

## **Silver Deficit Timebomb**

By Charles Savoie (copyright May 2002)

Regular visitors to Silver Investor and similar precious metals websites are well aware of the ongoing large deficit in silver supplies to the marketplace, which has persisted for over a decade, yet the silver price stays persistently low. This stubborn low price has been rendered possible due to so-called leased silver servicing the deficit, and by government regulators and exchange officials allowing alarmingly large naked short selling to keep the price beaten down. This is not a free market in silver. Somewhere between 1,500 million to 1,800 million silver ounces have been consumed by industry from above ground stockpiles under these rigged market conditions, without a corresponding increase in mining production to balance supply and demand (because of suppressed prices) to keep supplies from eventually running to essentially zero. As leased silver has been consumed, it has not been returned to central banks or any other lease sources. Since 1990, about 6,250 million silver ounces (six and one quarter billion) have come from mining, primarily as byproduct ounces from other metals. Therefore, when the crisis forces sharp price increases by way of chronic industrial shortages, there is a great deal less silver available below ground to compete with that held by well-positioned silver miners! This concise summary is the only introduction needed here; newcomers to honest silver information sources are referred to the archives of Silver Investor and butlerresearch.com for an education concerning the outrageous silver leasing and short selling scandal, which will become general public knowledge as soon as the market emergency commences. That time is nearing fast; it will be a disaster for some and a potent wealth maker for others.

### **THE LIT & BURNING FUSE!**

Sources project a deficit of 120 million ounces for 2002, ten million ounces per month. Will it be possible to finish 2002 before all leasable silver is gone? Time will tell us soon. I propose to examine some variables here. Obviously, there are multiple factors, any one of which will produce an unserved deficit---the most basic of these is the passage of time. Finite resources combined with expanding demand are an irresistible formula for sharply rising prices. What if, in anticipation of the nearing silver buying panic on the part of industry, a powerful source pre-empts the rest of the marketplace, and strikes a decisive blow to their advantage, which shortens the time remaining before the crisis begins? I am suggesting the possibility that the red dragon, China, may seize imported silver concentrates mined in places like Australia, to the extent of 30 million ounces or more! (Billionaire Richard Rainwater, who studied Warren Buffet on the way to success, noted over 7 years ago that the entry of China into world markets would see the arrival of a superboom in commodities, including metals---Fort Worth Star Telegram, March 3, 1995.) While the Chinese cannot execute such a theft without repercussions, they may measure the gain by what they might lose and decide to take the loss in favor of the strategic metal. Some observers are inclined to conclude China is set to attack Taiwan in the near future, to recapture the so-called renegade province. That would create a bigger uproar than the seizure of tens of millions of ounces of silver destined for western use. How many Taiwanese may die in such an event? China may be waiting for war to start between Israel and its neighbors, or for a combined Iran-Iraq drive into Arabian oilfields (or a possible Arab oil embargo over American mideast policy) to attack Taiwan, during which event they would seize silver awaiting refining, or silver due for export. Even ships docked in port with arriving concentrates may be emptied of silver. You can be certain their timing would be as precise as the fictional Mission Impossible team. The panic arising from such an event would suffice to begin a chain reaction in silver resulting in a nightmare of drastically higher prices for users; and, more hellishly still, many users not being able to get significant amounts at all! When the market emergency strikes, watch for a hastily erected national chain of silver buying offices in all cities

with over 100,000 population, open 24 hours including Sundays, with staff behind bulletproof transparent windows and armed guards. Newspapers will feature their prominent full-page ads begging to buy silver at constantly escalating rates! As far as frenzied requests to buy silver made by panicking industrial users goes, considering how many years their lobbying effort to beat silver prices down has lasted, I am tempted to say something very taunting to them when the time arrives. (An example would suffice---Charlton Heston as the cruel scout in Arrowhead, 1953---Whats the matter Wacamaza? Ashamed of your name because I killed your brother?)

