The two markets in question are the wholesale and retail silver markets, where it is "the best of times and the worst of times….it was the spring of hope, it was the winter of despair", to borrow a quote from Charles Dickens. I find the reference apt, because it's quite unusual to see conditions in the wholesale (1000 oz bar form) physical silver market so tight and indicative of sharply higher prices, while conditions in the retail (smaller bars and coins) market so lackluster and dismal – particularly after quite strong demand and extremely high retail premiums not that long ago.

To be clear, of the two physical silver markets, the wholesale market (in 1000 oz bars) is vastly more important when it comes to determining the price of silver, because by definition, the retail market prices off the wholesale price in terms of prevailing premiums. Silver in 1000 oz bar form is the universal investment and industry standard. And even within the wholesale market, there is another distinct tale of two markets, in that the paper market on the COMEX has set the price of silver over physical market considerations for the past 40 years (in violation of US commodity law). The number of distinct markets in silver is simply remarkable, as well as being largely unknown to the general investment community.

Still, it is highly unusual to see conditions in the retail silver market, in terms of the paucity of new buying and shrinking premiums, to be as depressed as they are in the face of what can only be termed a deepening wholesale physical shortage – the first such structural shortage in modern history. While I tend to focus on the wholesale physical market, that's not to suggest that retail forms of silver are in any way insignificant or as valid on an individual investment basis. Holding physical metal in one's personal possession offers participation in the coming silver price explosion and with no counterparty risk.

Over time, continued strong retail buying can and does have a positive impact on the wholesale price of silver, simply because the more retail forms of silver that are demanded, the less that is available for the production of new 1000 oz bars. As far as the reverse affecting the wholesale price, namely, the dumping of retail forms of silver at an actual discount to wholesale prices, that hasn’t occurred for two or three decades and even in today’s depressed retail market, there is no actual melting occurring to my knowledge. The massive amounts of silver produced up to 1965 in common coinage, for example, have already largely been melted down So, it’s sort of a one-way street, in that strong retail buying can have a positive impact on the wholesale market over time, but the reverse, at least anywhere near current wholesale prices, shouldn’t have much of a negative impact.

Since there is no dual demand profile (industrial and investment) in retail forms of silver, like there is in the 1000 oz bar market, retail demand is driven exclusively by investment demand. Further, investment demand is mostly dependent on prices, with collective investment demand increasing on higher prices and declining on falling or stagnant prices. Needless to say, silver prices have largely declined or have been stagnant for more than a decade and, in fact, are still less than half of previous record-high prices of 44 and 13 years ago.

There are not many investment assets with as stagnant a price record as silver. While the price has been unquestionably manipulated on the COMEX, that explains, but does not alter silver’s price history. Regardless of the reason, it is fully-understandable why retail investors are not plowing into the small bar and coin silver market. At the same time, however, should prices turned sharply higher, as is inevitable at some point (I think soon), it would be expected that investors will do what they have always done and resume buying retail forms of silver aggressively.

Collective investment behavior is largely driven by sentiment based upon price performance, so when silver prices turn higher in earnest, it is reasonable to expect sentiment to also turn.

I would also concede that investment conditions in the wholesale physical silver market mostly mirror the conditions on the retail side, and for the same reason, stagnant prices over the past ten+ years. But the wholesale silver market has a component lacking on the retail side, namely, industrial demand. It is the undeniable sharp increase in the industrial demand for silver, coupled with stagnant or falling mine production, that is responsible for the deepening wholesale physical shortage, with wholesale investment demand taking a back seat.

The most recent statistics from the Silver Institute indicate that non-investment demand (industrial, photography, jewelry and silverware) for silver for 2023 consumed the entire annual world mine production of 820 million oz, plus another 59 million oz of recycling supply, leaving only 123 million oz available for investment demand – or 12% or total supply.

https://www.silverinstitute.org/global-silver-industrial-demand-forecast-to-achieve-new-high-in-2023/

I understand there have been recent reports that suggest that the Silver Institute's demand numbers understate true industrial demand, particularly as regards demand for solar photovoltaics. I don't dispute the reports, although I would contend the SI's data would appear to be already shockingly bullish on its face and provide proof of the deepening physical shortage. In other words, the evidence, industry statistics plus the sharp declines in recorded silver inventories over the past few years, point to a deepening physical shortage, basically on non-investment industrial demand

alone. Now, try to picture what the impact on price will be when, not if, we see a return to investment demand.

