

February 4, 2023 – Weekly Review/Misinformed?

Gold and silver prices plunged for the week, with gold lower by \$65 (3.4%) and with silver walloped for \$1.30 (5.5%). As a result of silver's sharp relative underperformance, the silver/gold price ratio blew out by another two full points to 83.6 to 1 – the most undervalued silver has been to gold in three months.

Actually, this week's closing prices don't fully reflect the dramatic fall in prices, as measured from Thursday's early price highs, the two-day fall in prices was much more extreme – a full \$100 in gold and \$2.20 in silver. You'd have to go back some time to find a bigger two-day price plunge. Those are the price facts, plain and simple.

A reasonable observer, particularly anyone invested in the sector, would wonder what sudden change in overall circumstances would account for such a sudden price plunge. Surely, there would have to be some type of specific news or fundamental development to account for such a dramatic price reaction. After all, commodity prices are supposed to be determined by developments in the actual markets and not by excessive speculation in the derivatives markets, according to US commodity law. Therein lies the rub.

There were no such developments in actual supply and demand over the last two days in gold and silver, as such developments would be highly visible. Besides, what kind of dramatic changes in actual world supply and demand could possibly occur to warrant such price changes and not be completely visible to all? You know where I'm going with this. The only thing responsible for the two-day epic price swoon was collusive and illegal activities on the part of the commercials on the COMEX – the nerve center for price manipulation.

Any half-way objective and reasonable observer, armed with the barest of knowledge, would see this in an instant – making it quite sad that this continuous illegal price manipulation is tolerated and not called out by those that should know better. One big reason why the COMEX silver (and gold) price manipulation has lasted for 40 years is because too many "respected" analysts and commentators have taken to market structure (COT report) analysis as an analytical tool, without condemning it for the market crime that it is at its core. I've come to believe that the definition of "respected" in this case is anyone who refrains from calling COMEX paper positioning as the manipulation it surely is. And by that same definition, I'm as far from respected as can be. Oh well and boo-hoo.

Pardon my repetition, but silver and gold pricing is determined by the sick game of the commercials (mostly banks) on the COMEX continuously tricking their main counterparties, the managed money technical funds, into and out from trading positions. While I don't care a bit about who is winning or losing in the very private betting game between the commercials and the managed money traders, it is not at all difficult to ascertain that this game sets prices to an extent where the word "manipulation" is not sufficient to measure its effect.

The problem is that the private betting game not only adversely affects innocent investors not involved in the inside game on a voluntary basis, but as a result of the long-term influence of lower prices than would exist if the private betting game didn't exist, there is also a negative impact on the law of

supply and demand. The main reason there hasn't been enough investment in the resource sector for critical minerals is because the pricing mechanism has been messed up by excessive speculation and private gamesmanship on the COMEX and other exchanges.

Saddest of all is that there exists a designated federal regulator, the CFTC, whose main mission is to root out and prevent price manipulation for the very reason that it harms the public and sends false price signals and yet it sits by, doing, quite literally, nothing in the face of a silver price manipulation as obvious as the nose on your face. What do these people do all day and what could possibly motivate them to continue a dereliction of duty harming so many people — not just today, but for years to come?

OK, rant over and time to focus on what lies ahead. Clearly, there has been significant commercial buying and managed money selling (both long liquidation and new short selling) on the price smash, as this was the sole reason for the smash. The question, for which I don't have the answer, is has the managed money selling reached exhaustion? We'll only know that in time — most likely a fairly short time — but unknowable at this moment. But superimposed over this particularly egregious price smash, apart from the nature of its violence and brazenness, is that it is occurring — against a physical backdrop not seen before.

In gold, a big story has been the aggressive and record buying by many of the world's central banks and it's hard for me to see how a sudden mark down in price wouldn't whet the buying appetites of such buyers — think of it as the central banks' version of a K-Mart blue light special. Last I looked, central banks never seem to run out of money, so why wouldn't they up the ante on their gold buying? — In silver, considering its ultra-tight physical market condition (which I'll detail separately in a moment), it's impossible to see how sharply lower prices would not enflame shortage conditions.

The bottom line on all this is that as painful financially as this week's selloff has been, it was not completely unexpected and, to say the least, does strengthen the market structure. While there may be more to go, the combination of certain commercial buying and managed money selling, coupled with the unprecedented physical market condition in silver, still point to an eventual and likely imminent price explosion.

The turnover or physical movement of metal either brought into or removed from the COMEX-approved silver warehouses remained at its typical frantic level, as just over 7.4 million oz (the average weekly movement for 2022) were physically turned over this week. Total COMEX silver holdings increased by a slight 0.1 million oz to 292.9 million oz, meaning the physical movement was about 75 times greater than the actual net change in total inventories, but the unprecedented physical turnover in the COMEX silver warehouses remains largely a taboo subject, a near-universal unmentionable. The holdings in the JPMorgan COMEX silver warehouse fell by one million oz to 148.3 million oz.

