

October 13, 2021 – The (Temporary) Missing Silver Factor

No silver or gold investor needs to be told that this year has been a disappointment price-wise, particularly coming off the prior year when silver prices hit 8-year highs and gold registered all-time highs. Paradoxically, we live in a financial world where higher prices beget even higher prices due to the realities of collective investor behavior, so the reverse is also true, namely, the lack of higher prices alone cuts off collective investor buying.

Of course, collective investor buying or the lack thereof, only goes so far in explaining the current low silver price, but add in the dominant control of the paper positioning on the COMEX and it's no exaggeration to suggest that silver is the cheapest asset of all (as many openly declare). Just yesterday, a major silver producer, First Majestic, announced it had withheld more than 42% of its quarterly silver production due to low silver prices. (Quick, try to name a producer of any other commodity withholding production due to low prices).

As I have intoned on numerous occasions, silver is incredibly unique in that it has a dual demand profile; meaning it is both a vital industrial commodity and at the same time a stand-alone investment asset. No other commodity comes close to silver in this regard. In its role as an industrial commodity, the demand for silver parallels the world demand patterns in most other industrial commodities – meaning current overall strong demand for industrial metals must be present in silver as well. Same goes for silver mine production, which has been flat, at best, for years. Besides, industrial demand and mine supply in silver just don't change that much year-to-year, and I have yet to hear a convincing case that either seriously accounts for silver price movement.

There is little doubt that investment demand for silver is the main price driver (leaving aside the crushing influence of COMEX positioning). While industrial demand and mine supply only change in glacier-like increments year by year, sudden bursts of investment buying or selling exert profound influence on the price of silver. Additionally, silver investment demand can be broken down into two separate categories – retail and wholesale demand. While it's true that silver is silver, it's also true that retail forms of silver (coins, rounds and small bars) represent a different market than the one wholesale form of silver – metal in the good-delivery and industry-standard form of 1000 oz bars. This distinction has nothing to do with the investment merits of each, as I'm a firm believer that holding silver in one's own possession is close to ideal – except many quickly discover that due to silver's low price, there is a practical limit as to how much metal one can realistically hold personally.

Further, sudden surges in the purchase of retail forms of silver do have the immediate impact of causing retail premiums to rise, but have less of an effect on the wholesale price, except over longer periods of time. By definition, premiums (or discounts) in retail forms of silver are how much more (or less) prices are per ounce compared to 1000 oz bars. The distinction between retail forms of silver and metal in the wholesale form of 1000 oz bars, is one of form only, as individual investors, generally considered to be retail (as opposed to institutional investors) can and do buy silver in the wholesale form of 1000 oz bars.

While the forms of silver are differentiated between 1000 oz bars and all other smaller denominations, there are some general commonalities to be made about all forms of silver currently. Somewhat different from decades ago (before and after the time when silver was removed from common coinage

in the US and elsewhere), silver that is purchased in retail forms tends to be held for long periods of time, often until the owner passes away and is sold on an estate basis. Speaking practically, this is a function of silver (like gold) being held for insurance purposes, but there is another side to the unusually long holding periods for most retail forms of silver that spills over to the wholesale bar market

What I'm referring to is the rather few real opportunities silver investors have had to cash in at what they would consider to be high-enough prices. Yes, silver is higher than it was 20 years ago, when I first started pounding on the table in the mid-single digits (\$4 to \$5), with prices not making it to the double digits (\$10 or more) until 2006 and when prices moved substantially higher thereafter. But here's the thing while no one reading this (myself included) doesn't now know that a sale at close to \$50 in 2011 or close to \$30 earlier this year would have resulted in an ability to buy back cheaper there's never been anyone in the history of the world who couldn't tell you when you should have bought or sold on a retrospective basis. With the benefit of hindsight, who isn't a financial genius?

My point is that silver has yet to visit the kind of prices where most investors have felt it was too high or high enough to risk not owning it any longer. I believe that day is surely coming and I also believe most silver investors feel the same way. In other words, this is a real reason silver investors have been remarkably tenacious in holding onto their silver, be that silver in retail form or in wholesale 1000 oz bars. I would imagine, at some high enough price, many retail forms of silver would be selling at a discount to 1000 oz bars, indicating that holders of retail forms of silver were willing to part with their silver. That time is definitely not now.

