

Two Silver “Negatives” Flip to Positive

Price action creates market sentiment and collective judgement. Even the most ludicrous market opinion sounds brilliant if price moves in conformity with that opinion. Conversely, even the most brilliant market opinion sounds ludicrous if prices move opposite to that opinion. Of course, price does change direction, making what was thought to be smart, suddenly dumb and vice versa. That’s why it’s important to judge opinions over time and complete market cycles.

During silver’s long period of price underperformance (which I still claim was caused by the ongoing COMEX price suppression and manipulation), a good number of reasons arose seeking to justify and explain the poor price performance (away from manipulation). I’d like to deal with two of the reasons given most frequently, particularly seeking to explain silver’s pronounced underperformance relative to gold.

The first reason given for silver’s poor performance was that its mine production profile featured a heavy reliance on it being produced primarily as a by-product of other metal production, principally zinc, lead, copper and gold production. In fact, upwards of 70% of silver’s total mine production comes from other metal mining, with only 30% or less coming from mines that are considered “primary” silver mines - although even that is somewhat misleading as even the primary silver mines most often get significant revenue and production from other metals. Truth is that almost all metals mining involves the production of various metals.

It is undeniable that this by-product mining profile of silver is a fact of life and has

been for many decades. And yes, it is true that in periods when silver prices are depressed, as long as the prices for other metals haven't collapsed, there should be little impact on the mine supply of silver coming to the market as a result of its by-product mining profile. But it is something else entirely to label silver's by-product mining profile as being inherently bearish. It simply is what it is and when silver prices suddenly flip higher, as has occurred recently, what was widely credited as a reason for lower silver prices, particularly relative to gold, suddenly becomes very bullish.

The fact is that silver's by-product mining profile simply means that most of its total mine production is relatively inelastic, meaning total silver mine production is not likely to change much in the intermediate term in response to changes in the price of silver. When silver prices are low, there is little reason for by-product production to fall off. Conversely, when silver prices suddenly surge higher, there is little reason to expect an immediate boost in total silver mine output. As far as greatly expanding primary mine production, there are no short-term production surges likely - this is not like flipping a light switch.

So all the bearish talk of silver mine output being bearish when prices are low due to its by-product profile, suddenly flip around and become wildly bullish when prices turn higher. My opinion is that all the previous bearish explanations were bogus and just appeared to sound correct as long as they conformed to the general price direction.

The second popular reason given to "explain" silver's low price, particularly relative to gold, was that silver was merely an industrial commodity, whereas gold was a pure investment asset, with little industrial demand (away from jewelry). This

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somehow made silver sound less pure and even “dirty” compared to gold. What nonsense. The fact is that silver has much more practical, everyday utility than gold. Gold purists may take such talk as being somehow negative to gold, when that is not my intent.

The fact is that gold has many excellent chemical and industrial qualities (although not near as many as silver) and gold would be more widely used except for one thing - its price. Gold has always been one of the most expensive commodities or elements, because of its investment and monetary attraction, and its resultant high price has discouraged industrial consumption. Silver, in contrast, and for a variety of (mostly nefarious) reasons has always been relatively inexpensive, so there was little reason not to use the heck out of it in everyday applications. As the best conductor of electricity, for instance, there is hardly an electrical or electronic device today that doesn't use silver.

As a result of silver's incredibly widespread industrial consumption, two facts have emerged - one is that due to the cumulative effect of decades' worth of industrial consumption, relatively very little silver remains in world inventories. In gold, world inventories have never been higher, while silver inventories are still 90% below the levels of 75 years ago. Two, a very large segment, more than 50% to as much as 90% (when jewelry and retail coin and bar investment is included) of total mine production is already spoken for even before new silver is mined (and mostly inelastic mine production at that). Talk about a price accident just waiting to happen.

None of this can be new to regular readers but the issues are amplified as a result of the unprecedented extremely large turnover or physical movement in and out from the COMEX-approved silver warehouses that I have been writing about. As I

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indicated, I did make last Wednesday's article, "A Silver Mystery in Full View," public in the hopes of generating any alternative explanation to my conclusion that the turnover was the result of growing intense industrial user demand. While I did get much higher than usual feedback as a result, no real alternative explanations were forthcoming.

