This past week, the Silver Institute released the annual supply/demand report it commissions each year by GFMS from London. In about a month, the annual silver report compiled by CPM Group should be released. Over time, these two reports have become the prime source material for silver supply/demand fundamentals. First, some general comments about the reports, followed by what the Silver Institute report includes and doesn't include. As always, data and statistics on their own are fairly meaningless, compared to interpreting and understanding the message of the data.

https://www.silverinstitute.org/wp-content/uploads/2019/04/WSS2019.pdf

One thing that always struck me as odd about both reports is the absolute precision implied about silver production and consumption in that there is hardly any rounding off (as I suppose I am inclined to do) – all data are reported to within 100,000 ounces or less. This strikes me as a bit odd for a market in which total production and consumption amount to one billion ounces annually. It gives the impression of precision almost to the point of infallibility. Yet in the category where one would assume the greater precision, annual mine production (as opposed to consumption), the difference between the two reports is quite wide.

Last year, for example, there was a difference of 80 million oz between the two reports for world annual mine production – a 10% difference. And that's usually the case each year. We'll see what the difference is this year in about a month when the CPM report is issued, but the first lesson to be learned is not to take the statistics offered in either report too literally, but as estimates (despite the implied precision).

Another curious aspect to the Silver Institute report is the regular use of the word "deficit". I'm not sure why this word even appears, as there has been no deficit in silver for years. A deficit occurs when all the silver currently produced is insufficient to meet industrial and other demand (jewelry and silverware and coins) apart from pure investment demand and world silver inventories are drawn down and depleted to meet the current demand. We did have such a structural deficit in silver for 65 years running, from the start of World War II to 2006, in which close to 10 billion ounces of world silver inventory, basically, went up in smoke. But since 2006, there has been no true structural silver deficit in silver in which total world silver inventories have been reduced. This is perhaps the most confusing feature of the survey.

I don't have much argument with the report's depiction of total world silver inventories (in 1000 oz bar form) as 2.4 billion oz, although I believe it is overstated by half a billion oz. Either amount is much less than all the gold throughout the world (a long-held opinion of mine), but I do object to the characterization that the silver inventories held by investors throughout the world are readily available at anywhere near current prices (as is implied in the report).

My main observation with the Silver Institute's report is that total silver production (mine plus recycling) as well as total demand, have remained largely around 1 billion oz for the past decade (the amount I use with frequency). After all "hard" demand (industrial, jewelry/ silverware, and coin demand) is accounted for, at most only 100 million oz or less are available for pure investment annually. This is the amount scarfed up by JPMorgan over the past eight years. While silver production and consumption have largely remained unchanged over the past decade, the same can hardly be said about price, given the large price swings over the past ten years. What this indicates to me is that actual supply and demand have little to do with price change, a theme I'm sure you'll recognize.

In fact, I'm convinced the Silver Institute's report demonstrates this clearly and underscores the fact that COMEX futures contract positioning sets the price. To that end, the SI's survey does include reference to managed money positioning on the COMEX, but falls far short of concluding that this is what sets price. Certainly, and as is customary, the word "manipulation" is not mentioned once in the 104 page document.

To be sure, my main takeaway of the report is what it doesn't mention. Remember, some hold this document to be the definitive final word on the silver market. But how could that be if there is no mention of the most controversial silver issues of the day? Most conspicuous is that JPMorgan was not mentioned once. The bank allegedly holds close to half of all the world silver inventories and has been the consistent big short seller on the COMEX while accumulating its massive physical silver (and gold) hoard; what could possibly be more important to the market? At the very least, the report should have sought to rebut the allegations, or at least tried querying JPMorgan.

If you think that's a stretch on my part, then how about this – how could there be absolutely no mention of the indisputable fact that each year for the past 8 years close to 250 million ounces of silver have been physically moved in and out of the COMEX warehouses – a total physical movement of 2 billion ounces? That's not conjecture on my part, that's easy to verify hard data. If someone is going out of their way to purport to present every imaginable physical factoid relevant to silver, then how could there be no mention of this massive physical movement?

The annual COMEX warehouse movement represents 25% of total world production and consumption, far from a trivial amount. The Silver Institute proudly lists the mining companies and other sponsors which have paid for the report – aren't any of them curious about the exclusion of any mention of a physical inventory turnover that simply does not exist in any other commodity, just silver? Shouldn't there be some explanation from the dozen or so analysts listed as having contributed to the report? How thorough and comprehensive can this survey be if it completely ignores what is perhaps the most salient feature of the physical silver market over the past 8 years? I doubt there will be any mention of the documented COMEX warehouse movement in the CPM report either. This is nuts.

