October 16, 2019 – More Unanswered Questions

It was, after all, a simple question that sparked my interest in silver from the start. Some 35 years ago, my now-departed friend and mentor, Israel Friedman, challenged me with a question that took me a year to answer. Actually, â??challengedâ?• is not the right word, either back then or today. Izzy simply asked a question to which he had no real answer of someone he thought might be able to answer. In a real sense, the question conveyed a degree of respect, in that Izzy only asked me because he thought I might have an answer. It is with that same degree of respect that I ask for answers to my own questions today.

Back then (1985), Izzy asked me why I thought silver was priced so cheaply (around $5/oz) in the face of universal awareness that the world was consuming more silver than was being produced (mining plus recycling); a deficit consumption pattern that had existed for more than 45 years to that point. Simply put, a deficit consumption pattern is the single most bullish condition possible for any commodity, yet silver appeared to be immune from the law of supply and demand.

Of course, silver had run up to $50 five years earlier, thanks largely to the Hunt Brothers, and Izzy had played that run better than just about anyone, buying at $4 and selling at $40. But that was then (1980) and this was now (1985) and silver was again as low as it had been when Izzy first bought it in the mid-1970â??s. Since he had already mastered the silver market, I was a bit perplexed why Izzy was even asking me to answer his question, but I could see he was asking because he valued my opinion â?? it was less a challenge and much more a seeking of the right answer. In that circumstance, I was not about to offer some off the top of my head flippant answer and I told Izzy I would think about it.

As it turned out, I thought about the answer for more than a year, because Izzyâ??s question was so darned good â?? why silver was so cheap in the face of the most bullish supply and demand circumstances possible for any commodity. The answer, of course, was that silver was artificially depressed in price due to excessive and concentrated short selling in COMEX futures â?? the same answer that explains silverâ??s depressed price to this day. Quite ironically, Izzy did not accept my answer for a number of years (because I donâ??t think he was expecting it), but eventually came to embrace it fully, coming to coin terms like â??slicing the salamiâ?• (the practice by which the commercials get the technical funds to buy or sell) and â??full pants downâ?• (an overrun of the big commercial shorts).

Since I believe that much general good came from Izzy asking me his question so many years ago, I would like to use that same approach now to solicit an answer to a question that has bothered me for the past eight and a half years. I do think I know much of the answer (which Iâ??ll provide), but I would like to hear what others have to say since itâ??s something rarely discussed. Iâ??ll state the facts which can be easily verified and ask you to come up with an answer to the question of why so much silver is being physically moved in and out from the COMEX silver warehouses?

Starting in April 2011, the amount of silver (in the form of industry standard 1000 oz bars) physically moved either into or removed from the COMEX-approved silver warehouses has exploded by a factor of five from the amount physically moved previously. Physical movement or turnover data are available (for free) on a daily basis from the CME Group (owner of the COMEX) for all COMEX/NYMEX metals, including gold, silver, copper, platinum, palladium, lead and zinc.

https://www.cmegroup.com/clearing/operations-and-deliveries/nymex-delivery-notices.html

On a weekly basis, the average physical turnover of silver put into or taken out from the COMEX warehouses has averaged 4.5 million ounces per week, or more than 230 million oz annually since 2011, although over the last 52 weeks, more than 300 million oz were physically moved. Over the past 8.5 years, more than 2 billion oz of silver have been physically moved into or taken out from the COMEX warehouses. Over this same time, total COMEX silver inventories have grown by roughly 200 million oz to 315 million oz currently. The lionâ??s share of the increase can be traced to deposits of metal into the JPMorgan COMEX silver warehouse of more than 150 million oz (from zero in April 2011).

Other facts include that there have been absolutely no signs of increases in inventory movement in any other COMEX/NYMEX metal or in the metal inventories of any other exchange or for the physical movement in any other commodity away from metals â?? just COMEX silver warehouse inventories. This makes the physical inventory turnover in COMEX silver completely unprecedented, both for silver prior to 2011 or any other commodity before or since.

Thereâ??s no question that silver is actually being physically moved in and out from the COMEX silver warehouses as Iâ??ve described and the data are precise to the nearest hundredth of an ounce. The movements are reported in the received or withdrawn columns and are completely different from category adjustment changes from eligible to registered or vice versa (which donâ??t involve physical movement). The turnover to which I refer is metal taken off trucks and put into the COMEX warehouses or metal taken from the warehouses and put into trucks and shipped elsewhere. No data are provided as to where the metal is coming from or where it is going once it leaves the COMEX warehouses. Again, the data verifying the physical movements are posted daily.

