March 2, 2022 – The Moment of True

From the very beginning of my journey in silver, back to the original challenge Izzy Friedman issued to me, way back in 1985, to explain how silver could remain so cheap in the face of compelling evidence for why it should be priced much higher, there was a constant underlying theme – at some point, the forces of not enough physical metal to satisfy demand would overwhelm the artificial forces of paper manipulation that depressed prices.

Izzyâ??s unique old-world background and his ability to speak 4 or 5 different languages, allowed for him to come up with any number of phrases which just seemed to endure because they were so uniquely descriptive. From â??slicing the salamiâ?• to describe the process whereby the COMEX commercials lured the managed money funds into buying or selling additional contracts or the â??full pants downâ?• to describe the big COMEX silver shorts eventually getting overrun to the upside, they were phrases so descriptive that you couldnâ??t help but adopt them. In perhaps his most infectious old-world idiom was the phrase â??the moment of trueâ?• to describe the final victory of the physical silver shortage overcoming the paper manipulation on the COMEX.

Iâ??ve written about Izzyâ??s prediction of a physical silver crunch overcoming the influence of paper trading often over the years. In fact, there was a time, some 25 years or so ago, when I lost track of my now-departed friend and mentor for a number of years, but still wrote of his prediction (which, fortunately, resulted in him contacting me and resurrecting our relationship).

https://www.gold-eagle.com/article/moment-truth

Back then, I was writing about Berkshire Hathaway and Eastman Kodak, because they were the key issues of the day and how a delivery default on the COMEX would likely be the defining moment of truth â?? an issue still very much in current vogue. But much has changed over the past quarter of a century, not the least of which have been the remarkable increase in total visible silver inventories (in 1000 oz bar form) and the even more remarkable introduction and success of the silver ETFs â?? both of which were as far from my or Izzyâ??s mind as is possible at the time.

Considering the monumental changes that have occurred over the past 25 years or so, while it is still possible for the final physical crunch to be initiated via a COMEX-delivery mismatch â?? as evidenced in the still-tight current March delivery process â?? the coming physical silver crunch is just as likely to be triggered elsewhere (likely joined by COMEX delivery tightness).

After three full days of delivery against the COMEX March contract, there are just as many still open contracts (4000 or 20 million oz) as have been delivered to date, suggesting strong wholesale physical tightness. This isnâ??t completely unprecedented, but still unusual enough to bear close examination. Plus, the spread differentials between the March contract and the next delivery months are as tight as any in memory.

That said, over time I have been less concerned about a COMEX delivery default kicking things off for a number or reasons. First, such a delivery default would be an incredibly serious market event. The CME Group, which owns and operates the COMEX (the worldâ??s largest precious metals exchange) is also the worldâ??s largest derivatives exchange for many commodities and other markets â?? including energies, grains, stock futures and interest rates. A delivery default in COMEX silver would seriously undermine confidence in the other much larger CME markets.

Further, such a failure would undermine the whole modern clearing (guaranteeing) system upon which everything rests. The leading CME clearing members, financial giants like JPMorgan, Goldman Sachs, Bank of America and the like, would have just as much (or more) to lose in the event of a COMEX silver delivery default. In other words, a failure in the delivery process in COMEX silver would likely set off a chain reaction that would, quite literally, undermine our modern financial system and would necessarily draw in US Government intervention (as should be expected). Considering the overall stakes, therefore, a COMEX silver delivery default must be considered a real â??doomsdayâ?• type event and not something that should be expected. Besides, no one is forcing anyone to be short in COMEX silver to the point of risking a delivery default â?? the shorts can always buy back any contract they canâ??t deliver on, with the price paid being the only determinant.

One last impediment to a COMEX silver delivery failure being the leading catalyst in provoking the triumph of physical over paper is that the COMEX is the ultimate old-boysâ?? private club ruled by insiders with an iron fist. Outsiders are not looked upon kindly or treated fairly, as has been evident in silver going back to the Hunt Brothers. The leading clearing members and the exchange itself would unite in trying to frustrate any organized attempt to bull the market higher by outsiders â?? rightly or wrongly. Besides, even opening a commodity futures trading account to participate in a squeeze is more difficult and restrictive than other investment accounts.

So, while a COMEX silver delivery default is always possible, the stakes are so high that it would not appear to be the odds-on favorite for precipitating the inevitable physical silver crunch envisioned by Izzy and virtually everyone who has become well-versed in the ongoing silver manipulation. Instead, it appears clear, at least to me, that the most-likely triggering mechanism for precipitating the inevitable physical silver crunch will be the combined workings of the silver ETFs (exchange-traded funds), led by the largest such fund, SLV.

Back in 1980, when silver first ran to $50, it was decidedly a COMEX-centric event, in which the Hunt Brothers set out to squeeze the COMEX (and CBT) delivery process by buying and demanding delivery of more and more silver futures contracts. The united exchange and leading clearing member reaction to the Huntsâ?? actions, including rule changes and forced liquidation, ended the ongoing squeeze. Since then, to my knowledge, there has never been any real attempt to squeeze the shorts via COMEX deliveries â?? certainly no successful squeezes (for all the reasons outlined above).

