

## December 27, 2023 – No Let Up

It seems to me that the forces at play in silver, both working for and against sharply higher prices, show no signs of letting up. However, common sense and logic dictate that such diametrically-opposed forces point to an eventual end to the stalemate — with the only real question being when. Since these opposing forces have been in play for 40 years, they have taken on a life of their own and the purpose of this review is a brief overview and summary.

Let me start with the forces that have worked to suppress and manipulate the price of silver to be much lower than any objective analysis would suggest, both on an absolute basis and relative to just about any other commodity or asset, most specifically, gold. The direct cause of silver's 40-year price suppression is collusive commercial (mostly bank) paper positioning on the COMEX, the world's leading precious metals derivatives exchange.

So pervasive is the influence of silver pricing on the COMEX, that it has become the sole price-setter for silver throughout the world. Now there are suggestions that the world silver price-setting mechanism may be shifting (say, to China), so I would agree the moment the control of the COMEX changes in any meaningful way, the decades-old price suppression will have ended — although I don't personally suspect it will be due to China.

The key to the control and suppression of silver prices on the COMEX by the collusive commercials has been the willingness of their principal counterparties, the managed money traders, to be led into and out from futures contract positions by contrived and rigged-price signals. So, while there have been significant and quite sharp silver price rallies from time to time over the scope of 40 years, the collusive COMEX commercials have mostly prevailed with the end result being that the price of silver is near-universally considered to be extremely under-valued.

But the collusive COMEX commercials have not succeeded in dominating and controlling silver prices in a vacuum for 40 years, as they have enjoyed critically-important assistance by none other than those whose main function is to ensure markets, such as COMEX silver futures, are free from the practices and manipulation clearly evident to have occurred. Sad as it is to say, not only has the primary federal regulator, the Commodity Futures Trading Commission, looked away and sanctioned the decades-old COMEX silver price manipulation, but over time, the sanctioning — has come to include the Department of Justice and the US Treasury Dept., among other government agencies — all of which require an oath of office to uphold the law by key officials. Plus, there is the designated industry self-regulator, the CME Group, which has also been highly negligent and complicit in not ending the blatant COMEX silver price manipulation, but, at least, no one there ever took an oath to uphold the law.

I still maintain that those supposed to enforce and uphold the law and have failed to do so for decades can't do so now because that would bring great shame on all these organizations, government and otherwise, for failing to have done so previously. That plus the fact that the principal agents of the COMEX silver manipulation over time, like JPMorgan, just happen to have been systemically-important financial institutions, generally treated with kid gloves by the regulators. All these supposed-regulators are just as responsible and guilty as a primary force in not letting up on the continued price suppression of silver along with the collusive COMEX commercials.

Admittedly, the forces intent on keeping a firm cap on silver prices are not only powerful, but show no sign of letting up and if there were any other plausible explanation for why silver prices have remained so depressed for decades, I'm sure those explanations would be apparent by now. Instead, as I've indicated, there is a near-universal agreement that silver prices are too low with more than ever pointing to an artificial price control emanating from the COMEX. As powerful as this growing consensus should prove to be, there are other remarkably strong forces clashing against the forces of continued silver price suppression, which also feature every sign of not letting up.

The strongest force pointing to sharply higher silver prices just happens to be the strongest primal force in economics the law of supply and demand. The law of supply and demand dictates that whenever the current supply of any commodity is insufficient in meeting current demand, then it is only a matter of time before the depletion of existing inventories required to meet the shortfall between current supply and demand is complete. At the point of true inventory depletion, then the law of supply and demand dictates that prices must rise sufficiently to increase supply and decrease demand to the point of inventory replenishment.

Since there can be no question that the law of supply and demand in silver cannot possibly let up until prices rise sufficiently (sharply), once the ongoing inventory deletion is complete the only wild card is when will silver inventories reach the maximum level of depletion. Not coincidentally, this issue has been of prime interest to me, as all readers should be aware.

