

## December 28, 2022 – The Essential Silver Fact

In our increasingly complex world, it's easy to get caught up in the details of just about any topic. That's why it's important to step back every now and then and look at things in the most basic manner possible. For sure, this applies in spades to me and my special interest in all things silver. I've been studying silver for so long that it's second-nature for me to dig so deep into its inner workings – to the point where what's important becomes too technical. So, let me step back a bit today and speak in very basic terms.

First, silver is a rare commodity that traces its roots, along with gold, to the start of recorded civilization some 5000 years ago. Long prized and valued for its beauty and allure as money, decorative objects and jewelry accounted for it being accumulated in such forms for thousands of years (just like gold). About 150 or so years ago, important chemical and other properties were discovered, such as silver becoming essential in photography and it being the best conductor of electricity and heat and reflector of light, so much so that most of all the billions of ounces in world silver inventories accumulated were used up in these industrial applications.

Also remaining a primary investment asset, silver morphed into becoming a highly unique commodity in that it had a dual consumption profile – being both a vital industrial commodity as well as an investment asset. What this means is that the world's annual supply of new silver from mining and recycling has to satisfy both the demand for industrial and jewelry fabrication, as well as investment demand. Recent data from the Silver Institute indicate total fabrication and investment demand have exceeded total mine and recycling demand by nearly 200 million oz for 2022, the largest such imbalance in decades.

<https://www.silverinstitute.org/global-silver-demand-rising-new-high-2022/>

In all commodities and investment assets, it is said that prices are – set at the margin – a variation of the law of supply and demand. What this means is that after the total demand and total supply of any item fully interact on a daily, monthly or annual basis, the price of that item gets set by the last amount of supply or demand remaining. More demand than supply at the margin and prices rise and more supply than demand at the margin and prices fall. An example of setting prices at the margin can be seen, in a negative context, by regulatory crackdowns when someone – bangs the close – as trading comes to a close and deliberately buys or sells large enough quantities to drive prices higher or lower for the day.

The point of this general overview of silver and the discussion of prices being set at the margin is to set the stage for what I consider the essential fact in silver. I would contend that stronger demand than supply for physical silver at the margin will drive silver prices higher – despite the long-term COMEX paper manipulation – due to an essential fact in silver. What is this essential fact in silver that I speak of?

Simply put, it is infinitely easier for someone to buy physical silver, whether he already owns the metal or is a first-time buyer, than it is for someone who doesn't own physical silver to sell the metal. I'm not trying to be cute or play word games here, I'm trying to make an obvious and essential point. Of course, it is quite easy for someone who owns physical silver to sell that silver and I fully

accept that. But what I'm talking about is different, namely, it is not at all easy for someone not already owning physical silver to sell silver he or she doesn't own.

All it takes for someone to buy or buy more physical silver is having enough money to pay for the amount of silver intended for purchase. It can't get simpler; you just have to have the money. If one doesn't already own physical silver, selling it is much more difficult than simply writing a check and involves first securing the physical metal from someone else in order to complete the sale. My sole point here is that writing a check or clicking a mouse to buy physical silver is a heck of a lot easier than first having to secure the physical metal to sell — particularly in times of a physical shortage.

But wait a minute, I can almost hear you asking — what about selling short COMEX futures contracts or selling short shares of SLV — how hard is that? I agree that short sales aren't difficult to put on, but that's not the same as selling physical silver. Considered objectively, such paper short sales are only temporary delays in the requirement to eventually secure physical silver if the buyers of those short sales can't be tricked into selling their paper purchases and demand the physical metal instead. Paper short sales are open contracts that must be closed out at some point — either by repurchase or by actual physical delivery — and the paper buyers are the ultimate deciders of which it will be. Sure paper short sales can and do affect the price, but only on a temporary basis.

Most importantly, what I claim to be the essential fact in silver, namely, it being much easier to buy physical silver than it is to sell physical silver not already owned — must be viewed in the broader context of the real world. Today, there exists exponentially more potential investment buying power in the world, tens of trillions of dollars than exists potential physical silver capable of being sold. As always, I'm referring to physical silver in industry-standard 1000 oz bars, as it is this form of silver that will determine prices.

So, measured against the potential investment buying power of trillions of dollars in the world, there exists 2 billion oz of silver, or less than \$50 billion. Of course, it would take very little of the world's potential buying power to move into silver before prices would explode and, at the same time, only the tiniest fraction of the less than \$50 billion worth of silver in existence is actually available for sale at current prices. This, I would submit, is a mismatch of mind-boggling consequences.

Not only is it infinitely easier to buy physical silver than to sell it (if not already owned), the amount of potential buying power is so many hundreds and thousands of times larger than potential physical sales, it makes the mismatch beyond mind-boggling. Try to remember this the next time the commercial crooks on the COMEX rig a sharp selloff. But wait — I'm not done.

