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Bogus Trading, Speculation in the Silver Market

By Bill Holter
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I wrote an article titled "Kill Switch" a couple of weeks back where I hypothesized the Chinese are the ones behind the very high (and very curious) open interest in COMEX silver, I want to revisit this. I want to revisit this because of the action this past week and this past Thursday in particular.

Silver dropped almost 50 cents on Thursday and broke through the $19 level to the downside. Please remember that silver has a global "all in cost" of production somewhere near $25 per ounce so these prices will only augur for much less supply. "Supply" in this case is REAL supply of raw silver to be used for electronics, solar panels, jewelry, investment etc.. Common sense tells you if you must sell your product for a loss you will either sell less of it, not sell any of it, or sell all that you can for cash flow and go bankrupt …supply will dry up.

I mention "supply" in the above paragraph to give you some perspective of what was wrong with the action in silver on Thursday. As a reminder, the open interest in gold and silver could not be more opposite. Gold has very low open interest while silver now has virtually record open interest and at levels last seen 3 years ago while it was trading at nearly $50. Silver has now dropped in price by more than 60% yet the amount of contracts outstanding is as high or higher. As a refresher of the laws of supply and demand, price should rise when there is either more demand or less supply, price should drop whenever there is less demand or more supply. This is simple right? The answer is "yes, simple" but let me explain what has been and is happening.

The total open interest in silver ROSE on Thursday a whopping 6,268 contracts. This represents more than 31 million ounces of silver in one day! Does this "silver" even exist? I am going to say "no way, not even a chance", let me explain why in a minute. The total inventory of silver registered and available to deliver is roughly 60 million ounces. Do you see the problem here. The price of silver dropped over 2.5% because there were "more sellers than buyers" …but, the sellers were selling paper "contracts", not real, touchable and usable silver. Explaining a little further, if there was a panic to sell real silver the "longs" would sell to "close" their position and open interest would decline. This clearly did not happen as the open interest rose, the sellers "sold" to OPEN positions…31 million ounces worth of positions!

For a little more perspective, the total open interest in silver is now over 172,000 contracts, this represents over 860 million ounces. The December contract alone is nearly 140,000 contracts or 700,000,000 ounces… and remember, there are only 60 million ounces currently registered and available for delivery. First notice day is now only 75 days away and there are more than 10 paper ounces "sold" for every 1 real ounce supposedly available to deliver? "What if?" these contract owners actually do ask for delivery?

One more point on this from a different angle, in the past whenever there was a major price decline …physical silver became very hard to find. And especially at the so called "market price" as any and all silver changed hands at a premium above the so called market price. This is proof that the declines were caused by paper derivative contracts rather than real selling of metal.

Were it real silver that was being sold, it would have been plentiful. Silver became scarce on every single "dump" in price because the lower price brought out new physical demand which was not offset by any supply other than that of naked contracts. This is easy to understand, take a desirable food like beef for example. Let's say that "XYZ" broker (or central bank) decided they wanted the price of beef to drop and then sold cattle futures to suppress the price. They sold so many cattle futures that the price dropped so low it was the cheapest of all meats, cheaper than poultry, pork and fish. What would you expect to happen? You could probably expect not to find ANY beef as it would be scooped up and hoarded with each new shipment. This is supply and demand where the "price" acts as the deciding factor …the price went too low and consumers increased their demand without any increase (and probably a decrease by ranchers withholding supply while waiting for higher prices) in supply. …Thus a shortage.

Harvey Organ and I have a hypothesis that China through proxies are the owners of a large part of these silver contracts. This makes sense because the open interest has risen for close to a year now, who else would (could) "hang on" and lose billions of dollars on this trade? Who would (could) have the intestinal fortitude to lose this kind of money? Who has deep enough pockets to absorb the type of losses that have been incurred? There is only one answer, China. First, China is a "silver nation" and have been for over 2,000 years. We know the U.S. ran out of official silver over 10 years ago …which is about the same time China became a "most favored trade nation". Is this a coincidence? … or a quid pro quo? Did China lease their silver hoard to the U.S. just after the turn of the century? We believe they did, we also believe this "lease" has run out after 10 years but China did not receive their silver back. This is not provable one way or the other until there is a force majeure or some sort of default. This does however "connect" as to why China has been such a voracious buyer of gold over the last 5 years, gold has been held "officially" by Western central banks and thus available to be delivered (pilfered) whereas no large and deliverable silver hoards exist. The dollar amounts of gold that China has imported over this time completely dwarfs any and all silver hoards and production combined. Access to cheap gold is the reason we believe China has so far not "rocked the silver boat" as this would have (and will) blow up the gold side of the equation.

For more perspective, the 60 million ounce registered inventory has a dollar value of just over $1 billion. There are over 1,200 individuals in the world who are worth $1 billion or more. Think about what $1 billion is today and how often you now hear the term $10 billion, $100 billion or even more …my point is this, $1 billion ain't what it used to be!

Clearly this past Thursday showed us how blatant the manipulation really is. Over 30 million "extra" ounces of silver were "created" in just one day… and I would say "magically". This is an amount equal to what every silver producer on the planet combined mines in 15 days. Who could have "produced" 31 million ounces of silver? For your information, there are only 4 companies in the entire world who produce 30 million silver ounces or more per YEAR! I capitalized "YEAR" because it takes an entire year for these companies to produce this much silver, NOT one trading day. The apologists will say, "oh, this was just some company hedging their production". Really? Would any company (there are only 4) be so stupid as to hedge their entire year's production in one day and smash the price they will receive for their product by another 2.5%? It's OK, even if you are a paid troll you do know the answer to this one.

My point is this, there are no possible sources anywhere on the planet to have sold an "extra" 31 million ounces of silver on Thursday, they just simply do not exist. What also does not exist are "the" 31 million ounces that were purportedly sold. They were paper, pure, simple, logically, and not even much common sense needed to understand and grasp this. But, it is what it is right? Your "real silver" which you hold for savings and insurance is "worth" less today than it was, right? Is it really? "They" say it is, just look at the "price". Do you understand my exercise in writing this piece? I am showing "how" the price is "made". With enough (unlimited) cash and no rule of law or regulators doing their job, the "price" can and is being "made". Simple! But why?

I will leave the answer to "but why" for tomorrow's writing, "why" is just as simple and just as obvious as "how". Let me just say I cannot believe there is any sane or logical person on the planet who could look at Thursday's action and not conclude the trading is outright bogus, not to mention illegal.

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Bill Holter writes and is partnered with Jim Sinclair at the newly formed Holter/Sinclair collaboration. Prior, he wrote for Miles Franklin from 2012-15. Bill worked as a retail stockbroker for 23 years, including 12 as a branch manager at A.G. Edwards. He left Wall Street in late 2006 to avoid potential liabilities related to management of paper assets. In retirement he and his family moved to Costa Rica where he lived until 2011 when he moved back to the United States. Bill was a well-known contributor to the Gold Anti-Trust Action Committee (GATA) commentaries from 2007-present.