But the introduction of SLV in 2006, along with the subsequent launches of other silver ETFs, changed the silver landscape dramatically. Case in point â?? in the second run up in silver prices to near $50 in 2011 (as Iâ??ve recounted often), it was strictly a silver ETF affair, led mainly by SLV, but aided by PSLV, which was first introduced at that time. Not only was the price not influenced by a threatened COMEX delivery squeeze, there was very little real positioning change in COMEX futures to account for the run up. In other words, the price run in 2011 was not aided at all by massive managed money buying on the COMEX. By process of elimination, the cause of the run up was the 60 million oz of physical silver that was bought by SLV in the months prior to the price high, aided by the 20 million oz bought by the PSLV.

Even in the price rise to near $30, a year ago, it was an ETF event and not a COMEX delivery affair, as some 100 million oz was bought and deposited into SLV in a matter of days, prompting a warning in the prospectus that enough silver might not be available for normal operations. However, itâ??s not just the events of 2011 and last year that point to the coming physical silver crunch emanating in the world of the silver ETFs and not led by a COMEX delivery default, itâ??s the actual workings of the silver ETFs compared to the workings of the COMEX.

As a former commodity broker, I can tell you that opening and conducting business in a commodity futures trading account is different and generally much more difficult than doing business in a stock account. Iâ??m sure itâ??s gotten easier today compared to when I was active in this area, but the simple fact is that infinitely more stock accounts exist than commodity futures accounts. So, the idea that many different smaller investors would suddenly combine to open commodity futures trading accounts to buy silver futures and then demand delivery is decidedly more far-fetched than many investors simply buying shares in the silver ETFs.

Not only is it simple for an investor to buy shares of a silver ETF than embarking on the COMEX delivery route, there is no ETF requirement to buy in increments of 5000 oz, as is required in the standard-sized COMEX silver contract (although a 1000 oz contract is also available). An investor could buy 1 share (one oz) or 100 shares of a silver ETF, not possible on the COMEX. Of course, an investor could buy physical silver in one-ounce increments in the retail market, but not without paying what have been high premiums for more than a year. The purchase of a silver ETF avoids the current premiums on retail forms of silver.

Please donâ??t misunderstand me â?? I have nothing against and everything for the purchase of physical silver to be held in oneâ??s own possession â?? I am talking about something else entirely, namely, what is more likely to be the triggering mechanism for the inevitable physical silver crunch â?? an intentional COMEX delivery default or the unintentional effect of wide numbers of investors, both large and small, buying a silver ETF that requires physical backing.

Back in 1998, when I wrote about Izzy and his moment of true, there were no silver ETFs, only the COMEX. The net result since has been astounding. There are some very good reasons to invest in silver ETFs and that would seem to be borne out in the amount of silver held in these investment vehicles â?? a combined 1.2 billion oz, fully 60% of the 2 billion total oz of silver in 1000 oz bar form in the world (of which 550 million oz are held in SLV).

Therefore, I can easily envision the coming physical crunch in silver being led by the silver ETFs, with delivery demands on the COMEX kicking in later. Itâ??s hard for me to envision a COMEX delivery crunch, without an accompanying silver ETF crunch. As for the timing, thatâ??s another issue, but itâ??s hard not to be encouraged by recent event â?? with a major caveat.

The major caveat, of course, is the intent and actions of the 4 largest shorts on the COMEX. Letâ??s face it â?? the only thing that could prevent silver prices from surging higher from here, and what has prevented prices from climbing as they should have over the decades, is the behavior of the 4 largest commercial shorts on the COMEX. This is a remarkable state of affairs in that only 4 traders (banks), certainly in combination with the other collusive commercials on the COMEX, are all that stand between where silver has been priced and where it should be priced.

The natural sellers of silver, the mine producers, have no real choice but to sell the metal as they produce it â?? but thereâ??s not one of them that wouldnâ??t welcome sharply higher prices. Therefore, thereâ??s not one mining company working against higher prices. Instead, the only entities working against higher prices are the unnatural or manipulative sellers in the form of the 4 largest commercial traders on the COMEX. These banks donâ??t produce silver and wonâ??t benefit from higher prices and, in fact, will be hurt by rising silver prices on their large existing short positions and, therefore, have every incentive to prevent higher prices. Yeah, I know, this has been the story of the COMEX silver manipulation for decades and itâ??s still the story today.

Up through last weekâ??s COT report, the 4 big COMEX shorts had not increased their concentrated short position â?? still the key factor in the silver price manipulation â?? for the better part of a year. However, yesterdayâ??s sharp increase in total open interest, effectively by 10,000 contracts (when one adjusts for the 3000-contract delivery of the prior day), is a strong indication that the 4 big shorts stepped onto the short side yesterday to cap silver prices. I donâ??t enjoy writing this, as it does inject the possibility of a price smack down and perhaps â??possibilityâ?• is too weak of a word.