Superimposed over the epic mismatch between the potential physical silver buying power and the extremely limited potential of sale of physical silver is that there has existed for more than 15 years important new investment vehicles that make it even easier than ever for investors to buy physical silver in the form of 1000 oz bars. Here, of course, I'm speaking of the world's silver ETFs, of which SLV is the oldest and largest, but is hardly the only such vehicle. The 9 largest silver ETFs, including SLV and PSLV, hold roughly 930 million oz of silver and along with other assorted public professional storage investment vehicles, some 1.1 billion oz or more of the 2 billion oz in the world is held in these vehicles, most of which didn't exist more than 15 years ago.

Shortly after the introduction of SLV in 2006, my good friend, Carl Loeb, coined the phrase — "Death Star" — to describe SLV as destined to gobble up all the world's silver. Plainly speaking, along with

the additional silver ETFs subsequently introduced, that is a prediction that has largely come to pass. More importantly, there is nothing to suggest the popularity of the world's silver ETFs is in the descent in any way and every indication is that the stage is set for continued investor interest.

Not only do all the silver ETFs and professional storage investment vehicles deal exclusively in the one form of physical silver that matters most (1000 oz bars), by doing so they allow smaller investors the ability to deal in these critical 1000 oz bars on a fractional ownership basis. This is important because all other forms of silver in other than 1000 oz bars involve varying degrees of premium to 1000 oz bars, making these bars the relative bargain. Please don't misinterpret what I'm saying - I fully encourage and recommend holding physical silver in one's own possession or on a fully-allocated basis (not something afforded in silver ETF ownership). But for those for whom personal storage is not practical (perhaps due to too large an investment), the silver ETFs can be an attractive alternative.

After all, it was heavy ETF buying, mostly in SLV and PSLV (which was just introduced) in early 2011 that led to the move to near-\$50. Combined with other silver ETFs introduced since then, the stage would appear to be set for an even larger surge of ETF and physical silver buying the next time around, which as I've been reporting, appears quite close at hand. Since the price high of 2011, and after reductions of around 200 million oz since the peak in silver ETF holdings in early 2020, there are still close to 300 million oz more in the world's silver ETFs than there were in 2011 - despite what has been a long price decline since then.

If the amount of physical silver held in the silver ETFs has grown so markedly in what has to be described as a price winter since the highs of 2011, it must be expected that a sustained period of price strength would generate much more collective investor buying participation. That's just the way of the investment world.

However, based upon the continuing flow of data, it seems impossible to me that there could be additional hundreds of millions of physical silver oz capable of flowing into the world's silver ETFs, as these additional amounts of physical silver don't appear to exist. Yet, that is separate and distinct from the potential total investment buying power that presently exists. So, the real mismatch between the potential buying power and the non-existent hundreds of millions of physical silver capable of satisfying that investment buying at the margin can only be achieved by way of a price rise high enough to blunt the buying demand.

The current equation is further complicated by the fact that collective investment buying demand first gets stimulated further by sharply rising prices following a long period of price stagnation until enough time and enough of a price increase has occurred - not something that currently exists in silver. In fact, the years of suppressed and manipulated prices that have passed since the price high of 2011, just about guarantee the initial liftoff in silver prices will only serve to excite new investors to buy and only much later, years perhaps, and much higher prices will then serve to persuade investors to sell. That's much time and price from where we are now.

Of course, considering the consequences once silver begins its real move higher, it must be expected the collusive COMEX silver shorts will not give up without a fight and may arrange further rigged selloffs. But the essential fact in silver - it being much easier to buy physical silver than it is to sell it - is so strong and powerful, that it's only a matter of time before it triumphs over the paper manipulation.

Moving on to related matters, the eagerly-awaited release of short positions on stocks last night, revealed a fairly sharp increase of 5 million shares, to more than 50.3 million shares (46 million oz), in the short position on SLV, as of Dec 15. While down about 10 million shares from the peak of the short position in SLV a few months ago, the current short position is still an obscenely high 10% of total shares outstanding — meaning one out of every ten SLV shares does not have the required metal deposit dictated by the prospectus.

<https://www.wsj.com/market-data/quotes/etf/SLV>

For a number of reasons, I haven't decided whether to complain anew to the Securities & Exchange Commission and to BlackRock (the trust's sponsor) at this time. For one thing, I have complained more than four times in recent months and even more going back further in time, so I have established clear enough of a documented record that can't possibly be denied. And as far as I know, I'm the only one to ever complain, officially or otherwise, that short selling in SLV is both manipulative to the price and fraudulent to shareholders.

Perhaps the biggest reason I will likely choose not to complain at this time is that, increasingly, I believe the excessive short position in SLV is now much more bullish for prospective silver prices than bearish. Certainly, the increase in SLV short selling has not prevented the price of silver from rising sharply over the past two months and those responsible for the increase in shorting are now worse off for having done so — in the red for \$3 or \$4 or more.

