

July 29, 2020 - Don't Forget the Silver Users

In the most guarded manner possible, and knowing that we likely face great price volatility ahead, I would respectfully submit that many of my long-held beliefs seem to be coming to fruition, along with those of my dear departed friend and silver mentor, Israel Friedman. And I would be remiss not to mention again that pearl of an observation more than a decade ago by Carl Loeb that the big silver ETF, SLV, was the Death Star, capable of gobbling up all the physical silver in the world and is now joined by a variety of equally voracious silver-eating ETF clones.

As I recently mentioned, there is developing a ring of truth to Izzy's strong belief that Silver Eagles would cease to be produced by the US Mint out of its fear of contributing to a developing silver shortage and the production halt would lead to big premiums on the coins. I won't dwell on my original discovery of a concentrated short selling manipulation on the COMEX some 35 years ago, which not only explains the decades of suppressed silver prices, but also, increasingly, more recent indications that the big shorts and JPMorgan may have ceased adding shorts on the recent price pop.

Instead, I would like to take a stroll down memory lane and revisit an issue that dominated the endless and often heated daily conversations I had with my dearly missed old friend. In the early days (circa the mid-1980's), Izzy's interest in my allegations of a short selling scam on the COMEX went to the motivations behind the price suppression and not so much the mechanics of the manipulation. He did issue me the challenge to come up with the explanation for why silver was so cheap in the face of a documented physical shortfall between supply and demand and it did take me a year to come up with the answer - but for some reason, Izzy didn't latch onto it immediately (not many -or actually any - people did).

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So Izzy looked instead to the motivation, sort of accepting my COMEX short selling explanation, but shifting the conversation to who was benefitting from the depressed silver prices under the assumption that those benefitting the most were the likely forces behind the paper short selling on the COMEX. It was logical enough to steer me in that direction and I quickly discovered the highly unusual circumstance that silver was the only commodity to have an industrial users association – aptly named the Silver Users Association (SUA). The big members were Eastman Kodak, DuPont and 3M and a slew of silverware manufacturers.

Much in the same manner I've approached the COMEX silver manipulation, since the only conceivable purpose for a commodity users association – no less the only one in existence – was to secure silver at depressed prices, I engaged in a years-long effort to attack the SUA, with everyone I thought had jurisdiction, certainly including the Justice Department on antitrust and price-fixing grounds. As it turned out, there wasn't much evidence that the SUA was behind the short selling on the COMEX, but they sure as heck had a lot to do with the US Government disposing all of its massive silver stockpile. I can't find a working link for an article I wrote in 2001, "Silver Users, Silver Abusers," but here's an excerpt –

The chief purpose of the Silver Users Association, when it was formed 54 years ago, was to lobby and convince the US Government to dispose of its immense stockpile of silver, as much as 4 billion ounces of silver, at as favorable a price as possible. Of course, when I say "favorable", I'm talking about as low a price as possible to the members of the SUA. The prices were decidedly "unfavorable" to the owners of that silver, the citizens of the United States. But, in any event, the SUA was successful beyond imagination. In my opinion they conspired to hold down prices and that's an anti-trust violation. The SUA achieved an almost impossible feat. They made off with

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*the world's largest known stockpile of silver. Let's see – the US Government had billions of ounces of silver the year the SUA was formed, and 54 years later, the US announced it would have no silver left this year. That is truly remarkable. And the best part (or worst part, if you are a regular citizen) is that the SUA got a real “steal” of a price on that silver, roughly one dollar an ounce. Slick and successful would be mild words when judging the accomplishments of the Silver Users Association. So would price fixing. – Taken from Ted Butler's 2001 essay entitled “**Silver Users, Silver Abusers**”*

While the Silver Users Association is for all intents a thing of the past, what's still of utmost importance is the coming role of the world's industrial silver consumers, many of which did not exist back in the late to mid-1980's in my heated discussions with Izzy Friedman. Solar panels and electric cars, to say nothing of I-phones and electronic devices of every type imaginable, simply did not exist back then. So even though the names of the big silver industrial users have changed drastically over the decades, the core of the basic premise that Izzy and I hatched out in incessant daily conversations hasn't changed a bit.

The premise was that someday a coming physical buying panic by the world's manufacturers which relied on silver as a necessary component in their finished products would exert a buying force never before witnessed which would propel silver prices far higher than anyone imagined. It's one thing for silver prices to rise because investors rushed to buy it, as we've witnessed recently, but something else entirely for the price impact that would be seen if industrial users rushed to buy the metal.

Admittedly, an industrial silver user inventory building buying panic has never

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occurred. But there is a very big difference between something that has never or can't occur and something that has yet to and must occur. Please allow me to make the case for an inevitable silver industrial users buying panic, as quite frankly, it was always the one thing upon which Izzy and I never disagreed. And with so many past premises seemingly coming to fruition, it would be negligent of me not to highlight what I believe is the most bullish factor in silver.

