There's always something in the back of my mind regarding silver – and I do mean constantly – that I don't write about often enough. Maybe because it's something I have written of in the past and I don't want to be accused of being an old man just repeating himself. But it occurs to me that I may be doing a disservice by not revealing that which I think about continuously.

While I spend most of my time analyzing the current factors most influential to the price of silver, such as COMEX and JPMorgan goings on, I always consider those factors through a deeply-held perspective that too often remains unspoken. That unspoken guiding light is the great value that exists in silver. What do I mean by great value? Basically, the word itself – silver must be considered very valuable by a number of standards.

Certainly, those who invest in silver and hold it for capital preservation and potential price appreciation (like me) consider it to have value, otherwise they wouldn't hold it. The same can be said of gold, of course. Not to belabor the point, investors have held silver and gold for such reasons for many centuries. But the kicker in silver is that the metal is also used extensively in thousands of industrial and chemical applications; so much so that most of the new silver produced each year throughout the world ends up being consumed in these applications and others – to the point where only a small percentage is "left over" and available for investment.

More than anything else, the large percentage of newly mined silver, upwards of 90% of total mine production, is used up in industrial and other fabrication demands (like jewelry and coin demand) meaning there is not much new silver made available to investors annually. Even when recycling supply is added to silver mine production is there much newly produced metal made available for investment purposes – no

more than 100 million ounces a year. That may sound like a lot at first, but in dollar terms is not much at all – less than $2 billion – or less than 25 cents for every world citizen.

Two billion dollars is absolutely peanuts in world investment terms. And that’s for an entire year; when investors rush into silver (or any other asset), they tend to do so in a rush, which gobbles up available supply quickly. Think of it this way – if the world’s investors decide to buy more than $2 billion worth of silver, as they have done on numerous past occasions – it’s not as if the world’s industrial consumers will meekly step aside and voluntarily shut down their operations to make room for silver investors. Instead, there would likely result a donnybrook of a fight over available silver.

At that point, the only source of silver supply would be from sales by existing owners. The problem with this source is because there was an industrial consumption deficit in silver for 65 years running, from 1940 through 2006, in which close to 10 billion ounces of above ground world silver inventory was depleted, there isn’t much silver left in world inventories, no more than 1.5 billion ounces. I’m speaking of silver in the form of 1000 oz bars – the only form that matters to price. I would concede that most of this inventory must be considered available for sale at some high price, but very little is available at current price. That’s the point – it will take sharply higher prices to bring this silver to market.

Moreover, some 40% of the 1.5 billion ounces of silver that exists in world in the form of industry standard 1000 oz bars, or 600 million ounces, is now held by one entity, JPMorgan, having been acquired by the bank over the past six years. Yes, should JPMorgan decide to sell its accumulated physical silver at prices not much

above its average acquisition price of $20 an ounce, then that much inventory would have to be sold before the world's investors and industrial users would have to duke it out and bid silver prices higher.

But considering the measures JPMorgan employed to acquire the 600 million ounces, such as illegally manipulating the price lower through its dominant role in COMEX paper trading, and recognizing that JPMorgan exists primarily to make as much money as possible, the thought that it would sell its silver at anything less than prices that now might be considered to be exorbitant, seems nearly impossible. The bottom line is that should JPMorgan hold on for much higher prices, then only 900 million ounces of silver would be available for sale at higher prices, not the total of 1.5 billion oz. Nothing is more of value than an asset in short supply and competitive demand.

And in case you didn't notice, when the price of any investment item begins to rise, a funny thing usually occurs – the higher prices encourage new investment more than encourage sale by existing owners. This phenomenon can be seen in every investment or speculation, from bonds and stocks to real estate to bitcoins and crypto currencies. People shop for bargains when they buy consumer items, but nothing encourages collective investment demand like higher prices. Of course, when the price of anything is bid to highly unrealistic levels, sooner or later prices will collapse; but we are a very long way from silver being priced at unrealistically high levels. In fact, we haven't even started the silver move higher.

