There are two main ways to measure and define world inventories when it comes to silver; first by form and then by whether the metal can be documented to exist or not. Aboveground silver exists in many forms; mostly in coins, smaller bars, jewelry and items made of the metal and industry-standard 1000 oz bars. There may be a billion ounces or more in the form of coins and bars (up to 100 oz), jewelry, etc., but I put that amount aside and don't factor it as real world inventories for the simple reason so little of it gets melted into 1000 oz bar form.

Silver in coin form, for instance, that does get sold generally ends up being bought by someone else who holds it in that same coin form. As such, such metal remains outside the true scope of world inventories in terms of wholesale supply and demand considerations. The coin, small bar and jewelry forms of silver are, in essence, a market separate and distinct from the key 1000 oz bar market.

I will readily concede, however, that at some very high price of silver (over the previous all-time highs) some of the silver in the form of coins and bars and jewelry, might find its way to getting melted into industry standard 1000 oz bars and as such may become a future supply and demand factor. Until then, it doesn't seem to make much sense to count these forms of silver as legitimate world inventories since they have little bearing on actual current supply and demand. What will determine silver prices as regards world inventories is the amount of the metal in 1000 oz bar form.

Next comes the question of whether the silver inventories in the form of 1000 oz bars can be verified and documented or if they are hidden from sight. This is another unique factor in silver, as opposed to other world commodity inventories, where the issue of documented versus invisible rarely comes up. For instance, in gold, world

inventories are thought to include all the gold ever mined, since gold is not a commodity widely consumed industrially and has always been way too valuable to having been discarded. A very big portion of world gold inventories are invisible or held in undocumented form, but the word “visible” is rarely used in gold, only in silver.

Importantly, the question about the amount of existing world inventories is much more critical in silver than in gold. That’s because it is known that most of the world’s cumulative silver production from the dawn of civilization has been used up, the opposite of what has occurred in gold. While there can be debate about who owns the world’s gold, rarely is there a debate about how much exists in total.

In silver, the world inventory debate is two-fold; who owns it and how much really exists in total. 95% of the cumulative world silver production over the course of history (over 40 billion oz) has been consumed industrially or put into forms not likely to come back to the market or only at very high prices. This creates much greater speculation and criticality about how much silver exists in world inventories and it becomes necessary to consider both the 1000 oz bars of silver we can see and that which can’t be seen.

Every 1000 oz bar of silver can be identified as to weight to the nearest fraction of an ounce, purity (at least .999 fineness) and has a legitimate hall mark or refiner brand as well as a unique serial number. Because of these unique identification factors, most of the silver held in 1000 oz bar form by the investment public are easy to track and record. All told, there are close to one billion ounces of silver in 1000 oz bar form held in verifiable or documented holdings. The largest such holding is in the big silver ETF, SLV, which hold just under 345 million oz. The next largest silver

inventories are in the COMEX-approved warehouses, where around 210 million oz are held. The holdings in SLV and in the COMEX warehouses make up more than 55% of all visible world inventories.

The next ten largest visible holdings of 1000 oz bars make up another 400 million oz and combined with the holdings in SLV and in the COMEX warehouses cover about 97% of the all the one billion oz of visible world silver inventories. (In descending order of these holdings, from the largest on down – SIVR, Central Fund, ZKB, PSLV, Gold Money, Bullion Vault, Deutsche Bank ETF, Permanent Fund, Julius Baer ETF, and the Perth Mint). Of the billion ounces of visible and documented silver in the form of 1000 oz bars, JPMorgan holds just over 113 million oz – the portion in its COMEX warehouse.

In addition to the one billion ounces of silver in visible form, there are thought to be upwards of another 500 million oz to as much as one billion oz in unrecorded and undocumented inventories – making the total amount of silver in 1000 oz bar form anywhere from 1.5 to 2 billion oz. (Included in this are the undocumented silver holdings alleged to be in the LBMA or other London warehouses). Of the 500 million to one billion ounces in undocumented silver bullion holdings, I contend that JPMorgan holds 500 million oz, essentially all of the invisible holdings, with perhaps some amount ranging up to 500 million oz more held by others.

