March 13, 2024 – Another Look at Recorded Inventories

Much commentary and thought have recently gone into the issue of recorded world gold and silver inventories, largely centered on the inventories in the worldâ??s gold and silver ETFs (Exchange Traded Funds) and the exchanges (COMEX and the LBMA). The increased commentary is well-deserved, as there have been massive reductions in both gold and silver recorded inventories since the peak of holdings in early 2021, when recorded gold inventories hit a peak of near 160 million oz and have recently fallen to just above 110 million oz, a decline of nearly 50 million oz. In silver, recorded inventories have fallen from a peak of 1.7 billion oz in early 2021 to around 1.3 billion oz currently, a decline of roughly 400 million oz.

Since there are big differences (as well as similarities) in many important ways between gold and silver, let me treat them as such, starting with gold. One thing the recorded inventories in gold and silver have in common is that the bulk of recorded inventories declines since 2021 are largely confined to the combined holdings on the COMEX and in the leading ETFs (GLD in gold and SLV in silver). For example, the reductions in total gold holdings of near-50 million oz since 2021 are largely accounted for in the 35 million oz reduction in COMEX and GLD holdings. In silver, the total reduction of 400 million oz since 2021 is completely attributable to the exact same reduction in COMEX and SLV holdings.

The first big difference between recorded gold and silver inventories is the relationship of recorded inventories to the total world inventories of each metal in bullion terms (excluding jewelry and other forms of metal). In gold, there are believed to be 3 billion oz in bullion form in the world, worth some $6.5 trillion. The portion in recorded gold inventories, at roughly 110 million oz is less than 4% of the total world inventories, or $250 billion. In silver, of the 2 billion oz in total world inventories (1000 oz bars), some 1.3 billion oz is in recorded form or 65% of total world inventories. There is a big difference between the 4% share in gold represented by recorded inventories and the 65% share in silver. Further, of the 1.3 billion oz in recorded silver inventories, more than half are in the COMEX and in SLV. One meaning of this is that the recorded inventories of silver, since they represent a much larger share of total bullion inventories than in gold, offer a more comprehensive take on true inventory developments.

The second big difference between gold and silver inventories is that we know that when gold inventories decline, itâ??s not a matter of the metal no longer existing, but more a case of the gold being transformed to a different location. We know this to be true because gold is not widely consumed, given its basic nature. In silver, while much of the decline in recorded inventories appear to have been shipped elsewhere (India and other points East), we also know that silver is consumed industrially and reports from all quarters indicate a structural consumption deficit (shortage) â?? so, the question of whether less metal exists in the world is compelling.

I suppose the most interesting question is that with the recent surge to all-time price highs in gold, why there hasnâ??t been a surge in ETF buying and with that buying, big deposits into GLD and other gold ETFs. While I donâ??t have a definitive answer, most investor interest seems to be on the stock market and in cryptocurrencies and not gold and silver, suggesting to me that much of the recent ETF buying has also been of an Eastern origin and the metal bought recently in ETF form is being removed by those buyers. As I mentioned recently, any buying of the ETFs may be an indication that is where the available metal is located (the same reason why Willie Sutton robbed banks).

Naturally, being more interested in silver, the matter of recorded silver inventories has been on my radar all along, so I have somewhat of a different take when it comes to silver. Iâ??ve been closely focused on the issue of recorded silver inventories, particularly over the past year or so and note that from the highpoint of total recorded inventories of 1.7 billion oz in early 2021, those inventories fell to 1.35 billion oz in early 2023 â?? a decline of 350 million oz or 175 million oz annually. By the way, combined COMEX warehouse and SLV holdings fell by that same amount, 350 million oz over that time, from 1.1 billion oz to 750 million oz. (For the sake of clarity and simplicity, Iâ??m leaving out the recent â??confirmationâ?• by the CFTC that these inventories are double-counted by 103 million oz, for the simple reason they were double-counted in 2021 as well).

At the beginning of 2023, at the point that recorded silver inventories had fallen by 350 million oz over the past two years, to 750 million oz in the combined COMEX and SLV inventories, I speculated that such inventories couldnâ??t keep falling at the rate they had been for the simple reason the remaining inventories were owned by investors and others. As it turned out, while I was slightly premature in my speculation, after falling to 700 million oz some six months ago, the combined inventories in COMEX and SLV have ranged between 700 and around 730 million oz since then (again no consideration of the double-counting).

While I never declared (and am not now) that the combined inventories in the COMEX warehouses and in SLV couldnâ??t decline below 700 million oz (600 million oz when adjusted for the double-counting), at this point my speculation does not look bad in hindsight. You may recall that at the beginning of 2023 there was a near frenzy in many circles about silver inventories continuing to plunge sharply, particularly on the COMEX (Drain the COMEX). Certainly, the shocking annual declines at the rate of 175 million oz from 2021 to 2023 have stopped on a dime. Now, whether that is due to my reasoning, namely, there is a limit as to how low these inventories can decline due to investor and other ownership, remains to be seen, but so far, that appears to be the case (he said, with fingers crossed).

And please know that should we see additional inventory declines ahead, that is not something I fear or dread, as it will just indicate that the deepening physical shortage is growing more intense. Most importantly and the reason to pay close attention to recorded silver inventories is that at the core of my speculation about the cessation of the sharp rate of decline in recorded silver inventories was that when the actual bottom in inventories was seen, it should have an explosive impact on prices. When no additional silver inventories can be drawn upon to satisfy the growing gap between current supply and current demand, then prices must be bid sharply higher. I would have thought we would already be there by now, but obviously, the collusive COMEX commercial crooks have other ideas.

