

What's Next For Silver?

Written by Jeff Nielson

Tuesday, 07 December 2010 10:04

Back in September (with silver at \$21/oz) I wrote a piece titled "[Does Silver's Smooth Ride Lead Past \\$30?](#)" My answer to that question at the time was "yes", with a prediction that silver would make a short-term "top" somewhere between \$30 - \$35/oz.

Thanks to a rude interruption when the banker-cabal launched one of their [trademark ambushes](#) of the silver market, that "smooth ride" was somewhat abbreviated early in November. Under different circumstances, I might wonder whether that man-made pause in the market was enough of a consolidation to prepare silver for yet another leg higher. Given current circumstances, however, there appears to be no doubts about silver's current status.

As I observed in that earlier commentary, this recent spike by silver duplicates a chart-pattern which had already had two previous cycles. After *both* of those sharp spikes, silver suffered wicked sell-offs, thus those following that previous analysis may now be worried that history is about to repeat.

There are two very good reasons why silver bulls should have no fears of the previous pattern continuing to play-out. To begin with, the last crash in silver – which began at the end of the summer of 2008 – was by no means a "natural" reaction of the market to the spike in the price of silver. Rather, as I have written often before, the "Crash of '08" was a Wall Street/U.S. government "joint effort".

Wall Street was desperate to hide the fact that it, and it alone was "going down" with the crash in the U.S. housing sector, and overall economy. Meanwhile, the U.S. government had its own motive for engineering a commodities crash: postponing hyperinflation. Had that massive manipulation/intervention not taken place, there would have been no "crash" in the price of silver – despite the sharp run-up.

How can I be certain of this? This brings me to my second reason for believing there will be no crash in silver following *this* spike: there isn't anymore silver. No, I'm not claiming that the entire crust of the Earth has been scraped clean of silver. It's the "above ground" silver (i.e. global stockpiles) which has been exhausted. There hasn't been this little available silver in the world for **thousands of years.**

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In that respect, it is irrelevant whether silver had just advanced by 10% or 1000%. If we are “out of silver”, the price is going much, much higher. Silver investors should not necessarily expect the same “smooth ride” we saw when silver rocketed from \$20 to \$30/oz (the first time). That part of the previous chart-pattern has been completed.

In fact, no one can say with certainty how silver will behave in the near future – with the exception of concluding that the price will *not* make any significant move lower. Indeed, we see signs of inventory “stress” all over – aggravated by the [endless inventory-fraud](#) perpetuated by those reporting this data.

Not only are bullion-dealers having difficulties keeping any stock available for buyers, but even the U.S. government itself is desperately looking for ways to weasel-out of making silver available for its own citizens. First there was the announcement by the Obama regime (and [reported by GATA](#)) that it was seeking to repeal the law which **requires** the U.S. mint to produce enough minted coins to “meet demand”.

With the general public in North America just beginning to catch-on to the value and *scarcity* of silver, demand can only go higher, and government mints around the world have struggled to keep pace with demand even prior to this latest spike in interest. Thus, the U.S. government just made a [second announcement](#) today: it is delaying the release of a brand-new series of commemorative silver coins dubbed the “America the Beautiful” series.

Given that the government had **instructed** official dealers to *gouge Americans* for these coins – by adding a \$9/coin “premium” to the price – the “official” reason for delaying the release is that “prices are too high”. Yes, delay the release today because prices are too high – and wait instead until silver is \$40/oz or \$50/oz. That makes sense.

From silver analysts to silver mining executives, anecdotal reports are rolling in that even “industrial” users of silver are having greater and difficulties in locating available stock for their

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businesses.

More alarmingly (from the perspective of massive silver-shorts like JP Morgan), following their latest attack on the silver market, buyers responded to the “sale” on silver by [holding out their hands](#) and asking for “delivery” of roughly $\frac{3}{4}$ of **total Comex inventories**. For the moment, we can expect that silver-buyers will allow themselves to be bought-off with paper “bribes”.

As GATA has reported in the past, such tactics have quietly been taking place with the London gold market for roughly a year. But this is no “solution” for JP Morgan and the rest of the silver-shorts. Obviously, the first thing that most of these Comex customers will do *after* accepting their paper bribes in lieu of real metal is to buy *even more silver* for delivery in the next month’s contract.

Markets rarely simply shoot higher in a straight line, no matter how out-of-balance that market had previously become. Thus silver investors (and especially those new to the sector) should not be recklessly buying silver, and by “recklessly” what I am referring to is the use of “margin”. While the recent hikes in margin-requirements by the CME Group (owner of the Comex) were clearly intended to be manipulative, as we come closer and closer to an absolute default in this market, we should expect margin requirements to *legitimately* be raised still higher in the future. Those greedy traders who get hurt by such moves have no one to blame but themselves.

What we know about the silver market today doesn’t give us the luxury of “mortgaging the farm” in order to place massive bets on silver. However, what current fundamentals do allow is for ordinary people to *invest* a significant portion of their wealth in this monetary “insurance” – and **know** that they have no fears over the longer term of this investment losing value.

Such “one-way” trades are very rare in markets, and those sitting on the fence have no time to dither. Prices could explode still further, inventories could completely collapse – or both – in the near future. While investors will not enjoy quite as much “up side” on their investment as those who started their buying with silver closer to \$10/oz, there can be no doubt that over the long-term that silver is heading to a three-digit price.

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Knowledgeable investors in this sector already know that the average, long-term price ratio between gold and silver (over [roughly 5,000 years](#)) has been approximately 15:1 – and that was when silver was truly abundant in the world. With silver stockpiles exhausted, it would be silly not to expect silver to *breach that ratio* on the up-side.

Given that the price of gold is at \$1400/oz, that implies silver hitting \$100/oz even if the price of gold was to freeze at the current price. No one who understands this sector expects that to happen. Adjusted for *real* inflation, gold would have to rise to over \$7,000/oz just to equal its previous high in 1980 – as calculated by John Williams of Shadowstats.com. This means that it is certainly not beyond the realm of possibility that silver could reach a **four-digit number** over time.

Ordinary people need to protect themselves from the [monetary depravity of bankers](#) , as they relentlessly drive the value of the paper currencies they foisted upon us to zero. This mandates that every person must protect their wealth with precious metals, or “go down” with the bankers (and our economies). However, thanks to those very same bankers, people can purchase their monetary insurance today and expect to make nice profits.

Merry Christmas!