November 14, 2020 – Weekly Review/Most Remarkable Statistic

Gold and silver prices stabilized and recovered somewhat from Mondayâ??s deliberate jam job lower, but only by about half way in silver and less than that in gold. For the week, gold ended a sharp $65 (3.3%) lower, while silver ended one dollar (3.9%) lower. As a result of silverâ??s slight relative underperformance, the silver/gold price ratio widened out by less than half a point to 76.4 to 1. Not to put a jinx on it, but itâ??s rare that when silver drops a full dollar that the ratio doesnâ??t widen out more. That implies that on any decent rally that silver is likely to outperform.

As I explained on Wednesday, it looked to me that Mondayâ??s price smash was solely intended to undo any deterioration (managed money buying/commercial selling) that occurred on the sharp two day rally preceding Mondayâ??s crushing of price. That two day rally took gold and silver above both of their respective 50 day moving averages and Mondayâ??s smash took prices decisively back below those same averages. Because all the resultant positioning was contained within the reporting week to be released on Monday, I wouldnâ??t anticipate great changes in that report, but hey – you never know. (I will have brief comments on the COT report late Monday).

The important point at this juncture, with the decisive downside penetration of the 50 day (as well as the 100 day) moving averages now in the rear view mirror, is that an upward penetration now looms large. In fact, the price of silver has already bounced above its 100 day moving average and is only 10 to 15 cents away from upwardly penetrating its 50 day moving average. Gold is still below both its 50 and 100 day moving averages, but a $25 rally will change that.

The only reason Iâ??m making a big deal about these moving averages is that Iâ??m on record as believing the COMEX futures market structures in both gold and silver are washed out, meaning that the path of least price resistance is higher, not lower. While itâ??s certainly possible that the 8 big commercial shorts (aided and abetted by JPMorgan) will once again aggressively sell short to cap and reverse any decisive upward penetration of the 50 day moving averages, one day they wonâ??t or even if they do, they will fail to contain prices. You know I canâ??t tell you which day, but sure as shooting, that day is a cominâ??. As I hope to explain later, pressures in the physical market, particularly in silver, suggest something is up.

The turnover or physical movement of metal either brought into or removed from the COMEX-approved silver warehouses picked up from last weekâ??s low 2 million oz turnover, but at 4.1 million oz, was still a bit below the weekly average movement of the past 9.5 years and well below the rate of the last several months. Itâ??s possible the Veteranâ??s Day bank holiday had something to do with the still-subdued movement, as most COMEX warehouses are run by banks. Total COMEX silver inventories did nudge up by 0.8 million oz to 384.5 million oz, another new all-time high. No change in the JPM organ COMEX silver warehouse â?? still at a record 190.8 million oz.

There was a reduction of 250,000 oz in the total number of gold ounces in the COMEX gold warehouses, to 37.25 million oz and a 100,000 oz reduction in the JPMorgan COMEX warehouses to 13.31 million oz. Still, I see no reason this alters my take that after surging by close to 30 million oz from the end of March to July, COMEX gold warehouse inventories have flat lined in the months since. The wonder is that while the commentary ran fast and furious while the buildup was occurring, the more recent flat lining has garnered virtually no commentary. I still believe the unprecedented inflow was related to the 8 big shorts being ordered to show they had the goods to back their concentrated short position.

I received an interesting email from a subscriber this week, asking why I donâ??t comment more on the unusually large number of gold deliveries on the COMEX. I answered Stephen, in essence, that the main reason was that I was unsure what it meant. I do know, of course, that 200,000 COMEX gold contracts (20 million oz) have been issued and stopped starting with the April contract and continuing through the current November contract, much more than any previous time by far. I also know that JPMorgan, both for itself and its customers, has been a leading delivery participant. But thatâ??s not enough to form firm conclusions.

https://www.cmegroup.com/delivery_reports/MetalsIssuesAndStopsYTDReport.pdf

It would be easy to conclude, as many want to do, that this is unquestionably bullish because it demonstrates great demand for physical gold, but itâ??s not that simple. For one thing, if the unusually large gold deliveries were simply a matter of straight and overwhelming demand for gold, then the price would be soaring, which is not the case. Further, if it were straight demand, the spread differentials between the various futures months would reflect that in the form of dramatically tightening differentials and even the talked-about-forever backwardation or spot trading at a premium to more distant months.