In closing, any discussion of recorded silver inventories would not be complete without including another important element, that for some strange reason, hardly appears anywhere but on these pages. Of course, Iâ??m referring to the extraordinary and unprecedented physical turnover in the recorded silver inventories, particularly in the COMEX warehouses and in SLV. Over the past 13 years, some 250 million oz (or more) have been physically transferred annually into and out from the COMEX warehouses â?? some 3.3 billion oz â?? with billions of ounces more physically turned over in SLV and other silver ETFs. So, not only has there been a massive reduction (by 400 million oz in the COMEX and SLV holdings since 2021), there has been a documented physical turnover of unprecedented proportions not at all witnessed in any other commodity, including gold. Please take a moment to contemplate this.

Why this physical turnover is, essentially, ignored in almost all quarters, continues to baffle me, but regardless is still monumental in significance. For one thing, the sharply reduced total level of recorded inventories, in the face of no let-up in physical turnover increases sharply the rate of turnover. For example, given the double-counting in COMEX and SLV inventories, which, effectively, reduces total COMEX silver warehouse holdings to close to 182 million oz (from 285 million oz), the annual turnover of 250 million oz increases the rate of turnover to be much higher level than the already high-100% annual turnover rate. Â Why is this highly-unique and unprecedented turnover in recorded silver inventories so important?

Picture any business dealing in a wide variety of different products (commodities), say, an automobile parts distributor. Over the course of more than a decade, if one single product had featured such strong and unprecedented demand so as to require the ordering of fresh product supply so as to try and keep up with the amount of product being shipped out –Â no one would question that the product was in great demand and that all efforts should be taken to insure adequate new supplies in the future â?? particularly if there was no big overall increase in price over the decade. Experiencing such profound demand for this one product of all the products available should set off bells and whistles for the business owner to secure as much of this product as possible before price caught up with demand, particularly if verified outside reports and data pointed to a developing shortage. Now, just substitute silver for the auto part in such great demand.

Turning to other developments, the new short report on securities was published Monday night and indicated a further reduction in the short position on SLV, the big silver ETF, of around a million shares to just over 14.1 million shares (under 13 million oz), as of Feb 29. This is the second lowest short position on SLV in nine months and must be considered â??good newsâ?•, being so far below the 60 million shares record of Aug 2022. While I have gotten out of the prediction business for upcoming short reports on SLV (mainly because I wasnâ??t very good at it), I didnâ??t have many concerns about the report issued Monday, given the price action in the two-week reporting period ended Feb. 29. That said, I do have some bad vibes about an increase in the short position on SLV in the next short report, due March 26.

After reporting in the weekly review about the extreme deterioration in the market structures in both COMEX gold and silver creating the first real possibility of a price set back, we did see the first selloff in 8 trading days on Tuesday, which I donâ??t consider coincidental. Of course, itâ??s impossible to know if gold and silver prices will set back further, but if they do, then there should be little question about what will drive the selloff, namely, the same reason â?? in reverse â?? that drove the greater thanÂ $150 rally in gold and $2 in silver over little more than 8 trading days. I tried to be very clear in the weekly review in talking about whether we get a selloff or not (I donâ??t know), but if we do get a selloff, what such a selloff would consist of and be driven by.

To repeat and consolidate where we stand in the market structures in COMEX gold and silver, while there has been substantial deterioration (managed money buying and commercial selling) in both markets (and undoubtedly more, particularly in gold as of yesterdayâ??s cutoff for the reporting week) â?? as of last weekâ??s COT report, we were more neutral than anything else. I was encouraged that there wasnâ??t greater big 4 and 8 shorting in gold than was reported and more than encouraged by the lack of big 4 and 8 shorting in silver. Now, whether this is a brief bullish flash in the pan, remains to be seen.

As far as what to expect in Fridayâ??s new COT report, based upon a rally in gold prices of more than $60 at its peak and a surge in total open interest of 55,000 contracts, another sharp increase in managed money buying and commercial selling must be expected, somewhat mitigated by an increase in â??phonyâ?• spreads. The key feature for me will be how much of the commercial selling will be by the big 4 and 8 and the raptors.

While silver prices rose as much as 90 cents over the reporting week, silver still appeared to struggle relative to gold and total open interest rose by only 3500 contracts over the reporting week, leaving me with the sense that the managed money traders had yet to bust through the saloon doors, shooting up the joint and buying with a reckless abandon. As much as what the big 4 and 8 might have done in gold being important, it is that much more important in silver.

Iâ??m still sticking with my two outcome scenarios in silver â?? worst case being a $2 or so sharp selloff, quickly followed by the big move higher or the best case which simply eliminates the quick selloff first. Yesterday looked like the quick sharp selloff was likely, today, not so much. In any event, today looks like the first day in quite some time that silver has asserted itself on the upside relative to gold. Oh, and yes, in the 9 trading days since the CFTC responded to my congressmanâ??s office about the double-counting in SLV and in the COMEX warehouses (effectively confirming the double-counting), silver has rallied by as much as $2.60 and gold by $160 â?? but whoâ??s counting?

Ted Butler

March 13, 2024

Silver – $25.20Â Â Â Â (200-day ma – $23.45, 50-day ma – $23.13, 100-day ma – $23.37)

Gold – $2182Â Â Â Â Â Â Â (200-day ma – $1988, 50-day ma – $2056. 100-day ma – $2036)

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