I did get one interesting reaction today (from a non-subscriber) questioning if what I was writing about could possibly be true. Surely, Chris wrote, I must be mistaken in some way and I couldn't be talking about real physical silver movement, but some type of paper movement, as the quantities were so large that it did not seem possible that so much actual physical silver could be moved around as I contended. I pointed out that yesterday, more than 6 million oz were moved in one day. I understand Chris' disbelief, but as I explained to him, that was why I was writing about it.

To be sure, I can't guarantee the data is being published correctly, but I have followed this data on a daily basis for more than 35 years - that's why I picked up the sudden change in April 2011. It would be dumb beyond belief for the CME Group to publish data it knew to be false and an even more obvious question would be to what end? What could possibly be gained by the CME in publishing statistics it knew to be wrong and that very few were even aware of. These guys are just not that sloppy or dumb.

To be clear, when the movement started in April 2011, I opined for many years that at the heart of the movement was JPMorgan skimming off hundreds of millions of silver oz for its hoard. I still feel that way but JPMorgan no longer appears to be accumulating physical silver, so the continued movement must have some other explanation, which I attribute to intense industrial user demand. Another Chris

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(Chris Kniel) had a take which agreed with mine, and suggested that some silver users were switching from “just in time” to “just in case” (silver became unavailable). I thought it was a very clever coining of a new phrase and promised I would cite him as the source.

One thing that I’m not sure I mentioned but want to make sure I do, is that if users have or do begin to stockpile physical silver (as they should) they should be expected to behave differently than investors. Where an investor must think of an eventual sell point, an industrial user stockpiling silver (or any commodity) as a legitimate inventory hedge against future unavailability is not likely to be primarily interested in taking a profit as and when silver prices rise sharply. The best examples I can give is someone seeking to cancel their fire insurance when a fire breaks out or a prepper seeking to sell a stockpile of stored goods as their availability disappears.

The bottom line is that if the extreme physical turnover in COMEX silver inventories represents what I believe it does, then it is bullish beyond words.

Warnings Ignored

Some, hopefully, final thoughts on Scotiabank and the recent large fines and deferred criminal prosecution agreement (DPA) reached with the Justice Department (and CFTC).

<https://www.justice.gov/opa/pr/bank-nova-scotia-agrees-pay-604-million-connection-commodities-price-manipulation-scheme>

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First, a DPA is about the worst thing a bank could find itself agreeing to, just one step up from an actual criminal indictment, which effectively, would put Scotiabank or any other bank criminally indicted into a very real risk of insolvency. There are many laws precluding public and government bodies from doing business with an entity accused or found guilty of criminal behavior. Scotiabank, just like BankAmerica/Merrill Lynch before it, dodged a bullet that could have ended its existence in its current form. That would have been a real shame since the precious metals unit at the heart of Scotiabank's troubles was manned by around 100 employees out of a total employment base of around 80,000 to 90,000 people and maybe 25 million customers.

Remarkably, Scotiabank's close call could and should have been avoided entirely, if it only had legitimately and qualified senior management. I base that conclusion on the simple fact that senior management was duly informed of the criminal behavior inherent in their precious metals unit, formerly known as ScotiaMocatta after its acquisition from Standard Chartered Bank (UK) in 1997. How can I be so sure? Because, I for one, warned them in no uncertain terms, in 2007, just preceding the eight year stretch of unlawful activity that the Justice Department cited in its DPA. And I even invited the public to join in by publishing the email address of the president and CEO of Scotiabank.

<http://news.silverseek.com/TedButler/1187727404.php>

Also remarkably, senior management at Scotiabank actually argued with me about my allegations at the time instead of considering the merit of my claims. Maybe I'm too close to be completely objective, but it's hard for me to conceive of how anyone could not conclude Scotiabank was amply warned and chose to ignore those

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warnings, much to its own detriment. Bankers engaging in stupid and reckless activities is a recurring theme throughout financial history. Of course, Scotiabank wasn't the only one to ignore credible warnings of manipulation in COMEX silver (and gold).