Another point I am making is that this same refusal to sell retail forms of silver at current prices is mostly shared by those holding 1000 oz bars. Look, I'm not talking about anyone needing to sell for pressing financial needs or recently inherited wholesale silver bars. Since I can't use the persistent premiums existing in retail forms of silver as evidence that there is no widespread dumping of silver in 1000 oz bar form (the question of premiums doesn't generally apply to 1000 oz bars), what can I point to?

As I've recounted incessantly, an extraordinarily large percentage of the world's total silver bullion inventory (2 billion oz) is tied up in the world's silver ETFs or in the COMEX warehouses more than 1.6 billion oz or a remarkable 80% of all the 1000 oz bars in existence. Just for comparison purposes, the percent of all the world's gold bullion (3 billion oz) held in world gold ETFs or on the COMEX is less than 150 million oz or less than 5% of total world gold bullion (400 oz and 100 oz and kilobars). Aside from there being a very big difference between 80% and 5%, there is something else to note.

Since 2012, there have been a couple of occasions when world gold ETF holdings declined sharply by more than 40% or 40 million oz from the start of 2013 to the end of 2015 (when gold prices fell from \$1800 to \$1050) and more recently when total gold ETF holdings fell 15 million oz or 10% on gold's price decline from all-time highs of \$2050 in Aug 2020 to under \$1725 recently.

Silver investors don't need to be reminded by how much more silver prices fell from the highs over the past decade than did gold, down as much as 75% at the lows of March 2020 and still down today more than 50% from the price highs of 2011. In the face of much steeper price declines than occurred in gold, the reduction in the holdings in the world's silver ETFs has been negligible.

And if you subtract the massive increase in COMEX gold warehouse holdings last year, world gold ETF holdings are no larger than they were in 2012. Do the same in silver (remove COMEX warehouse holdings) and world silver ETF holdings would still be close to 600 million oz more than they were in 2016.

No matter how you slice or dice the data, gold prices have performed much better than have silver prices over the past decade, yet silver has been held much stronger, as is evidenced in the public ETF statistics. And I'm leaving out completely, the frequently-recurring phenomenon in silver whereby large investors have converted several hundreds of millions of shares of SLV into non-disclosed physical silver ounces to avoid ownership reporting requirements. The net effect of these conversions is to understate how much more closely-held is the world's 2 billion oz inventory of silver bullion.

Putting all this together, what is the most reasonable conclusion for the fact that silver prices have performed much worse than gold prices have performed, yet the objective data show that silver is much stronger and tightly-held than gold? Is it not that silver is more tightly-held than gold? Look, I'm very bullish on the prospects for much higher gold prices based upon the COMEX market structure (including uncovering the presence of a new gold whale in COMEX futures), but it is downright shocking how much stronger are the investors holding silver (yes, including affiliates of the crooks at JPMorgan who I believe hold more than half of all the world's silver bullion).

The fact that silver bullion is the tightest and strongest-held of all commodities and investment assets is a bit of a shock when first uncovered, but that's just for openers. It gets a lot better for those expecting sharply higher silver prices (although it certainly hasn't felt that way lately). That silver is so tightly-held is just the easily proven base, now comes the really bullish part of what's missing in silver.

Simply put, all that's missing until we get to the shockingly higher prices most silver holders intuitively expect is some moderate price gains sufficient to alert the outside world to silver's merits. In essence, all we need is some minor price gains, say over to \$30 or less, to get silver going on its inevitable journey to the heavens. In fact, the basic story of the decades-old COMEX price manipulation is simply to prevent the slightly higher prices that would set off the stampede into silver. But that manipulation is now older than the hills and the big commercial crooks have positioned themselves to withstand the full fury of the coming silver price surge. The biggest silver crook of all, JPMorgan and its friends and family are set to make the most when silver's price goes boom.

The reality is that our modern financial world has devolved into a massive price momentum trade and I'm not so sure that the ancient financial world wasn't the same. Higher prices beget still higher prices. Try coming up with an alternative explanation to explain the upward trajectory in everything around us -- stocks, bonds, real estate, crypto's and then try to explain silver sitting out the boom. Sure, prices eventually get way overdone to the upside and price collapses become a reality. But silver has little chance of that type of collapse for the simple reason it has yet to move higher.

