June 12, 2019 – India Reacts to Depressed Silver Prices

Several recent articles have highlighted a surge of silver imports to India, prompting me to take a closer look. India has always been a big buyer of silver and gold, befitting the traditions and culture of the country with the worldâ??s second largest population. The population of India, more than 1.3 billion citizens, is now only about 50 million less than that of China. Combined, both countries make up 35% of the total world population (7.7 billion) and have always been large buyers and holders of gold and silver. Together, India and China absorb close to 50% of total world gold and silver mine production.

One big difference between India and China is that the gold and silver buying in India is largely a grassroots phenomenon, emanating from the general population due to deep-rooted customs and traditions; where the buying from China is predominantly from official sources (similar to the gold buying by Russia). To me, this makes the gold and silver buying from India more â??free marketâ?• and price-sensitive in nature because the more participants in any market, the freer the market is by definition. The many tens and even hundreds of millions of gold and silver buyers from India make the markets there the freest of all.

India has always played a vital role in gold and silver. I remember how my longtime friend and silver mentor, Izzy Friedman, more than 40 years ago, as he was deciding whether to make a major investment in silver in the mid-1970â??s, actually flew to India to see for himself if the stories of great silver hoards about to flood the market should prices move higher (from $4 or $5) were true. Izzy saw plenty of silver, but none so closely held in large concentrated quantities to pose a market threat. I believe thatâ??s still the case today.

Indian gold and silver buyers are quite price-sensitive and unlike the typical buyer in the West, Indians tend to buy more when prices are low and less when prices are high. Gold and silver flows into India are one-way affairs â?? what flows in stays there, never to leave the sub-continent. Gold prices are closer to the highest they have been over the past 5 or 6 years, while silver prices are closer to the lowest they have been over that period, resulting in the silver/gold price ratio widening out to the highest it has been in 25 years. I reviewed the import data from India over the past 15 years with that in mind. For silver, I relied on the Silver Instituteâ??s World Survey and for gold, a straight Google search for Indian imports from 2004 to 2018.

Hereâ??s what I found. The people of India, according to the import data, are buying more silver relative to gold than ever before. Itâ??s not that gold imports are down sharply, itâ??s much more that silver imports are up sharply. I broke the data from the past 15 years into two segments â?? the 9 years from 2004 to 2012 and the six years from 2013 to 2018. As a reminder, by comparing the imports of gold and silver on a per ounce basis, all outside influences are neutralized, like currency and overall economic conditions. For instance, the great Indian demonetization of 2016, resulted in sharp declines in the imports of both gold and silver. Thatâ??s the objective beauty of making like-kind comparisons â?? it filters out peripheral issues.

For the 9 years 2004 to 2012, the silver/gold price ratio averaged 56 to 1 and India imported an average of 26.5 million ounces of gold and 85 million ounces of silver each year â?? or 3.2 times more ounces of silver than gold. Over the next 6 years 2013 to 2018, the silver/gold price ratio widened out to 73 to 1, with silver getting progressively cheaper relative to gold (except in 2016). Over the most recent six years, gold imports fell slightly to an average annual 25.2 million oz, while silver imports surged to 188 million oz annually, up 120% over the yearly average of the prior 9 years. Where imports of silver compared to gold in ounces were 3.2 times from 2004 to 2012, they jumped to 7.5 times from 2013 to 2018.

In the most recent full year of import data, 2018, India imported 24.4 million ounces of gold, the second lowest amount in 9 years, while silver imports were 224 million ounces, the second highest total in 15 years. The amount of silver ounces imported to India last year was more than 9 times the amount of gold imported, the highest level ever. The average silver/gold price ratio for 2018 was 82 to 1, the cheapest silver had been to gold in 15 years, so itâ??s not surprising that Indian buyers reacted as they did. Of course, while full year data is not available for 2019, the silver/gold price ratio has averaged 86 to 1 year to date, with very recent readings of 90 to 1.