So, while the 4 big crooked commercial shorts on the COMEX may have signaled the possibility or likelihood of a price takedown, there are other signs these crooks may not prevail in their manipulative endeavors and we may be facing another one of Izzyâ??s highly descriptive idioms, that of the Full Pants Down, in which the big shorts get overrun to the upside. While I fully-understand any actions taken by anyone to avoid a price smash, in the interest of full-disclosure and has been my behavior in recent years, I choose to ride it out, based upon other considerations. What considerations?

For starters, conditions in the physical silver market appear to be white-hot. On the retail side, itâ??s hard to imagine things being tighter. On the more important wholesale side, things look almost as tight. In fact, if we do get a typical rinse-out of managed money long positions, my sense it will come quickly or not at all, based on the growing physical silver crunch, led by the buying of shares of SLV.

On yesterdayâ??s sharp price rally, roughly 60 million shares of SLV traded, close to several times what previous average daily volume had been not that long ago. Combined with the much higher daily trading volume over the past week or so, my back-of-the-envelop calculations suggest upwards of 15 million oz of silver may be â??owedâ?• to the trust. Moreover, I have the distinct feeling that much of the trading volume and buying has been done by very large investors (although Iâ??m sure plenty of smaller investors may have joined in).

Therefore, the lack of timely metal deposits into SLV has to be related to a growing physical wholesale tightness in silver. This tightness can be hid by short sales, although yesterdayâ??s trading came a day after the cutoff of the next short report. Plus, there have been conversions of shares of SLV into metal held directly by large buyers, further obfuscating the actual amount of share buying. Remember, any new net buying in SLV and other silver ETFs must be met with appropriate physical metal deposits (or short sales or conversions).

Then there is the incredibly bizarre situation of Bank of America and what I allege to be massive leasing and short selling of some 30 million oz of gold and 800 million oz of silver. A full two months since I reported on the latest quarterly derivatives report from the Office of the Comptroller of the Currency, there has been exactly zero official rebuttal or explanation to the contrary.

Even if you dismiss the evidence in the OCC report and the more compelling evidence of BofAâ??s involvement in the surge of physical gold and silver into the worldâ??s ETFs and into the COMEX warehouses back in the early summer of 2020 (virtually impossible), we are still left with the curious bursting upon the scenes of Bank of America in COMEX gold and silver deliveries since that time.

Due the remarkable success of the regulators (the CFTC and Dept of Justice) in extracting hundreds of millions of dollars of fines from a wide variety of banks, including Bank of America itself, for spoofing on the COMEX, most of the banks involved have been trying to quit precious metals dealings. Most of the departing banks have decades of experience in precious metals, so obviously, they see something that tells them to avoid such dealings in the future.

Into this beeline of experienced banks apparently running away from precious metals, here comes Bank of America, the newest kid on the precious metals block, as well as being the recipient of a $25 million fine for spoofing COMEX metals and a deferred criminal prosecution agreement with the DOJ to boot, suddenly bursting upon the scene and becoming a leading stopper and issuer of COMEX gold and silver deliveries â?? not for customers, but for its own house account. Take away the remarkable 10,000% increase in its OTC precious metals derivatives position in 18 months â?? an increase the likes of which is unprecedented â?? and try to come up with a legitimate explanation for why Bank of America chose this time to burst upon the COMEX gold and silver delivery scene.

To me, there has to be a connection between BofAâ??s sudden OTC dealings and its just as sudden dealings in COMEX deliveries in its house account, but combined or separate, the dealings deserve an official explanation. My sense is that by this time, Bank of America realizes the massive mess it is in and is trying to undo its massive short bet and this may account for the recent price strength in gold and silver â?? not that Russiaâ??s invasion of Ukraine is a minor matter in any way.

In fact, it is the sum total of all these things that may (and should) result in a different outcome from all the previous times when the 4 big shorts added aggressively to silver short positions. I challenge anyone to come up with a single factor, apart from another cap and flush by the 4 big COMEX shorts, for why silver should not climb sharply higher in price.

As far as what Fridayâ??s new COT report might indicate, I would imagine some further deterioration (managed money buying and commercial selling) in both gold and silver, although I donâ??t have strong feelings about contract numbers this week. Obviously, Iâ??m most concerned about what the big COMEX silver commercial crooks did and only wish I could replace the innocents under fire in Ukraine with these COMEX crooks.

At publication time, the 8 big COMEX gold and silver shorts, despite some relief on todayâ??s lower prices, are out a further $1.3 billion from Fridayâ??s close, pushing their total losses to $12.4 billion (from when these calculations began in June 2019). As far as Bank of America, net of any offsetting long positions on the COMEX, its losses on its 30 million oz gold and 800 million oz silver short positions OTC, come to $8.7 billion ($6.8 billion in gold and $1.9 billion in silver). Finally, the criminal geniuses at JPMorgan seem to be ahead on its 30 million oz gold and 1,2 billion oz physical silver position to the tune of $29 billion ($20 billion in gold and nearly $9 billion in silver).

Ted Butler

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Silver – $25.35Â Â Â Â (200 day ma – $24.31, 50 day ma – $23.30, 100 day ma – $23.42)

Gold – $1928Â Â Â Â Â Â Â (200 day ma – $1812, 50 day ma – $1834, 100 day ma – $1815)

Date Created

2022/03/02