

## July 12, 2023 – The Process Explains the Price

Generally, for everything that has a price, the price is often the most important feature. Certainly, this is true in financial assets and commodities of all types, including stocks, bonds, real estate, raw and finished materials, as well as transportation, labor and just about everything under the sun (including solar power). As different as all these things may be and no matter how complicated the process of determining the price of all things may be, it is the process that determines the price.

Therefore, it follows that to understand the price of anything, it is necessary to understand the process by which prices are determined. That's easier said than done, of course, because each item with a price has its own unique and very wide set of ever-changing factors involved in the process of determining price. Take interest rates, for example, where Fed policy, investor and inflation expectations, debt levels and liquidity, to name only a few, are part of the price discovery process.

For silver, the focus of this service, its price discovery process is different from other commodities, even different other metals, including other precious metals. While the things usually thought to determine the price discovery process in silver, like actual supply and demand, investor sentiment, as well as a plethora of other factors that are assumed to determine price, all these factors play little role in determining silver prices. By far, the most dominant and often the sole driver of price is the positioning of silver futures contracts on the COMEX.

As such, it is impossible to avoid the conclusion that the price of silver is manipulated. As clear and simple as this statement may be, its prevention is the prime mission of the federal regulator, the CFTC, since US commodity law holds that speculative derivatives trading determining prices is illegal. Still, it's a rather strong allegation to declare that an ongoing manipulative process is what determines the price of any regulated commodity, so substantiation is required. Here, I would ask you to rely on your own eyes.

Do you not see the reports indicating flat silver mine production for more than a decade, accompanied by growing demand over that time? Do you not see dramatically declining levels of visible inventories over the past two and a half years on the order of more than 300 million oz, the largest decline in history? Do you not see the mindboggling physical silver turnover in the COMEX silver warehouses of the past 12 years, now joined by physical turnover in the silver ETFs and recognize this physical turnover is unique to silver and can only be due to physical demand on the edge of going out of control?

Do you not wonder why the CFTC and the CME Group are virtually silent in the face of widespread allegations of a silver price manipulation? Do you not wonder how and why JPMorgan has remained silent in the face on non-stop and personally-delivered allegations of criminal wrongdoing in COMEX silver for more than a decade – except for paying fines and agreeing to a deferred criminal prosecution agreement with the Justice Department? Are you not curious about the Treasury Dept's Office of the Comptroller of the Currency unit suddenly changing its methodology of recording OTC precious metals derivatives when asked about Bank of America's explosion of silver derivatives holdings? Or of the US Mint's refusal to produce Silver Eagles as required by law?

These are but a few observations and questions anyone remotely interested in silver and its price

should ask and all lead to the same core fact – the price discovery process in silver is not as it should be. Something has to explain a growing and visible long-term physical shortage in a commodity in the face of flat to declining prices. Something has to explain so much regulatory “smoke” in the impossible-to-count number of findings of price wrongdoing by banks in silver (and gold). Is there any bank that hasn’t been fined for improper trading in COMEX silver?

The common denominator for all the above is the price discovery process in COMEX silver futures; specifically, the banks (the commercials) always selling on rising prices and buying on falling prices. You could say that’s simply good trading, but the consistency of such trading over the decades, coupled with the endless number of regulatory fines would suggest otherwise. If the banks’ trading in COMEX silver were on the up and up, why so many fines?

More to the point, how is it possible for what is largely a derivatives exchange to have come to set and dictate prices to the entirety of the silver world? How is it that what is basically a private betting game between a relative handful of speculators on either side (banks versus manage money traders) has come to capture the price setting mechanism process in silver? The answer is multi-fold and includes that because the quantities of silver derivatives trading are so much larger than the amount of real silver produced and consumed daily, that the “tail” of COMEX futures trading has always dominated the “dog” that is the actual silver market. Besides, COMEX futures price setting fills the void in that it has emerged as the sole price maker in silver, with everyone else (miners, users, investors) as price takers.

The reasons for this has to do with tradition and custom and the necessity of filling an obvious void, as the COMEX has been the world’s silver price maker (not London) for more than a half-century and any sudden replacement of the COMEX is not easy and simply hasn’t occurred. Trends in motion, tend to stay in motion and all that jazz. But I’m not suggesting that the decades of silver price control from the COMEX is long for this world.

