

## July 24, 2019 – Who is the Big Silver Buyer?

If there is one question that has recurred over the years, it is if silver's such a great potential investment, then why hasn't somebody big come in to buy it? My quick answer has always been that somebody big has bought it in the past, starting with the Hunt Bros in 1980 and Warren Buffett in 1998. More recently, of course, JPMorgan has bought a massive 850 million ounces over the past 8 years. Still the question persists – why hasn't anyone else bought it? At long last, the hard data suggest someone big has bought silver – in addition to JPMorgan.

What hard data? Well, to start with, recent concentration data in the Commitments of Traders (COT) reports indicate that a dramatic increase took place in the concentrated net long position of the 4 largest traders in COMEX silver futures, primarily between May 28 until June 25, when the position increased by nearly 18,000 contracts to 67,328 contracts. Since then, the big concentrated long position has decreased by nearly 8000 contracts to 59,661 contracts (as of July 16).

While there is no question that 4 traders held a net long position of 67,328 contracts (336.6 million oz) as of June 25, no further trader breakdown is provided in the data. I can tell you that the average position held by each of the 4 largest traders was 16,832 contracts on that date, but I can also tell you that the largest of the 4 traders most likely held substantially more than the smallest of the 4 traders. My best guess is that the largest of the 4 traders held as many as 25,000 contracts of the total 67,328 contracts on June 25. This would leave the 3 remaining traders as holding just over 42,000 contracts or 14,000 each on average. Additionally, based upon recorded price activity over the time the large concentrated long position was established, the average price of the position was very close to \$15 an ounce.

What caused the concentrated long position to expand (to the largest level in history) through June 25 and then to decrease over the past three reporting weeks? The increase is fairly easy to explain – it was caused by new buying, primarily in the managed money category of the disaggregated COT report. The subsequent decrease involves some type of selling – either plain-vanilla profit taking or something else. If a single big trader holding 25,000 contracts long had sold off 8000 contracts at a 50 cent profit that would amount to a cool and quick \$20 million profit. Were it a plain vanilla sale, it would enable the trader to re-buy the position at lower prices. What's the something else? part of the explanation?

At the same time the hard data indicate first the increase and then the decrease in the concentrated long position, other hard data, in the form of very large physical inflows into the silver ETFs, including SLV, indicate more than 50 million physical oz have been deposited over the past month. I think there may be a connection between the 8000 contract (40 million oz) reduction in the concentrated long position and the inflow of 50 million oz into the world's silver ETFs. The connection is this – I think the decrease in the concentrated long position was not a straight sale to take profits, but a conversion of COMEX silver futures into physical silver. Let me try and explain.

I mentioned on Saturday that were I to be in the fortunate position of being able to buy \$2 billion worth of physical silver (125 million ounces @ \$15), the way I would do it is to first buy 25,000 COMEX futures contracts. I wouldn't try to buy 125 million physical ounces from a dealer or try to buy 125 million shares of SLV or any other silver ETF. Such an overt move would send the price of silver

soaring before I could come close to completing the purchase. The only chance anyone would have of buying close to 125 million oz of silver without moving the price would be to buy COMEX silver futures first, over a month or longer. Then, after the purchase of COMEX silver futures was complete and the price was locked in, I could sit back and take my time and convert the futures into physical by any number of simple arbitrage transactions.

Establishing the position first in futures is the key because you can lock in the price more easily with paper than going straight for the physical. And that appears to be what has occurred. It is also very important not to sit with futures indefinitely, as there's no telling when the regulators might decide you own too many futures and order you to liquidate. Physical metal is a different matter completely – once you have it, it's yours.

As to who is behind the position, let's just call him Mr. X. (No, not Mr. Xi from China). Since all the data point to the big buyer being a managed money trader of some type, I'm inclined to believe the buyer is a large hedge fund, managing money for outside investors. Do I know this for a fact? Of course not, but I am relying on hard public data as the basis for my speculation. While not a hard prediction, neither would I be shocked should it become public that some large hedge fund has acquired 100 to 125 million ounces of physical silver. You have to ask yourself what the reaction might be if such a revelation was forthcoming, particularly since so many have wondered for so long as to why someone big hadn't stepped into silver. Certainly, the list is as long as Kareem Abdul Jabbar's arm (I knew him as Lew Alcindor at St Jude's school in NYC in the 50's) as to how many investment funds could buy \$2 billion worth of silver (or anything else). The short answer is plenty.