For the first 5 weeks of 2023, the average weekly COMEX warehouse silver turnover has fallen slightly, to 6.7 million oz, from last year's 7.4 million oz weekly average, but 5 weeks is too short of a time to draw conclusions. On the other hand, this week's total inventories are only 1.5 million oz lower than the 294.4 million oz low-water mark of 11 weeks ago, still not substantively violating my — bottom of the barrel — inventory premise — particularly when combined with holdings in SLV. (Again, more on this in a moment). Holdings in the COMEX gold warehouses fell again, this week by 0.1 million oz to 22.2 million oz, another multi-year low. Holdings in the JPM COMEX gold warehouse

fell a fraction of that to 8.29 million oz.

Deliveries on the traditionally large February gold contract look to be light as less than 12,500 contracts (1.25 million oz) have been issued and stopped so far. The standout stopper has been Bank of America for just under 5000 contracts in its house account, while the standout issuer (hold onto your wallets and purses) has been JPMorgan to the tune of 7500 net contracts for customers. It's impossible to make a direct connection, but my sense is that gold price weakness is somehow related to JPM being such a heavy net issuer.

https://www.cmegroup.com/delivery_reports/MetalsIssuesAndStopsYTDReport.pdf

In physical ETF flows, there were close to 400,000 oz redeemed in the world's gold ETFs, primarily GLD and close to 4 million oz redeemed in the world's silver ETFs, mainly SLV. It still looks to me like this week's silver redemptions in SLV were a matter of silver being more urgently needed elsewhere (by users) than by investor liquidation.

This is where I would usually turn to this week's Commitments of Traders (COT) report, but not this week, as all COT reports have been delayed due to a data glitch announced late Thursday.

<https://www.cftc.gov/PressRoom/SpeechesTestimony/cftcstatement020223>

This is the first time I can recall such a data glitch (more precisely, a "cyber-related incident"), although several years back, on the limited government shutdown of the time, COT reports were delayed for a month or so, and eventually published later. As far as thoughts this might be an intentional disruption, I see no reason to believe that even though the publication of this data series is one of the very few things the CFTC gets right. I don't see anything particularly suspicious about the timing of the delay, as this week's report wasn't expected by me to be particularly auspicious.

Not a prediction, but even if the delay in publication extends to next week's more significant report (since gold and silver got walloped during the reporting week which began on Wednesday), it's hard for me to see this glitch as being due to an intentional effort to obscure gold and silver positioning on the COMEX, as these are but two markets in an ocean of interest in COT report positioning in all other markets.

And while I rant and rave about the COMEX silver and gold price manipulation and the crooks at JPMorgan and the CME Group, etc., and the willful malfeasance at the CFTC, at heart I'm not a conspiracy theorist and don't reach for deeper and darker explanations for every unusual occurrence. This might sound strange coming from someone who has studied the COT report long before it became as popular as it is currently, but at this point, I'm not much concerned even about an extended interruption to COT report publication (definitely not a prediction).

So much water has passed under the bridge over the past decades' existence of the COMEX silver price manipulation that has not only been verified in the COT reports along the way, but with the COT report providing the prima facie evidence of the manipulation itself, that no further evidence is required. Either you see it by now, or you're never going to see it (although I still think there are plenty who see it, who won't admit the positioning is the manipulation). At this point, I don't need the continuous confirmation of the COT report to know that on every big price drop in gold and silver, the

sole reason for the price drop is the COMEX commercial snookering of the managed money traders to sell, so that the commercials can buy. We're too far along in this scam, at least for me, to need continuous confirmation. I still believe it will be the physical market that will soon break the back of the manipulation.

Are Silver Investors Misinformed?

Originally, I was going to use the word "stupid" for "misinformed", but that sounded a bit too harsh although let me admit to feeling stupid at times when silver prices turn abruptly lower like just occurred after the Fed's announcement. Of course, I'm convinced the price of silver has nothing to do with Fed announcements, or interest rates in general or inflation or the scores of other things typically bandied about. Still, I also know that all these "reasons" will be trotted out to explain any move higher or lower in silver, and I've come to accept that as something I just have to live with.

Repeating what I believe does determine silver prices are two things actual supply demand fundamentals and the ongoing COMEX price manipulation. Over time, the actual supply/demand fundamentals have exerted a powerful force on the price of silver causing it to rise from the \$4 or \$5 level where it was when I first embarked on my silver journey 35 years or more ago, to levels five times or more today despite the existence of a non-stop price manipulation on the COMEX. To state the obvious we have yet to see a time in silver regardless of price level where the COMEX price manipulation was completely vanquished. Someday, and hopefully soon, we will experience that.

