

## The Real Silver Surplus

That was the title of the very first article I wrote about silver in 1985. I can't give you a link because I never converted it from the oily-skin paper I typed it on more than 30 years ago into a digital form. This was well before the Internet or creating Word Documents (at least for me). However, the theme was remarkably similar to what I have written since - basically, the real surplus in the silver market at that time pressuring prices was a surplus of paper silver on the COMEX and not any oversupply of actual metal.

Back then, despite being in the grip of a documented supply/demand deficit which resulted in there being a severe depletion of world silver inventories (because more was consumed than was being produced), because the price was so low (\$5), all anyone ever talked about was the glut or surplus of silver. Think about that □ there was less silver in the world every day, yet because the price stayed so low, the vast majority of market observers agreed there had to be some type of oversupply. Isn't that the case today?

Longtime readers will recall this was when Izzy Friedman challenged me to

explain the conundrum of a physical deficit and shrinking inventories accompanied by falling prices. It was this challenge that led to my manipulation epiphany and that first article. My conviction that COMEX positioning overrode the real market supply and demand when it came to price influence has only strengthened over the years. Not only has the COMEX price manipulation continued to exist in silver, it has spread to every market with a futures positioning link. Just this morning a friend sent me a link to a Reuter's story on cattle prices and trading. (Does the damn CME Group do anything on the up and up?)

<http://www.reuters.com/article/usa-cattle-markets-idUSL2N15003S>

While the silver price manipulation has continued and spread, the actual supply/demand fundamentals in silver have changed over the years. Both actual supply and demand have grown mightily over the past three decades and the 65 year physical deficit in silver ended in 2006. Ironically, silver prices began their surge to near record levels almost to the day the actual structural consumption deficit ended, which is profoundly counterintuitive on its face. However there was a real big reason for the silver price rise into early 2011 - a developing physical shortage due to strong investment demand. As I hope I have conveyed, that same circumstance appears certain to recur at some point.

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Recent developments in the visible world inventories of silver (in 1000 oz bar form) have prompted this missive. Visible inventories refer to the recorded inventories of silver easily documented and include all world ETF-type holdings, including SLV, as well as the COMEX warehouse holdings. As of yesterday, total world recorded inventories of silver amounted to just under 817 million oz, with the SLV and COMEX inventories accounting for more than half of total world holdings (courtesy of [www.sharelynx.com](http://www.sharelynx.com)). Visible inventories do not include private and unreported holdings of 1000 oz bars or metal in the form of coins or smaller bars.

My best guess of the total (visible plus unrecorded) amount of metal in the form of 1000 oz bars is around 1.3 billion oz, meaning around 500 million oz resides in the unrecorded (invisible) category. Therefore, based upon previous findings, I also believe that JPMorgan holds the majority of the invisible inventory of 1000 oz bars of silver.

I would ask you to consider the term “visible” because, while not formally stated, it is a word that mostly applies just to silver. In most industrial commodities, because typical inventories involve great physical mass and obvious storage requirements, it's fairly easy to track the physical inventories of crude oil, grain and industrial metals. But because silver (despite its low current

price) has a much greater value per ounce than most industrial commodities, there is more incentive and practicality to storing silver privately. In other words, it would be a heck of a lot easier to privately store one truck load of silver (600,000+ oz) worth \$10 million, than to store \$10 million worth of oil or copper or corn, which would involve hundreds of truck loads.

While it is true that gold has a much higher dollar value per ounce than does silver, in terms of inventory, "visible" becomes a secondary consideration in gold due to the uniqueness of the metal. Because of gold's relative high price to most commodities, little of it is used or lost in industrial consumption. It's not a case that gold doesn't have important potential industrial characteristics or qualities; it's a case of the relative high price precluding wide industrial use.

In fact, all world inventory data on gold start with the premise that all new mining output is automatically added to existing world gold inventories. We know, for instance, that there are approximately 175,000 tons (5.5 billion oz) of gold in the world in all forms because that is the cumulative total mine production of gold throughout history.

But it's different in silver. Of the 40 to 50 billion ounces of silver mined throughout history, the total visible world inventory of 1000 oz bars is less than one billion oz. Further, we know the reason we have such a small amount of silver remaining compared to what was produced throughout history - because the vast bulk was consumed industrially over the past 50 or 100 years. That's why we have more gold in the world than silver and why "visible" is a term only applicable to silver inventories.

The point of this historical review is to set the backdrop for recent developments in recorded world silver inventories. For nearly five years, I have ranted and raved about the unprecedented and frantic turnover or physical movement of the COMEX silver inventories. Over this time the COMEX physical silver turnover, on an annualized basis, amounts to nearly 25% of the total world inventories. On that same basis, the COMEX gold warehouse turnover amounts to some very small fraction of one percent - the same with COMEX copper and NYMEX platinum and palladium warehouse turnover.

