

February 17, 2021 – Big ETF Developments/Real Short Comparison

By now, I would assume you have read of the significant changes in the prospectus of SLV, the big silver ETF (Followed by similar changes in the second largest silver ETF, SIVR, the Aberdeen silver trust). Essentially, two new risk factors were just added to the prospectus that warrant attention. One had to do with an admission by BlackRock, sponsor of the SLV, that its authorized participants may not be able to secure enough silver given sharply increased demand for shares and the other had to do with a warning to short sellers of shares, which I found as shocking as the admission of silver not being available, but has received much less attention.

The two risk factors I'm referring to can be found in the prospectus, the first about physical silver availability being the last risk factor on page 6 and the second about the warning to the shorts, the first on page 7. The prospectus can be downloaded from this general information page on SLV

<https://www.ishares.com/us/products/239855/ishares-silver-trust-fund?qt=SLV>

Before getting into the details of the two new risk factors, a word about prospectuses in general. A prospectus is a formal and legal disclosure document filed by any company offering securities for sale to the public and spells out in detail the operation and risks contained therein. A more cynical definition would involve a document seeking to protect the issuer from lawsuit. Generally speaking, anyone not somewhat intimidated or dissuaded from investing upon reading any prospectus ever issued is as rare as a hen's tooth. However, in the end, the issuer of securities (in this case BlackRock for SLV) still has a fiduciary responsibility to do right by shareholders, regardless of what's spelled out in the prospectus.

All that said, the first new risk factor disclosed for SLV was the real potential for its authorized participants not being able to provide sufficient physical metal to match any demand for shares. Obviously, the recent three-day explosion of trading volume in SLV and the massive deposit of 110 million oz was the catalyst for the sudden disclosure of this new risk factor. The implication is clear as many suspected all along, there is not an inexhaustible supply of silver bullion available to the market at near current silver prices and this dramatic admission by BlackRock and the authorized participants is the clearest proof of that as could be possible. And it's certainly not a reality unique to SLV, because if the authorized participants of SLV can't secure sufficient silver, neither can any other of the silver ETFs. After all, silver in 1000 oz bar form is highly fungible if there's not enough for the largest silver ETF, there's not enough for any of the silver ETFs.

Therefore, on its face, the announcement by BlackRock (in the form of the new risk factor) is beyond bullish for the price of silver and clear proof that there may not be enough supply to satisfy demand. I know many have been quick to conclude that this is the death of SLV, but there's a simple and equitable solution to this problem for BlackRock and shareholders of SLV.

That solution is to convert the trust into a closed-end ETF, while retaining the right to redemptions (conversions), along the lines of PSLV. This would eliminate the requirement to automatically deposit metal for every new share created at the then-current price of silver. This would also, most likely, result in a premium for new shares above net asset value and would protect existing shareholders. Far from the extremely tight wholesale condition in silver being a detriment to the trust, it would greatly enhance

the value of the trust and preserve the shareholders' interest. I could easily see BlackRock being held liable if it did not institute a change to closed end status in light of its admitted potential difficulty in securing metal as it had in the past.

As breathtakingly shocking as the first new risk factor may be, the risk factor warning to the short sellers in shares of SLV was right up there for me, although not likely for others. It wasn't long after the SLV was first introduced in 2006 that I took up the issue of the short selling of its shares, first with Barclays Global Investors and then with BlackRock after it had acquired the I-Shares business from BGI.

My contention was that short selling in shares of SLV was very different from short selling in other securities in that SLV was different from other securities in that there was the promise that a certain amount of metal backed each share outstanding. Short selling completely frustrated and negated that promise. BGI and BlackRock dismissed my concerns, saying they had no control over what short sellers did. In addition, the public reaction to my complaints was overwhelmingly against my allegations that short selling in this special security was fraudulent and manipulative (because the short sellers were clearly evading the requirement of depositing physical metal). I do believe I was the only one who raised this issue (although I did have some defenders).

In fact, in my last few articles, I again raised the issue of short selling in SLV, promising to invoke the issue again with BlackRock should the levels of short interest rise sharply. Therefore, to see BlackRock include this very issue as one of its new risk factors was truly a shock to my system. The only thing more shocking would be getting a call from the CFTC and DOJ saying they were sorry for dropping the ball for all these years (decades actually, but who's counting?) and yes, of course, I was right all along. Agreed, that isn't going to happen, but neither did I expect that BlackRock would suddenly warn the short sellers.