What makes silver a great value, in essence, is that the current price in no way reflects that there is so little of it available to the world's investors from either total current production or in above ground inventories. When, not if investment demand

kicks in, the true value of silver will begin to become obvious. In the meantime, the current low price presents the two things most important to investors, incredibly low risk and just as incredible large profit potential. Follow the current developments all you want, but please do so through this prospective.

On to developments since the Saturday review. If the key factor to price is COMEX futures positioning (and it is), then the standout current feature is that gold has remained above its important 50 and 200 day moving averages for ten straight trading days, while silver has not yet penetrated its own key moving averages. Again, moving averages don’t mean much to me when considering true value or what the long term may hold, but since the technical funds seem to be guided by them, then their penetrations become an important price consideration.

Because the gold price has remained above its key moving averages and silver has not, more technical fund buying, particularly in the form of new long positions, has occurred in gold than in silver. The most recent Commitments of Traders (COT) Report clearly confirmed this. The increase in managed money buying and commercial selling in gold has brought the market structure to neutral from the bullish gold market structure that existed as recently as May 16, the prior week’s COT report.

Gold prices have rallied more than $50 from the low in early May, and it was the upward penetration of the key moving averages that motivated the managed money technical funds to buy. There is potentially much more technical fund buying to go in gold, should the technical funds buy as many COMEX gold contracts as they did at last summer’s price highs; but there is also now the possibility that the commercials could rig gold prices lower (below the key moving averages), to induce technical

fund selling. I don’t like to sound wishy-washy, but that’s what neutral means.

It’s a different set up in silver. Even though silver has rallied more than gold in relative percentage terms since the early May price bottom, relative strength doesn’t appear to matter much to technical funds, at least not as much as penetrating moving averages. While there has been some managed money technical fund buying in silver on the $1.25 price rise since May 9, all the buying has been in the form of short covering and not new long positioning. As a result of silver not penetrating its key moving averages (yet), the amount of technical fund buying has been much more limited than has been the case in gold.

The operative word, of course, is “yet”. Sooner or later, silver is mathematically guaranteed to penetrate its key moving averages at some point, either as a result of the moving averages coming down to meet the then current price or due to prices moving up to penetrate the moving averages (or some combination). Seeing as we are very close to the moving averages, the odds would seem to favor the matter being resolved with silver prices rising fairly soon, but it is possible, for instance, for silver prices to head lower first (perhaps in synch with gold prices moving lower) and for the upward penetration to be delayed. I’m just trying to be objective.

The biggest question remains that when silver does decisively penetrate its key moving averages, will the near-certain rush by technical funds to buy cause the price to move in the manner I have suggested recently, namely, explosively? That, of course, depends on how aggressive the commercials and, particularly, JPMorgan respond to the technical fund buying. I don’t mean to repeat myself, but somethings must be repeated.

This is a process as mechanical as any motor engine. If JPMorgan and the other big

commercials add aggressively to short positions on the next moving average upside penetration, they would appear to be quite capable of eventually snuffing out any silver rally caused by technical fund buying; and the exact same thing that has occurred on countless occasions over the years – snuffed out silver rallies – will occur again. And I completely empathize with those (in the majority) who hold that to expect otherwise would be on the insane side of the ledger, you know, expecting different results from the same circumstances.

I would stipulate further that if JPM and the other big commercials short aggressively, then silver prices would likely fall eventually and we go back to the very beginning of the wash, spin, repeat cycle. But there's not much to be gained for assuming JPMorgan will load up on the short side again, until it does load up. That's because as long as JPMorgan is not heavily short COMEX silver futures, there is little reason to expect significantly lower silver prices. A large concentrated short position in COMEX silver futures is always the prime (sole) reason to expect lower silver prices. The lack thereof should not be feared.

