September 13, 2023 – A Remarkable Transfer of Ownership

If there is one thing that has truly transformed the financial landscape over the past 25 years, it has been the adoption of index fund investment, with particular emphasis on the emergence of Exchange Traded Funds (ETFs). ETFs are offered and traded on just about everything, with an impact as strong and varied as the underlying assets they represent, and that certainly includes silver.

Today, Iâ??ll dig into an often-overlooked byproduct that the introduction of ETFs on silver have had in completely rearranging the ownership of the worldâ??s above-ground silver inventories ever since the biggest silver ETF, SLV, started trading some 17 years ago, in 2006, which was followed by a handful of other successful silver ETFs. All told, the worldâ??s silver ETFs, starting from zero 17 years ago, now hold just over a billion oz of silver bullion, or half of all the 2 billion oz thought to exist in total world inventories (in 1000 oz bar form).

What makes the growth of the physical silver holdings in the worldâ??s silver ETFs so remarkable is that it represents a transfer of ownership for half of the worldâ??s silver inventories to publicly-traded shares and ownership from what were the previous owners, mostly bullion banks and other institutional entities which held the metal on an undisclosed basis. Before the introduction of the silver ETFs, there were two kinds of silver inventories â?? recorded and unrecorded â?? or inventories you could see and verify and other inventories that you couldnâ??t see or verify.

Because the unrecorded silver inventories were many times larger than the inventories that were recorded, it played havoc on any attempt to analyze and measure the true extent of world silver inventories in 1000 oz bar form (the type that determines price).Â Perhaps the very best service provided by the introduction of the SLV in 2006, quickly followed by the subsequent introduction of the other physical metal silver ETFs, is that it brought into the sunlight from the shadows a very large percentage of the worldâ??s total silver inventories. I canâ??t imagine anyone arguing against the benefit of greater visibility of the worldâ??s silver inventories.

Actually, the process of transferring ownership of much of the worldâ??s silver inventories began some years before the 2006 introduction of the SLV in the purchase of more than 100 million oz of silver by Warren Buffettâ??s Berkshire Hathaway starting in mid-1997. While I claim, perhaps somewhat delusionally, that it was my writings on the Internet about metals leasing that persuaded Buffett to take his silver plunge after many years of hesitation, I lost no time in congratulating Mr. Buffett on his big silver purchase. (By the way, the second to last paragraph was published on the inside cover of the annual report of the Pan American Silver Corp that year)

https://www.gold-eagle.com/article/thank-you-mr-buffett

Unfortunately, after Mr. Buffett took delivery of his 100+ million oz of silver, he turned around and for the next 7 or 8 years, used it as the backing for shorting as many as 20,000 COMEX silver futures contracts at a time against the purchases by the managed money traders â?? fulfilling the role as the biggest silver short seller over that time. In hindsight, my complaints to the regulators about the concentrated commercial short sellers manipulating the price fell on deaf ears, Iâ??m sure, because Buffett had the physical silver backing his paper shorts sales. But just because you own the physical metal, however, doesnâ??t allow you to manipulate the price – but there was no way the wimpy CFTC was going to take on the worldâ??s most famous investor.

In the turnabout is fair play department, the Buffett silver play became complete when in 2005 or so, after going heavily short on the COMEX one time too many, instead of prices then declining as expected, silver prices rose instead and rather than buyback his short position and, in effect, reveal that he had been shorting against his physical holdings, Buffett had no choice but deliver his physical holdings to avoid the revelation of what he had been up to. In essence, he just shucked it off to selling too early (at $7), when in reality he had overstayed his welcome on the short side and ended up losing his silver, which a few years later hit $50. I bring this up because it was Berkshire Hathawayâ??s silver that formed the basis of the initial 100+ million oz of silver that found its way into the SLV in 2006.

