February 22, 2017 – Finding The Way To Silver

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Aside from the eventual resolution of the COMEX-generated price manipulation, the key to massively higher silver prices is the recognition of the metal's true circumstances by a sufficient number of world investors and their subsequent attempt to buy and hold the metal. Broad recognition and awareness of the truly remarkable facts in silver have largely been absent to this point, but have come close at times, such as in the price move to near $50 in 2011, when the world stood on the precipice of the first physical silver shortage in history.

Simply stated, the true circumstance in silver is that it is a vital commodity whose demand in a wide variety of industrial and other important applications has depleted world inventories by 90% over the past 75 years and which still accounts for most of total production to this day. This means there is a very small amount of metal available for purchase by the world's investors. To date, these clear and verifiable facts have been grasped by no more than a small fraction of 1% of the world's investors, despite there being more investment buying power in the world than in history.

While widespread awareness of silver's true facts has yet to take hold, there have certainly been clear instances of individual investors awakening to the merits of silver as an investment. First came Bunker Hunt, who when he became aware of the true circumstances in silver bought enough of the metal to drive prices to $50 by early 1980. One man and a few close associates succeeded in buying enough silver to drive its price higher by more than 1000% in little more than a year.

Twenty years later came Warren Buffett, considered by many to be the world's shrewdest investor, who bought an amount of silver (100 million oz+) similar to the amount purchased by the Hunt Bros. and which caused silver prices to quickly double, despite attempts by Buffett not to disturb the price (unlike the Hunts). I would submit that had there been sufficient quantities of silver existing, as was widely believed at both times, no one man could have bought enough to have that kind of price influence. The commonality between Hunt and Buffett, two very different personalities, was that each found his way to silver's true circumstances and acted accordingly.

Today, another entity has amassed a physical holding in silver five times or greater than what Hunt or Buffett held; only this time, instead of the price climbing sharply, the price has fallen precipitously over the last six years of the massive accumulation. Of course, I'm referring to the 550 million oz physical silver accumulation by JPMorgan since early 2011. While not the main subject of this report, the simple explanation for how this bank could acquire so much silver on a 70% decline in price is because JPMorgan was also the largest COMEX paper short seller at the same time it was buying physical silver. At the same time its COMEX futures short sales depressed the price, JPM gobbled up physical silver at the depressed prices it created, something not done by Hunt or Buffett. Yes, of course, this is highly illegal, but commodity regulators refuse to intercede, due to the power and influence of JPMorgan.

Regardless of the legality of JPMorgan's activities in silver, the main takeaway is that it has clearly found its way to silver, just as Hunt and Buffett before it. No one buys as much silver as Hunt, Buffett or JPMorgan without doing some serious study. Only by study and deep contemplation should anyone invest heavily in anything. But something has to trip off or initiate the spark of interest to begin the study and that applies in spades to silver. Obviously, something tripped off the interest in silver for Hunt, Buffett and JPMorgan. But the flip side of that is if one isn't even looking, it is impossible to see the true merits of silver.

There's no one correct path for investors to find their way to silver, as we all have different backgrounds and experiences. Further, because silver is known in some way by just about everyone in the world, this works against it in terms of setting off the initiative to study it in depth. Why study something that you think you already know about and who doesn't already know about silver?

In my case, the spark to dig into silver came as a result of a challenge put to me by my friend and mentor, Izzy Friedman, more than 30 years ago. He asked me to explain how silver prices could remain unchanged in the face of the most bullish circumstance possible in any commodity, namely, consumption exceeding current production for a very long period of time. Initially, I thought I would be a snap to answer Izzy's question and quickly put the matter to rest. But as it turned out, I wrestled with the challenge daily for more than a year, before the answer – concentrated short selling on the COMEX Â? came to me in a blinding flash. And the only reason I came to my epiphany is that I was well-versed in futures market activities, having been a 15 year professional futures veteran at the time. Admittedly, I Â?foundÂ? silver in a very unique manner.

It would be unrealistic to expect those without a deep futures background to find the way to silver in the same fashion as me. Knowing this, I searched for alternative means to help others find their way. One way was by comparing silver to its much larger and far more popular precious metals big brother, gold. As a commodity broker for so long, I had no particular affinity for any one commodity (until I found silver) and looked at the commodity universe for the most promising fundamentals and valuations. I was neither a gold lover nor hater and that has largely remained true to this day (hopefully making my thoughts on gold as more objective than being in either camp).

Certainly, the comparisons between silver and gold are appropriate, being that both are rare elements sought and valued by man for thousands of years, making each highly unique and in a class by themselves. I sensed early on that many attracted to gold may be somewhat put off by comparisons to silver, as true advocates of gold hold it in the highest regard and may resent any comparisons with anything else, including silver. Understanding this, but also remaining true to my own beliefs and experiences, I tried to undertake such comparisons in the most respectful of terms Â? not as a knock on gold, but as a legitimate means of showcasing silver.

