January 20, 2021 – What Makes Silver So Special

There are certain undeniable facts about silver that make it – hands down – among the very best investment opportunities around. Moreover, the facts are obvious and easy to verify. Hereâ??s a short list in no particular order of importance that can be said about silver:

Silver is **cheap**. While the price of silver has moved higher from the decade old price low of less than a year ago, on any inflation-adjusted absolute or non-adjusted relative price comparison, it is far cheaper than any comparable item, including gold. In fact silver is the only metal or asset still 50% below its former price highs of more than 40 and 10 years ago. There will come a time when silver wonâ??t be as cheap and undervalued as it is at this time, but value-oriented investors also know the risk will also be much greater at that time than exists presently.

Silver is **scarce** and **rare**. Due to its use in a wide variety of industrial applications, so much silver has been used up and consumed over the past century that only an incredibly small amount remains in world inventories. In the key form of 1000 oz bars, the industry and investment standard form â?? the form that ultimately determines the price â?? only two million of these bars exist (2 billion ounces) and more than 75% or one and a half million bars (1.5 billion oz) are held in the worldâ??s silver ETFs and COMEX warehouses and, therefore, are not thought to be available, except at much higher prices.

Further, the total value of all the 2 billion oz of silver in 1000 oz bar form is worth only $50 billion â?? compared to the near $11 trillion (with a â??Tâ?•) worth of gold in the world or the $750 billion in crypto currencies. The smaller the market cap of an asset, of course, the more it can move higher. Yes, there is more silver in the world in forms than exist in 1000 oz bar form, but that silver is closely held by millions of individual investors and there are no signs of any â??meltâ?• into 1000 oz bar form and has, therefore, no real effect on the supply of 1000 oz bars. Maybe that changes at sharply higher silver prices, but that just confirms my assertion that silver is cheap, rare and scarce.

Silver has superb **supply/demand fundamentals**. As the only true dual demand commodity, silver is unique in that it is both a vital industrial commodity and a primary investment asset. In a physical shortage, which weâ??ve come close to in the past and will experience in the future, silver will be bid for by both industrial consumers and investors â?? the only such asset with such dual demand potential. Further, the future supply of silver is limited by its mine production profile mostly (75%) coming as a byproduct of other metals (copper, lead, zinc and gold) â?? thus making sharp increases in mine output restricted in the face of higher prices. What a powerful combo â?? potential unlimited dual demand and limited supply.

Silver investors are the **strongest holders**. While investors in physical silver hold much less in dollar terms than investors in physical gold (or any other asset class), because the price is so cheap and undervalued, silver investors are near fanatical as long term holders. It has been my personal observation that more silver comes up for sale as a result of the owner passing away than being sold otherwise. Thatâ??s another way of saying that once someone comes to learn the real silver story he or she holds it tenaciously. Now, maybe that changes as and when silver prices soar, but thatâ??s just another confirmation that silver is cheap and undervalued now. In the interim, those that become aware of the real silver will only add to the ranks of its near-fanatical existing holders.

Silver has the **largest concentrated short position** of any commodity. In the face of all the above, there has to be some dominant and overarching reason for why silver is so cheap in the face of incredibly bullish facts. Not only does such a reason exist, it is also fully documented. There exists on the worldâ??s leading precious metals exchange, the COMEX, the largest short position of any traded commodity in silver held by a handful of traders in terms of real world production and supply. And this documented concentrated short position has existed in silver for nearly 40 years, fully explaining why silver has been suppressed in price for as long.

So serious is this issue that the federal commodities regulator, the CFTC, has repeatedly looked into the matter, trying to explain in public letters in 2004 and 2008 and on other occasions, culminating in a five year formal investigation starting in 2008 into a silver price manipulation. The CFTC has never commented on allegations of an ongoing price manipulation in any other commodity, including gold â?? just silver. While itâ??s true that the CFTC has denied allegations of a silver manipulation consistently, the matter has hardly disappeared and, in fact, remains stronger today than ever.

Silver stands to benefit from a **change in the regulatory regime**. The presidential election mandates a complete change in the leadership composition of all federal agencies, including the CFTC, Justice Department and Securities and Exchange Commission that have considered silver-related matters in the past. A new Attorney General and Chairman of the SEC have been nominated and a new Chairman for the CFTC will be nominated in the near future. Gary Gensler, nominated as chair for the SEC, is a past chairman of the CFTC and knows silver as well as anyone and while his new agency doesnâ??t have direct oversight of the commodities market, I, for one, expect behind the scenes influence from someone I have referred to often as the greatest chairman in CFTC history. Letâ??s face it â?? any change from the industry-dominated regulatory regime being replaced has to be an improvement.

Taken individually or as a whole, the above factors portend an explosive price move ahead for silver, the likes of which none of us has ever experienced. Unless you possess some type of time machine that can transport you back to a time when silver was cheaper than it is today, please consider the most practical thing you can do today and take advantage of the investment opportunity of a lifetime staring you in the face in the form of silver.

Turning to other developments since Saturdayâ??s review, the deliberate price rig job to the downside in force in gold and silver over the past two weeks continued when trading resumed Sunday evening and gold plunged as low as $1800 and silver to near $24, before rebounding into today. From the top in the first days of the New Year, gold had plunged as much as $150 and silver by a full $4, in as an egregious a price jam job as ever witnessed.

