October 26, 2022 – The Only Thing Wrong with Silver is the Price

For commodities, the paramount issue is always actual supply and demand, with price serving as the balance in a free economic system. Too much supply and not enough demand and prices are expected to fall, until the supply/demand equation is balanced. Too much demand and not enough supply and prices are expected to rise for the similar reason of balancing the equation. Not to grasp the basic workings of the law of supply and demand is a serious impediment to critical thinking in everything from proper education to efficient industry/government policy.

Having production and supply interact properly with consumption and demand is the single most significant price function in any free market economy. Messing with the law of supply and demand is like messing with Mother Nature and only ensures bigger problems at some point. The importance of protecting the price fulcrum in the proper functioning of the law of supply and demand is reflected in the body of US trade law, from everything from antitrust provisions to anti-manipulative measures.

Yet, in the case of many commodities, but particularly in silver, the near-inviolate principle of allowing an unfettered price to determine actual supply and demand has been routinely cast aside to the point where it matters little in determining the price. Remarkably, this perversion of the law of supply and demand has been in effect in silver for the past 40 years and has become increasingly noticeable recently. A case in point â?? hardly a day goes by when another new article doesnâ??t appear to highlight the shrinking world inventories, yet the price of silver remains, quite literally, in the gutter â?? hugging multi-year lows.

In the clearest possible terms, it is obvious that the price of silver most accepted in the world â?? the COMEX-generated price we are bombarded with 24 hours a day â?? is artificially-derived and manipulated. Because of this long-running price manipulation, the law of supply and demand has not been able to function properly. This is as serious a consequence as it gets because the stagnant supply and growing demand in silver continues to persist, misled by the artificial too-low price. Because the COMEX has persisted in sending false price signals in silver for decades, it has prevented the law of supply and demand from functioning as it should. No producer is going to increase production without the signal of higher prices, nor will consumers seek to curtail demand. (Silver investors are different in that they increasingly appear to understand the continued low prices of silver represent a bargain).

It is important to recognize that actual world production and consumption canâ??t possible be â??wrongâ?• in any commodity. Thatâ??s because many millions of people are engaged daily in the production and consumption effort and itâ??s impossible to conceive how so many millions could possibly conspire to artificially alter actual production or consumption. On the other hand, itâ??s quite easy to conceive how a literal handful of large derivatives traders could collude and conspire to influence price.

At the core of the artificial and manipulative pricing emanating from the COMEX is that the two principal trading groups actually setting the price of silver are not at all interested in the proper functioning of the law of supply and demand, because, for the most part, they are not legitimate bona fide hedgers, but pure speculators. Certainly, no one would argue that one group, the managed money traders are anything but speculators and even the most cursory examination of the other main trading group, the commercials, would reveal anything other than they are speculators as well. The bottom line is that these two groups are engaged in a never-ending private speculative betting game that has grown to become the sole price determinant in silver and not the law of supply and demand.

But what about the body of US law that holds that the proper functioning of the law of supply and demand is whatâ??s supposed to set prices and not some private paper betting game on the COMEX? What happened to the Justice Department and its vaunted Antitrust Division or the Commodity Futures Trading Commission, whose core mission is to prevent manipulation and protect the public? How could they have dropped the ball in this matter? My own guess is that both the DOJ and CFTC have so badly handled the COMEX silver manipulation for so long, decades in fact, that both are afraid to even address the issue publicly out of the realization that would revealed their past malfeasance.

That was the reason I asked as many who were willing to write to the CFTC, with its four new commissioners, to challenge it and them into addressing this matter. The allegations I make couldnâ??t be more serious or more in the regulatorsâ?? wheelhouse. It would be wrong for me to make such serious allegations if I was mistaken in any way and, at the very least, an open response from the Commission might settle the issue once and for all. Of course, if I wasnâ??t absolutely convinced of what I allege to be true, I wouldnâ??t bother.

Although I am alleging the existence of a long term price manipulation in silver (and other commodities) and that the crooked trading on the COMEX is at the center of the manipulation, the actual consequences of the coming resolution of what I believe to be the end game of a 40-year silver manipulation is so profoundly bullish at this point that itâ??s imperative not to get hung up on all the water that has flowed under the bridge and, instead, focus and position yourself for a resolution that could, quite literally, favorably set your financial future.

The COMEX silver manipulation has been a rotten crooked thing that has distorted the proper functioning of the law of supply and demand to the detriment of the world. Nonetheless, its resolution will result in a financial windfall for those properly positioned. The only thing wrong in silver has been the price and, ironically, it is that â??wrongâ?• price that makes silver such an attractive investment.