With that said, let me return to issue of the day, namely, are silver investors misinformed to believe the price will ever be free of the COMEX manipulation? And while gold prices share many similarities to the manipulative aspects in silver, not to anywhere near the same extent. Let's face it, gold prices hit new all-time highs less than a year ago and are still relatively quite close to the highs; whereas silver prices are so far below the price highs of so long ago so as to offer no such legitimate comparison.

And it's not just a question of silver investors feeling stupid at times because prices haven't come close to reflecting the expected price reaction to extremely bullish actual supply/demand fundamentals. It's more than that including silver actually being openly considered as a dead investment ironically by those who haven't taken the time to study the fundamentals and the arguments explaining the mechanics of the COMEX price manipulation. It's one thing to feel misinformed or even stupid at times, but being referred to as such does hurt even if the name-callers are not fully versed in or are deliberately evading the particulars. Generally speaking, those casting stones upon silver bulls are doing so because as a hard asset, silver is perceived to represent some type of a challenge to those holding financial assets. Or some such thing.

It has now been nearly 15 years since the federal commodities regulator, the CFTC, published a 15-page public letter denying any price manipulation existed in silver as a result of the large concentrated short position in COMEX silver futures. It was the second such public letter following the same premise from the CFTC four years earlier. As it turned out, the CFTC conveniently ignored the concentrated

short position in COMEX silver and gold of Bear Stearns at the end of 2007, which contributed mightily to the firm's demise in early 2008, even though the CFTC's public letter was dated May 13, 2008. Of course, Bear Stearns' demise led directly the rein of JPMorgan.

I raise the issue of the CFTC's denial, now so long ago, of a price manipulation in silver for a number of reasons. One, it does provide limited backing to anyone who raises it to show how silver bulls are misinformed to think the price is manipulated after such a public official denial. In reality, however, few recall or are aware of the official denial(s) so long ago. Then again, the price of silver was \$5.50 at the time of the CFTC's first denial of manipulation in 2004 and \$16.50 in 2008, and those denials didn't stop silver from climbing to neat \$50 in 2011.

More to the point is that over the past 15 years, more observers than ever have come to the conclusion that activities on the COMEX do manipulate the price of silver (even by those afraid to acknowledge same) and in all this time the CFTC has remained silent on an issue that goes to the heart of its mission. And I would dare say, that based upon the pronouncements from an extremely wide variety of silver analysts and commentators that a move to \$50 or \$100 or more is widely expected, that the COMEX price manipulation is increasingly given as the reason those price targets have yet to be achieved.

The whole point of this article is to highlight the difference between feeling misinformed or stupid at times for being rabidly bullish on silver and actually being misinformed about such convictions. The price control of the collusive commercials on the COMEX is so complete and obvious that it would be quite stupid for anyone to remain bullish on silver if he or she were convinced the commercials' control was without end. The good news is that no one in this world enjoys infinite and everlasting power, with the better news being that the precise conditions appear to be present for what will end the price control of silver by the crooked and collusive COMEX commercials.

Certainly, it is well-known that whenever the developing physical shortage in silver reaches the critical point of failing to supply enough silver to those users (not investors) who can't tolerate delays in physical deliveries, the jig will be up. The historical precedent here is clear, from LME nickel (twice) to NYMEX palladium - true physical shortages cannot be papered over quietly. And considering that allegations about a COMEX silver price manipulation are clearly more voluminous and widely-held than can possibly be compared to nickel or palladium, that just makes the stakes higher in silver. When silver blows up, the fallout will be much more significant than seen in nickel or palladium.

Those who closely follow the flow of hard data in any study would generally be considered to be more informed than those who do not follow such data. Yet, it seems to me that in silver, those that follow the hard data are the ones being considered misinformed - quite strange. What the hard data show is that over the past two years, with silver prices averaging close to the \$23.50 price over this time (and about equidistant between the extreme highs and lows of this time), recorded silver inventories have fallen by 300 million oz or 18% of total recorded inventories of 1.7 billion oz in Feb 2021 (in 1000 oz bars). At the same time, there has been a similar and greater sharp decline in the world inventories of every industrial metal, such as copper, nickel, zinc and lead, to name a few.

As I have pointed out incessantly, while silver is every bit an industrial metal as these other industrial metals, it is also different in that it is also an investment metal like gold. This gives silver its highly unique dual demand profile. There is little evidence that silver investors have done much selling over the past two years and, at the same time, not much evidence they have done much buying, either.