Even more egregious in ignoring warnings of an ongoing COMEX silver manipulation were the regulators themselves, including the CFTC, Justice Department and the industry self-regulator and chief fox guarding the henhouse, the CME Group. It's more than ironic that the CFTC and DOJ got to levy fines against Scotia and other banks, but there is no one to levy fines or punishment against the regulators for also ignoring warnings even more voluminous and specific than the banks received. I suppose that's just the way it is - but it isn't right.

Then again, it is pretty clear at this point that the most important thing for all the warned parties - the CFTC, the Justice Department, the CME as well as the individual shorting banks adjudged to be guilty is for all to remain resolute and not come close to admitting the real crime of the long term suppression of the price of silver (and gold) at all costs. The long term price suppression of silver is an open secret that must never be fully admitted to by any of the parties involved, as it would undoubtedly sink them all.

Turning to developments since the Saturday review, I'd like to comment on yesterday's release of the short report on stocks as of the close of business on August 14. While I don't recall making a specific prediction, I was expecting a reduction in the short position of SLV, the big silver ETF, given that the reporting period covered the very sharp selloff of August 11. To be sure, silver prices as well as shares of SLV made new highs earlier in the reporting period from Aug 1 to Aug 10, but the trading

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volume was heavier on the selloff than on the rally and the data in COT reports most closely matching up with the stock short report indicated a reduction in commercial selling.

As of the prior short report, ending July 31, the short position in SLV had climbed to more than 27.6 million shares, the highest it had been in many months, perhaps years. As of August 14, it climbed again, to just over 30 million shares (ounces).

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

While this is far from a record short position in SLV, particularly in terms of as a percent of total shares outstanding (given the near record amount of total shares and metal held in the trust), I sat up and took notice since it grew when I expected it to fall. Oddly enough, the increase is not disturbing to me in any real sense, although it might become so if we increase dramatically from here. That's because what I sense in the increase of the short position in SLV is a growing unavailability of physical silver for immediate deposit into the trust - in marked contrast to the massive near-immediate deposits into SLV and other silver ETFs for months up until very recently.

I guess what I'm saying is that it increasingly looks like JPMorgan is done with its forced disposal of roughly 300 million oz and the other authorized participants are now struggling to come up with easy physical silver to deposit into SLV and other silver ETFs. Needless to say, that is bullish beyond words as well.

Turning to Friday's Commitments of Traders (COT) report, I'm expecting decent to significant improvements in the market structures of both silver and gold or managed money selling and commercial buying based upon the fairly rotten price action through yesterday's cutoff. Not only did gold and silver prices decline sharply

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over the course of the reporting week, with gold down more than \$90 and silver by \$1.75, both were lower in the classic stair step, salami-slicing deliberate rig jobs not seen in months.

While it has been quite some time since this every day down pattern had been seen, made particularly noteworthy by the Scotiabank settlement, there can be no denying that the decline was completely orchestrated by the commercials to buy back as many shorts as possible. As such, I would expect good things in Friday's report - no pain, no gain and all that stuff.

On Saturday, while I certainly allowed for further selloffs, I did admit to a developing bullish outlook for silver in the short term, not something I typically opine about. However, there were two things I reported on that, in hindsight, most likely explained the price weakness on Monday and Tuesday and into this morning's trading. One was the net buying in silver by the managed money traders of more than 8200 contracts, even though there was no corresponding commercial selling. The other was the selling short of 12,000 contracts by the 8 big shorts in gold, even though it was the smaller commercials (the raptors) that did the buying and not the managed money traders.

My sense is that we will likely see significant managed money selling in silver (and maybe in gold as well) and buying by the big concentrated shorts in gold in Friday's report. If that's the case, I can only conclude we will be even more set to move higher and particularly so in silver. And I'd be lying if I said I wasn't especially pleased with the upward reversal seen today as it seems to be completely in keeping with my short term bullish take. Forget long term - silver has a date with a much higher price destiny regardless - this is strictly short term.

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In terms of the 8 big shorts financial performance, today's rally at publication time erased any relief enjoyed by the big shorts thru this AM and today's rally added about \$400 million to the total realized and unrealized losses, now at \$15.6 billion.

Ted Butler

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Silver - \$27.40 (200 day ma - \$18.13, 50 day ma - \$22.32)

Gold - \$1955 (200 day ma - \$1674, 50 day ma - \$1878)