

## March 18, 2020 – Turn, Turn, Turn

A subscriber asked me if I was surprised by the steep drop in silver. Even shell shocked would be too mild of a term. For better or worse, we are down to crunch time. But to everything under the sun (courtesy of Pete Seeger and as performed by the Byrds), there is a season and, I would add, a reason. So as brutal as the selloff in silver has been, particularly as compared to gold, it's more important than ever to consider the reasons for the absolutely brutal price smash and what's likely to come next.

Of course, I'll be talking about silver against a backdrop of the most challenging health and economic crisis of our collective lifetimes, one that threatens our way of life. The problem is that what must be done for health concerns is devastating in economic terms, almost regardless of what monetary and fiscal stimuli the authorities introduce to alleviate an economic slowdown, the likes of which was incomprehensible a few short months or even weeks ago.

Most ironically, as I have indicated previously, the current crisis is precisely the type that would normally be associated with soaring gold and silver prices as people react with fear and panic to a sudden financial and economic upheaval of unprecedented proportions. As a commodity guy, interested in market mechanics and matters of supply and demand, I know most holding gold and silver do so for financial insurance purposes. Suddenly, that insurance premise seems sound. Therefore, if you had told me just the shortest time ago that events would be unfolding as they are, I would have guessed gold and silver prices would surge higher. I am less surprised by the recent relative strength in gold than I am shocked by the collapse in silver prices.

Certainly, there is no shortage of "explanations" offered to answer why silver is so much weaker than gold or why both are down at a time when most would have assumed both would be soaring. But this is strictly a function of supply and demand of a different kind – when the price of anything moves sharply higher or lower, an insatiable demand develops for explanations why and that demand is invariably supplied by answers that sound plausible. In other words, we collectively demand answers for things that occur that weren't expected and any and all plausible-sounding answers are supplied. The emphasis is on plausibly sounding explanations, not necessarily strictly sound answers.

For example, a recent popular explanation for silver's pronounced absolute and relative price weakness to gold has been silver's role as an industrial commodity and an anticipated falloff in industrial demand. Sounds plausible except the amount of silver not being consumed industrially over the past two weeks (when the silver/gold price ratio truly exploded) is much less percentage-wise than the amount of gold lost in its principal usage, jewelry (there are even reports of gold jewelry selling in Hong Kong and elsewhere to raise cash). In no way am I knocking or complaining about gold's relative strength and I do expect gold to move higher for a variety of reasons, but focusing on the potential loss of a big segment of silver's demand while ignoring the potential bigger loss of gold demand is simply not legitimate and balanced.

Perhaps the most plausible sounding reason given for silver being so weak against gold or anything else is that 70 percent or so of silver's total mine production comes as a by-product of other metals. This reason is thrown out almost as if it's something new or previously overlooked, even though the vast majority of silver mine production has been as a by-product of other metal production for a half

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century or longer. Certainly in the 35 years I have studied silver, a time that has seen a price range of \$3 on the low side and \$50 on the top side (twice), silver always got 70% of its total mine production as a by-product of other metals mining. Why would that account for the sudden blast to the downside?

While it's true that there is an inelasticity to silver supply from by-product production on a short term basis, as and when base metal production falls off, as recent developments suggest, things could turn dramatically and even sharply higher silver prices would not prompt base metals producers to maintain total production on the basis of higher silver prices alone. Plus, many base metals miners have pre-sold their silver production to streamers (like Wheaton) and would have even less incentive to maintain total mine production since the returns from silver are capped.

But of more immediate concern is the condition of the primary silver miners which account for 30% of total world silver mine production. "Primary" is somewhat of a misleading term, because there are no pure silver miners and even the miners considered primary silver miners in many cases derive less than 50% of their total revenue from silver. Regardless, the recent stunning fall in the price puts the cost of production well-below the breakeven point for virtually all primary silver miners. Let me be blunt - either the price of silver has to rise sharply or many or all of the primary silver miners will be forced to cut or eliminate production.

That's one big difference between silver and gold mining companies. I can't think of a gold mining operating at a loss at current gold prices and can't think of a silver mining company not currently operating at a loss. How long can that last without a radical readjustment in current gold and silver prices?

