

February 11, 2015 – More Q & A

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I guess there's something about reading the thoughts of others that stimulates questions and comments from readers. Seeing what others think, especially in their own words, causes more to speak out. I get a steady stream of questions on a regular basis which I always try to answer personally, but I experienced somewhat of a spike after publishing last Wednesday's article featuring a letter from John. The great thing about reader feedback is that it is so helpful in explaining just what's on the majority of readers' minds.

So let me start out today with a couple of letters from readers, one short and one a bit more involved, but both touching on important issues. The only real editing I've done is in removing some highly complementary personal remarks as including them would make me feel uncomfortable. Here's an email from Andre Â?

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Dear Ted,

I was wondering if you might consider addressing any of the following questions in a future article:

1. As of 7th February, there are 254 tonnes of silver in the Comex inventory, worth \$136 million. Is there anything to prevent a hedge fund or other entity from acquiring futures contracts for this amount of silver and demanding delivery?

2. Is it true that the Comex futures contracts have a get-out clause that will allow the seller to pay cash instead and avoid having to deliver (other than the seller purchasing futures contracts from a third party that is willing to deliver on the same date).

3. How difficult is it for a small player to ask for delivery of e.g. just 1 tonne of silver from the Comex inventory? Does the Comex do their best to try and make it too time consuming or expensive for this to happen? Do manufacturers that require silver usually purchase from the Comex, or are they forced to go directly to a silver miner or elsewhere?

Andre

1. In regard to Andre's first question, let me adjust the current total COMEX silver inventories to be around 177 million ounces, or around 5500 tons. There are two classifications of COMEX inventories, registered and eligible, and way too much time is spent in trying to differentiate between the two. Silver is silver and total inventories should be considered. I've yet to run across anyone with hands on professional futures experience who spends much time debating the differences between registered and eligible. A more important classification is how much of the COMEX inventories are available for sale at or near current prices? It's impossible to be precise, but everything tells me it is a very small percentage of total inventories and even less in terms of dollar value.

As far as there being limits as to how much silver any one trader, hedge fund or otherwise, can demand in delivery in any given delivery month, the answer is yes -1500 contracts, or 7.5 million oz. This is not a particularly onerous rule and is designed to prevent congestion or a delivery squeeze. This is not unique to COMEX silver and all regulated physical commodities have similar delivery limits. This is a traditional regulatory protection and as much as I am convinced that silver is manipulated in price on the COMEX, this rule is not related to the manipulation. I doubt regulators would (or should) sit by and let any one entity deliberately squeeze COMEX silver. I think the inevitable physical shortage will eventually engulf the COMEX, but I don't believe the shortage will start there in the delivery process.

2. Contrary to continuing commentary, there is no "opt out" clause that would prevent anyone holding a futures contract into the delivery period from receiving actual physical delivery should delivery be desired. The only circumstance where someone holding a long contract standing for delivery could be denied actual delivery would involve a contract default. Since the delivery mechanism is what makes the contract legitimate, any delivery default would likely cause the COMEX silver market to cease to exist, as there would be no substance behind a non-delivery contract. There is no easy "getting out" of a demand for delivery apart from closing the COMEX.

3. The mechanics of taking delivery can seem daunting for those unfamiliar with the process, but it's not a case of the COMEX discouraging it. One standard contract covers 5000 oz (although there is also a 1000 oz contract) and at current prices that comes to around \$85,000. One ton (32,151 oz) of silver, or a little over six standard contracts would come to \$550,000 and while that is not a large amount in typical COMEX dealings, not many would consider that small for an individual. No one forces industrial users of silver or any commodity to buy from the COMEX or directly from the miners. Almost universally, manufactures rely on middlemen suppliers who arrange the logistics and timely delivery of silver in the form needed.

Here's a letter from Rob. Which rather than asking questions, raises points worthy of discussion

Ted,

I'm beginning to wonder about all the gold going from west to east (aka China, Russia, India, etc.). A staggering amount of gold is being bought by these countries as reported by many sites such as GATA. It's almost as if the central banks don't really care if these countries buy all the gold they want. All the central planners seem to care about is there be enough physical gold available so as not to cause a default. All this gold buying is going on, while at the same time, as you suggest and I agree with, JPM and probably others are stashing away all the silver they can get their hands on. Could it be JPM and the central banks know China and others are actually buying the WRONG metal.

