May 1, 2024 – Finally, A Reasonable Explanation

I'll get into yesterday's price smash in gold and silver yesterday a bit later (although I did explain in advance how there was only one possible reason for a selloff, namely COMEX paper positioning). Instead, I'd like to first discuss what I believe is strong evidence explaining the recent price surge in gold, that I previously hadn't come across. Upfront, the discovery didn't originate with me, so I'm not in the least taking any credit for coming up with it.

It seems most observers have been crediting the surge in gold prices to increased purchases by the world's central banks and that's undoubtedly true to a certain extent. But it's also true that central bank purchases have not grown exponentially over the past year. Here's a very recent article indicating just that. While not broken out, the central bank of China accounted for less than 10% of the 290 tons (93 million oz) total ounces gold bought by all central banks in the first quarter of 2024, or 27 tons (8.7 million oz), a not-meaningless amount, but hardly compelling evidence for the unusual surge in the gold price of more than $360 from Feb 27 to recent highs. Total annual gold supply, mining plus recycling, comes close to 5000 tons or 160 million oz ($350 billion). Silver's total annual mine supply and recycling total, by comparison, is one billion oz or $27 billion.

https://www.gold.org/goldhub/gold-focus/2024/04/chinas-gold-market-march-official-gold-reserves-rose-further-wholesale

Therefore, it seemed hard to attribute the large surge in gold prices with the explanation of central bank buying – there had to something else. That something else, it seems to me was the buying by an even larger amount of gold by citizens of China of slightly more (10.9 million oz) than the 8.7 million oz of central bank of China in the first quarter. Remember, prices for anything are made at the margin and it seems most reasonable to me that this is the main explanation for the unusual surge in gold of $360 recently.

https://www.scmp.com/economy/economic-indicators/article/3260798/chinas-consumers-seek-security-only-safe-asset-gold-purchases-remain-strong

As I indicated earlier, this is a revelation that has come to me over the past day or two, largely as a result of a post on twitter (X) by someone I never heard of before – Alexander Stahel (@BurggrabenH). And, in fact, Stahel didn't introduce anything new about China, as much as framing it in a way that struck a chord and resonated. He just stated the facts as were mostly known that couldn't be denied. Among those facts were that of the 470 million households in Chins (compared to the 130 million households in the US), the Chinese households have a 92% real estate ownership, with many holding more than one apartments (compared to around a 65% ownership in the U.S.). In fact, not only is apartment ownership the largest investment class of the Chinese populace, it is by far, the largest asset class in the world. After decades of putting their savings in apartments and watching those apartments appreciate in price, it was only natural for the Chinese citizens to keep increasing their investments – this is the universal collective investor behavior throughout history. And for more than two decades, they bought apartments as prices grew – to the point of unsustainability, as prices can't grow indefinitely, particularly when driven by speculation. Now, that the point of saturation has been reached, there is no price way out – prices must fall.

And with the stock market in China flat for ten years, there is no appetite for that asset class in China either, particularly as general economic conditions there are quite challenged. Bank deposits, paying 1.5% annual are no big incentive, particularly with the Chinese government talking about reducing interest rates. All this has clashed with the remarkable tradition of the Chinese being notorious savers – said to amount to 20% in good times and as much as 30% of income in difficult times, which is considered currently to be the case, as most in China appear to be hunkered down for tough times. Where to put savings? That's where gold has come in. In fact, all the conditions and traditions seem to be in place for gold buying being just at the foothills of a very long-term movement by the Chinese people. It certainly explains reports of premiums of gold prices in China to the West, although that is also explained by gold exports being disallowed by law (making true arbitrage difficult). I also suppose the Chinese government stepping in at some point to discourage its citizens from buying gold, but the reasons for that are unclear to me.

The buying of gold by Chinese citizens and its lack of appreciation by many (including me) also explains how so many COMEX gold and silver shorts could be caught flatfooted by the surge in price. This has set up the biggest potential clash ever between the physical gold market and the paper market on the COMEX. It was the physical buying of gold, with the buying of Chinese citizens at the margin, that accounted for the surge in prices, catching most off-guard, particularly the gold and silver shorts on the COMEX, and putting them $20 billion in hole less than two weeks ago. Since then, of course, there has been a sharp selloff, of as much as $115 in gold and $2.3 in silver at yesterday's lows. This has shaved off around $6.5 billion of the total open losses, leaving $13.5 billion in open and unrealized losses, and tilting the likelihood towards my "drop first, then pop" speculation from the "price pop, no drop" version.

There was never any question should we get a price drop, the only reason would be due to deliberate paper positioning by the collusive COMEX commercials and not any nonsensical, but legitimate-sounding reasons, including technical excuses. But a deliberate collusive COMEX commercial price-rig lower is a two-fold process, in that in addition to smashing price through a variety of dirty tricks, the crooked commercials must also get a sufficient number of longs, mostly managed money traders, to sell out and then go short. So far, the crooked commercial have done a pretty good job of rigging prices lower, but not in causing (yet) the required amount of managed money selling. But this is a fluid situation and no one can speak of what will be with certainty.