All of this, of course, begs the question of why is the price of silver as low and punk as it has been in the face of a deepening physical shortage – easily the most bullish price factor for any commodity or investment asset. And the only plausible answer is that someone or something must be messing with the price mechanism in silver. Otherwise, nothing would seem to make sense, as how could there exist more than a decade of flat silver mine production and growing and record industrial demand, without the law of supply and demand – perhaps the most basic and fundamental economic law of all – not kicking in to drive prices higher? No one can dispute that silver's supply is stagnant to down or that industrial demand has never been higher and that flies in the face of our most basic economic principle. So, what's the explanation?

We're back to a tale of two silver markets again, only this time the two markets are paper and physical and in which the paper market (on the COMEX) sets the price and the physical market involves the actual production and consumption of physical silver. The paper COMEX market sets the price and the rest of the real world of silver goes along with the paper COMEX price – even though the actual world production and consumption of silver doesn't participate in the setting of price.

If you find this bizarre and convoluted, then you would be sane and correct. It is also illegal according to US commodity law, which holds that excessive speculation must not determine prices. Heck, COMEX silver trading is nothing but excessive speculation, as the level of legitimate hedging there is just about non-existent. The bad news is that the COMEX price manipulation has existed for 40 years, with the

federal regulator, the CFTC , and the designated industry self-regulator, the CME Group, both failing miserably at their most basic responsibilities.

The good news is that the regulators' failure will matter for not very much longer. Their colossal malfeasance to date will be superseded by the deepening physical wholesale shortage. And once the physical silver shortage begins to drive prices higher, as it must at some point, investment demand should then kick in, further amplifying rising silver prices. It is fairly well-established that investment demand is the "wild card" in silver's unique dual demand profile, but I have to confess that I always believed (as did Izzy) that it would be investment demand setting off industrial user demand and not vice versa – although now that I think about it, what difference does it make?

In fact, the deepening physical silver shortage brought about by growing industrial demand seems like a "sturdier" foundation for the explosive silver move to come, because I can think of no reason why continued low prices would do anything to diminish such industrial demand. Why would an industry or jewelry or photography or silverware user stop consuming silver because the price was too low? I accept that investors would only get motivated to buy due to higher prices, because that's normal collective investor behavior in everything, but we already have a deepening physical shortage with lackluster investment demand currently, so continued lackluster investment demand wouldn't alleviate the existing shortage.

Combining all the above should help explain my profound bullishness, particularly over the past six months or so, starting with "Code Red" and "Bonfire of the Silver Shorts" and the "Last Selloff". Look not at the precise timing of the coming liftoff in silver prices (because the exact timing is not so important with fully-paid for silver

positions), but look instead at the accumulating evidence that we are quickly approaching the point of no return in silver, where continued artificially depressed prices can't be sustained in the face of physical (industrial) demand outpacing current supply.

And where recorded silver inventories still suggest we are close to the point of bedrock bottom levels beyond which investors won't sell. Remember, even though silver is an industrial metal, like copper of nickel, it is also an investment asset like gold. So, whereas copper and nickel inventories can (and have) fall to levels approaching zero, that's not possible in silver – due to most of the recorded inventories being held by investors (in the ETFs and in the COMEX warehouses).

Just last night, there was a combined 8.4 million oz increase in the combined holdings in the COMEX silver warehouses and in SLV (7.3 million oz in SLV), which brought the combined silver holdings to 710 million oz – still down around 40 million oz from earlier in the year, but up from the recent lows of 700 million oz. We could debate the reasons for last night's big deposit in SLV and I have to concede as unknown what future deposits/withdrawals may be, but after experiencing a combined outflow of 350 million oz in these two holdings over the two years to the start of this year, it's impossible to deny the marked slowdown in the rate of withdrawals over the past year.

