June 16, 2021 – A Profound Change

Even though it appears to have gone relatively unnoticed by most, recent proposals to the White House portend profound changes in several important areas. Yes, I know we live in one of the most bitterly partisan eras in US history, but the issues involved here certainly seem to transcend political divide. As to what extent the proposals get enacted nothing, of course, is certain. But at the very least, the proposals do provide at clear take on whatâ??s top of mind at the highest levels of government.

Back on February 24, the Biden administration announced an executive order for a 100-day all of government review to address vulnerabilities and strengthen our approach to the growing supply chain problems affecting so many key areas of our economy. Last week, the resultant fact sheet was released.

https://www.whitehouse.gov/briefing-room/statements-releases/2021/06/08/fact-sheet-biden-harris-administration-announces-supply-chain-disruptions-task-force-to-address-short-term-supply-chain-discontinuities/

Included in the announcement were the (250-page) findings of the review

https://www.whitehouse.gov/wp-content/uploads/2021/06/100-day-supply-chain-review-report.pdf

The review deals with four main areas; the ongoing semiconductor shortage, a future shortage of materials required to manufacture large-capacity batteries used for electric vehicles, an ongoing and future shortage of materials and manufacture of pharmaceuticals, and potential future shortages of critical minerals and materials used in industry in general.

While all are important subjects, today I will speak to the potential future shortage of critical minerals and materials used in a variety of industries. Interestingly, this area was assigned to the Department of Defense, due to the obvious connection with minerals and materials critical to national defense. It is this subject that represents the most profound change in government thinking in the last 75 years, and yes, Iâ??m going to make it silver-specific.

Almost exactly 20 years ago, in May 2001, on the occasion of the National Defense Stockpile for silver becoming fully depleted, I mounted a campaign to alert anyone I could think of to the danger this placed our country in and how adequate stockpiles of silver should be reinstated. As is my custom, I wrote to the highest officials possible, my senators and congressman, along with the highest Defense Department officials, including then-Secretary of Defense Donald Rumsfeld and then-Chairman of the Joint Chiefs of Staff General Henry Shelton. I also wrote to then-Attorney General John Ashcroft regarding my allegation that the Silver Users Association was complicit in the depletion of the nationâ??s silver stockpile.

I was professional and courteous in my letters and, as was usually the case, I heard back from everyone I wrote. From the Defense Department, I received a response from the Undersecretary of Defense, Dov Zakheim, but General Shelton responded personally. From the Defense LogisticsAgency (referred to me by General Shelton) I heard back from the Administrator of the Agency,Richard Connelly. Essentially, they thanked me for my concern, but that their hands were tied, as thiswas a matter determined largely by Congress.

From the end of World War II until 2001, Congress had been persuaded to completely eliminate what was the largest stockpile of silver known to man, some 5 billion oz held by the US Government. The vast majority was disposed of by the minting and subsequent hoarding and melting of silver in common coinage, but I would estimate perhaps a billion oz were disposed of by auctions of silver to industry due to lobbying by the Silver Users Association, which was founded in 1947 for that very purpose. I would estimate that most of the silver auctioned off went for around a dollar an ounce. The Justice Department said it saw no collusion by members of the SUA to game taxpayers, an issue I raised repeatedly with the DOJ over the years.

Today, 20 years after the nationâ??s strategic silver stockpile was depleted, it is now being proposed that the US should attempt to rebuild stockpiles of critical minerals and materials in light of the growing problems with many supply chains. To be sure, no special mention was made to rebuild silver stockpiles, but I think that is due to the unique history of the US Government and silver. Â It would raise too many questions if such an about face in inventory policy were proposed. On the other hand, the import reliance chart on page 159, indicates that the US relies on foreign imports for 80 percent of its silver consumption, higher than the import reliance for cobalt, lithium, nickel and copper, among other critical minerals prominently mentioned in the report.

Since silver is the best conductor of electricity, reflector of light, transfer material for heat and vital in a variety of chemical applications, it is impossible not to consider it as necessary to industry or for defense. However, restoring adequate strategic stockpiles of silver or establishing such stockpiles for other critical minerals and materials is easier said than done.

Concern about future problems in the supply chain would ease if adequate inventories of critical materials could be arranged, but most such materials are already in a state of razor-thin levels of supply barely satisfying demand (or actual deficit), leaving little capacity in order to salt away extra inventories. Â In fact, Iâ??m starting to think that the US Mintâ??s lack of production for Silver Eagles may be related to growing concerns about future silver supply.

Away from building adequate inventories or rebuilding them, in the case of silver, the other thrust of the report is to foster greater production domestically to reduce import reliance. It would be hard to argue with the logic of that. All in all, the approach suggested in this report represents a profound change in government thinking that in many ways is just a reflection of the current reality. I wish the USG would have followed my advice 20 years ago when the price was $4.50 and there were sufficient amounts of silver available to rebuild adequate stockpiles, but that was not to be and it has taken actual instances of supply chain breakdowns to spur concern.Â What a difference 20 years can make.

I would be remiss if I didnâ??t mention that the main reason that the supply/demand situation in silver is as critical as I believe it to be is because the price has been distorted and suppressed for decades due to the existence of a documented concentrated short position far larger in COMEX silver than in any other commodity. Had prices been allowed to trade freely and higher, it is most likely that the free market forces of the law of supply and demand would have adjusted to the higher prices by encouraging more supply and less industrial demand than otherwise.

