

January 23, 2013 – Consistency

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I continue to be amazed by the amount of attention (mostly in the non-Main Stream Media) that seems to be growing about silver as an investment. Admittedly, I am silver-centric and look closely to what's being written about the metal, both in quality and quantity. I do this for a number of reasons, seeking to learn what I can and as a potential gauge to future silver investment behavior. Based upon the growing attention to silver, it seems the prospects favor growing investment demand. Due to some special circumstances in silver, the attention could have a big impact on the price.

In addition to the growing favorable commentary about the investment outlook for silver, I've also noticed more attention being centered on what I consider to be the bread and butter issues in silver, namely, the growing tight supply conditions, the manipulation and the workings of the COT, COMEX and the SLV. I have been consistent, to the point of repetition, in highlighting these issues over the years as the ones that matter in silver and it is highly encouraging to me that these are the issues that are emerging. The way I look at it, if I were discussing a constantly changing set of factors in silver then something would be wrong.

Also encouraging is that so many gold commentators and proponents have come to recognize the undervaluation of silver relative to gold. I can hardly think of one gold commentator who doesn't hold that silver is likely to outperform gold, although a few might suggest silver may fall faster after it blows off to the upside. Based upon the various price projections offered, it's hard to determine who is the most bullish on silver. I can tell you that this is not something that I have observed before and I think it has special significance due to some unique circumstances in place.

One circumstance is that the near universal bullish outlook for silver is relatively new and, no doubt, reflects the price gains silver has recorded in the past few years. One of the truisms of the market is that price dictates sentiment and since silver has performed, by many measures, better than other investments, it should be expected that more would come to view it favorably. Normally, such increased bullish sentiment would be worrisome to a value investor, but that applies less to silver given that it has only been a world net investment item for the past 6 years or so. Silver was in a net disinvestment pattern for many decades before that, so we are very early in the long term investment cycle.

The most important circumstance in the silver investment equation is the amount of metal available for investment. In this regard I have taken to defining the amount that really matters as the amount of silver in the form of industry standard 1000 oz bars. This is the form of silver which the world's big investors and industrial users will compete over. There is some 1 to 1.2 billion oz of world silver in this form, with perhaps 100 million oz that can be added to world inventories annually at current production/consumption rates. Of course, if world retail silver demand surges for coins and bars and other forms of silver, the amount of silver available for new 1000 oz bars must drop.

It is not the amount of available metal that is the real issue in silver, but what that amount translates into in terms of dollars. At current prices, the world's total inventory of 1000 oz bars comes to \$30-\$35 billion and the amount of new 1000 oz bars produced and available annually comes to little more than \$3 billion. These numbers take on added significance when compared to gold, as all the world's gold is valued at \$9 trillion and some \$135 billion worth of new gold is produced annually. It is the translation into dollars before comparing gold with silver that tells the real story. In simple dollar terms, there is almost 300 times more total gold in the world than there is silver in 1000 oz bars. To my mind, this is the comparison that matters most for future investment potential. I also think it will come to matter for the gold commentators now bullish on silver.

Here's where I invariably declare that I am not bearish on gold. On the contrary, there's been an improvement in the COT market structure for gold and physical gold investment demand looks strong. Even though I am analytically skeptical about the significance of the Bundesbank's repatriation of gold reserves, I will be the first to admit that such a story could easily ignite demand for gold. As a silver investor, I am rooting for higher gold prices, as higher gold prices will put stronger additional upward pressure on silver prices. It has everything to do with relative dollar valuations for gold and silver.

A one hundred dollar increase in the price of gold increases the total value of all the world's gold by \$500 billion; a thousand dollar increase in the price of gold will increase the value of the world's gold by \$5 trillion. That's just the increase, not the total value. The entire world's total supply of silver in 1000 oz bars is worth just \$30 to \$35 billion. Heck, a one hundred dollar price tag on silver would mean a total value of \$100 billion which still would be worth just 1% of what gold is worth now.

These are the valuation comparisons that matter; otherwise I wouldn't keep repeating them. I think the valuation mismatch between gold and silver will continue to drive more gold proponents to favor silver. The mismatch also strongly suggests that the commentary now favoring silver has yet to be acted on in large numbers. Let's face it — if wide numbers of investors had already moved into silver, there would not still be 300 times more dollar value of gold compared to silver. The fact that silver is becoming recognized as a potential investment but that recognition has yet to be acted upon is a very special bullish factor. Often times, people contemplate an investment before acting to invest. I sense more will come to contemplate the relative bargain that silver represents and more will come to invest in it. At least that's what I conclude from all the new (and highly welcomed) favorable silver commentary. I realize I have been harping on the gold/silver relative valuation a lot recently. I believe the emphasis and repetition will turn out to be properly placed. That's no guarantee and we will only know if I am reading it correctly with the passage of time.

There has been more commentary on the large one-day deposit of 18 million oz into the big silver ETF, SLV, last week. This is befitting what was, effectively, the largest single deposit in the 7 year history of the trust. There was even a lengthy commentary in *ftalphaville*, the blog of the Financial Times of London <http://ftalphaville.ft.com/2013/01/18/1343872/slv-and-the-mystery-inventory-build-up/?Authorised=false> (free registration required). Even though I have studied the silver market intently for decades, including the SLV, I must confess I didn't understand the article. There have been other similar commentaries that I didn't —get—. My sense is that some folks are trying too hard to make sound normal, something that was highly unusual. Make no mistake — the big deposit into SLV was not an everyday event. It's just that we can't know the motivations behind it based upon the current available information.

We do know, thanks to <http://about.ag/SLV/LargeSlvDeposit.htm> that 10 million oz of the deposit was into JPMorgan's COMEX warehouse in New York, the first deposit outside London and also unusual. I still think it may be related to the large short position in SLV, but that's just speculation on my part. Since the deposit was made on January 16, it most likely missed the cut-off date for the new short position report scheduled for release on the 25th, but maybe some clues will be in that report. If it wasn't connected to the short position in SLV, then the next likely explanation was a large buyer. But there is no denying that the deposit was unusual and any attempt to pass it off as a non-event is misplaced, in my opinion. It certainly doesn't appear to be a bearish development, as I indicated on Saturday.

It's just a fact of life that we can't usually see the full picture on any significant silver development at the time. That's because all the details aren't available or visible when we first learn of something new. The best example I can give you was of JPMorgan's takeover of Bear Stearns in 2008. I even wrote an article about it back then titled "Life After Bear Stearns" http://www.investmentrarities.com/ted_butler_comentary/03-18-08.html in which I talked about many of my usual themes, COMEX, COT, SLV and the first sell-out of Silver Eagles by the US Mint. I stand by everything I wrote in that article, but I admit that I had no clue at the time that Bear was the big COMEX silver short. Nor did I know that Bear Stearns most likely failed because of its giant silver short position and its inability to meet a \$1 billion margin call on silver. It was only when the August 2008 Bank Participation Report was released and subsequent correspondence from the CFTC that the full facts became known.

I feel similarly about the big SLV deposit in that we know it is significant but all the details are missing. At this stage of the game, I feel confident that if and when the full story is known it will parallel and confirm the silver manipulation story to date, just as the real story on Bear Stearns did. The central conclusion of just about everything that comes out in silver is that this has been a manipulated market that is destined to end at some very high final price, no matter what is thrown at it in the interim.

Ted Butler

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Silver – \$32.30

Gold – \$1686

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