As I have consistently intoned at the recent lows in the price of silver, shorting silver at such low prices made no sound economic sense. To that, let me add that shorting shares of SLV makes even less sense, compared to selling short on the COMEX. Neither form of shorting makes sense at recent prices, but particularly so in SLV for a variety of reasons, centered around matters related to liquidity or the ability to cover shorts in a hurry.

Because of this, I'm more convinced than ever that the only reason for shorting shares of SLV, instead of in COMEX futures is that the physical silver required to be deposited is unavailable. In choosing to short SLV, the prime motivation is that the physical metal is not available, not any reasonable expectation of lower prices. Moreover, this is just another confirming fact pointing to a physical silver shortage, along with a wide variety of other data points, including declining inventories, record physical turnover and phenomenal imports to India, among other things.

It is due to all these factors that I can't help but channel the thoughts of my departed friend and silver mentor, Izzy Friedman, and his "full pants down" premise that those short silver will end up getting overrun and, quite literally, eaten alive when silver prices explode as will occur when there not being enough physical metal overwhelms the paper manipulation. I, on the other hand, expected the big shorts to reduce their exposure on the short side prior to the inevitable physical shortage and price explosion.

Very recently, I've begun to believe that both Izzy and myself may turn out to be correct. How would this be possible? While the commercial concentrated short position in both COMEX silver and gold has increased on the recent near-\$6 silver and \$200 gold rally, it is still much lower than it has been on similar rallies in the past. Further, the composition of which commercials are now short appears to be much different than previously, according to recent revelations in the Bank Participation report.

In fact, it appears to me that there has been a "double" double cross over the last two or three years. The first double cross was pulled off by the master market criminal of our time, JPMorgan, when, after accumulating more than a billion oz of physical silver and 30 million oz of physical gold by virtue of being the big COMEX short seller for more than a decade (while picking up physical metal on the cheap), turned around and bought back all its COMEX shorts on its deliberate price smash in early 2020 leaving the other 8 big shorts holding the bag on what turned out into losses of as much as \$15 billion, as recently as this past March.

The second double cross appears to have been pulled off by the big commercials victimized when JPM fled the short side in early 2020; this time with the new victims being parties unknown, but different from the commercials which suffered from 2020 to earlier this year.

It is because of this "double" double cross, that it now appears that Izzy and I may both turn out to be correct, namely, because whoever is now short is likely to undergo what may be a religious experience of epic proportions, only it won't be those which have historically been the biggest shorts. Of course, the subsequent flow of data may alter this tentative conclusion, but that's how it appears to me at this time. And yes, I would love to discuss this with Izzy, if that were at all possible.

The recent announcement of the resignation of SEC General Counsel Dan Berkovitz, effective Jan 31, 2023, was a surprise to me.

<https://www.sec.gov/news/press-release/2022-235>

I fully admit that I don't have any particular insight into the reason for Berkovitz's departure, but I'm not at all accepting without question the rush to judgement associated with him having dinner with Sam Bankman-Fried, the recently disgraced ex-CEO of FTX, and others on one occasion in Oct 2021. Reports of Berkovitz "winning and dining" SBF seem a bit outlandish since the record indicates Berkovitz reimbursed whoever did pay for the dinner \$50 for his share. Plus, I've not seen any credible evidence that the SEC accommodated FTX in any way, despite the vigorous attempt to paint the agency and its chairman, Gary Gensler, in the most negative light possible.

My own sense, based upon my knowledge of Berkovitz and Gensler over the past near 14 years, is that Berkovitz did resign over his one-time dinner with SBF and others because of the appearance of impropriety and not any real compromise the dinner resulted in most likely either at Gensler's insistence or by Berkovitz's own initiative to preserve the agency's reputation. Certainly, I stand by my prior assurances that if my belief in the integrity of Gensler and/or Berkovitz turns out to be wrong, I will admit to same. I'm sure both men regret Berkovitz sharing a meal with SBF and others, but I don't see any evidence that this was the tip of some deep dark iceberg, despite the knee-jerk rush to conclude just that.

As far as what Friday's new Commitments of Traders (COT) report might indicate, I wouldn't

expect much of positioning change, given the choppy price action, low trading volume and minor changes in total open interest. We seem to be marking time before a very large upside move either with or without a sharp engineered selloff first. The setup in both gold and, particularly in silver, appears highly asymmetrical, meaning that the upside looks to be vastly greater than how much prices could fall. Certainly, if we do experience a selloff first, that will only make the upside that much more extreme.

While there's no way of predicting exactly when, I find myself contemplating when the first \$3, \$4 or \$5 up day in silver will occur. Based upon everything I see; it sure feels much closer than ever before.

Ted Butler

December 28, 2022

Silver – \$23.75 (200 day ma – \$21.28, 50 day ma – \$21.49, 100 day ma – \$20.40)

Gold – \$1813 (200 day ma – \$1791, 50 day ma – \$1740, 100 day ma – \$1732)

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