My reasoning was always that existing gold investors were ideal candidates for finding silver. After all, the merits of holding an asset like gold, considered rare and completely independent from other assets in terms of counterparty risk are, quite frankly, highly appealing in a financial world having gone overboard on debt and derivative creation. But not only does silver share the primary attractions of gold in terms of rarity and being an asset that is no one else's liability; by its own distinct circumstances, silver outdoes gold in that it is actually rarer, given its utility and consumption as a vital industrial commodity.

Sure, much more silver is currently produced than gold (about 9 times as much), but because even more silver is consumed industrially or in other fabrication demands than gold, there is actually less net silver available for investment purposes than gold in actual ounces. When you compare the actual amounts of newly produced gold and silver each year and subtract from silver the Â?already spoken forÂ? industrial and other fabrication demands to arrive at how much of each is available for investment, the answer comes to about 100 million ounces of each metal.

But when you further convert the similarly-sized 100 million oz of physical metal into dollar terms (by multiplying each by current prices), the results are staggering. Each year, roughly $120 billion of new gold must be absorbed by the world's investors, while only less than $2 billion of new silver must be absorbed by investors. I'm not saying that the world's investors haven't or won't continue to absorb $120 billion worth of newly-produced gold each year, because the facts indicate that the demand has been and will continue to be met due to gold's incredibly diverse and vibrant investment demand.

My point is that $2 billion is chump change in annual world investment terms and, therefore, the amount of investment demand required to propel silver skyward is, well Â? chump change. Please do the math yourself and see what you conclude. I know that gold is 70 times more expensive than silver and that suggests there must be much more silver in the world than gold, but the only way of you determining that is to study the matter for yourself Â? just as Bunker Hunt and Warren Buffett did and JPMorgan has done more recently. And don't forget to compare the dollar value of above ground amount of each Â? in gold, it is measured in several trillions of dollars, while all the silver in the world is measured in the tens of billions of dollars.

Silver didn't become grossly undervalued relative to gold overnight; it has been a process inforce for many decades and longer. And while there has been no discernable rush to silver from gold yet (otherwise we would see it in price), that doesn't mean the true silver story has been overlooked completely. I do think conditions point to silver exploding in price when enough investors recognize its true merits, but I suppose any investment rush must crawl before it walks or runs.

Having consistently highlighted the relative merits of silver compared to gold publicly for close to 20 years, I do believe there are signs of a growing awareness. This is somewhat unscientific, but when I began beating on the drum for silver nearly two decades ago, there had been relatively little written about silver. Back then, the only precious metal mentioned was, basically, gold. In fact, let me make a confession. Back in the mid to late 1990's, when I first started writing on the Internet, I deliberately wrote about gold, even though my main interest was silver, because I sought to attract gold investors to silver.

Today, I sense a sea change. Whereas back then it was mostly about gold, today silver is mentioned in connection with gold more than ever before. In fact, several formerly staunch gold-only proponents seem to be increasingly singing the praises of silver to a degree I find remarkable. I'm not claiming credit for the change (I'm not denying no affect either), as my point is just that it seems to be occurring. Let me give you a timely example that just about knocked my socks off.

The current issue of the World Gold Council's newsletter features an exclusive interview with Alan Greenspan, the former head of the Federal Reserve. The World Gold Council, funded by gold miners, has an understandable and legitimate objective of fostering increased investment and generally higher prices for gold, as would any producer-funded trade group. (Silver, on the other hand, has no such producer group, as the Silver Institute is comprised of producers and consumers and even has representation by the COMEX).

http://www.gold.org/download/file/5497/Gold_Investor_February_2017.pdf

I have followed Dr. Greenspan for years, before he was appointed as head of the Fed in 1987, even back to his days at Townsend-Greenspan Associates. I can't say I ever understood many of his pronouncements in public testimony over that time, but my understanding was that the testimony was largely intended to be that way Â? intentionally ambiguous. I have heard Dr. Greenspan mention gold on numerous occasions and even remember some years back, after he left the Fed, an interview on CNBC where he suggested they include copper on their flashing tickers, a suggestion the network took and maintains to this day. However, never have I heard Greenspan utter the word silver.

That's why I was nearly blown away to read Dr. Greenspan mention silver three times in one paragraph of section 2 of the interview. Maybe he has mentioned silver in the past, but I'm pretty sensitive to such matters and I don't recall any past mentions. In any event, this is very much in keeping with my premise that gold advocates and investors seem to be regarding silver much more than previously and how this reflects the crawling phase before new investors find their way to silver.

Not for a moment am I suggesting that the only way to find silver is by comparison with gold and I intend to continue to explore and highlight additional means by which investors can find their way to silver in future reports. The great irony is that while sufficient numbers of world investors have yet to find their way to silver to have influenced the price and broken the back of the manipulation, the facts indicate very few such investors will be required to do so because there is a shockingly low amount of physical silver available for investment. And considering the amount of physical silver that JPMorgan has taken off the market over the past six years, the amount still available for investment is further greatly reduced.

On to developments since Saturday's review. Overall, gold and silver prices haven't fluctuated much in the past few days, at least through trading this morning. One standout feature is the heavy rollover of positions in COMEX silver, as the first notice of delivery day on the traditional March futures contract approaches next Tuesday (Feb 28). As always, my main focus on the March silver deliveries will be JPMorgan's involvement, if any.

