

July 8, 2020 – The Silver Pressure Cooker

The silver market appears ready to blow its top, much like a pressure cooker whose relief valve stopped functioning even as the heat and pressure continued to build. The gold market is also likely to overheat, but at least in gold, its relief valve – the price of gold – appears to be functioning somewhat and has bled off much of the pressure. After all, the price of gold is up substantially on a year-to-date basis and is not that far from all-time highs. While gold looks poised for further gains, perhaps substantial, its price relief valve has allowed much pressure to be released.

It's quite different in silver, since prices are barely changed on a year-to-date basis and current prices are still close to 65% below the highs registered, both 40 years ago and again 9 years ago. Nothing could demonstrate the malfunctioning of silver's price relief valve relative to gold than the recent 5000 year undervaluation of silver to gold.

As for why silver's price relief valve has ceased to function (and gold's valve is somewhat sticky), that's obvious – the release mechanism was gummed up due to concentrated short selling on the COMEX. For years the concentrated short selling was led by JPMorgan, but the bank has recently abandoned the short side, leaving 8 other big shorts to deal with a mess when the lid blows off.

What are the heat sources causing the pressured to build in the silver market? For the past few months, the main heat source has been the massively insane quantities of physical silver purchased by and deposited into the world's silver ETFs, led by the largest, SLV. More physical silver (200+ million oz) has been deposited into these investment vehicles over the past few months than at any time in history. Let me repeat that – never in history has so much physical silver been bought and deposited into silver investment vehicles in such a short time.

The most comparable previous times when large amounts of silver have been bought and deposited into silver ETFs, was when SLV was first introduced in 2006 and roughly 140 million oz came in over the first 15 months of the ETF's existence. In hindsight, the silver came from Warren Buffett's Berkshire Hathaway which lost the silver as a result of short selling on the COMEX in 2005. But at least there was a significant price increase as the price of silver just about doubled from late 2005 to the introduction of SLV six months later.

Then there was the six-month period from the fall of 2010 until the end of April 2011 when 60 million oz were bought by the SLV and prices soared to near \$50. To this day, I am convinced that physical buying was what caused silver prices to soar. The common denominator between the introduction of the SLV in 2006 and the run up into 2011, was that silver prices responded appropriately, doubling both times.

Compare that with what has occurred over the past 3 to 4 months, when more silver came in to SLV and other silver ETF, in a fraction of the time of the previous buying occasions. Common sense would dictate that much more physical silver being bought in less time would exert much greater upside price pressure. To be sure, silver prices are up from the March lows, but are flat from yearend and still down 65% from the peaks of 9 years ago.

This is not complicated math or advanced pricing formulae – more of a commodity being bought in

the shortest time ever should result in a sharp price advance, most likely the sharpest in history. Absent such an expected advance, explanations for why this hasn't occurred should be apparent. But that's the problem, namely, no good or at least legitimate explanations come to mind.

Even if one were to advance the notion that silver industrial demand fell off due to the pandemic's effect on the world economy, there has been an equal or even sharper fall off in silver production, thus eliminating obvious changes in supply and demand. Moreover, the buying of physical silver in the world's silver ETFs has been so large so as to absorb total world silver mine production and no one would advance silver industrial consumption fell to zero. Clearly, the price of silver the release valve on the pressure cooker is not functioning. Stated differently, this is yet another clear proof that the price of silver is manipulated.

It is because the price of silver has been manipulated – artificially suppressed – for so long, decades in fact, that an unprecedented level of pressure has been created. This pressure for higher prices, more than ever seen in any other commodity (save for silver itself prior to its forty-fold price explosion in the 8 years prior to 1980) has to blow up at some point and all the signs suggest the explosion may be at hand. What signs?

The first sign is that it has become really difficult not to notice that the price of silver is not functioning as would be expected, given the surge in documented physical buying. Oh sure, there will always be a few who insist silver is priced correctly for what have to be the most nonsensical reasons imaginable, but for every recalcitrant bear, there are multitudes of newly converted silver bulls. In fact, I've observed more commentators previously skeptical or wishy-washy on the prospects for silver, turned such avid bulls that I wonder how it is that they made the conversion to bullishness so seamlessly.

But it's not hard to be extremely bullish on silver currently and the reasons for being bullish have never been more compelling. I have personally observed those newly introduced to the facts on silver quickly become ranting bulls. And to this day, as has been the case for more than 35 years, I have yet to observe anyone convinced of silver's bullish price prospects change their minds. Some, far too many, have passed on from this vale of tears, but none have passed on without retaining their bullishness for silver.

Every day, more are coming into the bullish silver fold and I have yet to observe any defections. Certainly and most likely, the well-informed recent buyers of the 200 million ounces don't appear set to abandon their bullish conversion. Unlike the previous two runs to \$50, the buyers at this point are not chasing prices higher, but are accumulating in a highly measured manner the antithesis of hot money. I'm convinced that the hot money phase lies ahead and when it does kick in, it will further blow the lid off prices.

