

Beneath The Surface

It's no secret that price action in silver (and gold) has been punk on just about every time frame, including recently, for the past year and for the past few years. Although I believe we will look back at current silver prices as having been an investment bargain, it is natural that sentiment and much commentary have been downbeat. There's not much surprise in this, as commentary usually follows price direction □ lower prices invite bearish commentary and sentiment and the only thing that will change that is higher prices.

But that doesn't mean there are not developments under the surface of price and commentary that suggest a different story in silver. Some of these developments have been previously discussed here, one is fairly new. A familiar topic has been the extraordinary sales of Silver Eagles from the US Mint, both on an absolute basis and relative to sales of Gold Eagles. While there is still one more day (today) in which sales of Eagles may be reported, sales through yesterday were in keeping with recent blow-out demand.

http://www.usmint.gov/about_the_mint/index.cfm?action=PreciousMetals&type=bullion

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The Mint reported sales of Silver Eagles of more than 18.4 million one-ounce coins on a year to date basis and sales of Gold Eagles of 180,500 ounces in all denominations, exceeding the 100 to 1 ratio of silver to gold sales. I still don't know who is buying all these Silver Eagles, but that is less important than the fact that they are being bought. I also don't know why so many Silver Eagles are being purchased relative to Gold Eagles, but there is little doubt that has been the case. It does dovetail neatly with my conviction that silver is undervalued relative to gold (and everything else), but it is certainly not in lockstep with recent pricing in silver and gold.

I don't think this preference for silver over gold is occurring on a worldwide basis, but I'm a sucker for documented data and there is little question that the statistics from the US Mint are as accurate as any in the world. I read constantly of great demand for silver and gold, particularly in India and China, and while I accept the reports, some are conflicting. There are no such conflicts with statistics from the US Mint, although, admittedly, Gold Eagle sales are not necessarily reflective of overall gold investment demand or for that matter, overall investment demand for silver. My point is simple □ beneath the surface, the stunning amount of Silver Eagles being sold is not in keeping with the recent punk price action.

Another long-discussed development at odds with the rotten relative price performance of silver compared to gold is the behavior of investors in the two big metal ETFs, SLV and GLD. On the historic price decline of last year, even though silver's price performance was worse, the silver ETF, SLV, suffered no net outflows of metal, while the big gold ETF, GLD, lost 40% of the metal it held. This remains an oddity with no more plausible explanation than silver investors held strongly because they concluded silver was undervalued and not to be sold.

Even though silver metal holdings in SLV are up slightly this year (GLD holdings are flat), a new development that caught my attention was the large withdrawal of more than 3.3 million oz in SLV that was reported Monday. As it turns out, I was expecting the opposite, namely, a large deposit as a result of last Thursday's high volume up day. I know that silver was sharply lower overnight on Wednesday and into the opening of Thursday, but by the time SLV opened for trading, prices had stabilized and then moved higher during the trading day. With SLV volume more than double recent daily average trading volume, it appeared a lock that net buying occurred, necessitating an eventual deposit. Instead, a large withdrawal was reported. What's up with that?

This is all about the most plausible explanation and that explanation is

something I have discussed previously. To my mind, the reason for the large withdrawal was not plain vanilla investor liquidation, but due to a large buyer avoiding SEC reporting requirements by converting shares into metal. By such a conversion, the 5% share ownership reporting threshold could be avoided, as there is no reporting requirement on ownership of actual metal. In reality, this is an easy thing to do, particularly for an authorized participant (my guess is JPMorgan). If my premise is correct, what this means is that what on the surface looks like investor selling was instead strategic accumulation by a large investor of physical metal.

I've given new thought to an observation I've made consistently for the past three years □ the phenomenon of the extraordinary turnover or movement of silver into and out from the COMEX-approved warehouses. As I have reported, there has been an average of 600,000 oz daily or 3 million oz weekly physical silver movement in the COMEX warehouses. (For the first two days of this week, more than 1.75 million oz have been moved, so the turnover has not abated).

I've also pointed out that this inventory turnover is highly unique and specific to silver and is not apparent in any other metal, COMEX or otherwise. I've concluded that the most plausible explanation for the silver warehouse turnover is because physical supplies are tight, a development under the surface that

belies the rotten price action. In further thinking about the turnover phenomenon, I've come to conclude that I may have been understating the situation. Please hear me out.

Silver is the one precious metal that demands professional storage. That's because you get so much for the money compared to gold. One contract of COMEX gold is equal to 100 troy ounces, or close to \$130,000 at current prices. 100 ounces is about 7 lbs. Most people would have more trouble coming up with \$130,000 than in holding or storing a gold bar weighing 7 lbs. This is one of the reasons, aside from the tiny amount of gold that COMEX inventories represent compared to the total supply of world gold that I don't obsess about COMEX gold inventories. Most of those holding gold for any reason would rather hold it personally than store it, particularly since you don't get that much metal for dollars of cost. This not to be taken as a knock on gold; to the contrary, gold's high value density is often advanced as a benefit to owning gold

It's different in silver. \$130,000 currently buys more than 6600 troy ounces of silver or more than 450 lbs. No one could easily move or store 450 lbs. of anything. Because of this simple fact, anyone with substantial funds to invest in silver must quickly resort to professional storage. On a practical basis, that means that professional storage is more necessary in silver than it is in gold or

other precious metals. What this translates to is that over the years, the COMEX-approved silver warehouses have become the depository for large amounts of investor-owned metal for professional storage purposes.