Please keep in mind that the physical silver inventory turnover is separate and distinct from the paper futures contract positioning that sets the price for silver and other commodities. Futures trading involves paper derivatives contract positioning and the inventory turnover I am speaking of strictly involves the physical movement of 1000 oz bars of silver. One is paper, the other physical.

The questions I am seeking answers to involve why so much physical silver is being and has been moved since April 2011? And why the physical movement erupted in the COMEX silver warehouses and not in any other COMEX or non-COMEX commodity warehouse? And why the physical silver transfers have persisted over the past 8.5 years since suddenly exploding back then?

Back in 1985, Iâ??m sure Izzy had a strong sense that there something wrong with silverâ??s pricing, although he wasnâ??t quite able to put his finger on it exactly. Otherwise, he wouldnâ??t have asked. Seeking answers was a testament to his innate intelligence. In turn, that is what I am seeking today. I certainly donâ??t expect a large number of immediate answers to my questions, but even if you have a constructive observation or opinion on the matter, Iâ??d love to hear from you.

Maybe the issues Iâ??ve raised or the questions Iâ??ve asked do not paint as unusual or remarkable a picture as I believe them to paint. As you know, I did already have a strong and specific interest in silver long before the unprecedented physical movement in COMEX silver inventories began in April 2011. So perhaps Iâ??m too silver intense, but itâ??s more likely I wouldnâ??t have even noticed the change in movements if I hadnâ??t already been monitoring the daily warehouse statistics for the 25 years before 2011.Â Then again, this issue transcends silver and Iâ??d like to think I would be intellectually challenged enough to try to come up with the answer to why so much physical metal was spinning in and out of COMEX warehouses if the metal was gold or copper or palladium that was spinning and not silver.

Let me use an example away from silver or other commodities in order to make my point. Picture an automobile dealership that, alone of all the other dealerships in the US, was turning over its inventory of vehicles many times greater than any other dealership. Cars and trucks were flying off this one dealershipâ??s lot ten or twenty or more times faster than any other dealer. And as the vehicles were flying off the lot, they were quickly replaced by new vehicles, so the overall inventory grew slightly. Wouldnâ??t everyone, particularly all the other dealers, be interested in what the high-turnover dealer was doing to sell and move so many vehicles? Shouldnâ??t anyone with a passing interest in silver be interested in why so much metal is moving into and out from the worldâ??s second largest stockpile of silver?

One thing appears certain â?? the high turnover infers great demand, because without great demand, the COMEX silver inventories would have grown much more than the 20 million ounces they grew over the past year on 300 million ounces of physical turnover. Yes, 300 million oz came into the COMEX, but more than 93% o that in-movement was removed.

Just like Izzy knew instinctively there was something wrong with silverâ??s price when he asked for my opinion 35 years ago, I think I know whatâ??s behind the unprecedented explosion in COMEX silver warehouse turnover since April 2011. The unprecedented turnover can be attributed to JPMorgan. As I have long concluded, when silver prices ran to near $50 into April 2011 and JPMorgan was out several billion dollars on its COMEX short position, it made the decision not just to bomb the price lower, it also decided to immunize itself against future run ups in price by buying as much physical silver as possible.

Whatâ??s so critical about April 2011 is how it coincides with so many unusual developments at that time. Not only did it kick off the frantic physical turnover and the opening of the JPMorgan COMEX warehouse, it marked the exact start of what was an 8 year protracted decline of as much as 70% in the price of silver.

The date also marked an unusual acceleration in the sale of American Silver Eagle and Canadian Silver Maple Leaf coins which would persist until 2016 that all credible evidence excludes plain vanilla retail buying as the cause. More new silver coins were sold on the deepest and most persistent price decline in history â?? unless basic human DNA was somehow altered on a widespread basis, the coins werenâ??t bought by investors acting collectively. The only explanation for the record purchases between 2011 and 2016, was at the hands of a single big buyer. And, yes, all those coins â?? 150 to 200 million in total â?? were melted down and converted into 1000 oz bars by JPMorgan. And thatâ??s why the market has not been flooded with these coins since. The only reason JPMorgan stopped buying American Eagles and Canadian Maple Leafs was because it was becoming too obvious it was the buyer, so it voluntarily ceased its buying.