If it does turn out that the market crooks at JPMorgan again short silver futures aggressively, that will only come on higher prices and with generally fair warning. Specifically, if JPMorgan adds back much of the 16,000 short contracts it bought back over the past five reporting weeks (including last week's increase), then my "big one" premise goes out the window. Look, I'm just the analyst/piano player, not a principle participant in the ongoing COMEX silver scam. If JPMorgan does end up adding aggressively to its price-controlling silver short position, that's beyond my control in any event.

Still, on a strictly mechanical basis, the big one premise in silver is very much alive.

Until and unless the concentrated short position grows meaningfully, the risk of a significant price decline is reduced (however, in a manipulated market temporary sell offs are always possible). Therefore, the bullish market structure that exist in silver has only been slightly altered in the most recent COT report.

I must also add that the prime motivation behind my silver price explosion premise was the unprecedented 16 day continuous price decline experienced into the May 9 price bottom. It appeared obvious that the commercials, particularly including JPMorgan, engineered the most pronounced episode of "salami slicing" ever. Such episodes are solely designed to induce the maximum technical fund selling possible and this last one accomplished exactly what the COMEX commercial crooks intended, namely, the most technical fund selling in history, nearly 80,000 net contracts sold in four reporting weeks. That's the equivalent of 400 million oz of silver, or close to 50% of annual world mine production.

Perhaps the extremely bullish silver market structure created by the record technical fund selling and commercial buying will turn out to be just another mile marker in an era where we continue to see even greater episodes of technical fund snookering. Time will tell. But considering the inherent great value that exists in a material of very limited supply and that could quickly go into a bidding war between the world's industrial users and investors alike, it isn't hard to imagine a different outcome this time around. Particularly when the most dominant silver player of all, JPMorgan, is as favorably positioned for a price explosion as it's ever been. And all JPM has to do to cause silver prices to explode is precisely nothing – not adding to short positions.

As far as what this Friday's new COT report will likely indicate, as of the close of yesterday's four day reporting week cutoff, the safe bet would be for a further

increase in managed money buying and commercial selling in both gold and silver, based upon a couple of fresh price highs in each. I'll skip putting precise numbers on any prediction for this week.

There were mixed results in terms of changes in total open interest over the reporting week ending yesterday, with total silver open interest up a bit less than 2000 contracts and gold down around 30,000 contracts, thanks to yesterday's drop of that amount. I doubt that 30,000 net contracts were liquidated in gold yesterday, as it was the last day before today's first delivery day, usually a very heavy day for spread trading. In terms of net positioning, spreads don't matter in the least.

The first day's COMEX deliveries this morning featured the absence of participation by JPMorgan in its proprietary or house trading account, either in the traditional June gold COMEX contract or in the non-traditional silver contract. That's the first thing I look for. The standout feature was the huge one-day drop in open interest of the June gold contract, clearly part of the open interest drop I just highlighted. More than 58,000 June gold contracts were liquidated yesterday alone, more than I can ever recall (the open interest in other months rose).

I am kind of thunderstruck that there is such a large and basically uneconomic participation in spread trading, which is confined to a few large speculators and commercials. Certainly, I can conceive of no legitimate hedging or economic purpose behind such spreads, as many tens of thousands of gold contracts are being traded on the basis of a few dimes difference between separate trading months. Don't these speculators have anything better to do with their time and assets?

While any day, like today, that features weak silver prices and strong gold prices is not a day that I particularly relish, there is a silver lining (sorry, I just couldn't

resist). Generally, weak price days don’t involve managed money buying and commercial selling; strong price days involve such deterioration. Therefore, some comfort can be taken in today’s crummy silver price action. The time to begin to worry is when prices are strong due to technical fund buying and commercial selling.

Ted Butler

May 31, 2017

Silver – $17.33 (200 day ma – $17.67, 50 day ma – $17.45)

Gold – $1274 (200 day ma – $1247, 50 day ma – $1255)