For example, I imagine there might be some managed money selling and commercial buying in this Friday's COT report, but not overly excessive amounts.

What a Difference 25 Years Make

Since I'm now approaching the quarter-century mark of my association with Investment Rarities, Inc. and its president Jim Cook, I thought it appropriate to briefly review that time and where I feel we find ourselves today. Of course, this has everything to do with silver, as Jim's first phone call to me just after the Y2K scare and fizzle was centered on what, if anything I might write that might persuade IRI's customers to buy silver, then in the $4 to $5 price range. Since I had already been studying intensely silver for at least 15 years to that point, I had to laugh a bit when Jim asked me if I thought I had enough new material about silver to sustain a regular output of compelling reasons for people to buy silver.

About the only thing Cook asked me to avoid were deep discussions about my take on the COMEX silver price manipulation, as he thought it might be too complex and confusing to his customers, which I abided by; although within a few years, I did start to include commentary on the price manipulation, as it was (and is) a necessary topic in explaining why silver was so cheap then and now.

At the risk of sounding arrogant, I do believe that I introduced just about every important finding possible in silver and the only way I know to back that up is to have anyone challenge that assertion and see if I can't back it up, although I don't wish to come off as confrontational – just as a statement of fact. This while continuing to press the regulators about the ongoing COMEX silver price suppression/manipulation.

My main focus in the early years at the turn of the century was that silver was dirt cheap on a supply/demand basis and that the test of time would prove that an investment in silver while it was $5 or so would prove to be fruitful. And while silver has still been subject to a price manipulation on the COMEX, those that bought silver at that time and price have largely profited. In fact, silver did briefly increase by ten-fold into early-2011, but as you know, once again succumbed to the forces of price manipulation for most of the past 13 years. Ironically, it was the resumption of the COMEX silver manipulation after 2011 that I believe has set the stage for what should prove to be another ten-fold increase in price, as has already been seen.

One of the hallmarks of the first ten-fold run up in silver prices into early-2011 is that it took about 7 years from 2004 to 2011. Within that seven-year time frame, silver moved by more than five-fold within less than two and half years, increasing from under $9 in late 2008, to near-$50 in early 2011. My point here is that when silver prices rise in earnest, they climb further and quicker than just about anything else. As such, silver is one of those assets where it's best to be positioned before big moves occur.

I would point out that twenty-five years ago, I could speak in terms of a five-year or longer holding period with greater reception than I sense might be received today, because it seems the accepted collective investment time frames have become much shorter. But I also believe that's a case of mistaken perception and the need for instant gratification. This, despite the advice of the true investment geniuses of our time, who universally espouse a longer is better investment time horizon. That's also true in silver, since the more time allowed permits the true driving force of price – the law of supply and demand – to work its magic.

Today, looking back on almost-25-years, I can say without fear of contradiction that the fundamentals and facts that matter in silver are much more bullish in silver today than they were back then. Sure, prices are higher, as they are in everything, mostly as a function of the erosion of purchasing power (inflation), but to focus on the nominal increase in the price of silver, so as to miss the much more critical improvements under the hood, is to miss the essential silver story. Back 20 or 25 years ago, I talked constantly about the coming physical silver shortage. Well, guess what? That physical shortage is now here and isn't about to go away without a moonshot in price. This makes silver about the surest and safest bet around – if you allow it the magic of time to do its thing. Could there be manipulative selloffs in the interim" Of course, just likely not as many as there were back then.

In fact, if anything, the time window for the next great advance in silver prices is much shorter than it was in 2004 or in late-2008, just before a ten-fold and 5.5-fold increase in price. Maybe the stock or real estate market increase by 5 or 10-fold over the next 5 years or so, but considering they are much closer to all-time price highs, it seems to me a market still down by nearly 50% from its all-time price highs of 44 and 13 years ago, stands a much better chance of a price explosion – particularly in the face of the first physical shortage in the history of the world.

Trying to keep as balanced a review as possible, not just of the near-quarter century of my association with IRI and Jim Cook, but going back the full 40 years since I picked up the silver bug from Izzy Friedman (on a challenge) and not to leave out or overlook what was missed or gotten wrong, it comes down to timing and underestimating just how long the COMEX price manipulation would remain dominant. Included in that, as recently discussed, was a complete miscalculation of how much above ground silver existed (in 1000 oz bar form), either in 1985 or 2000.