Turning to other matters (not that any could be as important as what I just wrote), the new short report on stocks indicated an increase of 2.7 million shares, to 51.6 million shares (47 million oz), in the short position on SLV, as of Oct 14. While the size of the increase is not particularly noteworthy, it comes against expectations of a further sharp reduction, along the lines of the prior 10 million share reduction, as of Sep 30. While the new short report doesnâ??t alter the percent of shares held short relative to total shares outstanding, at 9.8%, the percent is still shockingly high for a security of this type. By comparison the percentage of shorted shares to total outstanding shares in GLD, the big gold ETF, is 2.7% and even that is not an apples-to-apples comparison since the amount of gold in GLD is less than 1% of all the gold bullion in the world, whereas in SLV, the amount of silver held there is close to 25% of all the silver bullion in the world.

https://www.wsj.com/market-data/quotes/etf/SLV

As always, statistics and data are one thing; while the interpretation of the data is a completely different thing. True, the data are objective, while the interpretation is necessarily subjective, but the actual data become irrelevant unless some meaning can be attached. Itâ??s also important that any interpretation of the data be consistent with any obvious trends and observations in other known developments. One should avoid reaching conclusions completely out of step with other obvious developments.

In the case of silver, both on a retail and wholesale basis, it is more than obvious that the signs of physical shortage are present. Premiums on retail forms of silver have never been higher, accompanied by increasing delivery delays. Please remember that a physical shortage is defined as the temporary inability to secure supplies on an immediate basis. On a wholesale basis, between the shrinking world inventories and the astounding physical movement and turnover in those recorded silver inventories, itâ??s also not possible to argue with the definition of shortage.

So, it is against the fully-visible backdrop of a developing physical silver shortage on both a retail and wholesale basis, that the still-shockingly large short position in SLV, the worldâ??s largest silver ETF, must be viewed. Therefore, the almost inescapable conclusion is that the short position on SLV is as high as it is must be in connection with the obvious physical silver shortage. In other words, those few entities (perhaps only one) shorting SLV, are shorting the shares in lieu of making the required physical silver deposits because the physical metal isnâ??t available.

Not only is this the most plausible explanation, no other possible explanation makes much sense. Certainly, there doesnâ??t appear to be any legitimate and profitable trading pattern behind the sharp increase in the short position on SLV since it began increasing sharply in July. Silver prices have chopped around over the past few months and there is no credible evidence of the short sellers in SLV executing some highly profitable trading strategy.

My first complaint (of three such complaints) to the Securities & Exchange Commission was on Aug 11, following the release of the short report for positions held as of July 29. That report indicated a jump in the SLV short position to 47.5 million shares. Â I complained to the SEC twice more, as the short position grew to 60 million shares, including BlackRock in my last complaint. I even requested that the SEC (or anyone) explain why my allegations might be off-base or erroneous. No such explanations have been forthcoming. Itâ??s more than remarkable how serious and pertinent issues can be raised with the regulators concerning their most important missions (fraud, manipulation and protecting the publicâ??s interest) that generate no response. What do these people do all day?

Since the short position on SLV is less than the peak of 60 million shares, despite being still way too high, Iâ??ll not write to the SEC or BlackRock at this time, because both are already on notice. I will reserve my right to do so in the future, should the short position increase to new highs from here. Instead, I canâ??t help but feel the still-astoundingly large short position on SLV is incredibly bullish in that once a large short position in anything is established, the price-depressant influence of that short sale is spent and that at some point the price-boosting buyback or close out of that short position becomes operative. Remember, any short position is very much an open transaction that must be closed-out or settled someday.

Turning to this Fridayâ??s new Commitments of Traders (COT) report, I believe it will be an important report, but I am decidedly uncertain what it will reveal. Silver prices did finish around 75 cents higher on a closing reporting week basis, after trading as much as a dollar or so higher at intraweek extremes. That would usually suggest deterioration (managed money buying and commercial selling). In gold, prices were barely unchanged for the reporting week at yesterdayâ??s cutoff, although new price lows were recorded before last Fridayâ??s fairly dramatic upward reversal (in silver as well). The gold price action would seem to suggest not much in positioning change.

Complicating matters is the fairly large increase in total open interest in gold of some 21,000 contracts over the reporting week (3000 contracts in silver). My best guess for the increase in gold open interest is non-economic spread creation, since it looks like the roll from December has commenced. Finally, with the exception of Fridayâ??s reversal, trading volume has been on the low side, pointing to not much positioning change (although there could have been big positioning changes on Friday). Adding it all up, with special emphasis on the very recent overt snookering of the managed money traders by the big former commercial shorts and my head spins in trying to handicap Fridayâ??s report. With enough other things making my head spin nowadays, away from silver and gold, I intend to try to decipher Fridayâ??s report rather than predict it.

No one (least of all me) should be surprised if, despite the very favorable market structures that exist in COMEX gold and silver, the collusive commercials succeed in orchestrating continued sharp selloffs for no other reason than it is in the commercialsâ?? power. This is particularly true if Fridayâ??s COT report indicates the managed money traders bought and covered a good number of just-added short positions. To be sure, expecting the regulators to start doing their job seems a bridge too far. But the steady and increasingly loud drumbeat of signs of a physical silver shortage must at some point appear in the form of a price shock higher.

Ted Butler

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Silver – $19.50Â Â Â (200 day ma – $21.72, 50 day ma – $19.03, 100 day ma – $19.65)

Gold – $1670Â Â Â Â Â Â (200 day ma – $1816, 50 day ma – $1702, 100 day ma – $1745)

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