While all this may occur in the future, it is not the case now and thatâ??s why I donâ??t know what exactly to make of the massive amount of gold deliveries. Simply put, I donâ??t know everything there is to know and welcome any input. I do think it has to do with the concentrated short position and if, as and when I know more, Iâ??ll speak out. In the interim, updating the unusual number of deliveries doesnâ??t seem very constructive in the absence of a clear explanation why.

On Wednesday, I discussed the recent disparity between the flows of metal either coming into or departing the big gold and silver ETFs, GLD and SLV. As it turned out, there was one more withdrawal from the SLV the next day, but it didnâ??t change the thrust of what I was discussing, namely, that the high volume rally a week ago and the high volume price smash on Monday resulted in a marked contrast in the flows of physical metal in GLD and SLV. So I went back to the start of rally on Thursday (Nov 5) and ending with the most current numbers thru yesterday and compared the two ETFs.

In GLD, over the last 7 trading days there was a net reduction or withdrawal of 694,000 gold oz and in SLV there was a net deposit or inflow of 9.7 million oz. I would agree that this might not be a long enough period of time to form any firm conclusions, but it is the most recent time and data available and covers a pretty big up and down move and does suggest stronger relative demand for physical silver at this time.

Since there is no Commitments of Traders (COT) report to discuss today, I thought I would use this time to discuss something that Iâ??ve been thinking about a lot lately.

The Most Remarkable Statistics in a Most Remarkable Year

Iâ??m already on record as declaring 2020 as the most significant year ever for silver. Considering all that has transpired this year throughout the country and the world that may not be saying much. After all, you would have to have lived on a different planet to argue otherwise. So let me get a lot more specific and lay out the most important statistics that make this year so significant for silver. As always, Iâ??ll rely on both hard and widely-accepted data, and will round off the numbers to make it easier to follow. I will not attempt to introduce any insider information (mainly because Iâ??m not privy to any such information).

By far, the most important silver statistics concern the inflow of some 400 million oz of physical metal into the worldâ??s silver ETFs and into the COMEX silver warehouses, from roughly March 16 thru the end of July. Over little more than three and a half months, 330 million oz came into the worldâ??s silver ETFs (220 million oz into the largest silver ETF, SLV), with 70 million oz coming into the COMEX warehouses (of which 30 million oz came into the JPMorgan COMEX warehouse).

Before explaining why I believe this 400 million oz inflow of physical silver was the most remarkable development of the year, let me acknowledge that there was also a very large physical inflow of gold into the worldâ??s gold ETFs and the COMEX gold warehouses as well. Not only was the mix different than in silver, in that the roughly 60 million oz of physical gold inflow was evenly divided between the gold ETFs and the COMEX warehouses (30 million oz each), but the total gold inflow increased the total number of ounces in the gold ETFs and COMEX warehouses by 60% to 160 million oz, whereas the 400 million oz total physical silver inflow increased total ETF and COMEX warehouse totals by 36%, from 1.1 billion oz to 1.5 billion oz.

Moreover, the 60 million gold ounces were worth well over $100 billion, whereas the 400 million ounces of physical silver were worth â??onlyâ?• $7 billion (at the prevailing prices at the time of the inflows). So where do I get off claiming that the inflow of 400 million oz of physical silver is the most remarkable statistic of this most remarkable year? It has to do with how much gold and silver exist in the world in bullion form.