Finally, the plausible-sounding explanation is advanced that gold investment demand has surged while silver investment demand has collapsed. Yet an examination of the facts available suggest this is nonsense. On the retail level there is a pronounced shortage of silver compared to gold with exploding silver premiums now common. On the wholesale level, there is zero evidence supporting the notion that large investors are dumping silver and this was punctuated by yesterday's mind-boggling deposit of 12 million oz into the big silver ETF, SLV. Who in their right mind would sell or sell short silver at current levels?

And when you look at what could be sold in terms of dollars in either gold or silver, the comparisons are stunning. At current prices (\$1500 in gold and \$12 in silver, as I write this), the value of all the gold in the world, nearly 6 billion oz, is worth around \$9 trillion dollars (with a capital T). The 2 billion oz of silver (in 1000 oz bar form) is worth about \$24 billion (not trillion) and the swells at JPMorgan own half of that. Even the \$9 trillion of gold (if it could somehow be sold) wouldn't come close to bailing out the \$20+ trillion incinerated in world stock markets and developing incalculable losses from rapidly deteriorating business conditions. All the money in silver would last a few seconds at most. Besides, there is absolutely no net selling of physical silver - the proof of that is in exploding retail and wholesale investment demand.

Up to this point, I have tried to explain why the popular explanations being given for silver's pronounced price weakness are all, essentially, bogus. But that doesn't change the fact that silver has truly collapsed in price. So what's my reason? You know what I'm about to say - the manipulative price setting process on the COMEX. If there isn't obvious physical silver selling driving prices lower, then it has to be something else, namely, obvious paper derivatives selling. In fact, this recent devastating price plunge is the ultimate proof that paper contract positioning has set and

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manipulated the price.

Wait a minute, I can hear you say "doesn't there have to be a buyer for every seller in all derivatives, including COMEX silver futures contracts? So shouldn't that buying and selling even itself out and balance prices? Yes, that sounds correct in general terms, but not as far as what happens in the real world. In the real world of COMEX silver futures trading, there is a balance between buyers and sellers in terms of contracts bought and sold, but not between who is doing the buying and selling. This is where the weekly Commitments of Traders (COT) report comes in.

What the COT report has indicated for as long as I've studied it (30+ years) is that in COMEX gold and silver (and other markets), the traders classified as commercials have always sold and sold short as prices have risen and have bought back short positions and added longs as prices have fallen. Always. In this process, the commercials have never collectively taken losses in COMEX gold and silver. Never. That should trouble any objective observer, to say nothing of a regulator, since it's hard to envision in a true free market how one group of traders could always managed to win and never lose.

The explanation for how the commercials (they are not really commercials, but rather speculators, called commercials) could manage to always win and never lose is that there had to have been another group of traders who always lost and never won, since futures trading is a zero sum game. That means what one group of traders gain, another group of opposing traders must lose. In COMEX gold and silver futures, the losing group has always been the group of traders classified as the managed money traders. I can hear you asking "how can this be, how can one group of traders constantly lose and keep doing it?"

I've offered a variety of answers over the years (having had first-hand experience with the managed money traders early in my futures career). Those explanations included that these are highly disciplined technical-type traders which rigidly follow price signals, effectively buying as prices rise and selling as prices fall. The commercials, therefore, just took the other side. The managed money traders handle hundreds of billions of dollars for outside investors (the public) and the losses taken on trading gold and silver weren't so significant when balanced out with other markets.

Regardless of whether my explanations were acceptable or not, the COT reports have indicated that the commercials always won and the managed money traders always lost (or broke even). Things looked different starting last summer when gold, in particular, embarked a fairly consistent price advance in which the managed money traders amassed large open and unrealized profits and the commercials equally large open and unrealized losses. The traders I identified as the 7 big commercial shorts had amassed a record open and unrealized loss of \$7.2 billion in gold and silver as recently as two Friday's ago (March 6).

Since then, the price plunge over the last 7 or 8 trading days, which has amounted to around \$200 in gold and \$5 in silver, has completely erased the \$7.2 billion in open and unrealized losses of the 7 big shorts. Now the only question is how many short contracts the big 7 were able to buyback and close out. It's not possible to predict the number of contracts but the good news is we'll have the answer late Friday when the COT report is published.