Further, I'm convinced that the reason the Silver Institute and others avoid mention of the greatest physical inventory movement in history is because to acknowledge it would require even closer scrutiny. For instance, when and why did it start? The when is easy, April 2011, just as JPMorgan opened its own COMEX warehouse and began depositing metal, eventually with those deposits towering over all other COMEX warehouses. This is the date, after all, when JPMorgan began its epic accumulation of physical silver. The why is much more difficult, but I've offered my take (a means for JPM to acquire more metal) and others are free to offer their own take. If the Silver Institute or anyone else acknowledged the unprecedented COMEX physical silver turnover, how could it avoid looking closer? Better not look at all.

The reason I raise these issues is because there seems to be two very different takes on silver (and gold). One in which the current price appears normal and in line with actual supply/demand fundamentals; the take widely accepted by most, including main stream commentators and media, as well as regulators and producers and consumers of the metal. On the other hand, there are those like me that consider the current price contrived and manipulated and bearing absolutely no legitimate connection to the real supply/demand fundamentals. Of course, I go much deeper and try to explain why silver is manipulated, relying strictly on publicly available data, and why the price is contrived and artificial and as far from normal as possible.

I listen to the establishment perspective and consider it carefully, but remain unpersuaded that all is as described (or as should be). Unfortunately, I can't say the same for those who disagree with my take, mainly because there is never a fair or full reciprocal consideration offered. I've yet to hear, for instance, any reasonable explanation for or even acknowledgement that the unprecedented physical turnover in COMEX silver inventories actually exists (despite it being published daily). It's as if as long as my side of the debate isn't acknowledged in the slightest, then that means it doesn't exist.

The recent interview in which former CFTC Commissioner Bart Chilton confirmed that JPMorgan took over Bear Stearns' short positions and dominated and controlled the short side of COMEX silver despite CFTC demands that it cease is a case in point. Everyone can listen to Chilton's own words and hear him clearly confirm that which I've alleged for the past 12 years. Yet despite making the article public and knowing that it received fairly widespread attention, an associate commented to me that he was dumbfounded that there was no large outward public reaction, seeing what Chilton had admitted to. My associate was stunned that Chilton's admission of JPMorgan's role (which has continued to this day) didn't come to dominate the conversation.

I was less surprised, based upon what I said earlier, namely, that there is never a fair and full consideration given by many to any evidence that the price of silver is manipulated. Die-hard manipulation deniers aren't interested in evidence at odds with preconceived opinions. To be sure, many do see the evidence, but it is remarkable what others will refuse to see even when in full view. But there is a practical side to this that bears examination. It seems to me that it is real hard to see silver moving sharply higher in price if you are convinced everything is currently on the up and up. Such a conviction would seem to imply prices lugging along, mostly as they have for past several years.

However, if you do believe that silver has been manipulated in price, principally by JPMorgan, then it’s real easy to see prices exploding higher at some point – particularly if you subscribe to my take that the bank has amassed around 850 million oz of physical silver. I know the downdraft in prices over the past 8 years has been demoralizing and draining to say the least, but the crooks at JPMorgan haven’t wasted a minute of that same time in acquiring every bit of physical silver as possible. And now that JPM has completely covered its COMEX short position, it has never been better positioned for a price liftoff. This isn’t about how you or I may feel about the long downward drift in price for the past 8 years, it’s about what JPM has done over that time

So the bottom line is this – if you believe that there is no manipulation at play in silver and that everything related to price is in accordance with the free law of supply and demand – then I can’t imagine why you would expect prices to climb sharply in price. After all, the supply and demand of silver hasn’t changed much in ten years or so, so why would the price rocket higher?

On the other hand, if you believe that someone has been screwing with the price, there is much more reason to expect sharply higher prices when the price screwing stops. We even pretty much know who the “someone” is that has been screwing with price – JPMorgan. No, not just because I have been fingering these crooks for the past ten years or that the Justice Department may be on their trail, but because you heard it with your own ears in the Bart Chilton interview.

But wait, you say – we may know that silver has been manipulated and who has been manipulating it, but we don't know when the manipulation will end and prices will be set free. After all, it's been 8 years since the price peak (a peak, by the way, that was up nearly tenfold from 8 years prior to that). And the 8 year wait has been made to seem much longer because so many other assets have climbed over that same time. So I guess it comes down to timing, or so it would seem. The only problem with that is that no one has a lock on timing – timing is the great universal unknown. I happen to believe that silver can explode in price at any moment, but I wouldn't want anyone to rely on that.