Should my speculation about a big silver buyer first establishing the position through COMEX futures and then converting to physicals turn out to be accurate, then it's more than ironic that the key mechanism of the ongoing silver manipulation – concentrated short selling – turned out to be the same mechanism which enabled the big buyer to accumulate such a large quantity of metal at such a cheap price. I suppose if you live by the paper sword, you may die by the paper sword.

And if there is a big silver buyer who is converting futures into physicals, then that only exacerbates the potential liability of the 7 big short sellers (ex-JPM) in COMEX silver futures. You see, additional paper short selling may succeed against additional paper buying in eventually causing prices to decline, but stands much less of a chance of success when the buying is physically-motivated.

I still maintain that the immense flow of physical silver that has come into the world's ETFs has largely has as its source some of the silver bought by JPMorgan over the past 8+ years. I also still believe that JPMorgan is loaning this metal to other Authorized Participants, rather than selling the silver straightaway. This way, JPMorgan still retains an ownership interest in the silver it is providing via leases.

As far as what the Commitments of Traders (COT) report may indicate when published this Friday, it's hard to imagine how there won't be a significant increase in managed money buying and commercial selling in silver, given the strong price gains through yesterday's cutoff. While gold's price action was more two-sided, there were new highs achieved and I wouldn't be surprised at some additional managed money buying and commercial selling in gold, but not to the extent expected in silver (on a proportional basis).

It is true that should silver and gold prices sell off, the explanation will be due to COMEX futures positioning (same as always). However, given the swirl of highly unusual circumstances present in silver (the big concentrated long(s) and massive physical inflows into the silver ETFs), if ever there was a time to downplay the COTs that time may be at hand. Given a bearish silver COT market structure (what I imagine Friday's report will indicate, although not overtly so), it would take special circumstances to look away. But if the possible surprise revelation of a big new buyer making a move on silver doesn't qualify as a special circumstance, then I don't know what would.

Not for a moment would I ever conclude that the COMEX commercial crooks weren't capable of rigging prices sharply lower in a heartbeat. That's a fact of life. But I've always held that if anything could negate the power of the COMEX commercials to manipulate prices, it would be something in the physical realm. Certainly, the recent massive inflows into the silver ETFs are in the physical realm. That combined with the hard data about big concentrated longs and the still very low price of silver make it easier for me to overlook a bearish market structure. Plus, the same bearish market structure could turn quite hostile to the 7 big shorts should physical market conditions prevail.

The possible revelation that a new big buyer has emerged in silver could have a profound impact. It could lead other big buyers to take the time to consider silver and might, just might serve as the catalyst to higher prices, thus providing JPMorgan with the cover story to allow prices to truly rip to the upside. There can be no doubt that the revelation that the Hunt Bros. and Warren Buffett purchased of silver was news of a seminal nature. Not so with JPMorgan's purchase, mainly because the bank has never admitted nor denied it has purchased silver.

If there is a big new purchaser of silver, as I strongly suspect, I can see no reason why the buyer would remain anonymous for long – particularly if the purchase was on behalf of investors of a managed money entity. One thing you have to hand a new big buyer is that the purchase occurred with no big run up in price, very much unlike what occurred with the Hunt Brothers and even to a certain extent as occurred with Warren Buffett. And the new buyer certainly didn't have the ability to depress prices by excessive COMEX silver futures short sales, as did JPMorgan. Therefore, I have to conclude at this point that the new buyer knew what he or she was doing.

As far as the running financial scoreboard for the 7 big gold and silver shorts, Friday's close indicated the combined total open and unrealized loss at \$1.9 billion. At prevailing prices at publication time today, the combined open loss now exceeds \$2 billion, or an average loss per trader of \$285 million.

Ted Butler

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Silver – \$16.64 (200 day ma – \$15.05, 50 day ma – \$15.05)

Gold – \$1424 (200 day ma – \$1294, 50 day ma – \$1358)

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