Regardless of the exact timing of the remarkable and massive transfer of ownership of much of the worldâ??s silver inventory to the worldâ??s silver ETFs, it is obvious atÂ this point that the transfer has been accomplished and there is no practical way it can ever be reversed. This is to the extreme benefit of silver investors everywhere. I know that there are deeply negative feelings on the part of many that SLV and other silver ETFs are somehow suspect and not to be trusted given that the sponsor of SLV is BlackRock and the custodian in JPMorgan, two of the most reviled names in precious metals circles. Perhaps my take is wrong, but I look at it differently.

As the largest, by far, investment asset manager in the world, BlackRock represents to me an entity not about to allow anything to trash its reputation â?? particularly considering allowing one single ETF, whose assets comprise around one-tenth of one percent of its total assets Â under management of close to $10 trillion. Sure, Iâ??ve complained strongly to its CEO and President about the short-selling in SLV and will do so in the future as it merits complaint, but thatâ??s different than thinking BlackRock is inherently dishonest and not to be trusted (or held to account). Besides, BlackRock didnâ??t introduce the SLV, but assumed ownership when it took over Barclays Global Investors ETF business years ago.

As far as JPMorgan being the custodian for SLV, as well as the custodian for other silver and gold ETFs, JPM has a long history of precious metals safekeeping and was the original custodian for SLV from the start in 2006 and before it took over Bear Stearns in 2008. Unlike BlackRock, I do believe JPMorgan is a stone-cold precious metals crook and Iâ??ve said that since 2008, but it is still a precious metals force and that is a fact of life. After all its brushes with the law, including its just-expired or soon to expire deferred criminal prosecution agreement with the Justice Department (for precious metals manipulation), I would think JPM would be on its best behavior â?? or as much as it is able to. One just has to be aware of JPMâ??s presence whenever it is in the room (and hold onto oneâ??s wallet).

The silver ETFs went on to reach what has been their maximum physical holdings (so far) around the time of the #WallSreetSilver/Reddit price peak of $30 in early February 2021, when holdings shot up briefly to 1.3 billion oz (there were also 400 million oz in the COMEX warehouses). Since then, total silver ETF holdings have fallen to just over 1 billion oz (while COMEX silver warehouse holdings have fallen by 125 million oz to around 275 million oz). The decline in the holdings of the silver ETFs has been across the board, with the exception of the PSLV, which has seen its metal holdings increase by about 25 million oz to 175 million oz since Feb 2021, while the holdings in most other silver ETFs have fallen. Iâ??ve attributed this to the Ottawa Canada storage location for the metal in the PSLV â?? somewhat off the beaten trail of busy world silver distribution points (like NY or London).

The simplest explanation for the decline in holdings for the silver ETFs as a whole and in the COMEX warehouses over the past couple of years has been that the silver has been needed elsewhere more urgently, including the 300 million oz imported by India last year. While I havenâ??t mentioned it to this point, and since Iâ??ve always contended that JPMorgan and its associates held much of the billion oz of physical silver I claim they accumulated over a ten-year period ended in 2021 or so in the silver ETFs and in the COMEX warehouses, it is only reasonable to conclude that JPM et al own less than a billion oz of physical silver at this point â?? perhaps considerably less. I do think that the OTC derivatives scam that JPMorgan pulled off with Bank of America as the victim was largely intended for JPM to maintain as much of a long silver position as possible, even if JPM had to convert a large portion of its physical holdings to an even larger paper derivatives position with BofA on the short side.

I further believe that in addition to the demands on the silver held in the silver ETFs being taken out to be shipped to places where it was more urgently needed over the past couple of years, there has been no big investor demand because silver prices have been locked down by the ongoing COMEX price manipulation/suppression. However, if I am correct about the 40-year manipulation about to soon end and with prices exploding, then it is most reasonable to expect a resurgence of investor buying on those higher silver prices. Heck, we live in a day and age when higher prices incite investor buying more than in any other past time and ETF buying seems to be among the most popular forms of investment.

