Way back in prehistoric times, before electronic gaming, children used to entertain themselves with certain hand games. I was always more of an “odds or even” gamer in which the choice was to display one or two fingers and outguess your opponent. The more sophisticated version was “rock, paper, scissors” which given the slightly greater choice in hand signals was less straightforward, at least to me. In the game, paper covers rock, rock crushes scissors and scissors cuts paper. Given the simplicity of the hand games, needless to say, children weren’t as likely to become as addicted to playing as occurs with today’s “Fortnite” or “Grand Theft Auto”.

From the start of the COMEX silver manipulation in 1983, the story has been a game of paper covering rock – or paper futures positioning determining prices by overwhelming the forces of physical silver. While there have been some sporadic interruptions along the way in which the physical forces of silver briefly overtook the manipulative price influence of paper positioning, the past nearly four decades have seen paper cover rock.

The key to paper’s control over the physical forces in silver was the overwhelming influence of the largest commercial traders on the short side of COMEX futures contracts, which the CFTC designates as the 4 and 8 largest traders. Almost without exception, the concentrated short position of these largest traders in silver has always been the largest concentrated short position of any other commodity in terms of real world production.

It really hasn’t mattered what was going on in the real world of physical silver – all that mattered pricewise was what the 8 big shorts were up to. Their trick was the ability to sell short in unlimited quantities to the managed money traders who bought as prices climbed. When the managed money traders were done buying, the 8 big shorts then maneuvered prices lower and then bought back their added short positions at lower and profitable prices, as the managed money traders sold out at collective losses. The 8 big shorts gained a new leader when JPMorgan took over Bear Stearns in 2008 and JPM seamlessly stepped into the role of chief silver short manipulator, a role it held until recently.

But following decades of total control over the price of silver, there are now some strong signs that the paper control of physical silver may have run its course. For one thing, former big short JPMorgan has apparently abandoned the short side and further, has used its near-total control over prices to have accumulated massive amounts of physical silver and gold over the past decade – setting itself up for magnificent profits and an epic double cross of its former manipulative short compatriots.

In fact, the evidence of the JPM double cross are already apparent, in that the rise of silver and gold prices this year has resulted in more than $15 billion in losses to the 8 big shorts, while profits have accrued to JPMorgan to the tune of more than $20 billion. Please remember that the losses to the 8 big shorts are many times greater than the cumulative profits they made over the past few decades. But wait – there's much more.

Aside from JPMorgan's massive and methodical accumulation of physical silver and gold since 2011, what I have described until this point is a double cross and a potential changing of the guard in paper terms, since the 8 big shorts are still short and JPM isn't. But, as I have been reporting this year, some other quite unusual developments have occurred in silver, including massive flows of physical metal into SLV and other world silver ETFs, the likes of which have never been seen in such a short period of time. There have also been sharp increases of late in terms of the amount of silver deliveries that have occurred on the COMEX and some recent growth in COMEX silver warehouse inventories to record levels. All these things point to a rearrangement in the decades-old paper covers rock silver manipulation.

The standout feature in physical silver developments has been the continued and intensifying turnover or the movement of physical metal into and out from the COMEX silver warehouses. Since April 2011, when silver hit $50, there has been a literal explosion in the amount of physical silver being trucked into and out from the COMEX approved warehouses, with a typical container truck load amounting to 600,000 oz. For the past nine and a half years, the physical inflow and outflow from the (now 10) COMEX-approved silver warehouses has literally exploded from former levels, an occurrence that has not been seen in any other commodity – just silver.

I recognize that I have been virtually alone in harping on this issue and I am still quite puzzled that every silver analyst and commentator is not focusing on this issue. But I am not dissuaded in the least by being all alone in the end zone, as quite frankly, it is a circumstance I am well-familiar with, starting with my allegations of manipulation some 35 years ago. At least most folks don't view me as having two heads or three eyes, as they did back then. I'm even more puzzled that no response from the silver analytical and commentary community has been forthcoming since publishing my article about this nearly a month ago. No agreement, nor disagreement – go figure.

https://silverseek.com/article/silver-mystery-full-view

Over the past 9.5 years, more than 2.5 billion oz of silver have been physically moved into and out from the COMEX silver warehouses, more silver than exists in the world (in 1000 oz bar form). I know this because I have recorded each day's movement over this time and have reported it on these pages over the past 9.5 years. The annual average movement has gone from 250 million oz to 300 million oz in recent years.

