

silberinfo Interview with Ted Butler

Ted Butler, independent US Silver Analyst gave silberinfo the following exclusive interview:

silberinfo:

Ted, since our last interview of April 2007, the price of silver rose around 30%. What do you consider to be the main reasons for this development?

Ted Butler:

There are so many reasons, it's hard to pick just one. Among them would be the general institutional investment flow into commodities and natural resources by the index funds and the silver ETFs specifically, the continued demand for raw material from China and developing countries, trading on the COMEX, and continued investor demand in physical silver.

silberinfo:

Lately one can hear a lot that the silver market is not in a supply deficit anymore. This is also coming from some analysts that used to be very bullish on silver earlier. What do you think about that, are they right or is this just another attempt to manipulate the price of silver?

Ted Butler:

I look at it differently. I think the old familiar structural deficit we became used to over the past 60 years is temporarily over, but I don't think that's necessarily bearish or an attempt to spread false information. After all, commodity deficits can't last forever. But I think we are experiencing a new type of deficit caused by investment demand, only you shouldn't call it a deficit in normal commodity terms. But whatever you call it, investment demand can have a profoundly bullish impact on price.

silberinfo:

What is your opinion regarding the Silver Book of Virtual Metals/Fortis Group? We are particularly interested in your opinion on the investment demand and the demand for coinage.

Ted Butler:

I don't like to publicly criticise research by others, because we all gain by listening to what others say. But I think the findings in this report were very wide of the mark in terms of silver recovery by recycling, which I believe they vastly overstated. The other point I would make, not just about this particular report, but in general, is that any silver research that doesn't focus in on the concentrated net short position in COMEX silver futures is missing what is the most critical factor for the silver price. I am dumbstruck by how many smart people miss this factor.

As far as investment demand, that's the wild card. There is nothing more potentially explosive to the price than a rush of investment demand. This is especially true in silver, given the very small amount of available metal.

silberinfo:

Why do you think there is so little written about the COMEX concentrated short position by others?

Ted Butler:

I'm not completely sure. It may be because it is hard for people to interpret or even figure out the data, or it may be because, no matter how clear the evidence, people just can't conceive or accept that there is a major manipulation taking place in full view of all market observers and regulators.

silberinfo:

You are convinced that this is the central issue in silver?

Ted Butler:

Beyond a doubt. I've felt that way for almost 25 years, and I am more convinced by the day.

silberinfo:

silberinfo was advocating transparency and lists with the numbers of the silver bars for the silver ETF of Zurich Cantonal Bank ZKB, and now also Barclays started publishing lists, also because of you stood up for it untiringly. Do you believe that all of the 160 million ounces silver are really stored at Barclays'?

Ted Butler:

Yes I do. You have to give Barclays credit for listening to their silver investors. But you give me perhaps too much credit. It was actually pretty easy. I wrote one article, investors wrote to Barclays because of it, and Barclays agreed to do the right thing and list the bars. That's the way it should be in a rational world. Too bad I can't get that kind of logical and speedy reaction from the COMEX or the CFTC on the concentrated short position.

silberinfo:

Lately in a few new countries Gold ETFs have been set up. We think that e.g. Dubai, China or India could set up ETFs on silver soon. What is your opinion on that, what are the possible effects and where could the physical silver come from?

Ted Butler:

Any ETF that buys real silver is bullish for the price. And that silver must come from the same sources that other investors and industrial users now get their silver. It's just more demand that must be met.

silberinfo:

The USA could be on the brink of going through a recession, if they are not already in a recession. How will this affect the price of silver?

Ted Butler:

Perhaps less than one might think at first.

silberinfo:

Don't you think that the economic slowdown could lead to a severe drop in industrial silver consumption? What could offset this?