In gold, there are 3 billion ounces of bullion in the world (out of a total of 6 billion oz in all forms). The 60 million oz of gold bullion that flowed into the worldâ??s ETFs and COMEX warehouse inventories, therefore, represent 2% of the total amount of gold bullion in the world. In silver, the 400 million oz of physical metal that flowed into the worldâ??s ETFs and COMEX warehouse inventories represent 20% of the 2 billion oz of world silver in bullion form (all in 1000 oz bars). There is a very big difference between 2% and 20% – a difference of tenfold. Wait, Iâ??m not finished.

The 160 million total oz of documented gold in the worldâ??s gold ETFs and COMEX warehouses represents just over 5% of the 3 billion oz of gold bullion known to exist. In silver, the 1.5 billion ounces in the worldâ??s silver ETFs and in the COMEX warehouses represents 75% of the 2 billion total silver bullion oz said to exist. There is an even bigger difference between 5% and 75% – a 15-fold difference.

Iâ??m not saying that thereâ??s not more than 2 billion ounces of silver in the world in all forms – Iâ??m sure there is. Iâ??m saying that there are only 2 billion oz in industry standard good delivery 1000 oz bars and three-quarters of that silver is in the worldâ??s ETFs and in the COMEX warehouses. Converting whatever silver that exists outside the 2 billion oz in 1000 oz bar form will take time, great gathering and processing expense and the willingness of those holding other forms of metal to sell â?? not something currently occurring or likely to occur in the absence of sharply higher prices.

At this time and price, 75% of all the silver bullion thought to exist is locked up in the worlds publicly-traded ETFs and COMEX warehouses, leaving only 25% as conceivably available (if the owners are willing to sell). No knock on gold intended in any way, but roughly 5% of the gold bullion in the world is locked up in ETFs and COMEX inventories, leaving 95% of the remaining gold bullion technically available. Plus, on a realistic basis, much more gold held in non-bullion form is likely to come to market at current prices than equivalent amounts in silver.

It becomes even more remarkable when you think about 400 million oz of documented silver bullion suddenly coming into the worldâ??s silver ETFs and into the COMEX warehouse inventories, in less than 4 months. Thatâ??s the equivalent of 50% of annual world mine production (yes, the same could be said about gold mine production, but not existing gold inventories). Remember, silver is an industrial commodity and as such the vast majority of its annual production is used up in various industrial and other fabrication consumption, meaning no pricing model would ever allow for the equivalent of 50% of annual mine production to suddenly be taken away without a many-fold increase in price. Yet from mid - March to mid-July, the price averaged littler more than $17 an ounce (prices only rose above $20 in the latter half of July).

In fact, it is the still-subdued price reaction to the documented 400 million oz inflow that makes this statistic so remarkable. Even more remarkable is that few, if any, commentators even mention it. How the heck do you suddenly move the equivalent of 20% of total world inventories or 50% of the annual production of any industrial commodity in a matter of a few months without that commodity literally exploding many times in price? In normal and free market supply/demand terms, what I just described in silver would be impossible in any other industrial commodity. Therefore, something is very wrong â?? either all the data from the worldâ??s silver ETFs and from the COMEX are all wrong and are being deliberately misreported or something is wrong with the silver pricing mechanism.

I know many believe the former, namely, that all the data are being deliberately reported wrong. The problem with that is that it makes no sense for entities like BlackRock (sponsor of the SLV) and other ETFs (like SIVR, ZKB and Sprott) or the COMEX to intentionally misreport data because there is nothing for any of these organizations to gain and everything to lose. Yes, Iâ??m fully aware of the distrust of many towards the ETFs and, particularly, with the COMEX (much of which Iâ??m responsible for), but data reporting is another matter. I canâ??t personally guarantee the accuracy of data being publicly reported, but I will say those who insist the data are all wrong generally believe in a wide variety of wacky conspiracy theories and have their heads up their butts. No insult intended, this is just how I feel.