In silver, there are two kinds of bullion inventory recorded and unrecorded. Together, I believe the two categories total around two billion oz in total world inventories, currently worth less than \$50 billion (as compared to more than \$6 trillion in gold bullion inventories). Recorded silver bullion inventories amount to 1.3 billion oz, or 65% of the 2 billion oz in total inventories, and are in the form of all the silver ETF and investment vehicles, plus the holdings in the COMEX warehouses. Unrecorded silver bullion inventories (700 million oz) are held by those outside the recorded inventories.

Over the past three years, after increasing to all-time high levels of 1.7 billion oz in early 2021, recorded silver bullion inventories have fallen by 400 million oz, to 1.3 billion oz currently. By definition, it cannot be known as to what occurred in unrecorded silver inventories, but documented flows of many hundreds of millions of silver oz to India, for instance (not included in world bullion inventories) suggest no increase in unrecorded silver bullion inventories. About 4 months ago, the dramatic 400 million oz reduction in recorded silver bullion inventories that began in early 2021, came to an end. This wasn't a surprise to me, as I (somewhat prematurely, as it turned out) speculated earlier this year that the massive reduction in recorded silver bullion inventories would end.

While, I suppose, there still may some room for additional drawdowns in recorded silver bullion inventories, I don't think so, and, regardless, wouldn't alter the reasoning behind my belief that

we've seen the end of the silver inventory reduction. Quite simply, I believe that the remaining recorded silver inventories are owned by investors which are not inclined to sell their holdings until silver prices are sharply higher. As such, I believe we are at the effective end of maximum silver inventory depletion and at the point at which, according to the ironclad dictates of the law of supply and demand, that silver prices must rise and rise sharply. This is a force that shows no sign of letting up.

But here is where it gets tricky, in a good way. Because silver is also a primary investment asset, it is subject to the same forces that apply to all other investments, namely, collective investment interest (buying) becomes most apparent as the price of any investment asset rises. It is because the price of silver has been so thoroughly suppressed for so many decades that investors, as a whole, have refrained from buying it – with only those who have taken the time to look below the price surface choosing to buy it.

So, while it has not kicked-in for most of the nearly 40 years I have been immersed in silver (saving for a brief spell into the run-up in prices in early 2011), the basic collective investor demand for assets increasing in price has yet to take place in earnest in silver – because its price have been suppressed so successfully. But since I see no indication that this general investment behavior hasn't applied to all other investment assets, I have no reason to believe it won't apply to silver when prices rise in earnest. Once initiated, it's hard for me to imagine how investment demand for silver will let up on ever-increasing prices until great price highs are achieved.

This new coming collective investment demand on higher prices will not cause any reduction in basic silver industrial demand until prices rise very sharply. In fact, since silver industrial demand will continue, suddenly augmented by a new investment demand, there will be a shocking increase in overall demand, not at all typical under the basic law of supply and demand. That's because silver is the only commodity with a true dual-demand profile – industrial and investment. This creates the highly-unique circumstance that once the silver price rise starts in earnest, it will take shockingly higher prices before the law of supply and demand fully kicks in and demand falls and supply increases. Once started, it will take some great time and price increase to fully burn out and increasing silver prices will not let up until it does.

In summary, silver faces two strongly opposing price forces, neither of which shows signs of letting up. But the forces of price suppression, even though led by those at the pinnacle of power, have been so successful in suppressing silver prices that this success is now in place to work against them. No one, no matter how powerful and well-connected they may be, can prevail against the forces of the law of supply and demand indefinitely. Once a physical shortage has come into existence, as has been evident in silver for quite some time, only further depletion of existing inventories can hold off the inevitable turn up in prices. By all appearances, we are at, or past that point of inventory depletion in silver.

Lastly, given the extreme power behind the force suppressing the price for decades and the even greater power of the force behind the law of supply and demand, when the matter is resolved in favor of the law and supply and demand, as it must, the price resolution cannot be any less than epic and historic.

