February 3, 2021 – Don’t Awaken the Sleeping Giant

Thatâ??s the thought that keeps running through my head over the past few days as I take in the incredible goings on in silver. Iâ??ll get to the giant in question shortly, but first some observations about what have been among the most remarkable few days in silver in my experience, a period that includes the time of the Hunt Bros and even earlier.

While I lament the passage of the years gone by, I must say I feel fortunate to have picked silver, of all things, as my lifeâ??s focus. When my dear departed friend and mentor, Izzy Friedman, accidentally infected me with the silver disease in 1985, little did I suspect that 35 years later, the fever would be burning hotter than ever. I often wonder that had Izzy not challenged me to explain why silver was so cheap back then, the accidental spark that tripped off my personal journey, what the heck else I would have focused on.

The first thing that truly shocked me about the last few days was the amount of attention placed on silver. I try to be as objective about silver as possible (not often easy), but the explosion of commentary on every medium possible, simply blew me away. I never realized that virtually everyone in the world of media (print, TV and Internet) had a keen interest and strongly held opinion on silver.

I also never realized how just about everyone offering up a strongly-held opinion was so utterly uninformed about the basic facts in silver. This brought up a long-held fear on my part that if so many could be so completely misinformed about the basic facts in silver, what are the odds that they are just as misinformed about everything else in the financial world? In other words, it is a bit unsettling to see that the same people spouting uninformed nonsense about silver also offering opinions about everything else as well. I guess there is no requirement that one must have undergone some type of study before offering public opinions.

The biggest shock of all was that the outpouring of misinformed opinion appeared to be the result of a price move higher by little more than 10% (quickly followed by a price drop even larger the next day). Huh? Since when did such a relatively small price move in a commodity barely mentioned in the normal course of events cause such a media stir? I donâ??t recall more commentary centered on silver on such a relatively minor price jump. One would be led to believe that the future fortunes of the entire financial world rested upon fairly minor price gyrations in silver. Ironically, that ridiculous-sounding statement may have some basis in fact, as Iâ??ll try to explain in a moment.

Certainly, there can be no doubt that there has been a remarkable buying surge in all retail forms of silver, to the point of almost immediately depleting the inventories of most retail metal dealers in the US and elsewhere. As a result of the inventory cleanout, premiums have surged and delivery wait times have lengthened. Once again, the US Mint has had to ration sales of Silver Eagles due to demand far exceeding its ability to produce coins. This buying surge, dealer inventory depletion and rationing by the US Mint are not unprecedented, of course, and have occurred at times over the past decade or longer â?? but the speed and force of the current buying surge seems much stronger than in times past.

The basic reason for the current and past retail dealer inventory cleanouts is that the retail dealer system is like a river a mile wide, but only an inch or two in depth. Individual dealers donâ??t maintain large inventories of retail forms of silver, so sudden buying surges deplete inventories quickly. But it is also true that such surges in the buying of retail forms of silver, while important over time if they persist, donâ??t generally have much short term impact on the wholesale price of silver, in the form of 1000 oz bars. Clearly, if retail demand persists, more silver in the form of 1000 oz bars will be converted into retail forms and consumed as a result, but that process does take time.

The buyers of retail forms of silver donâ??t particularly like having to pay higher premiums and endure longer wait times for actual delivery, but sometimes, like now, the only way to avoid that is not buying at all. Truth is that if you are doing business with a reputable dealer, the additional time you must wait to receive silver you have ordered is an inconvenience, but something one must live with (in lieu of not buying at all). This applies to buyers of retail forms of silver or even investors of silver in 1000 oz bar form, but the sleeping giant in the silver market, the industrial consumers of silver are a different animal completely.

Industrial users of silver, or any other commodity or component, canâ??t tolerate delays of any type. After decades of practicing just in time manufacturing and inventory techniques, delays are intolerable because an entire assembly line or operation can be shut down for the lack of a single key ingredient or component. Iâ??ve used the example many years ago of the Ford Motor Company responding to a shortage in palladium at the time by building inventories of the metal and causing prices to soar. In the last day or so, Ford was back in the news as having to shut down an assembly line due to the lack of a certain type of semiconductor.

Delays of any type in the delivery of any key ingredient or component simply canâ??t and wonâ??t be tolerated by any manufacturer because it means shutting down and sending employees home. This is the key difference between a silver investor and a silver user. At the first hint of delivery delays in silver or any component needing silver, a user will rush to build inventories â?? buying more than normally needed to avoid future potential delivery delays. This additional and protective buying will, of course, only exacerbate and compound any budding shortage in silver â?? just like occurred with toilet paper last year. Only keeping a business running is infinitely more of a powerful incentive than not running out of toilet paper.