I am aware of a growing campaign, bordering on near-hysteria, about dumping SLV (and perhaps other silver ETFs) and switching to PSLV. Again, I have nothing against PSLV and hope its holdings of silver grow in the future (same for all silver ETFs). But switching all the silver from SLV and the other silver ETFs into PSLV would be like putting six lbs. or more of flour into a one lbs. bag - it can't be done and would make a mess. Consider this - in three days, more silver came into the SLV than is contained in the PSLV after its entire ten year existence. Three days versus ten years.

Perhaps the single biggest reason so much hate exists for SLV is due to JPMorgan being the custodian. There is more than a bit of irony here because if anyone pointed the finger at JPMorgan for being the big crook in the silver (and gold) market it was me and it's absurd to think I would defend this crooked bank. But I'm not defending JPM in any way, just applying some reality and logic. There are two billion oz of silver in the world in 1000 oz bar form. The world's silver ETFs hold more than 1.2 billion oz or 60% of the total bullion. I've long claimed that JPMorgan, along with its close affiliates and family & friends own one billion oz of the 2 billion total oz, meaning JPM, along with its close affiliates and family and friends own, roughly half the silver in the world's silver ETFs. If that's true, as I believe it to be, what are the odds that JPMorgan would turn around and screw itself, its close affiliates and its family and friends by doing anything to undermine the value and viability of SLV and the other silver ETFs in which it holds an interest?

Finally, it is well-known that JPMorgan is operating under a newly signed deferred criminal prosecution agreement for, essentially, screwing around in the silver market, among other things. With a new

Attorney General (Merrick Garland) SEC chairman (Gary Gensler) nominated and about to be installed and with the eventual nomination and installation of a new chairman for the CFTC, what are the odds that JPMorgan would pull a stunt that would enrage silver investors everywhere – like causing a sharp drop in the value of the silver ETFs?

At the very least, the two new risk factors in the prospectus of SLV about the potential unavailability of metal and the dangers to the short sellers of shares come as a remarkable about face. This is such a stark change that I can't help but think that maybe this recent surge in buying has brought home to BlackRock and others the much bigger issue of the concentrated short position by the 4 and 8 largest traders in COMEX silver futures. I can assure you that this short position is at the heart of all that is wrong in silver. Let me break it down for you (Hammer style – without the dance music).

There would be no shortage of silver, as indicated in the new risk factor, were it not for years and decades of the concentrated short position in silver. This concentrated short position suppressed the price artificially and altered the actual supply and demand balance in silver as the low price discouraged new supply and encouraged new demand. The way the law of supply and demand is supposed to work – the way we hope our children learn it – is that low prices stimulate demand and discourage supply; with high prices doing the opposite. But what happens when someone messes with and distorts the price – as the big concentrated shorts have clearly done? I'll tell you what – you get a sudden and surprise shortage at some point. This is just what has occurred in silver.

The connection couldn't be clearer – now we have a physical shortage and the cause of that shortage – the concentrated short position – is still intact. How could anything possibly be more incongruent – a physical shortage and the cause of that shortage still being in place in a supposedly regulated market? There never was a legitimate reason for the concentrated short position in silver to exist and now we've reached the ridiculous state where the big shorts are short more than ever in the face of a documented physical shortage. Let me take some time to describe just how insane this concentrated short position in silver has become.

The Real Short Comparison

By now, most should be well-aware of my constant claim about silver having the largest concentrated short position of any commodity in terms of actual world production. I'm sure you've seen the chart which depicts the number of days' world production the 4 and 8 largest shorts hold in silver and every other commodity. Silver has the largest number of production days held short, followed by (in descending order), platinum, gold, coffee, sugar, and ten other commodities ending with crude oil and wheat.

In metals, silver's concentrated short position is about 50% larger than in platinum, about double the short position in gold and about five times larger than the concentrated short position in copper when compared in actual world production terms. I would hold that this apples-to-apples comparison as prima facie evidence that concentrated short selling has suppressed and manipulated the price of silver. But there is another comparison even more compelling that involves just gold and silver.