Of special interest in this regard to the final silver inventory depletion is the evasive response I received from the S.E.C. and still no response at all from the CFTC to my recent inquiry about the possible double-counting of the 103 million oz of silver in the COMEX warehouse of JPMorgan and indicated as

part of the inventories of SLV, the big silver ETF. As I indicated above, once silver inventory depletion reaches maximum extremes, the law of supply and demand dictates that prices must then rise, making the issue of possible double-counting all the more critical. I can't say that I am reassured in any way by the evasive and still missing official response from the regulators that my fears of double-counting may have been an intentional tool of those seeking to suppress the price of silver but I am withholding judgement for now.

Turning to other developments, I have been intrigued by the continued creation of new contracts in the December COMEX silver contract, on which trading ends today (I believe). The numbers aren't particularly large, but much larger than typically. As I mentioned in the Saturday review, what makes the late-creation of new contracts of interest is that I can think of no real motivation for why a silver investor would engage in new buying this late into a delivery month which leaves as the most plausible explanation for the late-buying that a silver user may be behind it, since the key feature to buying new contracts at this point is the contractual requirement that physical delivery be made promptly (within a day or two).

Only actual users would seem to be concerned about the near-immediate delivery of physical silver, so it seems most plausible that a user (or users) is behind the rush to secure immediate physical delivery, as mentioned on Saturday. What I didn't mention (and which was a regular part of my long-ago daily discussions with my departed friend and silver mentor, Izzy Friedman) was the possible ramifications of a silver user or more resorting to taking physical delivery on COMEX futures contracts under certain conditions.

If those certain conditions involved the necessity of a user resorting to the taking of delivery of COMEX futures contracts because the user suddenly experienced an abnormal delay of regular silver deliveries, then that could turn out to be rather big deal. There's no way of knowing for sure if this is the case in these recent last-minute COMEX delivery contract creations, but it easily could have been the driving motivation and since Izzy and me discussed it incessantly many years ago, let me explain why it would be quite significant if this is what occurred.

Unlike an investor, a delayed delivery to a user is a very big deal in fact, if the delivery delay is prolonged, could very much jeopardize a user's continued existence. We all recall the supply line breakdowns in semi-computer chips and other key component issues not that long ago. Silver is very much a critical ingredient or component in an extremely wide number of manufactured goods. And it's safe to say delayed silver deliveries to users hasn't occurred to this point, because if such a situation did develop, we would learn of it.

Then again, silver is different than semi-conductors and other manufactured components in many ways, including having been artificially suppressed in price for decades. As and when the ongoing physical silver shortage touches those needing it as a critical industrial component, it is only natural that at the first signs of delivery delay, those users affected would react as would anyone else, namely, by rushing to build up some sort of extra physical reserves to guard against having to shut down total operations. However, by doing so, no matter how natural and normal, such actions would only inflame the situation for other users threatening to set off (as I believe I described very long ago) a chain reaction of user extra physical silver inventory buying akin to someone setting off a mile-long string of fire crackers. Any attempt by silver users to build emergency physical silver inventories would cause other users to experience delivery delays.

Of course, I can't say at this point whether the recent unusual buying of COMEX contracts this late into the delivery process is the start of the kind of a user inventory buying panic just described, but it is an issue long expected by Izzy and myself, so I confess to being super-sensitive about it.

Finally, as far as what to expect in this Friday's new COT report, I would imagine the continued price rise in gold and increase in total open interest being the result of continued managed money buying and commercial selling and to a lesser amount also likely in silver. It's almost impossible (at least for me) to predict the specific category changes under the hood, which have become increasingly important and are only useful for examination after the COT report is released. However, I am more concerned, at this point, over the physical conditions discussed above in regards to silver.

Ted Butler

December 27, 2023

Silver – \$24.55 (200-day ma – \$23.75, 50-day ma – \$23.68, 100-day ma – \$23.39)

Gold – \$2089 (200-day ma – \$1972, 50-day ma – \$2006, 100-day ma – \$1966)

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