

June 9, 2021 – How Much Longer?

When it comes to silver (and gold), I'm sure I'm not alone in that classic role-reversal question asked by children on just about every car road trip – "how much longer, Daddy?" • Indeed, how much longer can prices be capped in the face of verifiable facts so bullish that one can only marvel at the continued tight grip on price? • Compounding the question, of course, is that all manner of investment assets have exploded in price for hardly any discernible legitimate economic reason, save for the extremely speculative and loose money times in which we live.

To be fair, silver and gold prices have advanced significantly from their price bottoms of last March, with gold hitting all-time highs last summer and silver hitting 8-year highs. Even after a price correction/trading range that has lasted for more than ten months, prices are still much closer to the highs than the lows of more than a year ago. Still, away from prices, so much has changed over the past 15 months, particularly in silver, so as to instill in most minds a strong sense of disconnection between prices and the data. Like what?

Well for starters, there are the unprecedented flows of physical metal into (and out from) the world's silver ETFs and warehouse inventories in the COMEX-approved depositories. Together, combined silver ETF and COMEX warehouse holdings of 1.6 billion ounces constitute a remarkable 80% of the world's total silver bullion inventories (1000 oz bars). The comparable figure of gold in the world's ETFs and COMEX warehouses is only 5% (150 million oz vs 3 billion oz of gold in bullion form). Again, the reason for this is that silver needs to be stored because you get so much for the money that storage is required.

But over the past 15 months, the even bigger story in silver is how much net new silver came to be deposited in the world's silver ETFs and on the COMEX – a near incredible 500 million oz, a stunning 45% increase over the levels of March 2020. And this half a billion oz increase is net of a recent 100 million oz redemption from SLV, the largest silver ETF and a 50 million oz reduction in COMEX warehouse holdings. The outflow of 150 million oz doesn't mean this physical silver disappeared – just that it found a home elsewhere. Bottom line is that 500 million oz – fully 25% of all the silver bullion in the world – found its way into the highly visible ownership of the world's silver ETFs.

What's most remarkable is that silver prices have been highly contained in the face of so much physical metal changing verifiable ownership – more than at any time in history. It makes the Hunt Bros' and Warren Buffett's purchases of 100 million oz or so seem puny. And there was a lot more silver in the world when those purchases were made than there is now.

More recently, over little more than the past 4 or 5 months, a grassroots Internet movement, in the form of the reddit-based #wallstreetsilver crowd, now numbering more than 100,000 participants has turned the retail silver market on its head and appears to be almost single-handedly responsible for the growth in silver deposited into the PSLV. No one has ever witnessed this tight of a retail silver market and it shows absolutely no sign of petering out. The continued silver price suppression only seems to be intensifying the motivation of the reddit crowd and why not?

The great mystery, therefore, is not why the massive amounts of physical silver are flowing into

ownership in the silver ETFs and in retail forms of silver given the continued low price, as these would seem to be highly rational and logical actions. Instead, the mystery is how can the price of silver remain so contained in the face of such fully-documented buying? After all, no commodity, in the history of the world, has witnessed as much investment buying as has come into silver over the past 15 months relative to how much was available for sale. Yet despite this unprecedented buying, prices are no higher than they were more than 10 months ago. It's as if the law of supply and demand had been repealed.

Actually, the law of supply and demand has been repealed in silver and in full view to boot. Even with remote learning, any high school or even junior high school student should be able to tell you that when demand is greater than supply — as has been the case in silver — prices must rise. If prices don't rise in those circumstances, then something is wrong. Perhaps the statistics in silver are wrong and half a billion ounces didn't flow into the world's silver ETFs or that the #wallstreetsilver movement is merely a mirage and doesn't really exist. But that's absurd. So, what is it that is causing the law of supply and demand to be so disconnected from the price of silver?

While that question might cause consternation and confusion away from these pages, hopefully all here know the reason the price of silver is so utterly disconnected from its actual supply and demand is because the price function has been usurped and captured by something outside our understanding of the law of supply and demand. Embedded in the law of supply and demand is the fulcrum of price, so much so that it's more proper to call it the law of supply and demand and price.

That's because price is supposed to serve as the key variable balancing supply and demand. Too much supply, the price is supposed to go down. Too much demand, the price is supposed to go up. In silver, we've had a case of too much demand for more than the past 10 months and the price hasn't gone up. Why is that? Because the actual price function was taken away — captured — by a substitute price determined by paper trading on the COMEX — and in full view of a federal regulator and industry self-regulator, both created to prevent such a false price setting mechanism.

Moreover, the phony substitute price function, according to regular documentation provided by the regulators, is controlled by no more than 8 participants on the short-selling side. In reality, just 4 large traders on the short side dominate the sell side and while I don't mention it near often enough, the short side is further dominated by no more than one or two large traders. This concentration is the hallmark of price manipulation, as set out by the CFTC itself. The concentrated short position in COMEX silver can't be legitimately explained away, otherwise it would have been explained by the Commission by now.