Instead, the suppressed prices kept new silver mining sources from coming on stream, while encouraging greater industrial demand. Itâ??s like messing with Mother Nature when you mess with the price, as the big shorts have done in silver. I canâ??t help but believe that this high-level position paper from the administration further complicates the role of the CFTC in dealing with the concentrated short position in COMEX silver. Here we have the administration openly concerned about future supplies, while the agency designed to assure that the law of supply and demand is not being gamed by artificial prices appears to be grappling with just that issue in silver.

Again, how much of this high-level proposal gets enacted is open to question, but it does provide insight into current official thinking at the highest levels. While not its intent, it also provides further confirmation for long term bullishness on key critical commodities.

On Monday, a TV interview with legendary hedge fund trader and pioneer, Paul Tudor Jones, attracted widespread attention. He had a strong opinion of the importance of todayâ??s Fed meeting and whether there would be any change in the extremely accommodative monetary approach by the Federal Reserve. Jones indicated if there were no signs or hints of tapering, it would provide a green light for higher commodity prices, which he further noted were in overall very tight supply/demand balance and that institutional investors were woefully underinvested in this sector.

https://www.cnbc.com/2021/06/14/paul-tudor-jones-says-bet-heavily-on-every-inflation-trade-if-fed-keeps-ignoring-higher-prices.html

In keeping with the theme of this interview, recently I have indicated that copper prices appear set to increase dramatically on a longer-term basis, based upon long-term production and consumption trends and how technical traders (managed money) were getting off the long side and onto the short side in COMEX (and LME) dealings. That process has continued and yesterday copper prices plunged below its 50-day moving average, the first truly decisive downward penetration since the end of September.

Long term readers know (from gold and silver) that once the managed money traders get into a â??sell modeâ?• any significant downward penetrations of key moving averages become like waving a red flag in front of an-already agitated bull and will result in further aggressive managed money selling. The only real difference between COMEX gold and silver and COMEX (and LME) copper is that the counterparties to the managed money traders are not the banks, as is the case in gold and silver, but large multi-national trading houses, like Glencore and Trafalgar.

Additionally, there were news reports indicating China was releasing onto the market stockpiles of aluminum, zinc and copper to dampen recent price increases (maybe the USG could use this as an inventory-buying opportunity). No doubt this added to the short-term pressure on copper prices. In my experience, whenever official attempts are made at curtailing prices by selling official reserves, it is only a matter of time before prices head higher again. The classic example is the official attempts to sell gold in the 1970â??s and 1980â??s to keep prices down.

Yesterdayâ??s large trading volume and increase in total open interest in copper futures further suggests managed money shorting. As was always the case in COMEX gold and silver, whenever the managed money traders positioned themselves on the short side, it was also only a matter of time before they ended up buying back on higher prices. Itâ??s always impossible to pick the absolute price bottom and sometimes prices go deeper than one would imagine, but what is currently transpiring in copper only convinces me more of its long-term bullish prospects.

While all eyes are on todayâ??s Fed announcement, the biggest determinant for silver and gold prices is still COMEX positioning and the ultimate resolution of the concentrated short position, particularly in silver. Â And the ultimate source for monitoring the position changes is still the Commitments of Traders (COT). We are truly fortunate that such a report exists and itâ??s hard to imagine analyzing silver and gold without it.

As far as what to expect in Fridayâ??s report, it will be a surprise if there isnâ??t an improvement (commercial buying and speculative selling) in the gold market structure. After all, gold prices hardly rallied much over the outset of the reporting week ended yesterday and finished close to $40 lower when the dust settled. And the $40 decline occurred over the last three trading days of the reporting week. Goldâ??s 200-day moving average was touched but not decisively penetrated, and still remains within striking distance should the commercial price-riggers put their mind to it (as just occurred in copper). As far as number of contracts, thatâ??s less clear, but Iâ??ll be disappointed if it isnâ??t at least 10,000 contracts.

Silver is trickier to predict because unlike gold, it did rally as much as 70 cents early in the reporting week, before falling back and ending slightly lower on the reporting week. The biggest issue, as I discussed on Saturday, was the sharp rise in total open interest as prices rose. (By the way, for the reporting week, total open interest in gold fell by more than 11,500 contracts, while the total open interest in silver rose by 9500 contracts).

So, the big question is whether the sharp increase in total open interest in silver represented heavy speculative buying and commercial selling on the initial rally, or whether it was the result of spread creation, which would not involve net positioning changes or have any real price consequences. Â It has to be one or the other. Iâ??m still of a mind that it was mostly spread creation and there werenâ??t significant adverse net positioning changes in silver, but either way, the jury returns its verdict late Friday.

I really dislike having to send out an article the day of Fed meetings, because prices usually get scrambled and I find myself having to change the closing prices and recalculate how the 8 big COMEX gold and silver short crooks did at publication time. By comparison, the Saturday reviews involve no such last-minute recalculations. I suppose a little rain must fall at inconvenient times.

At publication time today, the 8 big shorts were smiled upon as they were able to rig a selloff in reaction to the Fedâ??s initial announcement, with the 200-day moving average in gold being penetrated to the downside. As I send this, the 8 big shortsâ?? total losses were reduced by $1.1 billion from Fridayâ??s close to $12.1 billion.

Ted Butler

June 16, 2021

Silver – $27.50 Â (200 day ma – $25.87, 50 day ma – $26.99, 100 day ma – $26.64)

Gold – $1838 Â Â Â Â (200 day ma – $1844, 50 day ma – $11826, 100 day ma – $1798)

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