I realize that it may seem extreme to claim that JPMorgan holds, effectively, perhaps all of the world's undocumented silver bullion inventories, but I assure you that I don't make that claim lightly. What JPMorgan has achieved over the past six years in terms of how much physical silver it has acquired is nothing short of unbelievable. After all, the 600 million+ oz that JPMorgan has accumulated (110 million on the

COMEX and 500 million oz in undocumented holdings) was acquired under the most unbelievable of circumstances – precisely as prices declined sharply and steadily. Never in history has anyone ever acquired so much of any asset – in this case as much as 40% of total world inventories – on declining prices.

Then again, never has it ever occurred that a single entity had the opportunity (and permission) to be both the largest physical buyer at the same time it was the largest paper derivatives short seller. I suppose it helped that JPMorgan was the largest and most important financial institution in the US and that the US Government owed a debt to JPM for the bank taking over the failing Bear Stearns investment bank in 2008. (I did read some nonsense on the Internet recently suggesting that Bear Stearns wasn't the biggest COMEX short in gold and silver at the time of its failure, but I hold correspondence from the CFTC stating otherwise).

Don't be fooled by all this talk of one or two billion ounces of silver laying around into thinking these are large amounts for total world silver inventories. A "billion" may seem like a big number, but not when it comes, essentially, to judging how much silver exists in the world. The most important takeaway from the data on world silver inventories is that total inventories are incredibly small and of the small amount that does exist, JPMorgan holds an incredibly large percentage.

Tiny is not an extreme word to use to describe the total amount of silver that is likely to be desired by what will be the biggest buyers – industrial users and institutional investors – in terms of actual metal ounces. If there are 1.5 billion oz of silver in the form of 1000 oz bars, that comes to two-tenths of an ounce each for every world inhabitant. However, when you convert the tiny amount of total silver ounces into dollar terms, the amounts go microscopic.

1.5 billion oz at current prices ($16.50) comes to $25 billion. One way to appreciate just how small this is, is by another comparison with gold. Yes, I'm comparing all the gold in the world and not just the gold in certain forms of bullion, but that's because industrial users and institutional silver investors must deal only in 1000 oz bars of silver. (A solar panel manufacturer is not going to attempt to build silver inventories by purchasing Silver Eagles or Canadian Maple Leafs or small bars). There is no such similarity in gold because there are few industrial consumers of gold and, subsequently, no big industrial user inventory buying panic appears possible, while that appears near-certain in silver. The 5.6 billion oz of gold in existence is currently worth $7 trillion (at $1250), versus around $25 billion for the world's inventory of 1000 oz silver bars.

Please do the math yourself and you'll see that all the silver that matters in the world is worth less than one-half of one percent (0.5%) of what all the world's gold is worth. One obvious conclusion of this mismatch is that it will take a lot less world investment money flowing into silver to impact prices higher than could ever occur in gold. Look at it this way – just one percent of the total dollar amount of all the world's gold is almost three times the total value of all the world's inventory of 1000 oz silver bars.

But it would be shortsighted to only consider the tiny dollar amount of silver in the world, without also considering the fact that only the smallest percentage of that already tiny amount is actually available to the market. Just like the total world inventory of anything – gold, real estate or anything else – there is a big difference between what exists and what is available for sale at close to current prices and, therefore, for purchase by someone else. Just because you can see it or know that it exists, does it mean someone can just buy it at will. For something to be bought,

there must be a seller and vice versa. Generally speaking, only a very small percentage of what exists in anything is offered for sale by its owners over the course of a year. This presents a particularly vexing conundrum in silver.

Even if one pegs the total world inventory of silver at 2 billion oz (in the form of 1000 oz bars), if only 5% of that total is made available for sale over the course of a year, that only comes to 100 million oz, or less than $2 billion. The problem is that the amount of silver inventory made available for sale by inventory owners over the course of a full year doesn't match up in size or timeliness with the sudden bouts of intense investment buying that silver is prone to.

Those investing in physical silver due to its perceived undervaluation, as opposed to those engaged in short term trading of related silver securities, are mostly holding the metal on a long term basis. Because the undervaluation has lasted for so long, many years can and have passed by for physical silver investors in which the metal is continued to be held. I would estimate that most, if not nearly all of the world's 1.5 to 2 billion oz of silver inventories is held by such investors – including JPMorgan. Metal held for the long term because it is undervalued is metal unavailable to others for as long as the undervaluation lasts.