So, the real question is not how much longer before silver prices reflect the undeniable surge in investment demand, but rather how long the 8, 4, or 1 or 2 big COMEX short sellers can continue to dominate the price function in the law of supply and demand? Perhaps this might seem like a difference without a distinction, but think of it as clarifying a question that begs for an answer. Look at it this way — what if there was no such thing as a concentrated short position in silver that stood head and shoulders above comparable positions in all other commodities? How would anyone possibly explain why silver prices were so contained in the face of all the data showing unprecedented investment demand?

As frustrating as it is waiting for silver prices to react to actual supply and demand, knowing the disconnect has been caused by the concentrated short selling of a handful of large traders and that the

regulators, both the CFTC and CME Group, have been unable to address this matter, should make it easier. At a minimum, it allows everyone to buy and hold silver at artificially suppressed prices as long as the concentrated short position is intact. Once the concentrated short position is sharply reduced, as it must occur some day, that particular buying advantage will be gone – most likely forever.

The reason the concentrated short position in COMEX silver futures must be permanently reduced someday is because physical demand, both industrial and investment buying, shows no sign of abating and physical supplies show no sign of meaningful increase. This is the reason silver prices bounced so sharply off the super-depressed lows of last year. Other new factors portending the big shorts have run out of luck is their actual financial performance over the past year, which is the absolute worst ever and the fact that the former big dominant concentrated short, JPMorgan, has flown the short coop.

To these factors, another new one can be added – the CFTC’s response of May 3, in which it broke sharply with its previous contention that there was nothing wrong with the concentrated short position in COMEX silver. Even if the Commission hasn’t communicated forcefully to the big silver shorts about reducing those positions, it stands to reason it likely questioned the biggest shorts about why they were so heavily short silver. After all, how else would the Commission discover why the short position was so large and out of place with all other commodities other than to ask those holding the position? The big shorts aren’t dumb and merely being asked about why they were so heavily short would be enough to trigger concern and an intent to eliminate further inquiries.

Finally, I can’t help but envision a future culmination of many of the current powerful forces in play coming to silver in a big way. The rampart speculation in meme stocks, crypto-currencies and assets of all types seems a prelude to what will happen in silver. In fact, it is already occurring to a certain extent (think #wallstreetsilver), kept in check by the concentrated short position. But someday, perhaps soon, that price cap will come off and silver’s price action will be a thing to behold. If meme stocks can soar with no real fundamentals, what can an item essential to modern life and in critical physical short supply do? Plenty, in my opinion. I know, I know, when will we get there, Daddy?

Turning to expectations for this Friday’s new COT report, price action in both gold and silver through yesterday’s cutoff was mostly mixed, with a slight downside bias. Gold ended the reporting week about \$10 lower, with silver off by around 30 cents. Total open interest rose a marginal approximate 2500 contracts in each, making it near impossible to come up with meaningful predictions, although major positioning changes would appear unlikely. I’ll be paying close attention to what the 4 big shorts did in both silver and gold.

I’m still not sure what to make of prospective changes related to Basel 3 regulations, although there is certainly no shortage of commentary on the subject. Total commercial short positioning in both COMEX gold and silver futures is higher over both the past one and two months, which would seem to be at odds with contentions of sharp reductions in bullion bank short positions on the COMEX, although the concentrated short position of the 4 largest shorts is lower in gold and not appreciably higher in silver over this time. I still maintain that the main issue is the concentrated short position, particularly in COMEX silver.

Of particular recent interest is the fate of the presidential election in Peru, which took place on Sunday, with the results still too close to call. The election features a right-wing, pro-business candidate against a socialist candidate who has threatened increased control over energy and mining interests. I have no dog in this contest, but Peru is the second largest producer of silver and copper, making the election

outcome of concern to investors in these sectors, Certainly, should the socialist candidate prevail, as appears likely at this point, large-scale future investment in copper and silver production would appear diminished.

This is of particular concern in light of projected future mine supplies of silver and copper, which have been down in silver and no better than flat in copper for the past few years. Remember, industrial demand for both metals seems set to surge in the future, along with investment demand for silver and a further choking off of future supply can't be anything but bullish. I don't think I can recall a previous time when so few new large-scale silver or copper projects appear on the horizon. Regardless of the outcome of the current election, it's hard to imagine mining companies expending the hundreds of millions of dollars in significant new long-life projects in Peru necessary to ensure adequate sufficient future supplies of silver and copper from that country.

I didn't mention it in Saturday's review, but there continued to be notable net managed money selling in copper in last week's COT report. The managed money net long position in COMEX copper futures got down to levels not seen since copper was not far from \$2.50 a pound. This indicates a complete abandonment of expectations of higher copper prices by these traders, even though copper is two dollars higher than it was the last time these traders were so light on the long side. It seems to me that these traders are making a purely technical decision, devoid of any fundamental considerations and this reinforces my expectations for significantly higher copper prices down the road.

Due to a scheduling conflict, I'm sending this out a bit early today. At publication time, gold and silver prices were mostly unchanged from Friday's close, meaning that the 8 big COMEX gold and silver shorts were still out the \$13.5 billion they were out back then.

Ted Butler

June 9, 2021

Silver – \$27.97 (200 day ma – \$25.84, 50 day ma – \$26.66, 100 day ma – \$26.52)

Gold – \$1894 (200 day ma – \$1846, 50 day ma – \$1810, 100 day ma – \$1796)

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