November 8, 2023 – Money Versus Metal

In every investment asset, a key factor in determining the price is the amount of investment buying, either potentially or already existing versus the amount of the asset itself that exists to be invested in. Expressed differently, price is determined by total market capitalization Â (the total current amount of what the asset is worth), plus or minus future buying or selling.

For example, the truly large investment markets, like stocks, have a total market capitalization of many tens of trillions of dollars, with some individual stocks having a total market cap or worth of more than a trillion dollars at current prices. The future value is based upon many factors, like future earnings, as well as external factors, like the future path of interest rates, money supply, economic conditions and investor sentiment and flows, etc.

Likewise, other markets considered investment assets, like gold and silver, also have a certain similarity to other investment markets in general in that if they experience investment inflows, prices will generally rise and if investors are net sellers, prices will fall â?? all things being equal. Of course, this is not to dismiss the important role of actual supply and demand away from investor demand or lack thereof, such as mining trends and industrial demand. Since gold and silver are the only practical precious metal investment assets (no knock on platinum or palladium, or any non-precious metals, like copper), Iâ??d like to limit my comparisons to these two metals â?? all in the context of potential future money flows versus the amounts of metal available to absorb those money flows.

There is no question that in terms of total market capitalization, the gold market dwarfs the silver market. In bullion-equivalent terms (leaving out jewelry and similar articles), there are about 3 billion oz of gold in the world versus 2 billion oz of silver (in 1000 oz bar form), fairly similar amounts. (There are also billions of ounces of each in non-bullion form, but gold and silver in those non-bullion forms have little bearing on price, except on a very long-term basis).

But while the amounts of actual metal existing in gold and silver are fairly similar, because there is such a wide disparity between the current prices of gold and silver of more than 85 times, that means the total market capitalization of gold is roughly $6 trillion (3 billion oz x $2000) compared to a total market cap of silver of around $43 billion (2 billion oz X $23). Therefore, while similar amounts of metal exist in each, the dollar amount of gold and silver are starkly different, with the dollar amount or total market cap of gold being roughly 130 times greater than the dollar amount of silver.

Given the extremely wide disparity between the market caps in these two metals, itâ??s a wonder that gold and silver are even compared at all, as it would be like comparing the total market capitalization of a stock like Microsoft, at $2.6 trillion, with a stock with a total market cap of $20 billion. One would think such a comparison was irrelevant, except under certain limited circumstances. Yet that is far from the case in gold and silver, where over the years, despite the extremely wide difference in the total dollar amounts of each, silver has gained markedly in daily discussions and commentary relative to gold. Whereas 20 or so years ago, the discussion centered on gold almost exclusively, today it is rare to read a gold commentary not also featuring silver (or a discussion just on silver, leaving out gold). Iâ??ll get into why I think this is a bit later.

Aside from the extreme difference in the total market caps (dollar worth) of gold and silver, another factor stands out. While there is roughly 50% more gold bullion than silver bullion in the world, the shocking fact is why there is not much more silver bullion than there is gold bullion. After all, the world produces and has produced (mined) many times more silver than gold over the past 5000 years and that should mean that there should be much more silver inventory in bullion form than gold. From the beginning of recorded civilization (but mostly over the last hundred years or so), it is thought that the total amount of silver taken from the earth has exceeded 45 billion oz, compared to 6 billion oz of gold. So, with world cumulative mine production of silver exceeding by 7.5 times the amount of gold taken from the earth, how the heck can there now be 3 billion oz of gold bullion and only 2 billion oz of silver bullion?

The answer is because the vast majority of silver mined throughout history has been consumed industrially and by other forms of fabrication, while relatively little gold has been industrially consumed. Most of the applications for industrial silver consumption have come about in the last 100 to 150 years, meaning not only is a good portion of current world silver mine production so consumed, so has most of the cumulative silver mine production over past centuries. This may seem like old stuff to long-time readers, but I doubt more than one out of every 100,000 people in the world (if that) know this.

Ironically, one of the (false) reasons given to explain silver price weakness at times is because it is an industrial commodity and on that particular day some report came out suggesting general economic weakness. More importantly, silverâ??s industrial consumption is what accounts for there being more gold metal in bullion form than silver, as well as vastly more gold in dollar terms than silver â?? but that is never mentioned. Remarkably, silver is so versatile an industrial commodity that even the loss of what once was its leading use, photography, hasnâ??t slowed its total industrial consumption due to new uses, like in solar cells.

The implication, in any way, that silverâ??s industrial use is anything but positive to the price is ludicrous. Thatâ??s because it has been silverâ??s industrial consumption that has created the absurd circumstance where, despite there having been 7.5 times more silver taken from the earth compared to gold, there is now more gold bullion in inventories than silver bullion. Â I donâ??t know if Iâ??d go so far as suggesting that silver should be priced at or more than the price of gold per ounce, but gold should not be priced more than 85 times silver on an ounce-by-ounce basis either.