Let me be clear â?? there has never been a wholesale shortage of silver in 1000 oz bar form that has tripped off an industrial user inventory buying panic. We did come close to a shortage into the price highs of early 2011, but a vicious price smash averted a full blown shortage and user panic. However, everything I look at tells me we might be on the verge of such a shortage now. Strong signs include the temporary surge in COMEX spread trading to a backwardation on Monday (since erased).

Iâ??ve been writing how the monthly spread differentials in both COMEX silver and gold futures had narrowed noticeably of late and Mondayâ??s move to inversion in March silver to May was no minor matter. In fact, yesterdayâ??s price slam may have had as much to do with eliminating the budding backwardation in silver than even the $3 absolute price slam. Nothing indicates potential shortage more than a move to backwardation.

While I may be overly-sensitive to the tightening and inverting spread differentials in silver from my long ago spread trading days, there is a more compelling sign that the wholesale industry standard form of silver (1000 oz bars) is on the verge of shortage. That sign is the near-incredible amount of silver that has come into the silver ETFs, mainly into SLV, over the past three days. Total deposits of 110 million oz have been made in the SLV (plus another 6 million oz in other silver ETFs) in just three days â?? highlighted by last nightâ??s mind-boggling deposit of 57 million oz.

More than 115 million oz have been bought and deposited into SLV and other silver ETFs in just three days. I know some will say that is impossible, but I see no reason to believe why BlackRock, perhaps the worldâ??s largest money manager, would have any motivation for allowing false data to be reported or how it would benefit from falsely reporting such big deposits â?? only a pile of troubles if it allowed false data being published. Clearly the silver deposited was already in the required warehouse(s) and not physically moved over those three days, as that would be logistically impossible.

Please allow me to put this 115 million ounces into proper perspective. First it represents nearly 6% (5.75% precisely) of all the worldâ??s silver in the form of 1000 oz bars (115 million oz compared to 2 billion oz in total world inventories). The dollar value of 115 million oz of silver comes to roughly $3.2 billion.

Here we have to do some relative comparative analysis. I would ask you to put your thinking hats on and imagine, for a moment, what the purchase and deposit of 6% of all the worldâ??s inventory of gold bullion would look like. With 3 billion oz of gold bullion in the world (out of 6 billion total oz of gold in all forms), 6% would come to 180 million gold oz, an amount of gold worth $330 billion. The total amount of gold on deposit in all the worldâ??s gold ETFs plus on deposit in the COMEX gold warehouses comes to just under 160 million oz.

So what do you think the price impact would be on gold if 6% or 180 million oz were suddenly bought in just three days? Would you not conclude that such a large and sudden physical purchase of gold would send the price many hundreds or even thousands of dollars higher?

How about another example â?? say Bitcoin? With 20 million Bitcoins in existence, currently worth close to $700 billion (at $37,000 per coin), what do you think the price impact would be if 1.2 million Bitcoins (worth $42 billion) were bought in three days? Bitcoin prices of $100,000 or $200,000 or much more? Iâ??m not advocating the purchase of Bitcoins, mind you, as my feelings about Bitcoin range from this is nuts to I donâ??t get it.

My point is to try to image the price impact on anything if 6% of what existed was aggressively bought in three days. Say, 6% of the housing stock in any city or town, or 6% of the amount of the stock that existed in any publicly traded company. Would you not agree that the sudden purchase of 6% of all that existed would send prices soaring?

In case you didnâ??t notice, the documented purchase of 6% of all the silver in the world in the form of 1000 oz bars (the only form that matters to price) just occurred over the past three days and not only did the price not soar, considering yesterdayâ??s price beat down, the price hardly changed at all. You should be saying (aside from WTF?) how could this be?

Sorry for being repetitive, but the answer is because the sellers of that 115 million oz were more interested in silver not going up in price rather than securing the highest price possible â??as would any legitimate seller. Now take a wild guess on who those sellers might be and why they would be more interested in getting the lowest price, instead of the highest price for the 115 million oz of real, physical silver they just sold?

In fact, the purchase and sale of 6% of all the thousand oz bars in existence is the clearest proof possible that a price lid is being exerted on silver by those most at risk of financial ruin should prices get uncorked to the upside, triggering even more investment buying to the point of causing delays in deliveries that would awaken the sleeping industrial user giants. Once stirred from their slumber, these giants wonâ??t likely go back to sleep until they have secured sufficient physical inventories of silver to prevent assembly and production line interruptions. We are a long way from there, considering the inventory buying process has hardly begun.

Seeing as it has become so difficult for investors to secure retail forms of silver, literally overnight, the logical choice for gaining a position in silver would appear to be via the silver ETFs. The introduction of SLV 15 years ago, as well as the proliferation of other silver ETFs over time has made it real easy for investors to buy these securities, explaining the absolute surge in trading volume. And as Iâ??ve long maintained, it doesnâ??t matter if the investors rushing to buy these silver ETFs realize that the purchase of shares mandates a proscribed and proportionate deposit of physical metal because thatâ??s what the prospectus requires.