This COMEX warehouse turnover is, therefore, not only unique to silver, it comes against a backdrop of total world inventories that have been severely depleted historically. So it's not just that the turnover is unusual compared to all other commodities, the turnover is unusual because there is so much less silver

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in the world than there was 20, 30 or 60 years ago. What little silver we have left in the world is spinning in and out of the COMEX warehouses like there is no tomorrow. My conclusion from when this COMEX silver warehouse turnover commenced nearly 5 years ago is that it represented extreme tightness in the wholesale physical silver market. Not only do I still feel that way, I can't come up with a different possible alternative conclusion. Physical tightness and shortage are not different, except in degree.

Over the past five years, world visible silver inventories have, essentially, remained flat, even though the data reflected that true total inventories were no longer being depleted. This suggests a couple of things, the first being that invisible silver inventories must have grown (if production/consumption data were correct). This fits in nicely with my premise that JPMorgan has been accumulating massive amounts of physical silver and shielding it from view.

Since the frantic COMEX inventory turnover has persisted, it also suggests that the JPMorgan silver holdings are not involved in the turnover, making the frantic turnover more concentrated and confined to the COMEX. If anything, this would appear to make the turnover even more indicative of tightness and that JPM is not interested in parting with the physical silver it has accumulated to date.

Very recently, world visible silver inventories have moved lower, quite counterintuitive with there being no deficit in silver and the widespread conviction that there must be some type of surplus in silver to explain the low price (as there was in 1985). However, total COMEX silver inventories hit their lowest level in three years today, at under 155.4 million oz. That's down by 30 million oz from earlier in the year and flies in the face of suggestions of a surplus. I am still more concerned with turnover, but the declining level of COMEX inventories is doubly counterintuitive in the face of there being no known deficit existing. Likewise, there has been no growth in the silver holdings in SLV for nearly five years.

All this makes the COMEX (and SLV) physical silver turnover that much more unusual. Not only are visible silver inventories not increasing and actually decreasing a bit, the inventories are being frantically turned over. The price of silver remains stuck at some impossible to economically justify depressed level, yet the physical demand for it has caused the turnover to explode. I don't think there could be more compelling proof of price manipulation and an explosion to come.

Let's face it □ there are surpluses and then there are surpluses. Leaving aside the influence of the technical funds for a moment, the surplus in crude oil is as real as rain and the price is mostly reflective of the physical glut in oil. But the □surplus□ in silver is of the kind I wrote about three decades ago □ a surplus of COMEX futures contracts and not of real metal. Now the evidence in silver points to a growing physical tightness based upon the documented turnover and visible inventories shrinking instead of growing. If that's not an invitation to buy and hold silver, then I don't know what is.

All we seem to have are conundrums in silver; low prices and shrinking inventories, low prices and frantic inventory turnover, along with low prices and record sales of Silver Eagles and Canadian Maple Leafs with almost non-existent retail demand. About the only thing that is not puzzling in silver is that the low price is in perfect conformity with futures market positioning on the COMEX and with JPMorgan's acquisition of physical metal.

Turning to price action and developments since Saturday's review, the standout feature continues to be volatility and declining prices in world stock markets and crude oil. Against this, gold and silver prices have advanced modestly, a conundrum in itself. Admittedly, I own silver because I expect it to go into a physical shortage and soar in price and not primarily because of its financial



insurance potential. But looking at what is developing in world financial markets, I'd be lying if I said I wasn't comforted by the knowledge that silver can't go bankrupt or likely suffer catastrophic price declines from here. I can't say that about many other investment alternatives.

Sure, the crooks on the COMEX may be able to wring a bit more blood from the price stone, but the manipulation game is growing long in tooth (as am I) and the list of where investors will run should the broader markets remain under stress grows short. Knowing that it will be investment demand most likely to set off a silver price explosion, I can hardly imagine a better backdrop for silver investment demand kicking in. I may have purchased my tickets to the developing world financial show early and have had to suffer through endless coming attractions, but, increasingly, it looks like the main feature is about to unfold.

As to what the readings will be in Fridays' new COT report; since the holiday reduced 4 day reporting week didn't feature much overall price change, it's hard to imagine big positioning changes. There was another price dippy-doodle in silver during the reporting week, in which a sharp one day price advance was wiped out the next day, but by the scam within the scam rules of late, that would not result in a big position change.

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I guess I'd lean towards some minor deterioration (commercial selling/tech fund buying) in both gold and silver, but not by much (a few thousand contracts in gold, less in silver). Through yesterday, the bullish market structure in each remains intact and should gold and silver prices move higher from present levels, I would expect aggressive managed money technical fund buying to kick in. It is notable how little technical fund buying has occurred to date considering the penetration of various moving averages in gold and the near penetrations in silver. That has to be considered bullish. The key, as always, is how aggressive the commercial selling will be when the technical funds move to buy in force?

Ted Butler

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Silver - \$14.15      (50 day moving average - \$14.12)

Gold - \$1103      (50 day moving average - \$1076)