

May 12, 2021 - The Questions No One Has Legitimately  
Answered

Questions, particularly those asked on an open forum, like the Internet, will invariably attract answers. Sometimes the answers fully match the legitimacy - high or low - of the questions, other times not. In an attempt to uncover legitimate answers to the questions that I believe underscore the true state of the silver market, I'd like to use this opportunity to solicit the answers that have been avoided for quite a long time - decades actually. To be sure, I have heard plenty of answers that can't be considered legitimate, so I'm not soliciting more of those.

I did have some hopes that the federal regulator, the US Commodity Futures Trading Commission, would weigh in on the issue as a result of my recent letter to the Commission and its response, but that was not to be. Best I can tell, the Commission, certainly didn't come close to rejecting my allegations of fraud and manipulation by the 4 largest short sellers in COMEX silver futures (as it did in the past), but neither did it attempt to explain away the concentrated short position that I claim resides at the core of the price manipulation. Thus, the CFTC took a pass on legitimately answering the key questions at hand.

The questions include why does silver have the largest concentrated short position in terms of real-world production of any other commodity? Next is why have the big shorts always been allowed to add as many new short positions as needed to cap the price and then buy back those shorts on lower prices? This is not allowed anywhere but on the COMEX. Finally, how could the 4 big shorts being the sole short sellers into the price rally into Feb 1, not show that these traders capped the rally? All while the physical silver market had never been tighter.

I believe these are the only legitimate questions that matter. Remember, I'm seeking answers in a legitimate vein. I believe I do know the answers to these questions,

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having contemplated them for a very long time; however, the answers I've come up with are not legitimate in the usual sense of the word. The 4 big shorts hold the obscenely large and concentrated amounts in order to manipulate silver prices in order to reap trading profits. They've done this with remarkable success over nearly all of the past 35 years, with signs of things not working in their favor becoming obvious over the past year or so. Up until then, as hard as it may be to believe, the 4 big shorts never took a trading loss whenever they added new shorts on a silver rally - always buying back the added shorts at a profit or breakeven (according to CFTC concentration data). I'd estimate the 4 big shorts cumulative trading profits in COMEX silver and gold futures at roughly \$3 billion over the past 30 years or so.

Starting in March 2020 in silver (earlier in gold), the 4 big shorts saw their COMEX money machine come undone. While the big shorts never threw in the towel and rushed to buy back their short positions on higher prices, the general upsweep in prices (from June 2019 in gold) created for the first time ever massive losses. The total losses to the 8 big shorts (of which the big 4 accounted for 75% or so of total losses) reached \$14 billion at Dec 31, 2020, before moderating to just under \$12 billion currently. In other words, 30+ years of cumulative profits went up in smoke and then some since the summer of 2019.

In addition to the extreme financial losses suffered by the biggest shorts in COMEX gold and silver, there have been just as dramatic market structural changes taking place. One such change has been the accumulation of massive physical metal holdings by affiliates of JPMorgan over the past decade in amounts I would estimate at more than 30 million oz in gold and 1.2 billion oz in silver. On top of that, JPMorgan, formerly the largest and most dominant short seller in COMEX silver and gold futures for 12 years, completely slipped out from its short positions a year ago

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in what I would claim to be the greatest double cross in history. But wait - there's a lot more.

The CFTC's response of May 3 does suggest a radical change in the Commission's thinking on the concentrated silver short position, certainly compared to its previous responses. Whether that's just lip service will be known in due course, with appropriate action ready to be put in place. No doubt the recent public attacks on the Commission's handling of silver matters adds to the pressure, even though the concentrated short position does not yet feature large in the attacks. I believe in time that will change.

But more than any of the above - all sufficient to ignite an explosive rally in silver - there has developed a physical tightness in silver, the likes of which none of us have ever witnessed. And on top of that there is now compelling macroeconomic evidence of even a greater investment surge coming into silver.

