

November 22, 2023 – More Evidence of a Silver Shortage

Last week, the Silver Institute updated its annual review on silver that it originally published in April. The report (compiled by Metals Focus out of London) indicated a reduction in total supply (mine production plus recycling) and an increase in non-investment demand (industrial, photography, jewelry and silverware) from the numbers it published six months ago. I'll summarize the changes, but here's the original report from April, followed by the new data

<https://www.silverinstitute.org/wp-content/uploads/2023/04/World-Silver-Survey-2023.pdf>

<https://www.silverinstitute.org/global-silver-industrial-demand-forecast-to-achieve-new-high-in-2023/>

Summarizing the changes from April, the new report indicates total silver supply for 2023 as being 1,002 million oz, or 23 million oz less than originally reported, largely due to the loss of production at Penasquito, the big silver Mexican mine hobbled by a strike this year. Total non-investment demand was revised upward to 879 million oz, or 21 million oz more than estimated back in April. Interestingly, total non-investment silver demand grew on the back of pure industrial silver demand (think photovoltaic solar cells), which hit the highest level in history, as the revised report indicated slight reductions in jewelry and silverware.

The new report indicated that total silver mine production fell to its second lowest year over the past ten years, while silver industrial demand grew to highest level ever – clear evidence that the price of silver is too low otherwise such developments would not occur. Of course, it goes without saying that any suggestion that something may be messing with the price discovery process in silver (such as the increasingly obvious COMEX manipulation) is missing from this and every publication from the Silver Institute over the decades.

The combination of less total silver supply and more non-investment demand came to 43 million oz, meaning once non-investment demand was subtracted from total supply – which I believe is the key to understanding silver supply and demand data – there was only 123 million oz left-over for purchase by silver investors, from the total 1,002 million oz supplied by all the world's mines and recycling facilities. At current prices (\$24), that means that only \$3 billion of the total \$24 billion of silver produced this year is available to the world's silver investors.

A separate study from the Silver Institute, published on Nov 8 by Oxford Economics, also from London, indicated that it expected total non-investment demand for silver (industrial, jewelry and silverware) to increase sharply over the next ten years at a rate approximately double the rate of growth over the past decade. This report does not project or address what future mine supply might be over the next decade, but it's difficult to imagine mine supply increasing enough to meet the projected increase in demand unless prices rise sharply.

<https://www.silverinstitute.org/wp-content/uploads/2023/11/OxfordLongRunSilverDemand.pdf>

As I have previously written, because silver is a highly-unique commodity in that it has a dual demand profile, both as a vital industrial commodity (mainly because it is the best conductor of electricity) and for photography and decorative uses (jewelry and silverware), but also as a primary investment asset, it's important to keep these dual demands in proper perspective. We also know that the primary

driver or wild card – of the price of silver is investment demand.

Therefore, I'm convinced that the best way of judging the true supply/demand facts in silver is to first subtract the current non-investment demand (industrial, photography, jewelry and silverware) from total current supply (mine plus recycling) and the resultant amount left-over for investment demand is what will determine price. The key here is that non-investment demand is much less sensitive to price than investment demand and is unlikely to fall dramatically except under the most extreme price rise.

Of course, in addition to current (2023) supply and demand, there is also the matter of existing stockpiles of silver, which conceivably are available for sale to augment the amount of silver potentially available to new investors. However, as the record shows (and as the Silver Institute confirms) that over the past 2 to 3 years, there has been a dramatic reduction in total recorded world silver inventories of close to 400 million oz, to 1.3 billion oz, a total reduction of 30%. Here's where it gets a bit tricky.

Some, like the Silver Institute, would claim that this sharp reduction in recorded world silver inventories was the result of plain vanilla investor selling, but I would vigorously dispute that. It seems clear to me that the sharp reduction in world recorded silver inventories, the largest in history, are not due to net investment selling, but rather due to selling by the large insiders which control the wholesale physical silver trade mainly JPMorgan. I have come to be increasingly convinced that over the past 3 or so years that JPMorgan has disposed of perhaps as much as 50% or 500 million oz of its billion oz hoard of physical silver.

I have been writing about this in commentaries related to the dramatic positioning changes in OTC derivatives dealings surrounding Bank of America over the past few years. The bottom line is that while JPMorgan may have disposed of perhaps as much as half of the one billion ounces of physical silver it accumulated over the ten years or so from 2011 and this physical silver is what has satisfied the deepening physical shortage over the past few years, this wasn't a pure disposal by JPMorgan. Instead, while JPM was selling physical silver, it was accumulating a massive long paper derivatives position in the OTC market, mostly with Bank of America on the short side. As a result, over the past 3 years or so, JPMorgan has disposed of as many as 500 million oz of physical silver, but has acquired a billion oz of long OTC silver derivatives in essence, transforming a billion oz physical silver position to a 1.5 billion oz net long position 500 million oz in physical and one billion oz in OTC derivatives.

Earlier on, I had concluded that JPMorgan kept its full one billion oz physical silver position, while adding a billion oz in derivatives, but the pronounced reductions in world recorded silver inventories has persuaded me to revise my numbers. With the benefit of hindsight and the flow of recorded inventory data, it looks to me that JPM has increased its total silver holdings and mix to 1.5 billion oz, in the process of buying valuable time while its historic deferred criminal prosecution agreement with the Department of Justice for precious metals manipulation ran out two months ago. Any suggestion that JPMorgan is not the master precious metals market criminal of all-time is laughable these guys are light years ahead of everyone else.