No one (certainly me) is suggesting the purchase of SLV or other silver ETFs; this article today is about the remarkable transfer of ownership of much of the worldâ??s physical silver inventories by the various silver ETFs â?? which is a great benefit to all silver investors, regardless of whether one owns any of these ETFs or not. At the same time, to pretend the physical holdings in the silver ETFs donâ??t exist or are imaginary in some way because of negative feelings about BlackRock or JPMorgan is ludicrous. Anyone attempting to objectively analyze the silver market while pretending that the billion oz held by the various silver ETFs is somehow non-existent is guilty of analytical malfeasance.

One point here about the difference in silver and gold. Even though the first gold ETF, GLD, was introduced a couple of years before the introduction of SLV, and while other gold ETFs have sprung up just like they have in silver, the amount of gold held in all the gold ETFs is around 100 million oz, orlittle more than 3% of the total 3 billion oz in total gold bullion world inventories (plus another 3 billionoz in non-bullion equivalent gold in the world). This, compared to the more than 50% of total silverbullion in the world being held in the combined silver ETFs. There is a big difference between 3% and50%. There is no question that the dollar value of the gold in the worldâ??s combined ETFs dwarfs thedollar value of the silver ETFs, due to goldâ??s high price relative to silver.

Explaining why, in actual metal holdings, the silver ETFs hold so much more (50% versus 3%) metal than the gold ETFs seems simple enough. Goldâ??s high price means that 100 oz (roughly 7 lbs.) is currently worth $190,000, an amount of physical metal easy to personally store or transport, while $190,000 in physical silver works out to 8200 oz or nearly 600 lbs. Obviously, it is much more difficult and, in most cases, impossible for the average person to personally store or transport more than a quarter ton of metal, leading to the inevitable conclusion that large dollar amounts of silver require professional storage. While not the only, or necessarily the best form of professional storage, the silver ETFs provide enough of the solution for professional storage that the combined holdings constitute 50% of the worldâ??s total bullion inventories (again, versus 3% in gold).

One of the most prophetic observations of all-time was the one made by my friend Carl Loeb who coined the term â??Death Starâ?• to describe SLV as destined to gobble up all the worldâ??s silver inventories in time, in the very early days of its introduction. Now, with even more silver ETFs to choose from, I believe we are close to the point where Loebâ??s observation is about to be tested in earnest. In case you havenâ??t noticed, we are living smack-dab in the middle of the biggest investment boom in history and when the investing public alights on silver, it will be mostly in ETF form.

While it is fine and proper to observe and report on short-term changes in COMEX silver warehouse holdings and silver ETF holdings, itâ??s also important to maintain a broader and longer-term perspective and the remarkable transfer of ownership of much of the worldâ??s total silver inventories over just the past 17 years is one such perspective.

Turning now to more current developments, yesterdayâ??s release of the new short report on stocks indicated that the short position on SLV grew by nearly 4.7 million shares to just under 28.8 million shares (24.3 million oz), as of August 31. This is the largest short position on SLV in months, having doubled over the past three months (although it is still lower by 50% from the peak of 60 million shares a year ago).

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

The short position on SLV represents 6% of total shares outstanding, meaning (according to me) that 6% of the shares outstanding do not have the metal backing required by the prospectus. As far as I know, Iâ??m the only one to have raised this particular issue publicly. Because the short position on SLV is still down substantially from the all-time high of a year ago, I donâ??t plan on petitioning the S.E.C. or BlackRock at this time. Further, Iâ??m convinced the reason for the large short position on SLV at this time is because not enough physical metal is available for deposit, with my main takeaway being that this is another strong confirmation of the deepening physical shortage and of my Code Red market emergency and adds another bullish element for the price of silver.

Looking at price action so far this week, I have the strong sense that the collusive commercials are trying their very best to trip off as much managed money selling (long liquidation and new short selling) in both gold and silver as possible. This is evident in the purposeful rigging of prices over the past 9 trading days (thru today), of which there have been 8 new lows in silver and 7 new lows in gold. This is precisely the trading formula in which the managed money traders sell most aggressively. Â There have been no conceivable legitimate economic or supply/demand developments to account for the deliberate price weakness apart from the commercial price-rigging on the COMEX.

