

March 24, 2021 - Under Their Thumb

It wasn't that many years ago, under then-Federal Reserve head Ben Bernanke, when a cartoon circulated depicting him in a helicopter dispersing cash from up high. Unless I'm imagining things, what's taking place today is a perfect metaphor for the government carpet-bombing the populace with cash. I might add cash that is being borrowed and created out of thin air.

And while the Democrats are clearly in charge of the current dump of cash in the US, the Republicans before them did much of the same - pushing through tax cuts mostly favoring the rich without commensurate spending cuts and which also relied on borrowing and money printing. Sadly, one of society's most serious problems - growing wealth and income inequality - has only become worse.

One thing that's obvious is that the explosion in debt and money creation and near zero interest rates have led to an explosion in the price of investment assets in general. Overall inflation may be in check, according to whoever is keeping score, but it is obvious in investment assets. Stocks, bonds, residential real estate, cryptocurrencies, collectables of all types (many of which I just don't understand, like NFT's) have, quite literally, exploded in price as the excess money has sought a home.

Not all assets have raced to new highs, of course, including the one I favor the most - silver. Curiously, the assets most comparable to silver have raced to new highs in fairly recent times, including gold (which hit an all-time high this past summer), palladium, iridium, rhodium (all sister precious metals), as well as non-precious metals like copper (close to all-time highs).

Truth be told, silver is up substantially from where it was a year ago, when it traded below \$12, but the gain since then must be put into perspective because it was then

at price lows not seen in a decade. Today, there aren't many investment assets still 50% below price peaks seen either ten years ago or forty years ago, as is the case in silver.

Therefore, it is more than a puzzle as to why silver is so cheap compared to just about everything else in the investment world and in the face of undeniable shortages in retail forms of silver and strong signs of shortage or near shortage in wholesale forms of the metal. Plus, less than two months ago, there was a spontaneous outbreak of an Internet movement to invest in silver, the likes of which has never been seen.

So why is silver so much cheaper than just about everything else that could be reasonably compared to it? After all, there is not the slightest hint of increased supply and decreased demand in the real world of silver - in fact, just the opposite, as demand, particularly on the investment side of the equation has never been greater and there are no signs of increased supply. Has the law of supply and demand been turned on its head?

The answer to that question is yes - the law of supply and demand no longer applies in silver. It's not exactly that the law of supply and demand has been permanently repealed when it comes to silver - it's more a case that something more powerful has temporarily succeeded it. What could be more powerful than the law of supply and demand? Simply put, the deliberate actions of a handful of large traders on the largest silver derivatives exchange in the world, the COMEX.

Four or fewer collusive traders have combined forces to hold the largest concentrated short position in COMEX silver than in any other commodity in real world production terms. The power of this intense and concentrated short selling has

March 24, 2021 - Under Their Thumb

overcome a multitude of bullish free market factors that would normally result in much higher silver prices. It's a simple case of excessive short selling by only four financial firms artificially suppressing the price of silver in the face of free market forces demanding sharply higher prices.

For anyone looking for the concise explanation for why silver is so depressed in price relative to everything else in the face of unlimited debt and money creation, this is it. There is no excessive or concentrated short selling in any of the investment assets that have soared to new historic price highs - not in stocks, bonds, real estate, crypto-currencies or collectables and in most cases, virtually no short selling of any kind. Of course, there must be short selling in all futures contracts, but not to the extent that exists in COMEX silver.

More to the point, it doesn't seem plausible that the excessive and concentrated short position in COMEX silver futures is legitimate or has a sound economic purpose. It exists solely to suppress the price of silver. Who in their right mind aggressively sells short an underpriced and vital commodity in the face of a developing shortage? On its face, a transaction that can't be explained in legitimate terms is a good candidate for having an illegitimate motive.

Then there's the matter of the concentrated short position in COMEX silver falling under the jurisdiction of a federal agency, the US Commodity Futures Trading Commission. To be sure, all the data I refer to come directly from the CFTC in the form of its weekly COT reports. After responding in long public letters in 2004 and 2008 denying that there was anything wrong with the concentrated short position in COMEX silver, the Commission has ignored the matter for the past 13 years or at least has not publicly commented on it.