In less than a year, close to 500 million oz have been deposited in the world silver ETFs, led by SLV with more than 300 million oz and nearly 200 million oz being deposited in other silver ETFs. In addition, around 75 million oz have come into the COMEX warehouses. In total, the combined 1.65 billion oz of silver now held in the worldâ??s ETFs and on the COMEX is equal to more than 82% of all the silver bullion in 1000 oz bar form in the world. In addition to wondering why the recent sellers have been so accommodative in selling so aggressively and cheaply to the buyers, the question also naturally arises as to where all this silver is coming from.

There is little doubt in my mind that, by process of elimination, the flood of physical silver is coming from JPMorgan for the simple reason that it is the only entity capable of providing that much physical silver to the market. This, as a result of JPM accumulating a billion oz of physical silver for nearly nine years from April 2011, as reported on these pages since at least 2013.

While I believe I â??knowâ?• that JPM is the source of the silver flooding into the silver ETFs, Iâ??m not sure of the method by which JPM is supplying the physical silver, either by leasing or straight sale. I still lean towards the leasing angle, since it fits so closely with how I believe this bank operates. But regardless, a new factor emerges as a result of the stunning amount of silver (close to 575 million oz) that has come into silver ETFs and COMEX warehouses in less than a year. It dawned on me that JPMorgan, regardless of the methodology it employed (leasing versus straight sales), has â??lostâ?• half the one billion oz it acquired over 9 years â?? and all in the past 11 months. Will it lease out or sell its remaining silver and if it does â?? then what?

I go over all of this in an interview I did yesterday with Tom Bodrovics from Palisades Radio if youâ??d prefer the spoken rather than the written explanation â??

https://www.youtube.com/watch?v=e3sJmET13Lg&feature=youtu.be

Turning to other matters, despite yesterdayâ??s sharp and deliberate selloff and drop in total open interest, for the reporting week, total open interest in silver was about 12,000 contracts higher. Coupled with the mostly higher prices over the reporting week, the safe bet is to expect an increase in managed money buying and commercial selling, with much greater curiosity as to the detailed category changes. Gold prices werenâ??t as strong as was silver and total open interest fell by around 14,000 contracts, but that reduction was no doubt influenced by fairly heavy delivery notices (which mechanically reduce open interest). Not sure what to expect in gold.

If I could go back for a moment to relative comparisons for a thought that has been stuck in my head for some time. As someone who has cut his teeth on basic commodity analysis, I would like to make a comparison with silver and Bitcoin. Iâ??ve tried to be very careful to not praise or knock Bitcoin and I suppose the truth is probably that I donâ??t understand it given my hard commodity background. I do know and accept that Bitcoin is the near-perfect speculation mechanically in that, effectively, there is no real short position and everyone in Bitcoin is long. I would imagine that the lack of a true short position has a lot to do with much of the price rise to this point and could allow prices to move much higher still. Of course, as and when enough holders decide to cash out and sell, the price drop could be extreme.

All that aside, Iâ??m struck by the thought that while silver prices are quoted by the ounce, the standard industry unit of trade is in 1000 oz bars, as pointed out on these pages endlessly. That means the standard unit of trade in silver is currently worth around $27,000 for a one thousand ounce bar, of which there are 2 million such bars in existence (2 billion oz). The standard unit of trade in Bitcoin is one Bitcoin, currently worth around $37,000 and of which there are 20 million in existence.

Thatâ??s 2 million bars of silver selling for $27,000 each versus 20 million Bitcoins selling for $37,000 each. I have a pretty good idea of how silver is used and what it would mean to the world if silver suddenly disappeared and much less of an idea of what Bitcoin is used for (aside from being the perfect speculation) and what it would mean if it suddenly disappeared. Call me old, call me a simpleton, or call me a dork or a dweeb, but it seems to me that 2 million units of something where the unit price is cheaper than the unit price of something else with 20 million units, makes me think the item with the much smaller number of units is a much better deal in the long run.

At publication time, the efforts of the 8 big shorts to keep gold, and particularly silver prices from exploding have been successful and compared to Fridayâ??s close, the big shorts are some $400 better off, putting their total losses at around $12.2 billion.

Ted Butler

February 3, 2021

Silver – $26.85Â Â (200 day ma – $22.79, 50 day ma – $25.32, 100 day ma – $25.01)

Gold – $1836Â Â Â Â Â Â (200 day ma – $1853, 50 day ma – $1858, 100 day ma – $1882)

Date Created
2021/02/03