Over the past 8 weeks and two days (thru yesterday), the total physical movement has accelerated to 100 million oz, or 12 million oz weekly (600 million+ oz annually), double more typical rates. Yes, total COMEX silver inventories have increased by 30 million oz over this same time, but that still understates the total turnover and appears to be more related to the nearly 48 million oz delivered so far on the September futures contract (with 4 million oz still open) and the 6.5 million oz delivered against the August contract.

As I have maintained from the beginning (in April 2011), I have neither predicted the extreme physical turnover would have commenced or would persist – I am strictly an observer and recorder of the unusual turnover. "Unusual" is, of course, not the right word – unprecedented and unique to silver are more appropriate words because the movement hasn't occurred in any other commodity – on the COMEX or off. And the only reason I uncovered the movement in the first place is because I have monitored daily COMEX warehouse inventories for decades, being the COMEX silver statistics junkie that I am. I never expected the extraordinary explosion in physical silver turnover and its persistence for nearly a decade, but now that it has occurred, I am shocked that it has gone on with virtually no notice or commentary.

There can be little question that the physical movement is actually occurring. There is a literal army of warehouse officials, trucking firms, lawyers, accountants, auditors, and brokerage and exchange officials, to say nothing of CFTC overseers to make it impossible that the movement is not occurring as published. Besides, why would anyone misrepresent the physical movement? There is nothing to be gained by falsely reporting the physical turnover in the COMEX silver warehouses. The question is why is it being ignored and, more importantly, why is it occurring?

Let's face it – an amount greater than all the silver in the world has been moved in and out of the COMEX warehouses over the past decade and that movement has recently accelerated – something that has not come close to occurring in any other commodity. What the heck is going on?

At first, since the outset of the extraordinary turnover coincided with the opening of the JPMorgan COMEX silver (and gold) warehouses, I quickly concluded that the bank was using the overheated turnover as a means of "skimming off" some of the movement, say 10% or so, as one of the ways it was using to accumulate its massive physical stockpile of one billion oz at its peak. I still feel that way, but the physical COMEX silver turnover has persisted for so long and has grown so large that JPMorgan's accumulation can't explain the total size and persistence of the physical movement.

And in keeping with silver's basic attraction as a prime investment asset, it can't be the investment demand angle that explains the turnover. Don't get me wrong – holding physical silver in a COMEX-approved warehouse acquired through futures deliveries is one of the very best ways of holding fully allocated and insured physical silver and is a method I've recommended for decades. As I recently commented, it was my dear friend and silver mentor's principle means of investing in silver (Izzy also had a fondness for Silver Eagles).

But everyone I've known that has invested in silver over the past 35 years via taking delivery on COMEX futures contracts (and there are quite a few) has never even considered moving the physical silver out from the COMEX warehouses. Doing so would break the chain of custody and require re-assaying and other expensive and unnecessary steps to get the metal back into delivery form when the decision was made to sell.

Besides, physical silver stored on the COMEX is one of the safest means of storing physical silver, provided you have the financial wherewithal to deal in chunks of 5000 oz or $135,000 at a clip (although there is a 1000 oz contract as well). To my knowledge, no one has ever lost a penny by storing silver in the COMEX warehouses. Yes, there are storage charges, just like there are with every form of legitimate storage. In fact, if you are not paying for storage, the odds are high your “storage” is a scam.

My main point is that investment demand wouldn’t seem to be the main impetus behind the unprecedented COMEX warehouse turnover. If it were, then total COMEX silver warehouse inventories would be in the billions of ounces and not 360 million oz, since there is no good reason for investors to move silver out from the COMEX. So, by process of elimination, if investment demand is not the main driver behind the unusual COMEX physical silver turnover, then the main driver has to be industrial user demand. It’s got to be one or the other and since silver is the only true dual demand commodity – prime investment asset and vital industrial commodity – the choice of what it is, is simple.

In fact, I’m kind of tired of asking what could be driving the unprecedented physical silver turnover on the COMEX since the answer would appear to be elementary. Seeing as that is the case, attention should be focused on why the world’s industrial users are removing the vast bulk of the massive amounts of silver coming into the COMEX warehouses over the past 9.5 years. It's not so much that so much silver is coming into the COMEX, in my opinion, it is that so much (more than 90%) has been almost immediately moved out. It is the out movement that is the key.