I know many investors who hold silver for storage in the COMEX silver warehouses. In fact, that's my point and one I haven't fully articulated in the unusual turnover premise of mine. Because large dollar amounts of silver need to be professionally stored and because the COMEX-approved warehouses are a great alternative for professional silver storage, it follows that much of the silver listed in the COMEX warehouses are on behalf of long term investors. How much of the COMEX silver inventories are held by such investors? No such records exist, but from my personal observation over the past 30 years, I would guess a minimum of 80% of total COMEX silver inventories are held by investors for professional storage purposes.

The 3 million oz weekly silver inventory turnover comes to 150 million oz annually, or almost a 100% total inventory turnover considering total COMEX silver inventories are near 175 million oz. This is a level of turnover so much higher than in any other commodity that I've discussed it non-stop for three years. The new thought that struck me is that if 80% of COMEX silver inventories are held by investors (as I firmly believe) and those inventories are

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not being moved that means that the 150 million oz annual turnover is not close to a 100% annual turnover, but more than a 400% annual turnover of the 35 million oz of silver in COMEX warehouses not owned by investors.

In other words, the frantic or torrid or whatever adjectives I've used in the past to describe the white-hot COMEX silver inventory turnover have been vastly understated by me in not considering that the bulk of COMEX inventories is owned by investors and, therefore, has no reason to be moved. This new observation raises the stakes of my original premise. If the rapid turnover does indicate physical tightness; that physical tightness has just been magnified by a factor of 4 or 5.

Yes, I know that the price of silver has been stinking up the joint, but the stench has nothing to do with the sales of Silver Eagles, or the withdrawal from SLV or the incredible pace of turnover in COMEX silver inventories or anything else in the real world of supply and demand. Instead, the rotten price action in silver is attributable to the crooks at JPMorgan and the COMEX. Never has this been clearer.

Now, there are other indications of developments under the surface regarding the COMEX. Yesterday, a Reuters report indicated that the CME Group was considering whether to impose daily trading price limits in gold and silver after 20 years of no daily limits.

<http://www.reuters.com/article/2014/04/29/cme-group-precious-idUSL2N0NL1JH20140429>

Instinctively, one should reach for and hold onto one's wallet whenever the CME (or JPMorgan) proposes a change because you can be sure that any change is not intended to benefit anyone other than the exchange or its leading members. Although I admit to not trusting the CME or JPMorgan in any way, I am actually encouraged by the suggestion that daily trading limits for COMEX gold and silver be reinstated. But not for reasons on the surface, only beneath the surface.

Having no daily trading limits on COMEX gold and silver has been one of the real advantages for the bad guys in the decades' long manipulation. That's because no limits have enabled the manipulators to move prices (mostly down) so sharply and dramatically to force traders into and out of positions so suddenly so as not to allow time to think things over. The classic examples are the two 30% price declines in COMEX silver in 2011. Had there been daily

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trading limits in effect, those declines could not have occurred. I've always been a big proponent of daily trading limits for the reason that they give folks time to think things over and not react spontaneously.

Therefore, to see the CME considering such limits now raises my suspicions. After JPMorgan has succeeded in rigging the price of silver 60% lower is not the time to consider limits; those limits should have been in place long ago. Similarly, I would be suspicious if the CME suddenly embraced position limits, but that will likely never occur. But I am encouraged by the article because I think it may reflect something unspoken and under the surface.

I think (or hope) that the idea of daily price limits has arisen because the CME may be reacting to the rotten public image it has created for itself. For most metals investors and commentators, the COMEX has become a dirty word. In fact, it has long been called the CRIMEX by many (I am not the originator of that term, unfortunately). It is hard for me to think of another organized exchange held in lower public esteem than the COMEX, including other CME exchanges, like the Chicago Board of Trade or the Chicago Mercantile Exchange. It is interesting that the Reuters article only talks about trading limits on gold and silver.

What encourages me is that the CME may have finally become sensitive to its rotten public image. The problem is that the roots of the rotten image are deeply ingrained. By converting to a for-profit publicly traded corporation, the CME is only interested in profits to itself and its leading members (JPM); not in upholding commodity law or functioning as the legitimate price discovery or hedging mechanism intended by Congress. The proof of that resides in the unnatural concentration on the short side of COMEX silver and the virtual lack of participation by real producers and consumers in COMEX dealings.

One other recent development is that JPMorgan was the largest issuer of silver deliveries on today's first notice day for May silver futures, having delivered 1072 of the 1658 contracts issued in its proprietary trading account, or almost 65% of the total deliveries. You'll remember that JPMorgan has been the largest issuer or stopper in COMEX silver for some time, always in its proprietary trading (house) account. It's as if there were never any discussions about banks trading on a speculative basis (the Volcker Rule) or in dominating markets (position limits). What the heck was Dodd-Frank all about anyway? JPMorgan's market dominance and control in silver has never been more pronounced and the CME twiddles its thumbs and discusses daily trading limits.

http://www.cmegroup.com/delivery_reports/MetalsIssuesAndStopsReport.pdf

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The COMEX has become a cesspool of manipulation that shouldn't be allowed to exist in its current form. Every article I write, which usually refers to the CME and JPMorgan as market crooks and why, I send to the head guy at the CME, Terry Duffy, and the chief regulatory official, Thomas Lasala, as well as to JPMorgan and CFTC officials. I know that I would respond to anyone calling me a crook, as I'm sure you would as well; but that's not the case with them. Perhaps what has not been achieved thru regulatory channels can be achieved thru the pressure of public perception.

Sooner or later, the things that are boiling beneath the surface in silver should emerge. Unless I am reading things all wrong, that should result in significantly higher prices regardless of the ongoing COMEX manipulation.

Ted Butler

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Silver - \$19.20

Gold - \$1294