact, this is the reason I believe it is fair to compare all of the world's 5.5 billion ounces gold to only the 1 or 2 billion ounces of silver in the form of 1000 oz bars and/or smaller silver bars and coins. Because of gold's much higher price than silver (75 times higher) it is conceivable for every ounce of gold to come to market where that isn't conceivable in silver (unless silver prices move much higher).

Taking a logical further step, it becomes instructive to compare gold and silver in pure dollar terms. At current prices, the world's 5.5 billion oz of gold are worth $6.6 trillion ($6600 billion), while the world's 1 to 2 billion oz of silver are worth $16 to $32 billion. So depending on whether you use silver in industry standard bars or include small bars and coins, the dollar amount of gold is either 400 or 200 times greater than the dollar amount of silver and not a Â?mereÂ? 75 times greater. Given such a disparity, the relative price performance of the past two years in which silver has fallen so much more than gold is nothing short of astounding and elevates price manipulation on the COMEX as not only the most plausible explanation, but the only possible explanation.

And because so much silver is used industrially and in other fabrication demand where gold is almost strictly produced for investment and jewelry, it is necessary to remove silver's industrial and total fabrication demand from total current production to get a more balanced comparison with gold. Annual total world silver production (mine plus recycling) comes to one billion oz, compared to gold's 125 million oz production (including recycling). But after subtracting total fabrication demand, only 100 million oz of silver remain available to the world's investors, or $1.6 billion worth. In gold, 100 million oz are available for investment and jewelry demand, since there are few other uses for gold given its high value. The 100 million ounces of gold is worth $120 billion compared to the $1.6 billion of silver available to the world's investors or the same 75 to 1 price ratio that exists on an ounce per ounce basis.

At first, that might sound like a rational explanation for why gold is 75 times more expensive than silver, but the flaw in thinking that way is because the data indicate, at least where it can be documented, that gold is not attracting an investment flow 75 times greater than the investment flow in silver. As I pointed out earlier, not only is gold not attracting 75 times more dollars than silver in US Mint sales, it is not attracting any dollar amount more than silver as the investment flow to the US Mint is greater in silver than in gold. And when it comes to the ETFs, it is even more extreme in silver's favor as there has been an investment outflow in gold and a small but positive investment flow into silver ETFs.

This is about numbers and simple math that suggest something is very much wrong in relative values and investment flows in gold and silver. Since gold does not appear to be overvalued in any meaningful way, the only reasonable conclusion is that silver is massively undervalued to such an extent as to demand a clear and obvious explanation. For more than 25 years, I have tried to present that explanation in a consistent and convincing manner, namely, that the price of silver is wrong due to an illegal manipulation on the COMEX, the last almost seven years at the hand of JPMorgan. Recently I have made the case that JPMorgan has manipulated silver lower over the past several years in order to accumulate as much physical silver as possible because it knew how undervalued silver had become.

The numbers and facts show that the price of silver has declined by a truly shocking amount on an absolute and relative to gold basis all while actual supply and demand and investment flows have been wildly favorable. While no one can predict short term prices in a demonstrably manipulated market, the extremely low price level of silver makes it a cinch for the long term, particularly in light of the evidence suggesting major accumulation by the main manipulator. And whenever the silver price revaluation occurs, I can't see how it can be anything but fast and furious.

While I can't say I'm expecting anything truly significant in Monday's delayed release of the Commitments of Traders Report, I do plan on publishing some comments a couple of hours after the 3:30 EST scheduled release.

Ted Butler

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Silver – $16.05

Gold – $1196

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