Gold and silver are highly unique and separate from other commodities and metals in that both have been coveted by man (and woman) for centuries and even millennia as a store of value, adornment and as a medium of exchange – money. As such, the cumulative production from the birth of civilization for both gold and silver were preserved, minus the amounts consumed industrially or lost. In no other commodity did this cumulative world inventory buildup occur – only in gold and silver. Up until around 100 or so years ago, neither gold nor silver were consumed much industrially and as a result, the amount of above ground silver in the world relative to gold closely mirrored the historical rate of production in each metal, or somewhere around 8 to 10 ounces of silver for every ounce of gold.

In other words, 100 to 150 years ago, there were about 8 to 10 times more silver ounces in the world than gold ounces. But as a result of an astounding array of newly discovered industrial and chemical applications, ranging from electricity to photography, silver began to be used prolifically as an industrial commodity, while gold continued to be prized for its beauty (jewelry) and monetary uses. Today, in terms of the amount of each in recognized available bullion form (not jewelry or non-bullion form), the relative amounts of each metal have completely reversed and now there are 2 billion oz of silver in bullion form and 3 billion oz in gold. From 8 to 10 times more silver than gold to gold being more plentiful by a rate of 3 to 2 – quite a remarkable and easy to document – turnabout.

Over the past 16 years, another remarkable development occurred, namely, the introduction of ETFs (Exchange Traded Funds), first in gold (GLD) in late-2004, followed by silver (SLV) in 2006. The early success of the first gold and silver ETFs led to competition and more and more gold and silver ETFs came on stream. Today, 16 years after the introduction of GLD, there is detailed documentation of how much gold and silver are now deposited in the gold and silver ETFs.

Excluding the amounts of metal held in the COMEX warehouses (roughly 40 million oz in gold and 400 million oz in silver), today there are roughly 120 million total oz of gold on deposit in the world's gold ETFs and 1.25 billion oz on deposit in the world's silver ETFs (source – sharelynx.com).

So, of all the gold bullion in the world (3 billion oz), 120 million oz are held in the world's gold ETFs, leaving 2.88 billion oz outside the gold ETFs. In silver, of the 2 billion oz that exist in total bullion form, some 1.25 billion oz are held in the world's silver ETFs, leaving 750 million oz outside the silver ETFs. As I've explained previously, there is more need to store silver professionally than in gold, because silver is so cheap and you get so much more darn metal for your money than you do with gold.

Now let me add the (knock-out) punch line. Using the highly documented data in the CFTC's Commitments of Traders (COT) report, the concentrated net short position of the 4 largest traders in COMEX gold futures, as of Feb 9, was 169,251 contracts or 16.9 million oz. Therefore, of all the gold bullion in the world, minus what is in the world's gold ETFs, or 2.88 billion oz, the four big shorts on the COMEX hold an amount short equal to 0.6% (six tenths of one percent) of that amount.

Doing the same exercise in silver shows that of the 750 million oz of silver bullion in the world outside the world's silver ETFs, the concentrated short position in COMEX silver futures of 65,082 contracts or just over 325 million oz equals 43.3% of all silver bullion in the world (outside the ETFs). So, the concentrated short position of the 4 largest shorts in COMEX silver is 72 times larger (43.3% divided by 0.6%) than the comparable short position in gold.

Let me repeat that – the concentrated short position of the 4 largest traders in COMEX silver is 72

times larger than the concentrated short position in gold. Not double the short position in terms of world production, but 72 times larger in terms of available bullion. That, I would submit is obscene – obscenely manipulative. Remember I am using easily verifiable and documentable public data – no smoke or mirrors. Is it any wonder why silver is still so extremely depressed in price and now exhibiting clear signs of physical shortage?

So where is the federal commodities regulator, the CFTC, and the industry self-regulator, the CME Group, in the face of this data, some of which they provide? Don't they have a cadre of professional economists and market surveillance staff to address these issues? I get the feeling more and more that the regulators are either too busy hiding under their desks and sucking their thumbs or riding around in a circus clown car to address any of this. Instead, published reports suggest the CFTC may be looking at the Reddit crowd to lay blame for the silver shortage. Way to go guys.

