Some of the new financial terms that have come into existence of late include FOMO – fear of missing out (on the latest money-making opportunity), YOLO – you only live once – and TINA – there is no alternative (to buying stocks and other assets in a near-zero interest rate environment). All are the highly rational result of recent market performance in the face of the most accommodative monetary and fiscal policies in history. Let's face it, sticking to an investment and savings program relying on short term interest rates has failed to keep up with most other approaches.

At the same time, returns on other assets, like stocks, residential real estate, collectibles and cryptocurrencies have proven to be so rewarding that the risk of overvaluation "corrections" has grown. So, what's a bloke to do in a world of still zero interest rates (with the sudden added threat of increased inflation) and with the assets of choice sporting high valuations and the ever-present risk of selloffs? It is a debate occurring everywhere you look, as should be the case, considering the stakes involved. And the longer current conditions prevail, the debate must intensify.

Cutting to the chase, I believe there is an alternative asset that should perform as well or much better than any other asset widely discussed, in just about any economic environment ahead and it will come as no surprise my asset of choice is silver. Yes, I'm aware, as well as anyone, that silver's price has been suppressed for years and decades by excessive and illegitimate short selling on the COMEX, but unless the concept of buy low and sell high no longer applies, silver's suppressed price is a major positive, not a reason to shun it.

In a world increasingly torn between the choice of buying assets capable of future gains but which are also extremely overvalued by conventional standards, it is downright refreshing to be presented with an asset fully capable of outsized gains, but with the prospect of current overvaluation and real risk absent. In fact, I can't imagine an asset away from silver that has such low risk and the high chance for extreme profit.

Of course, if one is convinced that the decades-old price suppression of silver will continue indefinitely, that is perhaps a good reason to avoid buying or holding silver, but I haven't run across anyone truly convinced of that. It's far more common for general market observers to know nothing at all about silver. Sure, there are disagreements on how the manipulation will end, but with nearly everyone holding the opinion that a pronounced physical shortage will finally overcome a continuation of the paper short selling games on the COMEX. Well, guess what – the signs of a physical silver shortage have never been more pronounced. What signs?

Well, for starters, more physical silver has been purchased by silver ETFs over the past 16 months than at any time in history, close to 500 million oz, fully a quarter of all the silver in the world in the form of 1000 oz good-delivery bars. Plus, tens of millions of additional silver ounces have been bought in retail forms above and beyond any previous levels of retail buying. In addition, industrial demand for silver has continued to be rock-steady, all while world mining output of the metal has remained flat to down for the past five years.

In fact, the real wonder is how the gains in silver over this same time, admittedly not minor at more than 100%, haven't been much more, given the tremendous surge in demand and, at best, flat supply. While I'm glad to see silver finally start to respond to the factors that would propel any asset to the moon, the reality is that by any measure, silver is still dirt cheap by any relative or absolute metric – thanks to the continuing paper positioning forces on the COMEX.

Mark my words – there will come a time, when silver is firmly entrenched in an explosive upside move that the current low risk label will no longer apply. It won't necessarily mean that silver should be sold, just that the extreme low risk at current prices will no longer be able to be said. That day is coming, and perhaps quite soon, so taking advantage of today's low prices would seem to be the ticket. Of course, higher prices will alert and excite those currently not focused on silver, as is always the way of the investment world, and allow for still-impressive outsized gains; but the opportunity to participate in those gains will come without the low-risk price of today. Just like those who took advantage of the low risk that $5, $10 or $15 silver offered, I believe those accumulating at current prices will be glad they did.

While prices are higher today than when I first became interested in silver some 35 years ago, the offset is that the conditions that will determine future silver prices are proportionately much more compelling today than they were back then. That's a remarkable statement for any commodity, because it is assumed that over the span of several decades that the price would have sufficiently adjusted the appropriate level of real supply and demand to closely reflect the then-current price. And for most commodities, I believe that has largely been true, although there will always be temporary surprises which will influence prices.

It's different in silver for a number of reasons, chief among them being that silver has, almost exclusively, had the largest concentrated short position of any commodity, in real world terms, of any commodity over the past few decades. There was a brief time, some years back, when palladium had even a larger concentrated short position than silver (but not by much). It was precisely that concentrated short position in NYMEX palladium futures (the same swell guys that run the COMEX) and resultant super-depressed price that caused a physical shortage in palladium that persists to this day and that resulted in prices moving higher by a factor of five or more.

That same price result is also guaranteed to occur in silver when the physical shortage begins to exert itself and the big shorts give up their scam. The only reason it has taken much longer to occur in silver is that much more silver had been accumulated in world inventories than occurred in palladium, given the fact that silver had been mined and accumulated in world inventories for thousands of years, while palladium was only discovered in the early 1800's. Plus, palladium was never the widespread and popular investment asset that silver is.

Plus, there is the incredibly-unique circumstance in silver by which it is the only industrially consumed commodity that is also a prime and basic investment asset. No other commodity has that dual-demand profile.

Ironically, it is the plight of the big COMEX silver shorts and the damage that will accrue to them when the manipulation is broken that explains their persistence in clinging to their illegal price suppression. That's particularly true in the face of more than $11 billion in total losses to the 8 largest COMEX gold and silver shorts since the summer of 2019. Those losses have occurred despite the 8 big shorts fighting further increases in gold and silver prices every step of the way. On the other hand, had the big shorts simply given up to the reality that they were on the wrong side of the market (as would have occurred in any overly-shorted market) not only would the resultant losses been that much worse, the big shorts would have been exposed for being the manipulators that they are.