There were record flows of silver into India last year, but that seems to have cooled off. Likewise, there was a big demand for retail forms of silver, as was evidenced by record premiums and wait times, but even that has cooled off.

So, if you accept the fact that investment demand for 1000 oz bars has largely been flat over the same two years in the West, by process of elimination, it would appear that the 300 million oz decline in recorded inventories (mostly in the COMEX warehouses and later in SLV and other silver ETFs, excepting PSLV) was the result of demand from industrial users and other silver fabricators.

For one thing, this aligns perfectly with the experience in all the other industrial metals, where there have been sharp draw-downs in recorded inventories to what are now three to five-year lows. In other words, silver inventories have declined just like in all the other industrial metals and for the same basic reason, namely, industrial demand being greater than current production, necessitating inventory draw-downs.

I'm certainly not suggesting that world recorded silver inventories are at multi-year lows, as is the case in most other industrial commodities; as I'm well-aware that world recorded silver inventories are close to 1.4 billion oz; which while down 300 million oz from the peak two years ago, are still up from 200 million oz or seven-fold, from 16 or 17 years ago (or when SLV was first introduced). The difference here is the investment demand profile evident in silver and not in any other industrial metal.

Another big reason that I'm claiming that the 300 million oz that have come out of total recorded silver inventories is related to industrial demand and not investment demand (which I claim has been flat) is due to the unprecedented physical turnover of silver inventories, primarily in the COMEX warehouses, but now also increasing obvious in SLV and other silver ETFs. As I've explained previously, there is little reason for investors to shuffle physical holdings around and that leaves an almost insatiable demand from silver users, as well as the need to replenish departed inventories as the most plausible explanation for the physical silver turnover — unique among all metals.

This is the basic point of my bottom of the barrel premise, namely, silver inventories can't go to zero, while there is no reason why inventories of industrial metals can't go to zero, because of silver's large investor holdings. Over the past five years, LME copper inventories have declined by more than 80%; while COMEX copper inventories have fallen by more than 90% over this same time. LME lead inventories have fallen by 85% over the past three years. LME nickel inventories have fallen by 85% over the past 5 years and LME zinc inventories have fallen by 93% over the past 3 years. The declines in industrial metal inventories are simply stunning and a legitimate case can be made that these inventories are, effectively, quite close to zero.

As stunning as these draw-downs in industrial metal inventories have been, I would contend that such percentage declines in silver, the industrial metal, are impossible — all because of silver, the investment asset. Now, I may turn out to be slightly premature in my bottom of the barrel premise for silver inventories — but not by anywhere near to the same percentage declines seen in the inventories of the other industrial metals. Yes, recorded silver inventories have declined by around 18% (300 million oz) over the past two years, but declines of 80% or 90%, like occurred in the other industrial metals are, essentially, impossible — all because of the investment asset demand side of silver's unique dual demand profile.

Therefore, the effective bottom in silver inventories must consider the amount of silver held as an

investment, which I've attempted to do. The important point is that when the effective bottom in inventories is reached in any of the industrial metals, including silver, prices then must rise and rise sharply. Period. We also know that actual inventories can't go below zero, so once inventories are down 80% or 90%, as is the case currently, we have to be close to the bottom. There should be some discounting of the approaching inventory bottoms in the form of rising prices, according to the law of supply and demand, but such discounting in silver is not apparent due to the ongoing COMEX price manipulation.

The bottom line is that silver investors are not misinformed, far from it it's purely a case of the verifiable data indicating that the physical shortage is about to overwhelm the COMEX paper manipulation and is as close as it's ever been to doing just that. So, it's not really surprising as we approach the line of demarcation where physical finally trumps paper, that the forces of the paper manipulation put up a final and desperate push to crush prices. Think of the absurdity of silver prices getting crushed precisely at the same time the physical shortage is more advanced than ever. Can it get more absurd (or manipulative) than that?

You or I can't defeat or crush the COMEX manipulators by ourselves, but the developing physical shortage can and will. The order of the day is clear don't lose positions in this latest and most likely final deliberate price smash and add positions if you can.

(In a housekeeping note, I'm switching to April COMEX gold contract for closing price purposes which adds about \$15 to the price. By the way, the reason the monthly spread differentials in gold and silver are as wide as they are, is due to short term interest rates being as high as they are, as interest rates are the prime component of spread differentials, all things considered).

Ted Butler

February 4, 2023

Silver – \$22.40 (200-day ma – \$21.10, 50-day ma – \$23.38, 100-day ma – \$21.59)

Gold – \$1878 (200-day ma – \$1785, 50-day ma – \$1846, 100-day ma – \$1767)

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