The fact is that silverâ??s industrial consumption has done nothing but decrease the amount of silver available to investors â?? period. And that should never be forgotten or misinterpreted. Still, with silverâ??s price in the gutter by every comparison, particularly in relation to gold, the thought comes to mind that it must somehow be the lack of investor demand that accounts for silverâ??s punk price. But that is far from the truth by any objective measure. While itâ??s true that central banks are big buyers of gold and not silver, that also means that central banks can be big sellers of gold and not of silver.

Furthermore, there is always the possibility that central banks or other government entities might turn buyers of silver for other strategic reasons. After all, there was time (close to within my lifetime) where the US Government was the largest owner of silver in the world. While I canâ??t imagine that recurring, thatâ??s not to say world government entities might try to establish some silver stockpiles. Again, since there is practically no current world government ownership of silver, none can be sold (as is possible in gold).

As far as irrefutable evidence that non-government investors have been much heavier buyers of silver than gold in metal (not dollar) terms you need look no further than in the public record concerning the worldâ??s ETFs (Exchange Traded Funds) or the sale of sovereign (official) bullion coins, like Gold or Silver Eagles from the US Mint.

The record on ETFs is particularly compelling where, even though gold ETFs got an earlier start, the amount of silver metal bought in the worldâ??s silver ETFs is vastly greater than the amount of gold metal bought in ETF form. The record shows that despite a later introduction for silver ETFs than gold ETFs, ten times more silver metal has been bought than gold metal. Current bullion holdings in the worldâ??s silver ETFs are more than one billion oz or 50% of all the two billion oz of silver bullion in 1000 oz bar form â?? compared to the 100 million oz held in the worldâ??s gold ETFs or less than 3.5% of the worldâ??s total gold bullion inventory. In pure metal terms, investors favor silver over gold by a very wide margin. Granted, given goldâ??s much higher price, the dollar amount in the worldâ??s gold ETFs is about ten times the dollar amount in the silver ETFs.

To be clear, I have no argument with gold being too high in price, because I donâ??t believe thatâ??s the case at all. The issue is obvious, silver is too low in price. Itâ??s hard to imagine the total world inventory of silver bullion being worth less than $46 billion while the equivalent gold bullion inventory being worth close to $6 trillion, with investors buying much more silver metal than gold and there being less silver inventory in metal form. The key question, almost without asking, is why is silver so low in price â?? not why is gold so expensive?

The answer couldnâ??t be clearer â?? there is nothing wrong with silver, just its price. Itâ??s clear than the price of silver is artificially suppressed and manipulated and has been for 40 years due to an ongoing and easy-to-prove phony price scheme on the COMEX, the worldâ??s largest precious metals derivatives exchange. The manipulative price scheme involves the never-ending (to this point) fraudulent trading practices of a number of commercial banks consistently cheating another close-knit group of traders classified as managed money traders and as described on these pages and elsewhere for decades.

The real shame is that the perpetrators (the banks) are household names and are being protected by US Government regulators, in the form of the Commodity Futures Trading Commission, the Securities and Exchange Commission, the Department of Justice and the US Treasury Dept. Further, the thoroughly-crooked COMEX operation is owned and run by a large publicly-held entity, the CME Group, Inc., which is also designated as an official Self-Regulatory Organization, despite it refusing to crackdown on the 40-year silver fraud.

I believe I fully-understand the two reasons why government regulators would turn their backs to an obvious market crime in progress and, in effect, completely dishonoring their sworn oaths to enforce the rule of law. One, they ignored or argued against previous attempts by me to explain the COMEX silver manipulation for too long that admitting or taking actions to end the manipulation now would be far too embarrassing. Two, the criminals here (which included JPMorgan in the past) are also large systemically-important financial institutions which if dealt with in the manner deserved, would result in extreme stress on the financial system. No regulator would crack down on the COMEX silver manipulation if it threatened the financial system â?? something that could have been avoided had the manipulation been addressed decades ago, when first presented.

So yes, it would appear the ship has long sailed on any expectations for regulatory action to end the COMEX silver manipulation and based upon the sharp selloff this week, it is clear the manipulation is still in full force (with my Spidey-sense about Fridayâ??s action completely misguided). But while the reality that the COMEX silver manipulation lives on, that doesnâ??t negate anything I said above about the realities in terms of metal and money when it comes to silver and gold. Again, not only is silver way too cheap relative to gold by every measure possible, the story doesnâ??t end there.