Yesterday's CNBC interview with Stanley Druckenmiller (along with a Wall Street Journal Op-Ed piece he co-wrote) was an eye-opener for me. I've mentioned Mr. Druckenmiller in the past and have the highest respect for his opinions. He spoke about how the recklessness of the Federal Reserve continuing its most accommodative monetary creation in the face of a surging economy would not end well and I would urge you to look up what he did say. But I would like to share some thoughts that occurred to me pertaining to silver (which wasn't mentioned at all).

It occurred to me that all major asset classes are now in the over-owned and over-invested category, including stocks, bonds, real estate (residential) and cryptocurrencies. In stocks, there are data showing record valuations, margin levels and public ownership levels. There never has been a hotter real estate market. It's

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certainly possible that these markets can get even more over-owned and over-invested in, as picking tops is one tough game.

It seems to me that there is definitely a relationship between what have been surging stock and crypto markets and the surging real estate market as it makes sense to me that someone enjoying massive gains in stocks and crypto's would seek to put some of those gains into residential real estate. Since you can't take it with you, some profits should find their way into the basic human needs and wants of better shelter, transportation and toys, including multiple homes, luxury cars and expensive boats. What else are you going to do with the money? Gains in stocks largely drove and paid for the extra-surge in real estate, cars and boats - on top of the assorted government stimuli.

But everything reaches a peak and then goes the other way. Maximum investment is reached at the top of every market peak in history. Whether the peak is near or at hand in the over-owned and over-invested markets of today is debatable, but trees don't grow to the sky and our financial nirvana will end at some point. Then what? If history is any judge (and it has been a pretty good judge so far) then a great reversal will occur. What was first will be last and the losers will become the winners.

Although it is much higher than it was last year at this time, over the past ten years, silver has been among the biggest losers. In this case, that's good.

One thing that Druckenmiller mentioned that resonated with me was the tremendous dollar amounts of recent financial flows. He mentioned that foreigners had recently sold a trillion dollars' worth of US Treasuries and had bought as much as \$500 billion in FANG and other tech stocks, truly massive sums, pointing this out as eventually undermining the dollar. I don't doubt his analysis, but something else struck me

instead about silver.

With only 2 billion oz of silver bullion in the world (in 1000 oz bar form - the form that determines the price) - all this silver is worth roughly \$55 billion. If, as and when a great unwinding occurs in the markets that have soared over the past decade and tens and hundreds of billions, perhaps trillions of dollars seek to escape and find shelter in those assets that didn't participate in the great run up or for diversification - how could an asset currently valued at \$55 billion handle such an inflow? The only possible answer is by adjusting the price radically higher.

In the past, I have frequently described trying to put a great deal of money into silver in a rush as akin to trying to put ten lbs. of flour into a one lbs. bag - you're going to make a mess. Only the mess in silver will be what it does to the price.

But even this old example doesn't do justice to the current circumstances, since the amount of potential money fleeing the over-owned and over-invested in markets are so much larger today than they have ever been by many multiples at exactly the same time so little silver, in dollars terms, is available for potential purchase. When I mention that there is \$55 billion worth of silver in the world that doesn't mean there is close to that amount available for sale. Every ounce of that silver is owned by someone and judging by everything I look at, only the smallest fraction of this silver may be available for sale at anywhere near current prices.

So, the real equation is not the tens or hundreds of billions or trillions of dollars trying to plow into an asset worth \$55 billion, but into an asset where only a few billion dollars may be actually available for sale - if that. And remember, the higher an asset price goes, the more investors want to buy it and less want to sell it. In this context, talk of \$50 or \$100 or \$200 silver could easily prove extremely low as a

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target price. Also please remember that this is a one-way street in that great gobs of money may flow out of the over-owned and over-invested in markets into silver, but the reverse is impossible. Massive amounts of money fleeing silver into the over-owned markets in an absurdity on its face.

Against this coming unwinding of the over-owned and over-invested in markets spilling over into the incredibly tiny amount of silver that may be available for purchase, still remain the factors that I mentioned previously, including the questions that no one has been able to legitimately answer. Why in the world would anyone choose to be excessively short an asset, silver, capable of soaring many-fold in price and with no great payoff to the downside on legitimate grounds? The only possible answer is because to cut bait and try to get the heck out of such a dangerous short position would only set prices soaring sooner. Damned if you do, damned if you don't - if you are short silver.