And to those who might turn my words around to suggest that the long-suffering silver holders who were waiting for higher prices would finally turn sellers at much higher silver prices, I say so what? Those currently holding silver make up such a tiny percentage of the investment world -- way, way less than a fraction of one percent of total world financial assets -- that when the silver bull really gets rolling, there will be ten times as many more new investors looking to buy than old investors

looking to sell. It's just the way of the world.

Importantly, with so much of the world's silver bullion already tied up in the world's silver ETFs, many have overlooked the obvious, namely, that these silver ETFs, led by SLV, are also the infrastructure and mechanism for future physical accumulation of 1000 oz bars. The silver ETFs are the highways and byways by which future silver accumulation by the masses is made possible. I know that there is hardly a retail dealer out there that doesn't criticize the silver ETFs at every opportunity, but that's understandable due to the competition represented.

In reality, however, the introduction of the silver ETFs, starting with SLV in 2006, is the very best thing to occur in silver investment history. Not only have SLV and all the other silver ETFs proven to be the Death Stars (the term was coined by my friend, Carl Loeb) of physical silver accumulation, they also represent untold amounts of future buying. The only thing that will limit future buying by the silver ETFs is the lack of available metal but that will be reflected in price. And I would be remiss not to mention the latent pricing power of option buying in SLV (although please don't mention the word "option" when my wife is around).

So, all that's missing for the silver price juggernaut to get rolling is some much smaller price pop to get the train in motion. Try to focus on that and not the latest short-term price suppression on the COMEX (and do as I say and not as I do).

Turning to other matters, the new short report on stocks indicated only a slight reduction in the all-important short position on SLV. As of Sep 30, the short position on SLV, amounted to 31.6 million shares, down from 33.1 million shares (ounces) on Sep 15. I had expected a much larger reduction for this report (which is notoriously difficult for me to handicap).

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

The reason I was expecting a much sharper reduction was because of the steep decline in silver prices and the concurrent sharp reduction in the commercial short position on the COMEX. Trying to reconcile and explain (to myself) why there was so little of a reduction in the short position on SLV, the most plausible reason to me is that there was too much outside buying of shares and that the physical metal needed to be deposited by the short sellers just wasn't available. Yes, this is extremely bullish and no, I'm not just trying to invent bullish explanations at the drop of a hat it really is bullish.

As far as what to expect in this Friday's COT report, I'm quite uncertain. Four of the trading days of the reporting week appeared to be non-positioning affairs, with only the sharp up and subsequent down on Friday of positioning significance. As I explained on Saturday, I'm unsure whether the managed money shorts replaced any of the shorts they covered early that day and we'll know on Friday.

Something I should have mentioned when discussing the incredibly bullish set up in silver (and gold) is that when the bullish scenario plays out, it won't be terribly long before the COMEX manipulative positioning takes a back seat to outside collective investor buying in ETFs and other forms of silver. Having devoted a significant chunk of my professional life to COMEX positioning, let me announce in advance that I'm looking forward to the coming demise of the influence of the paper positioning although it will take some adjustment becoming accustomed to the lack of the daily frustration brought about by the COMEX commercial crooks. Yeah, right.

So, could today's price pop be the start of the monster move higher coming in silver and gold? Why not, since the move has been decades in the making, particularly in silver. At publication time, both gold and silver have traded higher than last Friday's highs and gold has upwardly penetrated the first of its three key moving averages, the 50-day ma, and the two remaining moving averages (the 100 and 200-day ma's) are within spitting distance – \$10 or thereabouts. Silver's key moving averages are still a bit away, but not when one considers the latent power of silver to the upside.

One thing is for sure; as and when silver does erupt to upside, it will make all the fretting and consternation we all feel as prices remain manipulated as wasted emotions. Our feelings have absolutely no bearing on price movement, so how about we all try to put them behind us and focus on what is certain to occur in the not-too-distant future – a price rise of epic proportions. This is perhaps easier said than done, but it also happens to be the reason silver is so strongly-held.

Today's price pop added more than \$900 million to the 8 big COMRX shorts' losses from Friday, pushing the total loss to \$9.2 billion.

Ted Butler

October 13, 2021

Silver – \$23.10 (200 day ma – \$25.66, 50 day ma – \$23.41, 100 day ma – \$24.99)

Gold – \$1793 (200 day ma – \$1800, 50 day ma – \$1779, 100 day ma – \$1805)

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