One thing the new revelations of risk factors may change is my contention on Saturday that the SLV was the new go-to place for a buyer to secure very large amounts of physical metal. Obviously, if BlackRock takes steps to deal with a growing physical shortage of silver (along with other silver ETFs), that would channel such demand back to the COMEX. This remains to be seen, of course, but it could cause a rush to take physical metal deliveries on futures contracts and maybe this is being reflected in the tightening spread differentials in silver futures. I did say that the March delivery period could be eventful.

A quick comment on the happenings on the Reddit #SilverSqueeze chat site. It sure is entertaining and I would assume well-intended, but it's not something I'm part of. I guess my main concern is that it doesn't seem particularly well-focused and is sorely lacking when it comes to specifics. From the little bit I have observed, here we have a movement about squeezing the silver shorts and not once in my brief review of the site did I see the short position that was intended to be squeezed defined. There is only one silver short position responsible for the suppressed and manipulated price and that is in the hands of the 4 and 8 largest shorts on the COMEX. Hopefully, the Reddit crowd will tighten up on the real facts and data.

And rather than being overly concerned with squeezing the shorts, I think a much better approach is to focus on the spectacular reasons for investing in silver on a long term basis because of its outstanding value and risk/reward parameters. That said, I will certainly continue to document the facts about the silver manipulation and petition the regulators to get off their butts. In the meantime, I do admit to enjoying the videos depicting an anguished Adolf Hitler losing control of the silver manipulation, even if many basic facts are misstated.

Turning to other developments, maybe I'm reading it all wrong, but the price action this week strikes me as the big silver shorts rigging gold lower in order to keep silver from blowing its top. I'm convinced that the big silver shorts are staring into a financial abyss and are desperate to prevent or delay judgment day using anything at their disposal. Smashing gold would seem to be one of their last dirty tricks remaining. The problem (for them) is that the gold market structure is and has been largely washed out, meaning there are only a few speculative apples left to shake off the tree.

As I described above, the real manipulation is in silver, much more than in gold, but in its present market structure gold is capable of climbing sharply, by hundreds of dollars in a short period of time. While no one is talking about a gold short squeeze, market structure conditions suggest that is quite probable. Then the question becomes what happens to silver, as and when gold starts to rally sharply?

What happens when the last dirty trick in the big shorts's tool box is fully deployed and depleted?

As far as what to expect in Friday's new COT report based upon trading action through yesterday's cutoff, the four day reporting week featured three pretty sharp days down on gold, with prices lower by as much as \$50 for the reporting week. Therefore, it is reasonable to expect more speculative apples shaken off the gold tree, although it's hard to quantify how many with total, open interest down about 3000 contracts for the reporting week. Gold prices have remained firmly below the key moving averages. I would look for moderate managed money and non-commercial selling and commercial buying, with keen interest on the category changes.

In silver, prices were, essentially, flat for the reporting week and total open interest rose more than 4000 contracts, as silver prices remained firmly above all key moving averages, the opposite of what occurred in gold. Therefore, it is reasonable to expect an increase in non-commercial buying and commercial selling, with ultra-keen attention on what the 4 biggest short crooks might have done.

The sharp selloff this week in gold brought significant relief to the 8 big shorts in COMEX gold and silver since Friday's close. At publication time, the 8 big shorts have regained \$1.3 billion of their total losses, now sitting at \$10.8 billion, the lowest of the New Year. Once again, however, this is a two-step process in that not only do the big shorts need to manipulate prices lower, they also need to induce sufficient non-commercial selling that would enable the big shorts to close out much of their concentrated short position. The jury is still out on both counts.

Lastly, even though this is something I usually reserve for the weekly review, I can't help but note that the silver/gold price ratio slipped slightly below the 65 to 1 level, a level not seen in nearly 7 years. Of course, this means anyone who did switch from gold to silver since 2014 is now better off for having done so. It has been a long wait for silver to reassert itself, and much longer waiting for the manipulation to come to an end. Come to think of it, I do have a pretty good sense of Moses and the Israelites wandering the desert for 40 years, although that thought was the furthest from my mind in 1985.

Ted Butler

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Silver – \$27.35 (200 day ma – \$23.32, 50 day ma – \$25.96, 100 day ma – \$25.05)

Gold – \$1773 (200 day ma – \$1858, 50 day ma – \$1858, 100 day ma – \$1871)

Date Created

2021/02/17