As to the massive and unprecedented physical turnover in COMEX silver inventories, I believe it is the result of JPMorgan buying and taking physical silver from the open market and is only tangentially-related to JPMorgan being the largest delivery stopper of silver futures contracts in its own house account. In other words, JPMorganâ??s non-stop buying of physical silver away from futures deliveries necessitated the unprecedented large physical turnover. Because JPMorgan was â??skimmingâ?• so much physical silver off the market, new silver had to be brought in to replace what JPMorgan was accumulating. Â That is the demand that has been driving the unprecedented physical turnover.

In fact, the only reason COMEX silver inventories have grown over the past 8.5 years is because JPMorgan made the conscious decision to store some of its 850+ million oz hoard in the COMEX warehouses. In addition to the 157 million ounces in the JPM COMEX warehouse, I believe the bank holds another 100 million oz in other COMEX warehouses or 250 million oz or 80% of the 315 million oz total COMEX inventories. JPMorgan stores the 250 million oz it holds in the COMEX warehouses because if it became clear that only 65 million oz (the amount not owned by JPM) existed, even the brain-dead regulators would realize that JPMorgan owns almost all the silver in the COMEX warehouses.

Iâ??m not asking you to accept my version for what accounts for the highly-unusual physical turnover in the COMEX silver inventories, but I am asking you to try to explain the movement any way you see fit. The turnover is so unusual and unprecedented that it does cry out for an explanation. The facts are easy to substantiate, more difficult is putting the facts into the most reasonable explanation. Of course, the Justice Department or the CFTC could ascertain easily whether JPMorgan is responsible as I allege, but both seem content to continue to slap JPMâ??s wrists for spoofing, instead of digging deeper into what really matters.

Turning to other matters, as of the close yesterday, prices for gold and silver ended the reporting week lower, gold by more than $15 and silver by more than 30 cents. In addition, most of the reporting weekâ??s trading took place below the 50 day moving averages of each. Thus, itâ??s reasonable to conclude that Fridayâ??s new Commitments of Traders (COT) report will indicate moderate managed money selling and commercial buying, likely close to the mirror-image of what was reported this past Friday.

I donâ??t know which is more obvious â?? the amount of commentary focusing on the COT market structure with an eye towards a flush out to the downside or the actual overt attempt the commercials are expending to cause that flush out to occur. Certainly, no one can rule out a thorough and complete selling capitulation by the managed money traders on lower prices, as that is one of two possible resolutions to the current extreme market structure. Nor can anyone deny that the commercials seem to be trying, almost desperately, to arrange for such an outcome. Therefore, no one should claim surprise if we head lower in price.

On the other hand (why is there always another hand?), it remains to be seen if the commercials will fully succeed in working their manipulative price magic yet again. One of the variables is the possibility of a double cross by JPMorgan of the other big commercial shorts as and when JPM buys back what it feels is enough of its gold and silver short position. Superimposed on the pending resolution is the behavior of the managed money technical funds. After all, JPMorgan and the other COMEX commercial shorts can only buy what is offered for sale by the managed money traders.

As previously discussed, there appears to be an equal amount of potential managed money selling in gold, from both a long liquidation and new short sale, to accommodate as much as 200,000 contracts of commercial buying based upon the historical record. The only question is if the managed money traders will be as dumb as typically in accommodating the commercials (how many times can Charlie Brown trick Lucy before she wises up?).

Itâ??s almost the same in silver in principle, but given what appears to be a smaller than usual managed money gross long position held by technical fund type traders, the commercials will need a very large increase in managed money new short selling in order to buy back as many commercial shorts as required to get off the hook completely. Itâ??s one thing to force long liquidation on lower prices, but it will take a special kind of dumb on the technical fundsâ?? part to go heavily short again in silver. After all, the managed money traders have never collectively profited when going short silver or gold in history.

I canâ??t help thinking that if, as and when JPMorgan buys back what it feels is enough of its COMEX short positions in gold and silver that may spell the bottom in prices. At least, that will set the stage for a big up move. Iâ??m not counting on the Justice Department or the CFTC to do their jobs, but I am relying on JPMorganâ??s unbridled greed.

As far as the money scoreboard for the 7 big shorts in COMEX gold and silver, as I am about to send this out prices are mixed from Fridayâ??s close, with gold slightly higher and silver a bit lower. As a result, there is little change in the total open and unrealized loss to the big 7, which still stands at $3.2 billion. I am a bit surprised that there hasnâ??t been more managed money selling since both gold and silver prices have spent more days below their 50 day moving averages than above, but that is certainly not a complaint from me.

Ted Butler

October 16, 2019

Silver – $17.40Â Â (200 day ma – $15.93, 50 day ma – $17.74)

Gold – $1492Â Â Â Â Â Â (200 day ma – $1374, 50 day ma – $1515)

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