Considering that the silver/gold price ratio has continued to widen out since 2018, exceeding 90 to 1, making silver even cheaper compared to gold, there is every reason to expect that Indiaâ??s imports of silver have continued to grow, both on an absolute and relative basis compared to gold. What this means, aside from confirming the price-sensitivity (and good sense) of the Indian buyer, is that prices do have consequences. Itâ??s often said that the cure for low prices is low prices because low prices discourage production and encourage demand. The record of Indiaâ??s silver imports would seem to be clear confirmation of that.

The main price consequence of the surge in silver imports to India is as a direct result of the COMEX price suppression and manipulation of the price. The collective investment reaction in the US and West to the low price of silver (or any investment asset) is not to buy â?? thatâ??s our investment culture, for better or worse. The collective reaction in India is markedly different and in a very real sense is the ultimate confirmation that silver prices have been manipulated; as what else could prove more conclusively that silver prices were artificially suppressed than the surge in demand from India?

In fact, had there been no surge in demand from India, that would be proof silver wasnâ??t manipulated in price. What else could possibly explain the surge in silver demand from tens of millions of Indian buyers if not that they felt prices were depressed â?? not just on an absolute basis, but relative to gold as well? Iâ??m not suggesting that the many millions of Indian buyers are at all aware of the COMEX price manipulation; they just know that silver is unusually cheap and undervalued relative to gold.

So here we have compelling new proof that silver prices have been manipulated â?? not that more proof was needed. By depressing the price of silver, JPMorgan may have succeeded in discouraging western investment demand and cornering the physical market for its own accumulation, but has also inadvertently stimulated Indian demand. As a result, a brand new Catch-22 has emerged in silver. As and when JPMorgan decides to let silver prices fly to the upside, it is reasonable to assume that Indian demand would fall off, but as that demand falls off, the higher prices will jumpstart western demand. If the right hand doesnâ??t get you, then the left hand will. Should JPM choose to prolong the silver price suppression, the imports to India should continue to surge and with the concurrent decline in world silver mine production, a physical crunch becomes inevitable. Prices do have consequences.

Turning to other developments since the Saturday review, prices retreated sharply on Monday before stabilizing. The price decline in silver was particularly noteworthy, since it not only nearly erased the prior weekâ??s entire gain, it pushed prices sharply below the two key moving averages (the 50 and

200 day maâ??s) that had been penetrated to the upside on Friday. While gold sold off sharply on Monday as well, it remained well above all its key moving averages. Again, Iâ??m not particularly moved by such moving average penetrations, but the managed money traders certainly appear to be and since their collective buying or selling is instrumental to price movement, we all become captured by their behavior.

Accordingly, the deterioration (managed money buying/commercial selling) in market structure that I mentioned on Saturday, looks to have been moderated in silver, but not in gold. I still think itâ??s likely that weâ??ll see additional managed money buying/commercial selling in silver in Fridayâ??s COT report, but not as much as existed had the report been cutoff on Friday. Iâ??m hoping for 5000 contracts (and not much more than 10,000 contracts) of managed money buying and commercial selling in Fridayâ??s silver report.

As for gold, since the selloff on Monday didnâ??t come close to penetrating any key moving averages to the downside and trading volume was on the light side, whatever deterioration that occurred through Friday likely remained intact. For numbers on gold for Fridayâ??s report, Iâ??d guess managed money buying and commercials selling of 20,000 to 30,000 net contracts. That would put the headline commercial net short position close to 200,000 contracts â?? solidly in the neutral zone. Even with the expected deterioration in silver, the market structure there would still have to be considered extremely bullish by historical standards.

Admittedly, itâ??s somewhat â??sickâ?• for me to label the COMEX futures market structure as growing less bullish and more bearish as the managed money traders buy more (and the commercials sell more) and I have noticed increased commentaries judging these exact circumstances as being more bullish as the speculative long position grows. Thereâ??s no doubt that managed money buying causes prices to rise and I can see how someone might call that bullish. In fact, this was the popular and prevailing approach when I first got into COT analysis decades ago.