Of course, as and when silver prices rise, a number of physical investors will be persuaded to sell, depending on their own opinion of what constitutes a fair price at which to sell. But here's where it gets interesting. Collective human behavior dictates that when an investment asset rises in price sufficiently, more are attracted to buy that asset than to sell it. I think that's particularly true in silver because those holding it (like myself and many of you) have expectations of very high prices and wouldn't be interested in selling below those high expected prices.

On a coming silver price rise, the conundrum is that much more physical silver will be looking to be bought by investors than will be offered for sale and made available by existing owners – until prices rise high enough to free up metal from existing owners. What's a high enough price? That will only be known as and after it occurs, but it seems to me that silver won't be considered to be fairly or overvalued by most of those who actually hold it until it is much higher than it has been over the past five years or so, or back to the all-time highs.

My point on all this is that new physical investment demand for silver looks likely to explode on higher prices and far exceed the limited amount of physical silver supply made available by existing owners. That's a prescription for sharply higher prices that, once it starts in earnest, will not be extinguished until it burns out. This is reason enough to hold as much physical silver as is practical, but is hardly the only reason. Superimposed on the physical silver realities is the COMEX paper market structure.

As I and many others have been reporting, the setup on the COMEX futures silver market is more bullish than ever before. Remarkably, the paper market setup is, in many ways, completely separate and distinct from the looming mismatch in the coming fight over available physical supplies. In other ways, of course, both are strongly related, connected by the fact that JPMorgan is the main deciding presence in both paper and physical silver. Most remarkable of all is that JPMorgan has never been better positioned in both, paper and physical silver alike, for a price explosion. That's kind of all one needs to know.

On to some developments since Saturday's review. Yesterday's release of the short interest report, for positions held as of July 14, featured an increase in the short

position of SLV and not my expectations of a decline and a substantial one at that (although I did leave myself some wiggle room). The short position in SLV increased by 1.9 million shares to just under 12 million shares (ounces). This was roughly the reverse of the results in the prior report.

http://shortsqueeze.com/?symbol=slv&submit=Short+Quote%E2%84%A2

Clearly, this is the most difficult report to predict, at least for me. As a reminder, there was an unusually large and counterintuitive deposit of metal over the two-week period of the report and given the weak price pattern over that time, the only plausible explanation for the large deposit (near 10 million oz) was to create new shares with which to close out the short position. As I also explained at the time, it was entirely possible that the new short report may not feature a big reduction in the short position if the new shares and old short position weren't actually crossed and were both kept open, ala a "short against the box".

I'm still inclined to believe the big physical silver deposits into SLV were for the purpose of closing out short positions, but perhaps I'm just being stubborn. The problem is that no other alternative explanation for the big deposits seems plausible. Plus, it looks out of kilter for the COMEX commercial short position to have been sharply reduced over this time and for the short position in SLV to have increased; generally they move in tandem. Regardless, neither the increase in the short position in SLV, nor the total short position is particularly large and meaningful when measured against COMEX positioning. For example, the 1.9 million share increase in the short position in SLV is the equivalent of less than 400 COMEX contracts.

The past few days in SLV and for a bit longer than that in GLD, the big gold ETF, we have witnessed the opposite, namely, big metal withdrawals from each on what have

been steadily increasing prices. Again, it is just as counterintuitive for physical silver and gold to be removed from these ETFs on rising prices as it is for deposits to occur on falling prices. Over the past week, more than 5 million silver ounces have come out of the SLV and nearly a million oz have been removed from the GLD over the past two weeks. Silver and gold prices have moved higher over this time. What the heck is going on?

The most plausible and, in fact, only explanation I can come up with is that some large entity is converting shares into physical metal for the purpose of preventing share ownership from rising to or above reporting levels. When a big shareholder converts shares of SLV or GLD into metal, the shares no longer exist and, therefore, don't need to be reported to any regulator. Likewise, direct physical ownership of silver or gold needn't be reported to anyone no matter how large the position may grow. (This is another major factor behind why JPMorgan decided to buy physical silver). Again, a large entity amassing a large physical position in silver or gold on the sly is not bearish for price.