It is easy to see that the decades of artificial price suppression from the COMEX has finally resulted in such a pronounced physical silver shortage that it is only a matter of time before the forces of paper derivatives positioning are cast aside and the silver (physical) dog will start wagging its paper tail and not vice versa. However, while I have always maintained that this day would be coming, another highly-unique and quite ironic factor promises to supply additional fuel to a silver price bonfire.

In the “live by the sword, die by the sword” department (and as I have been reporting), there have been some very remarkable changes in how the silver paper market structure has evolved recently. So remarkable have these changes been that my usual over-the-top bullish expectations for silver have been kicked up by a giant notch. What I’m saying is that in addition to the wildly bullish and seemingly impossible to deny impact of a physical shortage in silver, there now exists a heretofore paper market COMEX market structure that never previously existed.

What is so ironic is that the very thing that accounted for the decades-old silver price manipulation – COMEX paper positioning – is now structured in such a way that it promises to be a bullish force as powerful as the physical shortage itself – at least in the short term.

Before I get too carried away in my hyper-bullishness, let me outline what I see as the only possible chink in the bullish silver armor – the question of whether the big former commercial shorts add aggressively to their short positions on the next silver rally. This has been the key component of the 40-

year COMEX silver price manipulation, with the only time the big commercial shorts failed to increase their short positions being in the silver price run to near-\$50 in 2011 (buying in SLV was the main cause of the rally then).

As you know, the concentrated short position in COMEX silver futures is something I have battled with the CFTC for more than 20 years and always futilely, up until two years ago, when the Commission stopped disagreeing with me and stated it forwarded my concerns to its divisions of Enforcement and Market Oversight. Now, whether this had any real result or not is debatable, but the concentrated short position of the 4 largest commercial shorts in COMEX silver is now roughly half the size it was when I contacted the Commission two years ago.

More importantly, on the \$6 (30%) silver price rally of early March, for the first time in memory, the 4 big COMEX commercial shorts failed to increase their short position aggressively (except as in 2011). This is something I have been hooting and hollerin' about ever since as a portent of them not shorting aggressively in the future. Of course, I cannot know this for certain, as I am an analyst, not a fortune teller.

But as I explained this past week, the current market structure set up in COMEX silver futures is such that if we were to move sharply higher in silver at this point (and as we appear to be doing today), the issue of whether the big shorts add or not is more critical than it has ever been in my time of studying the silver market. That's because there doesn't appear to be sufficient potential selling emanating from the smaller commercials (the raptors) to cap and contain a silver rally without heavy big 4 and big 8 assistance in the form of aggressive new short selling.

One other thing that would seem to discourage aggressive new commercial short selling at this point is, more than ever before, that it makes absolutely no sense for the big former commercial shorts to plow onto the short side of silver at this time and in the current physical shortage circumstances. Only an idiot would short silver aggressively at this time and while supremely crooked, I never said these big commercial shorts were dumb.

While I leave open the possibility that the CFTC may have involved itself in persuading the big silver shorts to reduce their concentrated short position, it actually makes more sense that the big former shorts woke up and smelled the coffee and chose to abandon a strategy that could ruin them in the inevitable silver extreme upward price adjustment. The net effect, in either case, is the same for whatever reason the big shorts refraining from aggressively adding new shorts will allow a silver rally to turn into the big one.

As I write this piece Wednesday morning, the sudden updraft in silver (and gold) prices has every appearance of qualifying as the start of the big one, but, of course, it's way too early for such pronouncements. There have been, as you are undoubtedly aware, sharp downward reversals completely offsetting promising breakouts of late so let's hold off on the celebrations at this point.

However, the price rally today does look different in that silver did manage to easily jump above its 50-day moving average, the last key moving average to be upwardly penetrated after a rather long two-month period of remaining below that moving average. And the timing of the move as coinciding with an inflation report milder than anticipated only reaffirms to me that the price of silver has absolutely nothing to do with inflation, interest rates, the end of the world or any reason away from positioning on

the COMEX (as well as prompts from actual supply and demand).