Instead, I would look at what is known, namely, that JPMorgan is the big manipulator and that never in history has it been better positioned for the coming silver explosion by highly quantifiable measures. JPM has never owned more physical silver (and gold) than it does presently and it has never been less short on the COMEX than it is now. That doesn't guarantee we are at the precise moment of liftoff, but neither does it rule out that prospect. Again, timing is the great unknown.

But we do (or should) know one other critical fact, namely, what JPMorgan does or doesn't do on the next rally will determine if this is the big one or not. Specifically, if JPMorgan adds meaningfully (say, 10,000 contracts or more) to its COMEX silver futures short position on the next rally, then the odds of this coming rally being the big one are greatly reduced. If JPM refrains from adding shorts, it is hard for me to see how this won't be the big one.

Yes, I know that we have been in this same setup on past occasions too numerous to count and each and every time JPMorgan has added to its silver short position, causing the rally to be capped and eventually unwound. And yes, I know I have repeated my refrain on each and every past setup. And I do so again today, knowing full well that it can go either way. But I also know it is what can be called an asymmetrical equation. That's a fancy term for saying that on the next rally, silver can up relatively little (as has always been the case these past several years) or it could shock people by going up a disproportionate amount. Of course, silver prices could also continue to drift lower, but that would only be temporarily, according to all that is known about market structure. But this isn't about anything except what JPMorgan does or does not do.

Given the setup, there is only one way to play it as far as I'm concerned – as if JPMorgan won't add to shorts and this is the big one, for the simple reason it will be easy to adjust to if it isn't the big one and near-impossible to adjust if it is.

As far as Friday's Commitments of Traders (COT) report, I am expecting significant positioning changes of the good kind, namely, large managed money selling and commercial buying, particularly in silver, but also in gold. The reporting week which ended yesterday was unusual to say the least. The first day of the reporting week, last Wednesday April 10, was strong with gold closing above its 50 day moving average for the first time in two weeks and silver almost doing the same. Therefore, on that first trading day, there was likely managed money buying and commercial selling. Thereafter, things changed radically.

Starting on Thursday, both gold and silver prices sold off sharply, and further new lows were set on Monday in each. Gold went on to make lower lows on yesterday's cutoff for the reporting week, but silver bucked the tide, actually finishing higher than last Thursday’s close. Over the four trading days starting with last Thursday, gold declined by $36 and silver by 30 cents on high trading volume. In the process silver fell back below its 200 day moving average and gold fell below its 100 day moving average for the first time since November.

Therefore, we know that there was heavy managed money selling and commercial buying on those last four trading days of the reporting week, even after adjusting for the opposite positioning on the first day of the reporting week. How much net managed money selling and commercial buying will show up in Friday’s report? I’d guess a minimum of 25,000 contracts in gold and 10,000 contracts in silver. As always, more is better, less not so much.

The big question, of course, is if this week’s managed money selling and commercial buying was enough to indicate a price bottom? I think this is the case for silver, and perhaps gold as well, but the remaining open question in gold is if its 200 day moving average needs to be penetrated. As of yesterday’s close, that moving average was $25 lower. On the other hand, $30 higher and we’re back above all of gold’s moving averages and, perhaps, off to the races.

Complicating matters is the recent trend of the managed money traders to pull the trigger on their trading gun more quickly and forcefully than in the past – in other words, they seem to get fully positioned faster than at times past. This new trait would seem to suggest the managed money technical funds may have finished their positioning, particularly in silver and maybe also in gold. One thing to keep in mind is that if we do go lower in price on continued managed money selling and commercial buying, the market structure is further strengthened and a more compelling buy is presented. I know that most of us (me certainly included) are all very tired of this crooked game, but how we feel doesn't matter much.

What does matter, and in fact, is the only thing that really matters is what JPMorgan intends, since this is its world and game. It makes no sense for JPMorgan to continue its manipulative game indefinitely, particularly as its paper trading profit margins have been diminishing and more seem to be awakening to the control that it and the COMEX paper market has on the price. As I indicated earlier, JPM has never been better positioned for a giant upside move than it is now. Even if it gets better positioned (on still lower prices), that will just delay the moment of truth by a measure of time that will be quickly forgotten.

Ted Butler

April 17, 2019

Silver – $14.94 (200 day ma – $15.06, 50 day ma – $15.40)

Gold – $1277 (200 day ma – $1253, 50 day ma – $1307)