As I explained on Saturday and on countless prior occasions, the actual sellers on all big down days are always the managed money and other speculative traders induced or tricked into selling by the commercials, which are always the big net buyers on such days. If I had to pick just one thing that explained how the COMEX silver (and gold) manipulation could have existed for as long as it has, it is the basic confusion about this simple repetitive occurrence. I guess Iâ??m just sick and tired of reading how the commercials are big sellers on these sudden downdrafts.

Even worse is that there are now many who have learned and do recognize the actual sellers are the managed money technical types, while the buyers are the commercials and how such heavy managed money selling and commercial buying is bullish for future price prospects. I find these analysts and commentators as being even worse than those who havenâ??t quite woke up and smelled the coffee because to a man (fortunately no women seem to be in this group) they refuse to label this activity as the manipulation it is.

Collusive banks actively zooming other traders is not how the price discovery process is supposed to work â?? everyone knows or should know this is pure price manipulation, plain and simple. I think I understand why those involved (the crooked banks) and the hapless regulators donâ??t confront it, but I do have a more difficult time in understanding the refusal of commentators which know better not to speak out. I understand why they donâ??t speak out, namely, because they have denied manipulation existed previously and heaven forbid, they must stick to that story or risk admitting they could have ever been wrong about anything. But itâ??s precisely this behavior that has extended the manipulation. Enough is enough with the false pride.

All that being said, as all previous COT reports have indicated, sharp selloffs make the market structure more bullish. This was true in the most recent COT report and will, most likely, be reflected in the report to be published this Friday for positioning changes thru yesterdayâ??s cutoff. I wouldnâ??t imagine the changes in this Fridayâ??s new report will be as extreme as last weekâ??s report, although there was a slightly larger decline in total gold open interest of 14,000 contracts compared to the prior weekâ??s 13,000 contract decline.

Last weekâ??s net positioning change in gold was even more than the doubling of that weekâ??s decline in gross total open interest that I expected, but I donâ??t sense a repeat of that this week. I would be real happy to see a net positioning change this week of something approaching the 14,000 contract drop in total gold open interest and a similar net change in silver of close to its 3000 contract drop in total open interest.

Iâ??m basing these expectations on the already â??washed outâ?• nature of the market structure in gold, but would love to be wrong and see a much larger improvements in both gold and silver. As happy as I would be to be wrong and have to report on much larger net positioning changes in the upcoming weekly review, neither am I likely to be disappointed no matter what the results.

A key feature is still the amount of buying competition the 8 big shorts have had to face from other commercials and non-commercial buyers on the blatant price takedowns. In last weekâ??s COT report that buying competition was notable in gold and particularly so in silver. Of the more than 38,000 net gold contracts sold by the managed money traders in last weekâ??s report, the 8 big shorts were able to buyback around 20,500 contracts or a bit more than half. In silver, the 8 big shorts were only able to buyback less than 2600 contracts of the more than 8700 net contracts sold by the managed money and smaller non-reporting traders combined, a rather paltry 30% of the contracts sold in those categories. Also in silver, the raptors (including JPMorgan) were the biggest commercial buyers, buying close to 5000 net contracts.

Simply put, the 8 big gold and silver shorts are going to have to pick up the pace if they hope to reduce their concentrated short positions. While the sharp drop in prices through Sunday evening benefitted the 8 big shorts more than any other single trader category, itâ??s not simply a case of declining prices alone â?? the short positions also need to be bought back. That has been missing to this point, so while the 8 big shorts do get relief from falling prices, their basic problem still exists. Even more than what their total loss may be at any particular price point, much more of a concern to the big shorts is their remaining potential liability on higher prices.

Case in point is the sharp price rally since the early Sunday evening lows. At prices prevailing at publication time, the 8 big gold and silver shorts are worse off by nearly $1.4 billion from where they stood at Fridayâ??s close, putting their total losses at $12.7 billion. That is still better than where they stood a yearend (-$14 billion), but hardly cause for celebration.

I usually donâ??t comment on COMEX warehouse or ETF flows except in the weekly review, but must mention the near 20 million oz inflow into the big silver ETF, SLV, yesterday. Aside from not expecting it, thereâ??s not much I can mention. If it is a straight deposit and not some type of reporting error, Iâ??m fairly certain the metal was already there, as opposed to being moved in yesterday â?? more of a reporting event than a physical movement.

There was a similarly large and counterintuitive deposit of 535,000 gold oz into the big gold ETF, GLD, a few days back, worth close to $1 billion, so I suppose itâ??s possible a big buyer may have wanted a half billion dollarsâ?? worth of silver to go along with the gold. Of course, Iâ??m speculating and will comment further as events play out. But should the big deposits of gold and silver into the ETFs turn out to be plain vanilla buying, that canâ??t be very comforting to the 8 big shorts. Same with the move back above all of silverâ??s key moving averages, as well as above two of goldâ??s key moving averages.

Ted Butler

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Silver – $25.85Â Â (200 day ma – $22.25, 50 day ma – $25.00, 100 day ma – $25.13)

Gold – $1868Â Â Â Â Â Â (200 day ma – $1846, 50 day ma – $1865, 100 day ma – $1893)

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