As far as what to expect in Friday's new Commitments of Traders (COT) report, given the choppy price performance in silver and gold, I don't have a strong sense of big positioning changes. The big increase (by 35,000 contracts) in total gold open interest looks to be the result of phony spread creation, as we are now in the prime-time period of such spread creation for another week or so. Obviously, today's price action in silver and gold make almost irrelevant this Friday's report. It would be far more revealing to know what today's price action involved in the form of trader positioning, but of course, we have to wait until the following week's report.

Also, later this evening, the new short report on stocks will be published for positions held as of June 30, with most silver eyes will be focused on SLV whose short position is the only real short position in the world of silver and gold securities that matters. While there was a rather large increase of 4 million shares (to 18 million shares) in the prior report, the total SLV short position was still down 70% for the peak last year. There's no way for me to predict this report, but I will comment on anything unusual in Saturday's review.

While I still believe we won't see anything close to the 60 million share peak of last August in the SLV short position ever again, I could be wrong, depending on the desperation of those who might go short. It still seems to me that the only reason (hardly legitimate) for anyone to short shares of SLV is to avoid having to deposit physical metal as called for in the prospectus. When, not if silver does explode, the shorting of SLV will prove disastrous for those short. Still, should the short position in SLV grow meaningfully again, I'll rattle the cages of the S.E.C. and BlackRock again. It's a dirty job, but someone has to do it.

On the matter of SLV and other silver ETFs, should this prove to be the start of the inevitable rally in silver that doesn't look back, I would remind you of the latent and sleeping additional power that should be exerted on the price of silver brought on by ETF buying (as if anyone needed additional reasons). The way the leading silver ETFs (SLV, PSLV, SIVR, ZKB and others) are structured, any net new buying of shares say as a result of prices moving higher will result in physical silver being deposited to back the newly-created shares.

This is sort of a double-whammy in that higher prices, essentially, involve the purchase of additional thousand oz bars, which in turn, typically adds upward pressure to price, particularly in times of pronounced shortage like now. Many years ago, my good friend, Carl Loeb, coined the phrase "Death Star" to describe how it was destined that SLV would someday come to buy and hold all the silver (in 1000-oz bar form) in the world. Only 17 years after its introduction, SLV does now hold more silver than any other source in the world and has been joined by other SLV ETFs, which collectively hold more than half of all the silver bullion in the world. Simply remarkable.

Please do not take this as an investment recommendation to buy SLV or other silver ETFs (although my wife still holds SLV and PSLV and, no, she hasn't dumped me yet). My main point is that there is no quicker or easier way to put money (particularly big money) into physical silver than by clicking a computer mouse or tapping on a telephone screen to buy a silver ETF and I further understand there are more than a few of our fellow world citizens equipped to do just that – including those running large institutional investment funds. Remember, it was buying in SLV (and the just introduced PSLV) in 2011 that caused the run to near \$50 and while that was about the sole price driver at the time, there are many more in the wings currently.

One final note on silver ETFs and, particularly concerning SLV. One of these days, the nearly-unhinged, but nevertheless highly-successful and influential at times, special breed of modern-day traders dealing in out-of-the-money short term call options are likely to alight on and discover SLV as their center of attention. Otherwise known as kamikaze options by others (I won't name), should such a buying wave of such options take place in SLV or silver in general, there's no telling just how impactful this would be on the price of silver in the current scheme of things.

As I get ready to hit the "send" button, it's hard not to be impressed with the price action in silver and gold today. Silver clearly led the way, and that's the way it should be if there's any chance that we've started to liftoff in earnest. Of course, it will take some time to fully-understand the positioning change specifics, but today is not bad for a first day. I suppose this pop higher in price could be a false breakout, but considering how long it has been overdue, I'll certainly be playing it as the real deal. The hour is too late to do otherwise.

Ted Butler

July 12, 2023

Silver – \$24.35 (200-day ma – \$22.64, 50-day ma – \$23.91, 100-day ma – \$23.49)

Gold – \$1963 (200-day ma – \$1868, 50-day ma – \$1972, 100-day ma – \$1956)

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