The sole purpose of the collusive commercial price rigging is to induce maximum managed money long liquidation and new short selling, so that the commercials of all stripes can buy as many contracts as possible, including new longs and the buyback and covering of existing short positions. Â I know this is old stuff for subscribers, but that doesnâ??t detract in any way from this being the process which determines silver (and gold) prices.

While I am somewhat encouraged that the rate of decline in price has slowed somewhat and that it has now been six trading days in which silver has traded below its 200-day moving average, including the observation that the rigging of fresh new lows hasnâ??t set off a sharp cascading of further price lows, the truth of the matter is that itâ??s not wise to underestimate the treachery of the collusive COMEX commercials. At the end of the day, however, we will soon reach the end of the managed money selling, as there is a limit as to how much these dumboâ??s can and will sell. In fact, Iâ??m not sure the commercials even know the extent of potential managed money selling in advance when they engineer prices lower, since the amounts of managed money selling varies on the price moves lower over the years.

All we know for certain is that every orchestrated and commercially-rigged move lower in silver (and gold) ends at the point of maximum managed money selling and then a price rally soon unfolds. Since we are apparently close to or at the price bottom for this commercially-rigged price move lower, it is more productive to contemplate the coming price move higher (even if that sounds a bit premature).

Given the deepening physical shortage in silver, it still appears to me that the next price rally, which is already baked into the cake based upon the paper positioning changes over the past nine trading days (and perhaps with a few days more to go), takes on special significance depending on what the 4 and 8 largest commercial shorts do or donâ??t do on that coming rally. Iâ??m still of a mind they wonâ??t add to shorts aggressively and that that is still the formula for a price explosion.

A month or so back, before we rallied about $3 into the end of August and the managed money traders were holding what has been close to their lowest gross long position (around 32,000 contracts), I speculated that the final insult that the commercials could visit on the managed money traders was in not allowing these traders to get heavily long on an explosive move higher in silver. However, on the $3 rally into the end of August, the managed money technical fund longs were able to add close to 12,000 new longs â?? proving my speculation wrong.

As it turns out. we are most likely back to where we were before the $3 rally at the end of August, as I believe the gross managed money long position is back close to 32,000 contracts as a result of the commercial price rigging to the downside from the recent price top. The net effect is that this represents another opportunity for the biggest commercial shorts to not only stand aside from adding new short positions to cap and contain the certain rally which will soon develop, but also allows the added opportunity for one or two of these big shorts to actually buy back short contracts on higher prices. Should that occur, namely, no additional shorting and actual short-covering on higher prices by the biggest commercial shorts, then not only will silver prices explode, the managed money technical fund longs will most likely be prevented from getting heavily long at reasonable prices.

As far as what to expect in Fridayâ??s new Commitments of Traders (COT) report, Iâ??m expecting about 10,000 contracts of managed money selling in silver (both long liquidation and new short selling and hopefully more). Iâ??m guessing even larger numbers in gold, but it seems clear to me that this latest rig-job lower has had the primary objective of clearing the decks in silver.

(On a precautionary housekeeping note, with the threat of Hurricane Lee present, if thereâ??s any delay in the publication of Saturdayâ??s review, it might be due to power issues â?? in which case, Iâ??ll get the review out as soon as practical. Hey, I come to Maine to avoid hurricanes â?? someone please tell that to Lee. On the other hand, I distinctly remember Hurricane David bearing down on Miami in early September 1979, before it turned northward at the last minute and how silver which was around $17 at the time, hit $50 for the first time a few months later).

Ted Butler

September 13, 2023

Silver – $23.15Â Â Â Â Â (200-day ma – $23.54, 50-day ma – $23.89, 100-day ma – $24.02)

Gold – $1932Â Â Â Â Â Â Â Â (200-day ma – $1927, 50-day ma – $1953, 100-day ma – $1967)

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