Of course, the buyers and holders of silver are far from damned - they are in the drivers' seat (along with JPMorgan in the catbird's seat). Yes, silver investors must suffer the short-term slings and arrows sent their way by the increasingly desperate shorts, but hey - nothing in life is all peaches and cream. It may get old waiting for silver's payday, but that's just the way it seems. In reality, silver has never been better positioned for a true moon shot.

All eyes will (or should) be on this Friday's Commitments of Traders (COT) report. In the reporting week ended yesterday, gold prices rose as much as \$70 and silver by as much as nearly \$1.50. In addition, gold had decisively penetrated its 100-day moving average for the first time in months. Finally, total gold open interest rose by more than 28,000 contracts, while silver's total open interest rose by more than 11,000

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contracts. This is the formula, of course, for deterioration or managed money and other non-commercial buying and commercial selling. The question is by how much.

I don't have a firm conviction other than the commercial selling and managed money buying should be much greater in gold, perhaps by the increase in total open interest (or more) and hopefully by less than the increase in total open interest in silver. The really big question is what the 4 big shorts did in silver. Regardless of what they may have done, I doubt I'll react to this coming COT report in terms of petitioning the elected officials on committees overseeing the CFTC.

Going into this week's coming COT report, the market structure was particularly bullish in gold, so the likely deterioration while large, should still leave the market structure as bullish, but with more room for sharp selloffs. However, if conditions continue to deteriorate in the stock and other markets, setting off a rush to gold, it is possible that could overcome typical COMEX paper positioning dominance. Today's sharp increase in the Consumer Price Index of 4.2% annualized has failed to cause a move to gold (and silver), but that could change.

Nothing special about yesterday's release of the short interest data in the short position for SLV, the big silver ETF, as of the end of April. There was a slight increase in the short position to just over 24 million shares, which still looks on the high side to me, and still represents just under 4% of total shares outstanding. I do continue to believe that the short position is mostly being driven by those shorts to which physical silver is unavailable - except at higher prices.

<https://www.wsj.com/market-data/quotes/etf/SLV>

Best I can judge, pressure is still being applied on the CFTC by the reddit

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wallstreetbets crowd and others on the Internet which is good in principle and not likely to dissipate with price action like seen today. I'm still of the opinion that very few of this crowd are focused on the main cause of the silver price suppression, namely, the concentrated short position on the COMEX. I would think that in time either more recognition of the concentrated short position would come to be known or that, alternatively, silver prices will rise and the real cause of the formerly depressed prices will no longer matter. I could live with either.

The recent disclosure that the LBMA had misstated and then corrected silver inventories has created a bit of a stir, although I find its previous separate report about the physical tightness in place at the beginning of February as more meaningful. Truth is, I'm not sure if anyone has ever bought or sold silver due to anything that the LBMA has reported - certainly I haven't. I'm not a big fan of anything about the LBMA, which is so opaque and non-transparent it isn't funny. It's awkward for me to have to compare the LBMA to the COMEX, as both are two dens of iniquity - but at least the COMEX's data appears to be aboveboard. I would remind you that it is the COMEX data, in the form of the CFTC's COT report that proves the silver manipulation. So, if the COMEX is to be disbelieved, why does it and the CFTC publish data which incriminates each organization?

Today's sharp and counterintuitive selloff brought relief to the 8 big shorts in COMEX gold and silver to the tune of \$400 million or so, from Friday's close to \$11.6 billion. There may be still further lower prices and financial relief to the big shorts ahead, but the way the world is shaping up, these shorts are tap-dancing through a mine field and the slightest misstep may prove to be their last step.

Ted Butler



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Silver - \$27.20 (200 day ma - \$25.70, 50 day ma - \$25.90, 100 day ma - \$26.20)

Gold - \$1820 (200 day ma - \$1856, 50 day ma - \$1750, 100 day ma - \$1797)