Of course, this discussion has nothing to do with short term price action in silver, so please don't confuse it as such. Then again, the average investor stands a much better chance of prospering on long term positioning and not short term trading. What I'm about to speak of is strictly long term, although sometimes the long term suddenly appears.

There are several important characteristics about silver that make it inevitable that there will be an industrial user buying panic someday. Not in any particular order of importance, let me mention a few. For one thing, silver is the best conductor of electricity, which makes it vital in a world that has, increasingly, gone electric and electronic.

Remarkably, as indispensable as silver has become in thousands of individual industrial applications, the actual amount of silver needed in the finished product of just about everything is miniscule - making the cost of silver immaterial in the total cost of the finished product. No manufacturer of any product that uses silver will stop buying silver in the short run because the price rises, no matter how high the price may jump. (I won't argue about long-term substitution if the price rises ten or twenty times or more - but why don't we deal with that then?)

No manufacturer, as Izzy liked to say, will shut down its assembly lines and send its

employees home because the price of silver went too high - it will buy silver at any price as an alternative to ceasing production. Price alone won't deter any manufacturer from buying silver, not when the cost of silver is still a tiny fraction of the finished product's final total cost. However, and this is the key point, the flip side of that equation is that if silver becomes unavailable separate from price, then that is whole different matter.

In other words, a sharp price rise alone is unlikely to set off the inevitable silver industrial user buying panic. After all, we've had a number of sharp silver price rises over the years, including in 2011, and no industrial user buying panic occurred. Because the cost of silver is such a tiny component of the total cost of the finished product, a sharp silver price rise wouldn't set off an industrial user buying panic. Besides, the manufacturers would likely use any silver price rise as an artificial excuse to raise prices on the finished product to capture more total profits.

So if it's not a sharp rise in the price of silver that would set off a user buying panic, then what would? Delays in any normal silver shipments to users. Particularly in our just-in-time manufacturing and inventory management world, any growing delays in silver shipments to manufacturers would, at some point, cause them to panic and rush to establish extra physical silver inventories to guard against future delays. If you think people may have overreacted and panicked in rushing to buy toilet paper at the outset of the pandemic, then multiply that by a thousand when the manufacturers of products needing silver react to delays in physical silver deliveries. It will be every purchasing agent pitted against each other. Yes, this panicky reaction will be self-reinforcing and will make matters worse, but, unfortunately, it is fact of life in the collective human condition.

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Any industrial commodity is subject to industrial user buying panics when expected delays in deliveries occur and history is replete with such examples in everything from energy, industrial metals and agricultural items. A physical shortage, after all, is little more than a delay in shipments to users. I find it fascinating that of all commodities, silver is about the only one where a delay to industrial users has never occurred. I'm convinced that was no accident as the big paper short sellers over the years went way out of their way to make sure, no matter what, that the users would experience no actual delays in deliveries. I've written of this "triage" effort over the years.

One special factor exists in silver that just doesn't exist in any other commodity (and for the record, industrial user buying panics can't exist in gold, simply because there is so little industrial consumption for gold). Unlike any other industrial commodity, every one of which is capable of experiencing an industrial user buying panic, only silver is also a basic investment asset. Only silver has a dual demand profile – both industrial and investment. This makes silver incredibly unique, as users and investors can and will compete with each other – users due to delivery delays, investors because of rising prices – the coming perfect storm.

While Izzy and I debated these factors decades ago, some really important developments have occurred in the interim. Back then, neither of us would have dreamed in a million years that such a thing as silver ETFs would come to exist and come to gobble up more than 1.1 billion oz as of today. Or that just about everyone in the world would have a computer or a cell phone and be capable of buying silver in an ETF in an instant. Certainly, neither of us had either a computer or cellphone back in the 1980's. My point is everything that has occurred since only strengthens the premise of an eventual silver user buying panic.

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Finally, what set off this stroll down memory lane were some recent comments by Elon Musk, CEO of Tesla, the electric car and battery manufacturer, prodding miners to increase production of battery-grade nickel. Let Tesla experience delays in silver shipments and my bet is it will be doing a lot more than asking miners to increase production (good luck when most silver mining comes as a byproduct of other metals mining). A "lot more" includes stockpiling physical silver.

Now that silver appears to be "in play," it's natural to be drawn into the day to day short term developments, but the simple truth is that for most investors, the long term is where the big money will be made. At the same time, a number of short term developments are fascinating and in keeping with many previously-held premises.

For one thing, it would still appear that we should all hold onto our hats, as price volatility seems to be the order of the day. A subscriber asked me why there seemed to be highly unusual trading volume and price volatility in the overnight sessions. No sooner did I answer that I didn't know (always safe when you really don't know), a friend soon pointed out that there is now a large amount of silver and gold derivatives trading around the world, much like stock and crypto-currency trading. Let's face it, we live in a world where highly speculative short term trading exists in many things in many different countries.