What we do know is that there was substantial commercial buying in the reporting week that ended yesterday, along with equally substantial managed money and other speculative selling. Certainly,

I'll be keenly interested in the breakdowns in commercial buying, as concerns the big 7 and JPMorgan and also of the raptors, the smaller commercials. There are lots of variables, including the possibility that some of the raptors which entered silver on the long side early, may have been blown out on the continued sharp decline. Rather than speculate on what the report will indicate, I'd prefer to review the actual data.

In a very real sense, it may not matter what the actual numbers may be considering the dramatic price plunge over the reporting week and the absolutely shockingly depressed price level of silver. For example, I wouldn't expect the managed money traders to have increased their gross short position to the levels that prevailed this past May, when they held nearly 90,000 silver contracts gross short. In the most recent COT report, these traders held around 26,000 contracts gross short and it's seems hard to imagine them adding that many new short contracts in one week, even such a week as we've just witnessed. Generally, these traders accumulate large short positions on orderly salami-slicing to the downside, as occurred into the peak in short positions last May.

What I'm saying is that I sense the commercials rigged the massive selloff in gold and, particularly silver, in the shortest possible time because they sensed there was only a limited time in which to do so, given the extraordinarily deteriorating financial and economic conditions brought about by the coronavirus. The fear and panic reverberating currently would be expected to touch off panic buying of gold and silver, not selling. The commercials appeared determined to buy as much gold and silver as possible in the quickest period of time because they knew the price decline couldn't last indefinitely.

The commercials threw caution to the wind and rigged prices lower so as to induce the maximum amount of managed money and other speculative selling in the shortest possible time that the commercials could then buy. Judging from the results - gold and especially silver prices plunging when they should have been rising, the commercials pulled off a real coup. In a very real sense, the COMEX commercials used the ultimate cover story of our time, the coronavirus pandemic, to cover up the ultimate price smash of our time.

So while I am, admittedly, shell shocked at the extent of the price decline in silver, I also know some immutable things. One is that physical silver is an inert material and as such can't possibly go bankrupt or worthless. That cannot be said about any common stock or many other assets. Silver is still every bit, like gold, an asset with no counterparty risk. Even held in bona fide professional storage, where you hold a record of the serial numbers, weights and hallmarks (including ETFs, like SLV), any perceived counterparty risk is minimal compared to virtually any other asset, including deposits carrying government guarantees, in my opinion.

Again, the chance of a brush with the end of the world never figured prominently in my reasons for favoring silver, but considering current circumstances and the current price, I find silver ownership a comfort and far from a cause for worry. The price on a short term basis may be up for grabs, but the price of every asset is up for grabs. The difference between silver and all other assets, aside from silver being immune from bankruptcy and now below any reasonable cost of production is that most of the risk has been, effectively, eliminated. Yes, I keep thinking each day recently that we must have hit bottom and yet we go lower the next. I'll keep thinking that way, at least until the facts change.

More than even all that is the fact that the kingpins of the market, led by the supreme crooks at JPMorgan, have done nothing but buy as much silver (and gold) as they could over the past few weeks, in both futures and physicals into the deepest part of the decline. These are the same crooks

that have suppressed the price for years and they have now bought with a reckless abandon never seen. These are the most uncertain times in our collective lives and that requires gravitating to that which we know to be certain. There is more to be certain about with silver than with just about any other asset. And I haven't even mentioned the chance for a price explosion, which is also greater in silver than any other asset. That's a combination hard to beat today.

As far as the open and unrealized losses of the 7 largest shorts, there are no longer any open losses and these traders may now be ahead by close to a billion dollars. So, yes, these crooks may have pulled it off again. I'll know more, of course, when the new COT report comes out. Special thanks to the CFTC, the Justice Department and the CME Group for another outstanding regulatory effort - maybe we should put you in charge of the fight against the coronavirus (yes, I'm being sarcastic). I still believe this has all the makings of the mother of all selloffs in which the big shorts refrain from adding new shorts on the next rally.

Ted Butler

March 18, 2020

Silver – \$12.00 (200 day ma – \$17.05, 50 day ma – \$17.45)

Gold – \$1500 (200 day ma – \$1499, 50 day ma – \$1589)

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