March 24, 2021 - Under Their Thumb

As you know, I recently wrote to the Commission about the matter and urged others to do so as well. I also wrote to my elected officials and urged other US citizens to do the same. I was assuming my senators and congressman would forward my letter to the agency seeking comment. Just yesterday, I received a call from Congressman Brian Mast's office informing me that they hadn't received a response from the CFTC yet, but were staying on top of it. Much to the credit of the congressman's staff, the call wasn't prompted by me - the follow up was strictly on the part of the staff. So I am now fairly confident that a response from the Commission will be forthcoming.

This was the case back in 2008 when readers (without my urging) wrote to their elected officials about the sharp increase in US bank shorting in COMEX silver and gold in the August 2008 Bank Participation report, which revealed that JPMorgan was the big new short seller on the block having taken over from Bear Stearns. I'm not sure we would have ever come to know that JPM was the big short without the CFTC's correspondence to lawmakers. It is an uncontested fact that when elected officials contact a federal agency on behalf of a constituent, that federal agency will respond.

Let me be clear - I don't know what the Commission will say in its response; I just know it will respond. I suppose it's likely that it will stick to its guns and insist there is still nothing wrong with silver having the largest concentrated short position of any regulated commodity in real world production terms, since to say anything else could turn into a very big deal. That said, I have never been more certain that what I allege - that silver has been suppressed in price by the large concentrated short position of just 4 traders - is the gospel truth and the only real factor that matters in silver. Any effort by the agency to continue to evade or distort that truth will prove far more damaging to it than can be imagined.

March 24, 2021 - Under Their Thumb

While the price action this week indicates that the price of silver is still under the thumb of the big shorts, it's hard to know at this point how many short contracts they have been able to buy back on this most recent price takedown. Last week's COT report in silver indicated that the smaller raptors were much bigger buyers than the 4 big shorts. Generally speaking, once the silver raptors get to buying, they are most often more aggressive buyers on still lower prices.

It has been suggested to me that this week's price smash may have been prompted by the CFTC finally reaching out to the big silver shorts about their excessively concentrated short position. Perhaps having to answer to elected officials for the first time in 13 years has persuaded the Commission to finally get in tune with the greatest commodity market manipulation in history. Of course, time will tell and I suppose the Commission could say one thing to the senators and congressmen and still urge the big shorts to stop their blatantly manipulative ways. Regardless, it points to the only thing that matters from this point forward, which hasn't changed in the slightest.

The issue is whether the big silver shorts add to new short positions on the next rally or not. What the Commission will say or do, publicly or behind the scenes, only intensifies this specific issue. Having been immersed in this one issue for most of my adult life, I can tell you that not only has it never mattered more than it does now, but that it never looked more likely that the big shorts won't add on the next silver rally.

In fact, I'm convinced that the sharp selloff on Monday and yesterday in silver was directly a consequence of the big shorts knowing that this is the last time they will be able to buyback short positions on lower prices and they are pressings their thumbs

March 24, 2021 - Under Their Thumb

as hard as possible on the “down” button, undoubtedly assisted by the raptors looking to pick up additional cheap longs. What I can't know is how deep the current rig job lower persists considering the desperation of the big shorts knowing it's now or never to buy back shorts on the cheap. I also can't know if it persists until next week's end of quarter.

I do know that this week's COT report on Friday will answer the question of were the big silver shorts able to buy back short positions in the face of buying competition from the smaller commercials (the raptors). As far as what Friday's report might show, I'm not sure. It wasn't much of a reporting price week in gold and while I'm puzzled a bit by yesterday's bump in total open interest, it could have been spread activity. In silver, it's easier to imagine non-commercial selling and commercial buying on Monday and yesterday, but there was no big change in total open interest. At least we'll know much more when the report is released.

In the strolling down memory lane department, I see there has been increased Internet chatter about the Perth Mint's unallocated silver pool account. It seems some questions have arisen about the Mint's ability to provide physical silver in a timely manner. As far as I'm concerned, the issue goes way beyond that. I first raised the issue about the unallocated pool accounts at the Perth Mint some 14 years ago and followed up with a piece 7 years later.

<http://news.silverseek.com/TedButler/1170190859.php>

<https://www.butlerresearch.com/july-23-2014-still-waters-run-deep/>

At the time of my 2014 article, the Perth Mint indicated it had just over \$2 billion tied up in gold and silver pool accounts, with gold priced around \$1310 and silver at

March 24, 2021 - Under Their Thumb

\$21 at the time. As of their most recent annual report, June 2020, the total amount in their pool accounts appears to be around \$5 billion, with gold priced at \$1760 and silver under \$18.