It's no secret that JPMorgan has supplied the 200 million ounces bought and deposited into the world's silver ETFs these past few months, for the simple reason it is the only entity capable of doing so. The question is how much longer it will continue to do so. The moment JPMorgan stops supplying physical silver to the market and refuses to add new COMEX short positions, it does not appear likely that the remaining big shorts can keep the lid on prices. That this is becoming increasingly apparent to more observers and investors daily just adds to the pressure.

There is no question the price lid will be blown off the silver pressure cooker at some point, so even though it's admittedly impossible to predict exactly when that will be, more relevant is what to

expect as the lid comes off. Simply put, this will be something rarely seen. Even in the two previous silver price runs to \$50, the short sellers never fully capitulated and managed to then rig prices sharply lower in a fraction of the time it took for prices to rise. Since so much silver has been acquired before prices have climbed much on this go-around, the prospects for massive downside liquidation appears rather limited.

My definition of the lid being blown off of the silver pressure cooker includes the big short sellers collectively throwing in the towel and moving to buy back shorts. That has never occurred, but it will at some point. In fact, we have yet to ever witness any real concentrated silver short covering on higher prices and this is probably the clearest proof that silver has been manipulated for all these decades.

The big shorts have always been able to ride out price rallies in silver over the decades, no matter how large, without ever collectively rushing to buy back short positions, in complete defiance of short selling norms in every other market (except gold). It's frequently (and erroneously) said that all markets are manipulated, as a way of downplaying and dismissing the silver manipulation. But that ignores the fact that in COMEX silver (and gold) the big shorts have never collectively bought back shorts on higher prices. But that day is coming and may now be at hand.

Since we've never witnessed a collective short covering of the concentrated short position in silver, we can't draw on actual experience to gauge what effect that would have on prices – all we can do is imagine. At the very least, such an unprecedented occurrence should be a shock to the price system. A true attempt at collective short covering by the big shorts should cause the price to vault upwards like never before. Where silver prices have jumped by dimes in the past, think dollars instead, and within almost impossible to imagine short time frames. In a genuine attempt at collective short covering by the big shorts, price jumps of dollars at a clip would have to occur.

The key is to look at the underlying mechanical aspects of what a collective covering of the concentrated short position means to the price and not the price itself. By mechanical, I mean how quickly the 8 big shorts can close out and cover a significant portion of the 70,000 contracts (350 million oz) they were short as of last Tuesday (to say nothing of the 200 million oz held short if JPM has leased the metal that has found its way into the silver ETFs). Only a small portion is capable of being covered on any given day. The good news is that future COT reports will provide the evidence (or lack thereof) of short covering if and as it occurs.

One reason I believe there is more of a pressure cooker analogy in silver than in gold, other than price pressure being relieved in gold as gold prices have risen much more than silver, is the dimension of the concentrated short positions in each. Over the past few months, an amount of physical gold roughly equal to the concentrated short position of the 8 largest shorts, close to 25 million oz, has been deposited into the COMEX gold warehouses. In fact, I believe the reason for the large physical inflows and large deliveries to date is related to the concentrated gold short position. Certainly, no one can claim 25 million oz of gold is impossible for the big shorts to come up with.

It's different in silver, where the 350 million oz concentrated COMEX short position (to say nothing of an additional 200 million oz short position if my claims of leasing are accurate) seems to preclude that amount of physical silver being available to the big shorts. This is what separates silver from gold, namely, it is conceivable for the concentrated short position in gold to be offset by physical metal, where that would seem to be impossible in silver. The big silver shorts coming up with the equivalent amount of physical metal at close to current prices is about as likely as me discovering the vaccine for

Covid-19 or becoming the new hairdresser to the stars. So, we sit and wait for the inevitable short covering.

Turning to other issues, yesterday's end of the reporting week focuses attention on this Friday's new COT report. Gold did surge to new highs in yesterday's trading, ending the four day reporting week up around \$10, after fairly lackluster trading following last Tuesday's end of quarter surge. Total gold open interest did climb around 11,000 contracts for the reporting week, due to yesterday's increase. Silver ended the reporting week slightly higher, but with no real change in total open interest. Just to keep it interesting, I'd venture Friday's results will largely mimic last week's report, namely, moderate deterioration in gold (managed money buying and commercial selling) and less so in silver.

So was today's breakout in prices the start of the lid being blown off the silver pressure cooker? Perhaps, but it's way too soon to tell. According to how I read the tealeaves, it will take not only a dramatic increase in price, the likes of which we've never really witnessed, plus data in the COT report indicating such short covering. In the meantime, there's no way of knowing much at this point other than knowing that up feels better than down.

One thing we do know is how to quantify the running financial totals for the big shorts in gold and silver. And that the move to 8 year price highs in gold means maximum damage to the big shorts. After all, it's simply a matter of multiplying the concentrated short positions by price change. We ended last week with the 8 big shorts in the hole by \$9.2 billion, after a record \$9.5 billion end to the second quarter last Tuesday. At publication time, the 8 big shorts in gold and silver are out an additional billion dollars from Friday's close, to a record \$10.2 billion. Never have the big shorts been this deep in a financial hole.

Ted Butler

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Silver – \$19.10 (200 day ma – \$17.01, 50 day ma – \$17.21)

Gold – \$1818 (200 day ma – \$1600, 50 day ma – \$1737)

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