I may be proven wrong by a resumption of sharp withdrawals in the future, but at this point, it sure looks like we may be at or close to effective bottom in these two holdings. If we are, combined with the continuing evidence that the industrial demand for silver has created a physical shortage, it's hard to see how a COMEX lid on prices can continue for much longer.

Late Monday, the new short report on securities was released and it indicated an increase of 1.4 million shares to 18.3 total shares (16.8 million oz) in the short position on SLV, as of Nov 30.

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

I don’t consider the increase in the short position on SLV to be substantial since it is still close to 40 million shares less than the peak of short selling in August 2022 of 60 million shares and is 3.8% of total shares outstanding. Besides, the increase in SLV shorting over the two-week reporting period into Nov 30, in equivalent COMEX contract terms came to around 250 contracts. Over that same time, the total commercial net short position on the COMEX increased by around 20,000 contracts (100 million oz). In a perfect world, there wouldn’t be any short position on SLV, but then again, in a perfect world, the crooked COMEX would simply not exist.

Today, the Office of the Comptroller of the Currency (OCC), a unit of the US Treasury Dept, released the latest quarterly derivatives report for OTC positions held by US banks as the close of the quarter ending Sep 30. It was strictly a ho-hummer by my account, as total OTC gold and silver derivatives positions fell, as well for JPMorgan, mostly along the lines of the decline in gold and silver prices from June 30. The only aberrations were a somewhat larger decline in the derivatives holdings of Citibank and a slight increase in the holdings by Bank of America, which bucked the decreases in total holdings and for JPM and Citi. Yes, I still believe BofA is short a billion oz of silver and 30 million oz of gold.

https://www.occ.gov/publications-and-resources/publications/quarterly-report-on-bank-trading-and-derivatives-activities/index-quarterly-report-on-bank-trading-and-derivatives-activities.html

As far as what we might see in this Friday's new Commitments of Traders (COT) report, as of the report's cutoff yesterday, considering the blatant commercial price-rigging lower over the reporting week, it's almost impossible for there not to have been significant managed money selling and commercial buying in both gold and silver. If such positioning didn't occur it would be the equivalent of the earth having stopped its rotation. The only reason gold and silver prices dropped as much as they did over the reporting week ($40 in gold and $1.50 in silver), was due to collusive commercial price-rigging to induce managed money selling (and which was bought by the commercials).

While silver was rigged below all its key moving averages over the reporting week, gold prices have remained above all its key moving averages, suggesting proportionately greater managed money selling in silver. I'm also mindful that back at the price lows of mid-November, silver, essentially, remained below its key moving averages, whereas gold remained above its key moving averages, before both turned higher into Sunday evening, Dec 3. I had expected gold to fall (get rigged) below its moving averages back in mid-November, and that never occurred, so maybe we'll see a rerun of that.

Yes, it's infuriating that the regulators at the CFTC and the CME Group refuse to react to what has become the common-knowledge wash, rinse, repeat cycle of the last four decades, but how can either possibly admit to this now?

Since the only reason we have declined so sharply from the price highs established early Sunday evening, Dec 3, was so that the COMEX commercials could re-group and get the managed money traders to sell as many longs and sell short as many gold and silver contracts as possible, making the only task remaining is trying to gauge

when that process will be complete.

Let’s face it – there’s no way that lower gold prices will in any way reduce buying from the East and no way that industrial silver demand will wane in the face of lower prices – so the avenue open to the collusive COMEX commercials for improving their plight is limited to hoodwinking the managed money traders. The passage of time has shown that the tricking of the managed money traders runs in cycles limited in time, price and positioning, so we await the end of this cycle, which is already advanced.

As I get ready to send this out, the Fed decision today signaling a leaning towards rate cuts a bit earlier than previously projected sent stock and bond prices higher (lower yields), along with a sharp rally in gold and silver, with silver upwardly penetrating its moving averages. Should prices not reverse and downwardly penetrate the moving averages, it’s hard to see how the managed money traders would be induced into selling heavily, signaling a possible price low.

Ted Butler

December 13, 2023

Silver – $23.75 (200-day ma – $23.59, 50-day ma – $23.24, 100-day ma – $23.41)

Gold – $2028 (200-day ma – $1963, 50-day ma – $1974, 100-day ma – $1959)