The problem with calling increased managed money buying as being bullish is that as they put on additional long positions is what happens when these traders are done buying. Since they are not in any position to convert their long futures positions into physicals by taking delivery, the only option for them is to sell at some point. Knowing that the sell point would come eventually and when it did, prices would then be driven lower by managed money selling, I took to calling increased managed money buying as a deterioration of the market structure.

However, itâ??s quite true that no one knows the full extent of managed money buying (or selling), since past historical high and low water marks can be exceeded, so prices can continue to rise as more managed money buying occurs, despite me calling the structure as deteriorating. In fact, some of the biggest price gains can and do occur in what may be called bearish market structures. Conversely and as we have seen in 2018 in gold and silver, prices can continue to fall (for a while) in market structures considered extremely bullish.

In any event, the current neutral market structure in gold supports continued potential sharp price gains, as well as a correction below the key moving averages. And since there appear to be many factors supporting further gold price gains, I suppose thatâ??s what I would expect to occur. To be sure, should gold move lower, the only reason will be because the managed money traders were tricked into selling.

Itâ??s different in silver, despite the managed money buying/commercial selling of late. Because silver has not managed to decisively penetrate its key moving averages to the upside (as has occurred in gold), the amount of managed money buying has been limited. This strikes of the perverse nature of the market structure premise, namely, the structure is more bullish when price action has been punk and before the managed money traders buy in force. Whereas the managed money traders could just as easily be persuaded to buy or sell 100,000 net contracts in gold, they are positioned to buy many more contracts in silver than they are positioned to sell. That makes the market structure in silver much more bullish than gold.

All that said, Iâ??ve yet to touch on the most important factor in market structure â?? the role of JPMorgan. Singlehandedly, JPMorgan is capable of delaying or distorting the inevitable resolution of any extreme market structure, although it is not capable of completely preventing the resolution. JPM has determined the outcome of every single silver (and gold) rally over the past 11 years by the number of COMEX short sales it has added on each and every rally. The silver rallies have become progressively weaker because JPMorgan has sold more aggressively on each successive rally â?? if not in raw numbers of contracts sold short, then in the share of total commercial selling. This has created an unusual setup at this time.

Because JPMorgan has progressively intensified its share of commercial selling on successive silver rallies, it has increased the marketâ??s reliance on JPM to add even more shorts on future silver rallies. As an example of what I am saying, up until the last two or three years, it was usual to see at silver market tops, not only JPMorgan and other large commercials holding large net short positions, but also the raptors (the smaller commercials) holding silver short positions. But it has been quite some time since the raptors have held big net short positions in silver and this has resulted in JPMorgan having to short more, percentage wise, if not in number of contracts. Increasingly, JPMorgan has had to have shouldered a larger share of the short side on rallies.

This is not, I would submit, a sustainable formula. Even the most negligent of market regulators are bound to be forced to react to such a circumstance, even allowing for them being the very last to see it. Certainly, JPMorgan is keenly aware that it is assuming a larger share of the burden of keeping silver prices depressed. And you can be absolutely sure that JPMorgan is very much aware of the silver buying tsunami its silver price manipulation has set off in the second-most populated nation in the world.

I believe this increases the odds that JPMorgan will refrain from adding short positions on the next silver rally. Yes, I have felt this way before and JPM has continued to add shorts, so my feelings have mattered little. But I believe my analysis to be correct, even if it has yet to unfold. Last weekâ??s Bank Participation report was extremely encouraging in that it indicated that the US bank category held its smallest net short position in years and other analyses tell me JPMorgan has become net long in COMEX silver futures. If there has been a better time for JPMorgan to throw in the towel on its 11 year silver price manipulation and let prices fly, Iâ??m not aware of such a time.

Ted Butler

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Silver – $14.75Â Â Â Â Â Â Â Â (200 day ma – $14.92, 50 day ma – $14.82)

Gold – $1337Â Â Â Â Â Â Â Â Â Â (200 day ma – $1266, 50 day ma – $1294)

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