Ted Butler:

It depends on how severe. But one thing that could offset the effects of a slowdown is that it might stimulate increased investment demand as folks get worried. That's happened in past recessions over the past few decades. Silver has a long history of doing well, price-wise, during economic recessions. When bad economic conditions scare investors, many turn to gold and silver, as assets that are no one else's liability. With metal, there is no bankruptcy or defaulting counter party risk. Provided, of course, that you own the metal in the proper form. And because there is so little silver to invest in, compared to gold, the impact on price can be very dramatic.

silberinfo:

What about the supply side – not only VM/Fortis Group, but also GFMS expect a big increase of silver production in the coming years, because new copper mines and big gold/silver mines will go into production. What do you think of that, could this affect the price of silver?

Ted Butler:

I don't deny the possibility of more mine production. I think increased silver supply is largely built into the price already. And we have to be consistent here - if we are going to worry about a severe economic slowdown, there will be decreased demand for all industrial commodities, which will eventually impact all base metal production and, in turn, byproduct silver output.

silberinfo:

Last year you told us, that the reason we are not facing a severe shortage of silver even though most of the official silver stocks are depleted, is the silver that is being transferred from the unknown category to the known category. Is that still the main reason why e.g. the COMEX silver stocks are not yet empty, or are there other silver sources (like an increase of silver production) responsible too?

Ted Butler:

That's still true. Increases in COMEX inventory or the ETFs are not as a result of sudden big surpluses, but rather from increased demand and reflect the transfers from the unknown to known category. The important point here is that while no one knows the exact amount remaining in the unknown category, we do know that it is a finite amount and that these transfers are draining whatever unknown inventory remains. I know it is counter-intuitive, but increases in COMEX or ETF inventories are actually not bearish at this point.

silberinfo:

The volatility in the silver market is getting bigger and bigger. What is your recommendation for investors that haven't been in the silver market for a long time?

Ted Butler:

You haven't seen anything yet, in my opinion. Volatility will only increase. New investors should avoid margin or any borrowing to buy silver. Either buy on dips or dollar cost average. Most importantly, make sure you buy real silver, or get the serial numbers for any 1000 bars stored.

silberinfo:

What do you think of the silver stocks right now? The share prices of a lot of producers as well as explorers didn't reflect on the higher prices of silver. What do you think is the reason? Are they anticipating a correction of the precious metals markets?

Ted Butler:

That's a tough question, and one that I intentionally tend to dance around, as you know from past discussions. Some should do very well, some won't, due to a wide variety of reasons. Since I don't want to see anyone get hurt financially and because I value my reputation, I stick to publicly recommending the safe, sure thing - real silver

silberinfo:

What do you think about the situation in latin america, where more and more countries are attempting to gain a better control on the mining sector?



Ted Butler:

No surprises to date and that should continue. For many of these countries, it is their main true wealth. To think they will allow it to be exploited by foreigners without increasing compensation is naive.

silberinfo:

Recently China categorized a lot of different metals as "strategically important". Silver hasn't been a part of these up to now. Do you think this could change soon?

Ted Butler:

Silver doesn't need an official label to make it strategically important. It's already a vital commodity, no matter what anyone calls it.

silberinfo:

Lately not only the prices of Gold & Silver went up, also the price of Platinum literally skyrocketed. What is your opinion on Platinum and Palladium?

Ted Butler:

I don't follow them as closely as I follow silver. Obviously, the power problems in South Africa have had a big impact. But the PGMs increasing sharply in price has a beneficial effect on silver, in that it makes silver more valuable on a relative basis. If you told me a few years ago that silver would climb as much as it has, and still be cheap compared to almost everything else, I wouldn't have believed you. Just like I wouldn't have believed that the concentrated short position would be at record levels after such a price rise.

silberinfo:

Even though you probably would like to avoid this question, your prediction for the price of silver at the end of 2008 would interest us.

Ted Butler:

If I knew, or thought I knew, I would tell you. But I don't. I do know this - silver is still grossly undervalued, because of its supply/demand fundamentals, its relationship to other commodities and in light of the record concentrated short position. Someday, and I don't know which day, those things may no longer be true and silver may no longer be undervalued. But that day is not today. Aside from potential short term sell-offs engineered by the big shorts on the COMEX, silver still looks like the best long term investment.

silberinfo:

Ted, we thank you for your kind answers!

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