Today, the CFTC announced yet another important "spoofing" case in which it filed an order and simultaneously settled with an independent New York City trader for $635,000 and in which the trader agreed to a lifetime trading ban. This represents, by my count, the fourth significant case brought by the Enforcement Division under its new director, James McDonald. The case involved spoofing, or the placement of orders intended to be cancelled before execution and motivated by a desire to artificially manipulate prices. Among the markets that the trader spoofed in was COMEX silver, gold and copper, as well as NYMEX crude oil futures.

http://www.cftc.gov/PressRoom/PressReleases/pr7594-17#PrRoWMBL

http://www.cftc.gov/idc/groups/public/@lrenforcementactions/documents/legalpleading/enfposenorder072617.pdf

I have given high marks to McDonald for his actions since arriving at the Commission on April 10 and he would appear to warrant praise for this latest action. After all, it's hard to recall any significant enforcement findings for price manipulation and spoofing prior to McDonald's arrival, despite the scourge of spoofing that the markets have been subjected to for so many years. To my mind, the rise of spoofing and all the other corrupt high speed computer trading manipulations that have sprung up are the market equivalent of the opioid epidemic laying waste to our country.

While I am on record of praising McDonald for his actions to date, his real test still lies ahead in the all-important question of whether the market crooks at JPMorgan will add to its COMEX silver short positions on the next rally. While we await that verdict, I would like to speak my mind on certain aspects of the case announced today that trouble me. For one thing, the accused trader engaged in spoofing on thousands of occasions from December 2011 through March 2015. Thousands of occasions? What the heck have the regulators at both the CFTC and CME Group been doing all these years? What took them so long?

Most troublesome is that McDonald thanked the CME for its assistance in this matter. Thanks for what? The whole reason spoofing and high frequency trading has come into existence is because the CME promoted and encouraged their existence as a way of ramping up trading volume and, therefore, revenue to itself. In essence, McDonald is thanking the CME for lining its own pockets. It's as if a major narcotics distributor turned in a few low-level operatives to curry favor with the DEA that

resulted in an official US Government commendation. If McDonald considers the CME as an ally in the fight against price manipulation, he is sadly mistaken.

The most important lesson that McDonald must learn is to look behind the spoofing of individual traders which, admittedly, deserves to be rooted out and to consider the big picture, which is how some large traders are using spoofing to hoodwink the managed money technical funds to put on huge long and short positions. The real crime with spoofing and high frequency trading in COMEX silver and gold is that it is being used by JPMorgan and others as a means of causing the technical funds to do what the commercials want them to do.

Maybe McDonald knows all this full well and I am overreacting to his words, but it's akin to the DEA thanking Pablo Escobar for moderating the flow of drugs into the US, when that is the opposite of his true intentions. If McDonald really believes the CME is some type of legitimate partner in the fight against market manipulation, all hopes for the man must be abandoned.

With yesterday's cutoff for the reporting week now behind us, attention turns to what to expect in Friday's COT report. There were minor price gains in gold (as much as $15) and silver (close to 20 cents), on top of gains in the previous reporting week on what was relatively light trading volume (compared to recent previous weeks). Gold did managed to penetrate its remaining key 50 day moving average to the upside on the last three trading days of the reporting week, but not in overly convincing terms. I never got the impression that the technical funds really started to buy in force. Silver still has yet to penetrate either of its two key moving averages as of this reporting week. Finally, total gold open interest in gold fell by 20,000 contracts (silver by 3000 contracts), but since we're approaching the traditionally big August

delivery period in gold, the open interest declines could be related to spread liquidation in gold.

No specific contract predictions, but there should be some moderate deterioration in gold, namely, managed money buying and commercial selling, and less so in silver. After improving by 140,000 net contracts in gold over the prior six reporting weeks, it is impossible for the market structure not to be still extremely bullish in gold, almost regardless of what this week's COT report indicates. That's doubly true in silver.

I still believe the market structure in gold and particularly in silver to be "locked and loaded" to the upside. I can't know what the spark might be to set off a surge to the upside, but that's much less important than the knowledge that all extreme market structures must be resolved in time. We're going to get a rally at some point fairly soon and the extent of that rally will be determined by how aggressive will be the selling by the raptors and, particularly, by JPMorgan.

Ted Butler

July 26, 2017

Silver – $16.58   (200 day ma – $17.17, 50 day ma – $16.67)

Gold – $1256   (200 day ma – $1232, 50 day ma – $1251)