Let's face it. If there ever was a shortage of gold, the economies of these countries wouldn't be harmed, but if there ever was a real shortage of silver, the businesses who need silver to stay in business would be harmed greatly along with the workers, thus a more direct negative affect would result to economies from a silver shortage (you wrote about this). All the gold they are buying wouldn't change this fact either. These countries would be saying "what pretty pile of gold we have", while at the same time watch whole industries come to a standstill from a silver shortage. At that point they would become fully aware of the fact they have bought the WRONG metal. I'm sure JPM and the bankers don't want these eastern countries to know these facts.

Forget about convincing Ray Dalio to buy silver, we need to convince the eastern countries to buy and stock pile silver, since it is more of a strategic metal than gold will ever be. Ray would be buying silver to simply make money, but whole countries would be buying silver to save their economies and workers from financial harm.

I think you nailed it by commenting on the flow of physical silver whether it be in the COMEX warehouses or out of SLV. We know where all the gold is going....east, but nobody but you is commenting where all the silver is flowing to. Vast quantities of gold is flowing "in plain sight" to the east, while vast quantities of silver is flowing in "secret" to somewhere which is also "secret". We are constantly being bombarded with articles about the huge flow of gold going east.....Hmmmmmm.....we don't see any articles about the where all the silver is flowing to except yours. I guess this is the usual case of keeping the sheep distracted onto something else.

Luckily for me I purchased most all my physical silver below \$6/oz. so I'm not the one sweating when silver is at a low. Like Ed always says, "so, we wait some more". You sure sleep a lot better when you own physical vs. a futures contract.

Rob

There's much food for thought in Rob's note. There are non-stop reports of massive amounts of gold being bought by Russia, India and, particularly, China and it seems foolish to deny a flow of gold from West to East. Certainly, there has been little demonstrable investment demand for gold over the past two years in the West (except very recently), so the data suggesting flows eastward make sense. Still, the quantities appear enormous. Recent reports have China purchasing gold at the rate of 2500 tons annually. That's the equivalent of 80 million oz or \$100 billion and 80% of world annual gold mine production (100 million oz).

Those numbers are nothing short of staggering. I'd be lying if I told you I had no doubts at all as to their veracity. Since I have no way of refuting the data, please allow me to stipulate that the numbers are correct in order to make some other points. The first point, assuming the data are correct, is that the enormous amount of gold bought by the East over the past two years appears to have had little impact on price. After all, two years ago, gold was priced close to \$1650 and about to decline more than \$500 and then average close to \$1200 for the past year and a half. China is buying 80% of the annual world production and the price doesn't respond?

What this proves, more than anything else, is that the price of gold is set someplace else, someplace away from China, India and Russia. If outsized physical gold purchases are not setting the price, then what is? The answer is clear — gold (and silver) prices are set on the COMEX and this is proven out in the Commitments of Traders Report (COT). Just as physical buying from the East has no connection with gold price movement, position changes on the COMEX have everything to do with price movement. When the speculators/technical funds buy and commercials/banks sell, gold prices always go higher. Always. When the speculators sell and commercials buy, prices always go lower. Always. When China, India and Russia buy, nothing much happens to the price.

Not for a moment am I suggesting that the way it is currently will be the way it is forever. In fact, it appears clear to me that this complete price domination by the COMEX can't continue indefinitely, although I am incapable of predicting exactly when the COMEX will no longer set prices. To that end, allow me to offer a constructive suggestion for those who do comment continuously on the massive gold purchases from the East — please take the time to point out just how crazy it is that gold prices haven't risen in spite of the purchases and how the culprit for that is price manipulation on the COMEX.

The second point is the mismatch between the amount of money the East is spending on gold and the effect even the smallest fraction of that would have on silver. As Rob points out, a silver shortage, because the metal is vital to industry, would have a much greater economic impact than a shortage of gold. If China is currently spending at the rate of \$100 billion annually purchasing gold, as most reports indicate, what would the impact be on silver if only 5% of that amount, or \$5 billion, were devoted to silver? At current prices, \$5 billion would buy 300 million oz of silver, if such an amount of physical silver could be bought. I believe JPMorgan may have acquired that amount of physical silver over the past four years, using every dirty COMEX price trick in the process, but that's a heck of a lot different than anyone plunking down \$5 billion to buy 300 million oz today. Quite simply, it can't be done; which strongly suggests it is only a matter of time before someone tries.

Moving on to current developments, the much-anticipated release of the new short interest report for securities was, fortunately, underwhelming. There was

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