The good news is that it's hard to see why JPMorgan would want to wait much longer in allowing the price of silver to explode. Let's face it, with the Silver Institute publishing data more bullish than ever – in its history of never speaking of anything overtly bullish for all the decades I've followed it the actual situation in silver must be bullish indeed. Since the absolute kingpin of

all things silver, JPMorgan, would seem to be ideally positioned for an upside rocket ride, it's hard for me to understand why such a move would be delayed for much longer.

I know it gets repetitive, but just about everything indicates that when we do "go" in silver, we go big and fast, with no hesitation or backing and filling. It's just that it's impossible to predict in advance the exact moment of liftoff because there exists a great force trying to prevent or at least delay the inevitable liftoff. That great force is the COMEX commercial manipulation of the past 40 years. I believe the motivation behind continuation of the manipulation has changed from pure profit-seeking to concerns that a silver price explosion might expose the decades-long COMEX silver price suppression, but the motivations for continuing the scam are now up against the physical realities of the law of supply and demand.

Ironically, at this point the continued COMEX price suppression only sharpens the line at which the physical shortage overcomes the paper pricing fraud - just about guaranteeing that when we do liftoff in silver prices, the force behind the surge higher will necessarily be greater due to the continued delay. Look at the data just published by the Silver Institute - no friend to higher silver prices - and try to explain to yourself for how much longer can industrial demand grow and mine supply stagnate before higher prices are required. And remember that increased industrial silver demand reduces the amount of silver available to investors.

Try to look at it this way - after industrial demand is subtracted, the amount of new silver remaining that is available for investment is nowhere near the billion oz from mine and recycling supply annually, but much closer to a tenth of that, say close to 120 million oz, currently worth less than \$3 billion. Now, look at the many tens of trillions of dollars sloshing around in the world's investment markets and compare it to the piddling \$3 billion worth of silver available to all the world's investors - to gauge how tiny is the amount available to investors. Heck, the citizens from India just bought the equivalent of more than half of the 120 million oz of silver available from net new annual supply in one month.

This is what the COMEX commercial crooks are up against - the realities of the physical market. Yes, it has taken an incredibly long time to get to this point, but that's water under the bridge. No one can turn the clock back, but everyone is capable of anticipating - and acting - on the future. Yes, it's absolutely terrible what the COMEX crooks have done to silver all these decades, but it's even more glorious what that portends for the future. Now is not the time to lament the past, but to celebrate what is to come - regardless of precisely how much longer it may take.

Turning to other developments, yesterday marked the end to the reporting week for the COT report to be published late-Monday, given tomorrow's holiday. Based upon price action and yesterday's sharp jump in total open interest in gold, there should be notable deterioration (managed money buying and commercial selling) in gold, perhaps on the order of 30,000 contracts or so. Should the new COT report indicate such a positioning change, the market structure in gold would slip from neutral to being on the bearish side - all from the super bullish readings of early October. Yes, we have climbed close to \$200 from the gold price lows, driven by what looks to be more than 100,000 net contracts of managed money buying and that will put us close to what have been the peaks of managed money buying over the past year.

In silver, it's less clear to me what the new COT report on Monday will indicate. Arguing for a significant deterioration, say managed money buying/commercial selling on the order of 5000 to 10,000 net contracts is the price push through the 200-day moving average on every day of the reporting week

and for the first time in months. However, some questions arise due to relatively low trading volumes and no change in total open interest (although significant net positioning changes can and do occur with relatively unchanged total open interests).

Of primary concern will be the details under the hood in silver, which are virtually impossible to predict. Of special concern will be the changes in the commercial categories in every regard, concerning big 4, big 5 thru 8 and raptor positioning. As a result, I do plan on publishing comments on the new COT report late Monday.

While it is more than possible for managed money technical fund buying on the moving average upside penetrations to create the opportunity for the collusive COMEX commercials to rig silver prices lower to shake out the late buyers, it still strikes me that the deterioration in silver is relatively much less than has occurred in gold. While that doesn't preclude a sharp selloff in silver to achieve the potential intended flush, it suggests should we get such a flush, it shouldn't last terribly long.

Crooked COMEX commercial positioning aside, it's important not to lose track of where silver stands in the much bigger picture of the ticking time-bomb of the physical shortage. If you can picture the past 40 years of the COMEX silver manipulation as a clock, with 12:00 marking the point at which the manipulation ends, we can't be but a few minutes from striking 12:00. While those last few minutes may seem interminable, that's because of how long it has taken to get to this point - not due to the amount of time remaining. Most importantly, focus on what guarantees that we are only a few minutes to 12:00, namely, the deepening silver physical shortage.

Please go back and reference the recent publications from the Silver Institute above, which lay out the case for the deepening physical shortage and then try to explain to yourself how supply can be increased and demand curtailed without the benefit of sharply higher silver prices. The reports indicate industrial silver demand is growing sharply this year, while supply is falling and further projects a marked increase in industrial demand far into the future. The long-term manipulation on the COMEX may have succeeded to this point in suppressing the price of silver, but it is the law of supply and demand that will have the last word and fairly soon.

Happy Thanksgiving to all US readers.

Ted Butler

November 22, 2023

Silver – \$23.70 (200-day ma – \$23.40, 50-day ma – \$22.88, 100-day ma – \$23.38)

Gold – \$1993 (200-day ma – \$1950, 50-day ma – \$1943, 100-day ma – \$1948)

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