If I am correct in placing much greater importance on the out movement, then it seems to me that industrial user and other physical fabrication demand is white hot and has been so for quite some time (nearly a decade) and that demand is increasing. In fact, I would go so far to say that the COMEX silver inventory turnover is perhaps the greatest single indicator that total industrial demand for silver has never been greater and is growing. It is no exaggeration to conclude that industrial user demand is white hot. What are you going to believe – some arbitrary statistical report on silver consumption or your own eyes in considering the COMEX physical turnover?

Back to the paper versus rock game on the COMEX. Yes, the crooked paper commercial shorts may still be in partial control of prices, but their financial results over the past year in gold and past couple of months in silver has left them reeling, as has their predicament at being abandoned and double crossed by JPMorgan. But if there is one thing that can and will blow the big crooked COMEX shorts completely out of the water, it is a rush by silver users and investors into physical metal. That's when the rubber meets the road and the paper control of silver prices ends. We came close to physical silver shortage in early 2011 on the back of investors buying silver ETFs, but there were scant signs of user demand and JPMorgan and the other big paper commercial shorts won the day by smashing prices.

But this time seems quite different to me, in that the unprecedented and massive physical silver turnover on the COMEX was just beginning in 2011 and now it has not only persisted for nearly a decade, but shows signs of acceleration. And as just described, it's hard to explain the turnover in the absence of industrial user demand. While I freely admit that we have yet to see the confluence of investor and user physical demand in silver, the signs of both forces converging have never been stronger.

That's not to say the crooked COMEX commercial shorts don't have a few remaining dirty paper tricks in their criminal toolbox, but the tide seems to be going out for them. It's a wonder the paper over physical scam has lasted as long as it has.

Turning to other developments, a number of subscribers have asked my thoughts on the extremely low trading volume of late. Just to keep it in proper perspective, the trading volume in COMEX gold and silver, whether high or low is still mostly (99%) day trading, as is the case in just about everything today and not real positioning. That's the significance of the COT report, which reports on true overnight positioning on a weekly basis. So in some real sense the level of daily trading volume doesn't really matter that much; although at times of heavier trading volume price volatility does pick up.

But that is not to say that I don't prefer the recent low trading volume as it fits with my sense that the paper market structure is more washed out than ripe for a big price move to the downside. A subscriber asked me if I thought another waterfall decline like occurred into mid-March was likely. I can't rule out price stabs to the downside as the desperation of the big shorts seems palpable to me and provides ample incentive for such price rigs. At the same time, we're as far away from having a full load of apples on the trees capable of being shaken off as we were last February as seems possible. And JPMorgan was short up the ying yang last February and is flat now. Needless to say, if the physical silver rock exerts the force it is capable of exerting, all this discussion of possible paper developments goes out the window.

As far as what this Friday's COT report might indicate, it wasn't much of a price week. In fact, the price action was relatively subdued compared to prior weeks and volume was low, as discussed above. Prices were marginally higher in both gold and silver, but more of a concern to me was the 21,000+ contract increase in total gold open interest (silver total open interest only increased by a bit over 3000 contracts). Not necessarily a prediction, but I think there may have been managed money and other non-commercial buying and commercial selling in gold a bit larger than what would normally be expected by price action alone (unless there as a good amount of spread creation). I don't sense much at all transpired in silver.

As far as the financial fortunes (or lack thereof) of the 8 big shorts in COMEX gold and silver futures are concerned, I'm waiting for prices to stabilize a bit following today's Fed announcement. Sometimes the announcement sends prices higher and sometimes lower for reasons I have yet to comprehend, but as they say, it is what it is. Today, whatever the Fed said, was construed as mostly mixed (and skittish) as gold and silver prices were mixed at publication time. From last Friday's close, the 8 big shorts' total loss increased by roughly $500 million, pushing total losses to just roughly $15.7 billion.

Ted Butler

September 16, 2020

Silver – $27.25 (200 day ma – $18.86, 50 day ma – $24.95)

Gold – $1965 (200 day ma – $1708, 50 day ma – $1930)