Where the story continues is that there is no evidence of widespread net investor silver selling, leaving the only plausible explanation for the recent declines in recorded silver inventories in the silver ETFs and in the COMEX silver warehouses being due to the metal being needed more urgently elsewhere â?? exactly what would be expected in an extreme physical shortage or robbing Peter to pay Paul. Â What this means is that in addition to the long-term COMEX suppression of silver prices over the years and decades that has resulted in an obscenely depressed price, there are now signs of a physical silver shortage on a daily basis.

Yet at the same time, it appears to be business as usual for the commercial crooks on the COMEX, based upon the sharp selloff into early today. But the funny thing about a physical commodity shortage, such as currently exists in silver, is that it is the most potent bullish force possible. Here, we are talking about the law of supply and demand – a law more powerful than any artificial pricing scheme or regulatory malfeasance. Nonetheless, it is a fact that the forces of evil (price manipulation) Â can succeed for a long time in frustrating the law of supply and demand â?? as is evident in the 40-year tenure of the COMEX silver manipulation.

But when artificially suppressed prices eventually create an actual physical shortage, the signs of which currently abound in silver, the timeline for the force of the law of supply and demand to overwhelm the phony COMEX pricing scheme is greatly accelerated. No, not to the point where it can be accurately predicted in advance (as much as I try), but with greater certainty that it will come fairly soon.

The most important point is that the combination of all I just wrote has created perhaps the greatest investment buying opportunity any of us is likely to experience in our lifetimes. The end result of the silver story of the past 40-years is not anything I could possibly imagine without all the easily-verified facts just laid out. That is has taken so long to develop is beyond remarkable and even if it takes a little longer, that will only enhance the eventual result in a price explosion of the ages.

The bottom line is that we are much closer to the actual law of supply and demand asserting itself over a long-term silver price manipulation that has created an almost unimaginable low price at the very same time more potential world buying power, measured in the hundreds of trillions of dollars exists compared to an asset that couldnâ??t handle the smallest fraction of one percent of that buying power without exploding exponentially.

Heck, if just one-percent of the money tied up in gold bullion ($60 billion) tried to shift into silver, you can only imagine what that would do to the price of silver, seeing as all the silver bullion in the world is only worth $46 billion. And itâ??s not as if that $46 billion worth of silver is just lying in the street, ownerless. Every ounce of the two billion oz in 1000 oz bars is already owned and must be bid away from the existing owners by making them an offer they canâ??t refuse â?? much higher prices.

Moving on to other developments, I sense strong inroads are being made in the growing general awareness of the COMEX silver manipulation based upon this YouTube presentation by Bix Weir who digs into some recent remarks by Jeff Christian, an ardent manipulation denier https://www.youtube.com/watch?v=Bs8BYVPWMLU

The key question for short-term pricing is the ability of the collusive COMEX commercials to rig gold prices below its key moving averages to induce managed money selling and, if successful, what effect that might have on silver prices. As I get set to hit the â??sendâ?• button, gold prices are less than $10 away from downwardly penetrating its 200-day moving average and less than $20 from penetrating goldâ??s 50-day moving average.

I know much is made about other potential price influences for gold, like whatâ??s going on in China and the general end of the world as we know it stuff, but if thereâ??s a greater price influence than COMEX positioning between the crooked commercials and the brain-dead managed money traders, Iâ??m not aware of any such influence(s). Since it appears to me that we ran up by $200 in gold largely on managed money buying as goldâ??s moving averages were penetrated to the upside, should those same moving averages be penetrated to the downside, it would be reasonable to anticipate heavy managed money selling.

As far as silver, it never did penetrate its key 200-day moving average decisively to the upside and therefore never experienced close to the market deterioration (no more than 10,000 contracts) than seen in gold (more than 100,000 contracts) over the past three reporting weeks. Of particular note was the very low level of the gross managed money long position of only 28,000 contracts, close to the lowest levels over the past ten years and not likely to provide a significant source of selling. Of course, that makes the wild card the ability of the commercials to induce fresh managed money silver shorting â?? even though it is preordained that any new managed money shorts at current price levels or lower will turn into collective losses.

As far as what to expect in next Mondayâ??s (holiday-delayed) Commitments of Traders (COT) report, since the price action was mixed and with both gold and silver ending yesterdayâ??s close to the reporting week a bit lower, Iâ??m inclined to think there might be some slight improvement (managed money selling and commercial buying), but I wouldnâ??t expect big positioning changes. Howâ??s that for wishy-washy? Whatâ??s not wishy-washy is my expectation for a massive revaluation for the price of silver.

Ted Butler

November 8, 2023

Silver – $22.62Â Â Â Â (200-day ma – $23.42, 50-day ma – $23.03, 100-day ma – $23.36)

Gold – $1955Â Â Â Â Â Â Â (200-day ma – $1948, 50-day ma – $1939, 100-day ma – $1944)

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