Let me start off this article with another well-worn cliché, namely, that for decades, we have all been like frogs, slow to recognize that we've been in a pot of what is now boiling water. In other words, we've gotten used to something for so long, that it has taken 40 years for the collective body to start to realize we've been lulled into something so profoundly outrageous that it is hard to fully comprehend. In full view and on a daily basis for decades, we appear to be at the critical point of recognizing something that, in hindsight, should have been seen long ago, but for a variety of reasons, has flown under the radar.

I'm speaking of the decades-old overall hoodwinking and capturing of the price discovery process for silver (and other commodities) on the COMEX and other exchanges run by the CME Group. I'll get into the reasons why we've all been snookered for so long in silver, but first let me cite the spark that set off this line of thought. A subscriber (thanks Ged) sent me a blurb from Bloomberg which outlined the written responses from the energy minister of Saudi Arabia, Prince Abdulaziz bin Salman, to a series of questions. Excerpts include –

"The paper and physical markets have become increasingly disconnected." He said futures prices don't reflect the underlying fundamentals of supply and demand, which may require OPEC to tighten production when it meets next month.
"Witnessing this recent harmful price volatility disturb the basic functions of the market and undermine the stability of the oil markets will only strengthen our resolve."

"The paper oil market has fallen into a self-perpetuating vicious circle of very thin liquidity and extreme volatility undermining the market's essential role of price discovery. This has a negative impact on the smooth and efficient operation of oil

markets, energy commodities and other commodities creating new types of risks and insecurities. Nowadays, one need not look far for evidence of this. The paper and physical markets have become increasingly more disconnected. In a way, the market is in a state of schizophrenia, and this is creating a type of yo-yo market and sending erroneous signals at times when greater visibility and clarity and well-functioning markets are needed more than ever…."

Please take a moment and substitute silver for oil in the above and you'll begin to understand the basic thrust of what I've tried to explain for decades. For the record and as I have previously written over the years, OPEC would be considered an illegal monopoly under US antitrust law, but since it is not subject to US law, that is of little concern to the cartel. Besides, oil is a commodity whose production needs to be controlled at the margin to prevent even more massive price swings, as has been the case from Standard Oil, to the Texas Railroad Commission and the seven sisters. But much of what the Saudi oil minister said is impossible for me to argue with.

In fact, the major difference between his words on oil, when compared to silver, is that OPEC is in a much better position to break what it sees as a manipulation of oil prices by the paper markets compared to what the world's silver producers could ever do. Because most of the silver mined is as a result of the production of other metals, there's no way the silver miners could fight the paper manipulation on the COMEX, as do the oil-producing countries. History bears this out. But, on the other hand, the COMEX silver manipulation has lasted for so long and its impact on price has been so severe, that we have reached the point where it's not necessary for there to be production cuts in order to propel silver prices higher.

The price of silver has been so depressed for so long that it has already resulted in

reduced production. Had silver not been artificially depressed for decades, due to the paper games played on the COMEX over this time, the price would have been higher and there would have been much greater production from new primary silver mines, according the law of supply and demand. Just as potential investors have been turned off by silver’s continued low price, prospective new miners of silver have been similarly turned off in the aggregate.

In other words, the world as a whole (with some glaring exceptions) has been a frog in the pot of luke-warm water now raging at a full boil, thanks to the length of time the price has been suppressed on the COMEX. So powerful has been the steady drumbeat of artificial pricing on the COMEX that it has come to seem normal. Experience something long enough and it seems normal, no matter how outrageous that something may be when broken down and objectively analyzed. The recent trial of the former traders from JPMorgan (as well as the bank’s own settlement two years ago) is a case in point.

While all the details of the trial (and the prior settlement by JPM) were covered in great detail, including the personal details of all involved, the biggest and most obvious takeaway was overlooked, namely, how bank trading desks have come to dominate COMEX trading and that dominance was not confined to JPMorgan. Yet the most obvious question was never raised – who died and left the banks in charge of COMEX trading? Collectively, we’ve all gotten so used to the banks dominating COMEX trading that even a trial or the numerous settlements proving this fact hardly register. We’re all frogs in a pot.

But a funny thing has occurred along the way in the decades-old silver manipulation on the COMEX – the iron-grip of price suppression has been so successful and so

enduring that the seeds of its own destruction now appear to be firmly in place. So effective has been the price suppression of silver that the signs now appear clear that we may finally be at the point of being between a rock and a hard place.

For years, decades actually, many, including myself, have contemplated the point at which the rubber would meet the road – when the artificial low price would result in a physical shortage. This was always a prime topic in my many daily discussions with my dear-departed friend and silver mentor, Izzy Friedman. The inevitable physical crunch never fully-arrived, although there were some near misses (in 2008 when Bear Stearns failed and again in 2011, when silver ran to $50). Looking back and trying to grasp why the physical silver crunch never arrived, the short answer is that there was more silver in the world than previously contemplated.

Over the past 15 or so years, more silver came out of the woodwork, in the form that matters most (1000 oz bars), to satisfy growing demand than I ever imagined. Most of this silver came to be deposited in the world's silver ETFs, where more than 1.1 billion oz now reside (down from more than 1.2 billion oz), out of a total world supply of 2 billion oz. But due to a variety of reasons, the days where substantial new quantities of silver in 1000 oz bar form can come into the world's silver ETFs appear limited.