Particularly in silver, which just experienced a fairly decisive technical breakout, it's not hard to understand why speculative traders would rush to it. Here, I can't help but bring up a point I've made often in the past, namely, how it is essentially 8 shorts against the world - only in this case, the world seems to be exploding in terms of those interested in holding or at least trading silver, while the 8 biggest shorts seem to be becoming increasingly more isolated.

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That the extraordinary quantity of silver that has come into the world's silver ETFs since mid-March has come from JPMorgan seems indisputable. More than 300 million oz have been deposited, with more than 200 million oz into the largest ETF, SLV. The fact that silver prices have risen, not fallen as JPMorgan has disposed of so much silver at least alleviates the fears of many that silver prices would get crushed as and when JPM began to unload any of its massive hoard.

The question has now become how much more silver might JPM (be forced to) unload? We'll only know that in hindsight, but since it is central to the current equation in silver, namely, prices should scream higher when JPM stops unloading physical, it's only natural to look for clues at the scene of the crime. Therefore, I can't help but notice a possible change in pattern over the past few days in metal inflows into the SLV.

This is highly speculative and likely to change, but last week, from Monday thru Thursday, some 36 million oz were deposited into the SLV, and average of 9 million oz per day. From Friday to yesterday, "only" 7.5 million oz were deposited, a daily average of 2.5 million oz over the past three days (with no deposits on Friday or Monday). Certainly, there was no letup in the extraordinary trading volume in SLV over the two time periods. Admittedly, I am likely looking at this way too closely, but I'm looking for early signs that the flow of metal from JPM may be drawing to a close, since such an event should have big price implications. The risk, of course, is seeing things that may not be there (yet).

Along those same lines - the lines of matching up very current developments with long-held premises - the changes in total open interest in COMEX gold and silver futures thru yesterday's end of the COT reporting week were extraordinary.

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Extraordinary, in the sense that there was very little net change and no increase over a reporting week that featured an absolutely stunning price rise of more than \$100 in gold and \$3 in silver on very heavy trading volume. This was the exact prescription for a surge in total open interest.

Instead, total open interest in each actually declined, with gold total open interest down by around 4500 contracts and silver down by 1700 contracts, although gold open interest was undoubtedly affected by spread liquidation. While this doesn't necessarily mean that the key measure of most importance - the concentrated short position in each - was lower and indicative of concentrated short covering on higher prices, it is at least likely that the concentrated short positions weren't significantly higher.

While I'm going to refrain from specific predictions in this Friday's new COT report, I find it more than interesting that perhaps the most important matter I've harped on for years, if not decades, seems to have made its mark this week. I've contended for just about forever that what manipulated and suppressed prices, particularly in silver, was concentrated short selling on the COMEX.

Now, lo and behold, the largest gold and silver price rally in years, with gold up more than \$500 (35%) and silver up more than \$12 (100%) since mid-March has been accompanied for the very first time with no increase in concentrated short selling by the 8 largest traders on the COMEX. Let me state this differently - one of the steepest gold and silver price rallies in years occurred because the 8 big shorts (and the super-crooks at JPMorgan) didn't add to short positions and cap and contain the price. Cause and effect.

For sure, the few remaining manipulation deniers at the CFTC and elsewhere will

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refuse to consider the facts as I have just presented them, but so what? The deniers would reject proof of the manipulation if it came in a personal visitation from Mother Theresa. But for everyone else, how much additional proof is needed? The big shorts don't add shorts (for the first time) and the price explodes. How much simpler does this have to get?

Friday is the first delivery day for the big August gold contract and it is expected that deliveries will be heavy, both on that day and for the month. However, I'm still convinced that much of the gold being demanded (stopped) is not coming from entities strictly interested in holding physical gold on a long term basis, since there are other venues (gold ETFs) more suitable for that.

I'm still of a mind that much of the gold stopping comes from "cash and carry" spread traders looking for the enhanced money market type returns offered by the wide discounts between spot and nearby COMEX futures and more deferred months. If it was plain-vanilla demand for physical gold, the discounts wouldn't be anywhere near as wide as they've been and even more likely, spread tightness and maybe even premiums of spot to futures (backwardation) would be evident. That is definitely not the case presently.

As far as how the 8 big shorts have fared financially since Friday, the simple answer is not well. At publication time, the total combined realized and unrealized loss to the 8 big COMEX silver and gold shorts was \$1.8 billion larger than it was on Friday, pushing the combined total loss to \$15.3 billion, yet another record. The total loss is now approaching \$2 billion per trader on an average basis. Less than 5 months ago, at the end of the first quarter on March 31, the total loss for the 8 big shorts was \$4 billion, so the loss has nearly quadrupled through today.

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Ted Butler

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Silver - \$24.45 (200 day ma - \$17.25, 50 day ma - \$18.86)

Gold - \$1955 (200 day ma - \$1625, 50 day ma - \$1776)