Although the bank has established a clear pattern over the past few years of being the largest stopper (acceptor), by far, in just about every traditional delivery month in COMEX silver (in its own house or proprietary trading account), there is nothing predictive when it comes to future silver deliveries. JPMorgan could just as easily make delivery as take delivery. It's just a question of observing what the bank does and trying to interpret the meaning. So far, however, there is nothing contradictory with JPM's stopping of COMEX silver deliveries (and then moving the metal into its own COMEX warehouse) and the overall massive accumulation of silver by the bank that I have detected and reported on the past few years.

As concerns the rollover itself from the March silver futures contract to the May or more distant month contracts, the vast majority of these rollovers (99 %+) are executed as spread transactions, namely, where there is a simultaneous buy and sell occurring in two different months. Someone holding a long position in March silver futures, for instance, issues an order to his broker to sell his long March position and simultaneously buy May or a more distant month. And vice versa for someone short the March contract; he would buy back his short March contract (closing it out) while simultaneously selling short in May or other silver month.

Because the rollovers involve simultaneous buy and sell transactions in the same commodity (silver), but in different months, there is little to no impact on the actual price of silver. To those rolling over either long or short positions, all that matters is the price differential between the rollover months involved. As such, the rollover process period is usually neutral to the flat or absolute price of silver (or any other commodity). Sure, something could happen unexpectedly in any delivery month, but the vast majority of contracts are generally rolled over into the first delivery day. So why am I talking about the March silver rollovers if they are so neutral to the absolute price?

I bring the matter of the March silver rollovers to your attention because they offer yet another example of price manipulation, which runs rampart in just about every aspect of COMEX silver trading. Yesterday, on what could be the single heaviest day in the heavy March silver rollover period, the March COMEX silver contract closed at a 7.3 cent discount to the May silver contract. This means that a long silver holder desiring to maintain his long position, but needing to rollover since he doesn't intend to take delivery, must pay up 7.3 cents to renew his long position in the May contract. This is, on an effective basis, an enormous sum in today's low interest rate environment. Annualized, this equates to a 43.8 cent cost to maintain a COMEX silver long position.

In essence, if one were to consistently hold and rollover a silver futures contract on the COMEX for a year, there is a hidden but real as rain cost disadvantage of nearly 44 cents. That is, at current spread price differentials, such a long holder is losing 44 cents per ounce even if silver remained unchanged in price. Every aspect of derivatives trading is zero sum, meaning whatever someone loses, someone else wins. This includes spreads. What this means here is that if the longs rolling over the March silver futures contract are losing nearly 44 cents per ounce per year (as they surely are), you can be double-dang sure that the shorts are making the 44 cents that the rollover longs are losing.

Not by coincidence, it is known as an incontrovertible fact that the silver longs rolling over are speculators, including managed money traders (both technical funds and core non-technical fund longs), as well as other reporting and non-reporting traders as well. The silver shorts are almost exclusively the traders called commercials (but in reality are just speculating banks). Let me spell this out for you. At current spread differentials and quantities of contracts regularly rolled over in COMEX silver, the longs rolling over are collectively losing $250 million annually, the exact same amount that the short silver speculators are raking in Â? on no change in price.

Throw in the ongoing manipulation where the commercials have led the managed money technical funds in and out of the market at will and at great profit to the crooked commercial shorts and at great loss to long speculators and we are witnessing one of the greatest financial scams of all time Â? and all in full view. And let me be clear Â? the only reason the silver spreads are so wide is because the managed money traders are long and the commercials are short. In the event the commercials ever got net long in COMEX silver futures (not possible in my mind), the spreads in silver would not only be much tighter, but most likely reversed from deep discounts in the nearby months to premiums. Spread differentials are easier to manipulate than outright absolute prices and it should be no wonder that the differentials are currently so damaging to the silver longs and so advantageous to the commercials. As I said, this is just another example of COMEX manipulation.

Yesterday was the cutoff for the reporting week to be published this Friday in the COT report. Best as I can tell, based upon price action and changes in total open interest, there is likely to be an increase in managed money buying and commercial selling in both gold and silver. Since silver's market structure is already clearly in the bearish category, this week's report should not be comforting. Gold, on the other hand, couldn't possibly have moved away from its very bullish market structure, regardless of any increase this reporting week.

Thus, the unusual dichotomy between the very bearish market structure in silver and very bullish structure in gold continues. There are any number of possible outcomes and resolutions to this historic dichotomy, but I am reminded that overall price levels in silver are historically low by any reasonable measures and that still persuades me to maintain positions (albeit with a good measure of trepidation). Certainly, no one can rule out the commercial crooks on the COMEX succeeding in rigging the price of silver lower yet again amid a managed money flush out. I still have some small hope that this move could still turn into the big one, but neither do I want to delude anyone (myself included) that it hasn't unfolded as I would have imagined to this point (due to the strong increase in commercial short selling by the largest COMEX shorts).

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