Since neither Izzy nor I (or most anyone else) had any idea of how much silver in 1000 oz bar form existed away from that which was openly recorded, it was impossible to quantify the amount of unrecorded metal remaining and how much might come to market. It was well-known that total world inventories of silver in all forms had declined by close to 90% since the start of World War 2, paced by the drop of near-6 billion oz held by the decline in US Government holdings. The massive decline in world silver inventories was due to industrial consumption in applications newly introduced to the world over 50 or 100 years, none of which previously existed.

In fact, it was the newly-introduced industrial usages for silver that set it apart from its age-old precious metals companion, gold. It wasn't that new uses weren't discovered for gold, it was just that its relatively much high price, prevented the widespread industrial uses that became commonplace in silver. To this day, the relative lack of industrial consumption of gold makes it easy to estimate all the gold in the world by measuring total cumulative mine production – an exercise used by every gold statistical service. In silver, it's much different, because so much silver has been consumed by thousands of industrial applications, that we long-ago reached the point where there more gold bullion in the world than silver bullion – a fact unknown to perhaps 99% of the world's citizens.

All that said and considering the stunning reversal of a time not that long ago in true historical terms where there was ten times as much silver bullion in the world than gold to the point today where gold bullion inventories outnumber silver bullion inventories by around 3 to 2 in billions of ounces and complicated by the secretive nature of the vast bulk of the world silver bullion inventories 40 or 25 years ago, it is easy to explain why anyone might think we were close to exhausting silver bullion inventories back then. How could you measure that which you couldn't see?

Therefore, for the bulk of the 20 or 25 years that Izzy and I intensely discussed silver (until his passing), since we didn't know how much hidden silver inventories existed, we focused instead on what we did know, namely, the certainty of a physical shortage brought about by too low prices. This wasn't rocket science, it was just the logical application of the law of supply and demand, the same basic law of economics that governs the price of anything. Moreover, by the time Izzy convinced me about silver in 1985, he had already put his basic knowledge of the law of supply and demand in silver to a very successful test, having extracted a ten-fold net profit ($4 to $40), which was easy for me to verify, since I handled most of the order tickets.

So, armed with past experience and a firm knowledge of how the law of supply and demand works, it was easy to think in terms of an imminent physical silver shortage from 1985 forward and certainly from 2000 when I started writing for IRI. It is impossible to count the number of times, certainly in the hundreds, that Izzy or I spoke of an imminent physical shortage. Yet for years and now decades, no such genuine physical silver shortage arrived. Sure, there was a temporary mini-shortage that began to develop in early 2011, but that was quickly squashed. In blunt terms, I (along with Izzy) was dead-wrong in timing the arrival of the physical silver shortage. For those that bought at cheap prices, it made little difference, although for those who bought at much higher prices, that can't be said.

In trying to reconcile and explain why the arrival of the physical shortage took so long in coming, I would say it was due to two things – much more hidden silver inventory than ever imagined and the treachery of the collusive COMEX commercials in prolonging the manipulation – aided and abetted by incompetent regulators, either corrupt or fearful of being discovered as malfeasance for decades. More than an excuse, that's the explanation. Having taken years and decades to finally arrive (as mandated by the law of supply and demand), the remarkable new development is in how few observers recognize the arrival of the first physical silver shortage in world history. I'm not talking about retail forms of silver, which while currently in what may be considered a glut of sorts, but in silver in the form of 1000 oz bars. There is not any suggestion or evidence that current silver demand doesn't exceed current silver supply, from any legitimate data provider and even if there were, the public data indicating the most excessive physical movement in the COMEX silver warehouses and in the world's silver ETFs prove the deepening physical shortage.

Therefore, we've come full-circle, first waiting for years and decades for the inevitable physical shortage to arrive (due to too-low prices), to the actual arrival of the shortage and that arrival being overlooked and unappreciated. However, the critical point is that the too-low prices which brought about the physical shortage were in place for so long (decades) that the affect on silver supply and demand was structural – meaning it took a long time developing and will take an equally long time being corrected. Once a commodity shortage takes hold, the only remedy is offsetting high prices and time for producers and consumers to adjust to the new higher prices. Heck, we haven't started to adjust to the shockingly higher silver prices already baked into the equation – we're still dealing with the vestiges of crooked manipulative games on the COMEX. My only regret at this point is that my dear-departed friend and silver mentor didn't live long enough to see his firm vision of a physical silver shortage come to fruition.

As a result of today's Federal Reserve meeting, gold and silver price jumped a bit, with prices a publication time jumping a bit, with the net result of incrasing the open total losses to the COMEX gold and silver shorts back to around $15 billion from last night's $13.5 billion. By the way, for closing price purposes, I've switched to the may contract from March, which adds 28 cents to the price

Ted Butler

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Silver – $27.10   (200-day ma – $23.99. 50-day ma – $25.67, 100-day ma – $24.48)

Gold – $2335   (200-day ma – $2045, 50-day ma – $2288, 100-day ma – $2133)

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