For one thing, the premiums on retail forms of silver to 1000 oz bars have been great enough for long enough that silver typically destined to go into 1000 oz bar form are being converted into smaller, retail forms like never before. This restricts the production of 1000 oz bars. Even more important are the reports of surging demand from India and China.

As I indicated on Saturday, silver investors from India are different from investors in

the West in that lower prices stimulate greater demand in India. Since silver prices are down quite noticeably this year, it makes sense that Indian silver investors have turned aggressive buyers, after refusing to chase the higher prices of 2020 and 2021. Reports suggest as much as 30% of total world mine production could be taken by Indian buyers this year.

https://economictimes.indiatimes.com/industry/indl-goods/svs/metals-mining/indias-silver-imports-to-record-high-due-to-lift-in-investment-demands/articleshow/93612297.cms

It is principally because of this surge in Indian buying on the lower silver prices that I believe the market may be between a rock and a hard place. Since the pattern is clear and well-established that the investors from India buy in physical form and on lower prices, any continuation of downward paper price manipulation from the COMEX would appear self-defeating for those rigging prices lower. This is particularly true considering silver's current extreme relative undervaluation to gold, as there are no people more tuned into the relative valuation between silver and gold than the Indian people.

Of course, I am not suggesting that the commercial crooks on the COMEX are deliberately trying to stimulate Indian investment demand by rigging silver prices lower. Instead, I am contending the COMEX commercials have rigged prices lower for the past several months in order to buy as many futures contracts as possible (from the managed money sellers) and more recently, in order to buy back as many short positions on SLV as possible. It's just that an unintended consequence of the downward price rigging in silver is the stimulation of Indian buying demand. Rock vs hard place.

More and more, it looks to me like the big reductions in ETF holdings, particularly in SLV, can be traced to the exploding demand in India and China, on a size basis alone, since we are talking silver in the hundred million oz level and more. I still believe the redemptions in SLV are the result of share conversions and not plain vanilla investor liquidations, but increasingly, it appears the silver being redeemed in SLV is finding its way to points East.

Therefore, something has to give and, in my opinion, likely soon. Any continued rigging of silver prices lower will only result in greater Indian demand and should silver prices suddenly surge higher, any falloff in Indian buying will be more than offset by Western investors who will turn buyers on higher silver prices. Since the motivation of the commercial price riggers seems highly short term in nature (until they can buy back enough COMEX contracts and/or SLV shorts), there also appears to be a short-term time fuse to the whole set up.

Turning to other matters, the new short report on stocks will be released late tonight and of particular interest will be the latest short position on SLV, as of the close of business, Monday, August 15. I've given up trying to handicap this report, because, unlike the COT report, my past predictions have too often been wide of the mark. I'm not even sure of the methodology employed in compiling stock short statistics, except to know the main data source is the Depository Trust & Clearing Corp (DTCC), the largest and most secretive financial institution in the world. In fact, I was quite surprised the most recent short position on SLV, 47.5 million shares as of July 29, was even allowed to be revealed (I think it slipped through by accident), seeing how it was the largest short position in many years and was in such conflict with BlackRock's warning in Feb 2021.

Simply due the massive size of the short position in SLV, I would hope it declines from the level of July 29, but I'm not sure how much, if any, that will be evident in tonight's report, since only one day. Monday, August 15, the first of 6 straight down days will be included in the report. I still do believe that the recent silver selloff of roughly $2, was related to covering the short position in SLV, and not, primarily, related to COMEX positioning between the collusive COMEX commercials and the managed money traders.

Turning to Friday's new COT report, given the steep price declines through the reporting week ended yesterday, more than $1 in silver and $50 in gold, plus the fact that the brief upward penetrations of the 50-day moving averages in each, were completely reversed to the downside in a classic stair-step (salami-slicing) manner, it's hard not to imagine managed money selling and commercial buying. However, trading volumes remained ultra-low and there was hardly any change in total open interest in silver and only a marginal increase of less than 4000 contracts in gold, so I wouldn't be able a venture a guess on positioning changes in contract terms.

Of course, if my speculation is correct that the prime motivation for the very recent takedown in prices, particularly in silver, is related to efforts by the big SLV shorts to rig prices lower using the tried-and-true methodology of typical COMEX price smackdowns, in order to buyback SLV shorts, then there may not be the big positioning changes typically recorded during big COMEX price smashes. Bottom-line is that I won't be particularly upset if the positioning changes on Friday are less than what would normally be expected given the large price declines over the reporting week (but delighted if the changes are significant).

The words of the Saudi oil minister still reverberate to me, mainly because they were

so clear in pointing the finger at the artificial price influence of the paper futures market. In all the decades I have followed the oil markets (now more than five), I never witnessed such clear talk on something that should have already been known to everyone and that was so inline with what I have said about silver. Of course, OPEC is in a much better position to do something about the artificial pricing of oil, than me in silver.

To be sure, I'm not rooting for higher oil prices, since I'm an energy consumer (as is most everyone else). And from what I can tell, the oil minister's complaints involve pricing over the past few months and not the decades I have alleged artificial price manipulation has existed on the COMEX in silver. Still, his words were stunning and I believe, prophetic.

Ted Butler

August 24, 2022

Silver – $18.95 (200 day ma – $22.64, 50 day ma – $19.90, 100 day ma – $21.48)

Gold – $1764 (200 day ma – $1842, 50 day ma – $1777, 100 day ma – $1832)