So, if the public data being reported concerning 400 million oz of physical silver is accurate, as I firmly believe to be the case, then the only possible explanation for why the price reaction was so subdued has to do with the pricing mechanism. In fact, there canâ??t be any other possible explanation other than that paper positioning on the COMEX sets the price no matter what is happening in the world of silver (and gold). And itâ??s not as if any of this should come as any surprise to anyone paying the least bit of attention to silver.

I would suppose I would feel somewhat embarrassed in having to restate the obvious yet again and bore everyone in the process, but the 400 million ounces of physical silver is such a massive amount to have flowed into the ETFs and the COMEX warehouses in such a short period of time that I would think it would be all everyone was talking about. It certainly should be what everyone is talking about. However, I see very little commentary about this most remarkable verifiable statistic and discussion instead about everything under the sun that doesnâ??t really matter. Therefore I have to conclude the data are being overlooked or misunderstood.

But what could be more important than the largest amount of physical silver ever flowing into the worldâ??s ETFs and COMEX warehouses in the relative blink of an eye? Having studied silver closely for more than 35 years, either I am missing something or a lot of other people are. I suppose if one adopts the position that all the public data are corrupt and intentionally misleading then the data should be ignored â?? but Iâ??m not in that camp at all. And those that do believe all the data is corrupt should not turn around and cite selected instances of the data when it suits them.

On Wednesday, I commented on the role of JPMorgan in everything silver (and gold) and that certainly includes the inflow of the 400 million oz of silver (as well as the 60 million oz of gold). Generally, everything Iâ??ve stated to this point is verifiable fact, but since no one can see behind closed doors or whatâ??s on othersâ?? minds and uncover information deliberately left unstated, some speculation is needed at some point to complete the picture. JPMorgan is hardly going to openly admit to its manipulative role in all this, so certain things must be deduced.

For one thing, having reported for the past seven years about JPMorganâ??s accumulation of physical silver and gold to the exclusion of any other large entity, only JPMorgan was capable of providing the 400 million oz that recently came into the worldâ??s silver ETFs and into the COMEX warehouses. The only real question was the manner by which JPM â??partedâ?• with the metal. Looking at it through the eyes of these criminals, one is forced to conclude the parting had a real catch that favored the bank â?? for the simple reason that every single thing this bank does it does for its own benefit. Thatâ??s why I switched back to my original speculation that JPM largely leased out much (300 million oz) of the silver that found its way into the EFTs and COMEX warehouses â?? thus benefitting JPM and its affiliates and causing great potential additional harm to the big shorts.

Of course, this is my speculation and anyone is free to come up with an alternative explanation for the remarkable inflow of 400 million oz. But as Iâ??ve said, any talk of the documented inflow is as rare as henâ??s teeth. Regardless, I find the whole set up to be bullish beyond belief. The minute that JPMorgan decides not to assist the 8 remaining big shorts is the same minute the price explodes. Again, no one can predict when that minute will occur in advance, but based upon the continuing flow of documented data, it is a minute that will ultimately arrive.

As of yesterdayâ??s close, the 8 big shorts still found relief on the week in terms of their total losses, just not as much relief as at the price lows this week. The 8 big shorts ended the week some $1.9 billion better off than last Friday, leaving them with total losses in COMEX gold and silver of $12.9 billion. If thatâ??s winning, what the heck is losing?

I do plan on publishing brief comments late Monday (hopefully before 6 PM EST) after the holiday-delayed COT report is released. Again, Iâ??m not sure what to predict for the report as I sense a complete positioning flip-flop during the reporting week. However, I do sense the market structures in gold and silver are back to washed-out and more set up for a larger rally than selloff â?? maybe even the big rally.

Ted Butler

November 14, 2020

Silver – $24.70Â Â Â Â Â Â (200 day ma – $20.34, 50 day ma – $24.83)

Gold – $1887Â Â Â Â Â Â Â Â (200 day ma – $1790, 50 day ma – $1911)

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