So, it must be expected that the big COMEX shorts will persist in suppressing prices to the bitter end. Only then will silver prices begin to reflect the true value that has been suppressed for decades. Moreover, the value readjustment process promises to be a near-instantaneous occurrence, whenever it begins. It has become and either/or situation – either the silver manipulation remains in force or it doesn't – kind of like being pregnant – either you are or you aren't.

While there is no doubt in my mind that the actual ending of the manipulation will entail physical shortages, which will only become exaggerated in the early days of the manipulation's demise, I'm still of a mind that the precipitating agent could be the lack of additional aggressive short selling on the next silver rally, as a result of the CFTC's possible message to the big shorts. As it stands, the 4 and 8 big COMEX silver shorts hold their lowest short positions in a year and especially since the time of the Commission's response to me of May 3. This, despite what looks like a clear cut reporting error in the past two COT reports, in which the 4 largest silver shorts first decreased and then increased their concentrated short position by 5000 and 4000 net contracts, respectively (among the largest on record), on fairly range-bound price changes.

This is not to say, of course, that the 4 big silver shorts will go down without a fight. In fact, I came into today expecting that silver prices might take a quick trip downtown, given yesterday's late price fade and the proximity of price lows being penetrated that would take out the price lows bounded by the 200-day moving average – always a tempting target for the short crooks to induce a final round of speculative selling. Therefore, I was pleasantly surprised to see an early rally develop instead – although the day is long.

Should we get that quick price blast lower, it promises to be the very last before a liftoff higher. Yes, I know, I've said that before, but as I hope I just explained, conditions are much different than before as well. Let me go over some other recent developments, before returning to see how the big COMEX shorts fared at the end of the day.

I was also surprised by Tuesday's results in the new short interest report on stocks for positions held as of June 30. As you'll recall, there was a very sharp (deliberate) price decline in both gold and silver into the quarter end of more than $100 in gold and $2 in silver, as well as significant commercial buying (short covering) on the COMEX. That's usually the rigid formula for significant short covering in shares of GLD, the big gold ETF, and in SLV, the big silver ETF. We did get the expected large short covering in GLD, where the short position declined from 14.26 million shares to 9.67 million shares, a reduction of nearly 4.6 million shares (460,000 oz). However, in SLV, the short position only declined from 29.5 million shares to 29.05 million shares (ounces), a shockingly low amount of reduction.

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

It was only due to me overlooking it that I didn't predict beforehand a much larger reduction in the short position of SLV, but that in no way diminishes my surprise at the results. After getting over the initial shock at the lack of a larger reduction in the short position of SLV, the most plausible explanation that comes to mind is that the short position was initiated, not so much to take advantage of an expected price drop, but for the reason there simply wasn't enough physical silver available at the time of the short sale to deposit into the trust, as is required by the prospectus. If true, this must be interpreted as bullish and confirming the near-shortage condition of the whole physical silver market. And this is exactly what the prospectus change in early February warned about. We should know what BlackRock intends to do about it, if anything, in the relative near future.

Another big development over the past few days is the surge in total open interest in COMEX gold futures (which hasn’t occurred in silver). Since the end of the last reporting week, the total open interest in gold has increased by 30,000 contracts, with more than half of that coming in the past two days. Gold prices have been mostly strong this reporting week (ended yesterday), up as much as $25 or so and remaining above gold’s 100-day moving average, first penetrated on the last day of the prior reporting week, although prices did not penetrate (or come close to) gold’s 50 and 200-day moving averages.

Therefore, it’s possible that Friday’s new COT report will indicate that there was a further large deterioration in the gold market structure, following last weeks near 20,000 contract increase in the commercial short position. I’m still inclined to believe (perhaps hope is a better word) that much of this week’s 30,000 contract increase in total open interest is spread-related, but I had hoped that was the case last week as well and that was in vain. I would expect some increase in the commercial short position in gold, just, hopefully, not 30,000 contracts.

In silver, there was no increase in total open interest and, instead, there was a decrease of 2500 contracts. Plus, silver prices were mostly flat, unlike what occurred in gold. I would expect a slight reduction in the total commercial short position in silver, with the hope being for a larger reduction.

With the exception and possibility of one more price spike to the downside in silver to take out the recent lows and shake as many speculative apples from the tree as possible, the path of least resistance in silver (and gold) beyond that is decidedly higher. There’s no question in my mind that silver is headed dramatically higher, far higher than it might decline in the very short term and that is the definition of an extremely attractive risk/reward profile. In fact, this past week's relatively poor showing in silver compared to gold should reflect itself in superior relative outperformance in time (and perhaps not much time).

As far as the financial performance of the 8 big shorts, at publication time, their total loss has increased by nearly $400 million, pushing that total loss to $11.3 billion from Friday's close. Considering the recent sharp and intentional take down in gold and silver prices going into the end of June, in which all three key moving averages in gold and silver were penetrated to the downside and on which much non-commercial selling and commercial buying resulted (as intended), the tide seems to be going out on the big shorts. You don't ever want to underestimate these crooks, but their days, increasingly, appear numbered.

For those who might be interested in the issue, there were two quite involved discussions on Bitcoin and cryptocurrencies recently. The bullish side was presented by Michael Saylor in this interview –

https://www.youtube.com/watch?v=XlXxiDhP6bg

The bear case can be found in this discussion on Grant Williams site –

https://www.grant-williams.com/podcast/the-grant-williams-podcast-bennett-tomlin-george-noble/

I'm still an agnostic, leaning towards skeptic on the matter, but it's hard for anyone to be completely neutral.

Ted Butler

July 14, 2021

Silver – $26.32 (200 day ma – $25.83, 50 day ma – $27.13, 100 day ma – $26.53)

Gold – $1825 (200 day ma – $1830, 50 day ma – $1836, 100 day ma – $1790)