Clearly, the 33% increase in the price of gold and 14% decrease in the price of silver between June 2014 and June 2020 couldn't account for the 150% increase in total pool holdings - investors had to buy a lot more of the Perth Mint's pool accounts to come up with that type of increase. Unfortunately, no breakdown is given by the Mint as to how many gold or silver ounces are held in the pool accounts.

I recall being told after my 2014 article that the silver holdings were roughly 30 million oz back then, which if true comprised around 30% of the total dollar amount (\$2 billion) back then. If that same ratio existed in June 2020 (the most recent annual report), then 30% of \$5 billion would amount to \$1.5 billion or more than 80 million oz of silver - although that is, admittedly, hard to conceive. Of course, it would be much better if the Perth Mint would clearly state how much gold and silver is in their pool accounts and not leave it to speculation.

My basic gripe with pool accounts is that all the metal supposed to be in the accounts may not be there. Since no storage fees are charged to holders of pool accounts and with no bars specifically identified, the likelihood is high of the pool operator cutting corners and not insisting that all the physical metal that is supposed to be there is actually deposited and backing the accounts. In the Perth Mint's case, supposedly the metal in the pool accounts is also used in their basic minting business, but I never understood how the same physical ounce could serve two masters, namely, as backing for investors in the pool accounts, while simultaneously being used in the minting business. Plus the amount held in the pool accounts would

seem quite excessive to the Mint's core business.

I know many continue to doubt the holdings in certain silver ETFs, even though all serial numbers and weights and hallmarks are provided, but the paucity of substantial data surrounding the Perth Mint's pool accounts rises to a completely different level. I know the Perth Mint touts some type of government guarantee as insuring the safety of the pool accounts, but I question if the guaranteeing government knows the full extent of what it is guaranteeing.

The biggest risk to me is what happens if gold and, particularly, silver prices truly take off higher and all the pool holders witness massive profits and not enough real metal backs the pool accounts. Who is responsible for the profits that will accrue to the pool holders in that case? The Perth Mint or its government guarantor? I titled my original article, "Buyer Beware," and that would seem to go double (or more) today.

It has now been about a year since JPMorgan held any significant short position in COMEX gold or silver, after dominating the short side since taking over Bear Stearns in 2008 and beginning to accumulate massive quantities of physical silver and gold in early 2011. Effectively, JPMorgan has pulled off both the financial potential score of all time and the double cross of all time in leaving its former fellow big shorts holding the proverbial bag. And forget potential financial score, as JPM is already ahead by more than \$20 billion on what is now 1.2 billion oz of physical silver and 30 million oz of physical gold. At this point, it's hard for me to see how JPMorgan gets pulled into the coming quagmire of exploding metal prices, except to profit more. That's not the way it should be in a just and fair world - if there was such a thing as a world just and fair.

March 24, 2021 - Under Their Thumb

Things look decidedly more perilous for the remaining big shorts which appear destined to reap the whirlwind of the end of a multi-decade price suppression in silver. While the big short holdouts have been able to reduce short positions, in gold more than in silver, and reduce much larger total losses than exist today - in a real sense they are starting at the very beginning of a process they are still decidedly underwater on and without the aid of their former big protector, JPMorgan. Perhaps the big shorts can keep things contained through the quarter end or slightly longer, perhaps not. And all this with a near certain response from the CFTC to elected officials in the not so distant future.

By virtue of the obvious jam job lower in silver since Friday, the 8 big shorts have reduced their total losses from Friday's close by \$600 million to \$9 billion. That is down a significant \$5 billion from their yearend mark to market and also involves a truly significant amount of actual short covering, particularly in gold. At the same time, the reduction in concentrated short positions to date necessarily means that much of the potential short covering is already by the boards. I can't say the big short crooks can't do more, but I can say the easy part is done.

Ted Butler

March 24, 2021

Silver - \$25.20 (200 day ma - \$24.52, 50 day ma - \$26.40, 100 day ma - \$25.61)

Gold - \$1733 (200 day ma - \$1860, 50 day ma - \$1790, 100 day ma - \$1830)