### **BOOM! THE SHORTS ARE BLOWN AWAY!**

Against such a backdrop, other powerful influences would at once come into play. The federal government would declare a national emergency and the President would consider an executive order seizing all silver in Comex warehouses. Warehouse receipts would be redeemable through the Treasury Department or at Federal Reserve branch banks in cash at some capped price, but most likely much higher than the shriveled average of under \$5 seen for months. Moving to transfer the Comex silver into a new strategic stockpile for defense purposes, the feds would find that much of the silver had been hastily moved to unreported locations; this worsens the crisis. By this point any remaining leasable silver in central banks would be promptly dumped on the market, yet the last remaining quantity of such silver will be inadequate to stop the crisis. This eventuality assumes the shorts will have enough influence remaining to cause the CBs to finish the dumping. It is also possible the CBs will attempt to call in all silver leases at once; this would make for the worst crisis! It seems probable that before the silver crisis begins, various members of the bullion banking fraternity will have exited the United States to overseas jurisdictions without extradition treaties. Here is what may happen with the silver deficit figures when the emergency starts---

1. If it commences in late August 2002, the rest of the deficit for the year, averaging 10 million ounces per month = 40 million ounce shortfall (UNSERVICED due to end of lease supplies).
2. The federal government decides to hastily rebuild a strategic stockpile of silver for defense industry, at least 75 million ounces.
3. China has some 30 million ounces of refined silver awaiting export, but this is seized as they declare their own emergency.
4. As the Mexican Senate sees these events, it decides to embargo 50% of what they might normally produce from September through December 2002, 12 million ounces or more, for use in domestic coinage and discussions begin for their own strategic stockpile.
5. As investors worldwide watch the silver chart zoom, they adopt a pay any price outlook towards silver. This stops silver elsewhere from entering the United States.

At this stage we have an unserviced silver deficit of 158 million ounces taking place in a 4 month time frame; or equal to an unserviced deficit of 474 million ounces over one year; or 1.3 million ounces per day. Let the bidding war begin, as the silver deficit time bomb EXPLODES! There are other variables to consider in the above 5 items! Mexico moved to add silver to its reserves as the first silver crisis took off (Fortune magazine, High Stakes In The Silver Game, December 17, 1979, page 57.) There is a 50-50 chance Mexico will do the same thing this time, adding another 12 million ounces to the deficit. The New York Times, October 19, 1979, page 8, reported that Manuel Moreyra, then head of the Central Bank of Peru, added 15 million ounces of silver to its reserves in just one transaction. Since the approaching emergency is much worse than that of 1979-1980, there is a good chance a full embargo of

Mexican and Peruvian silver will suddenly take place, lasting for at least long enough to greatly increase silver production at mothballed mines and exploratory properties. So if Mexico and Peru embargo silver in tandem, we have a silver deficit of over 190 million ounces taking place in a 4-month period---1.58 million ounces per day, about 570 million ounces adjusted annually! The same article in Fortune reported that as silver prices took off, India embargoed silver exports; AN EMERGENCY IS APPROACHING IN THE SILVER MARKET WHICH ONLY DRASTICALLY HIGHER PRICES CAN ALLEVIATE---BUT ONLY PARTIALLY! Remember the Butler editorial, A Permanent Shortage of Silver---the emergency approaches! To the above picture you can factor in added demand for new uses of silver (see Business Week, February 25, 2002, article on superconductivity entitled, Moving More Juice through the Wires.) The line of demarcation between flat, suppressed silver prices and a RUNAWAY BREAKOUT will be the events of ONE DAY, or less than a day. A gradual price increase is impossible in an abrupt transition to crisis and shortage conditions. So, if you wait for a gradual price rise to confirm a trend, you aint gonna make it, podnuh!

### **SPEEDING UP THE SILVER TIME BOMB!**

In addition to making a thousand or more very rich individuals aware of the silver shortage and prompting some of them to invest (a previous suggestion), if Japanese savers who have been and still are moving into gold (and some platinum) move into silver also, the time bomb explodes almost immediately, perhaps in under one month! Haruko Fukuda of the World Gold Council has estimated that Japanese gold purchases could reach 16 times that of 2001; about 200 tons! The same money going into silver would buy about 13,300 tons at the present ratio. I believe just 10% of that would force open the Pandoras box lid, and unleash the fury of the silver crisis! Japanese remain concerned about their banking system with some 1,500 billion (\$1.5 trillion) in questionable loans. Japan may need to dump equity and government securities here, forcing us into the crisis with them. Concerning the need for a replenished United States strategic stockpile of silver for defense purposes, the letters of Theodore Butler are known to silver investors. What is also clear is that these officials, whether they are CFTC regulators, military officials, or NYMEX & COMEX officials, have thus far done nothing but pass the buck, give him a run around with devious replies, or ignore him. I suggest another individual be contacted for action concerning a renewed silver stockpile for defense purposes. A Senator or a Representative in the District of Columbia? NO! They respond to mass pressure only, not to an attempt by one person to reason with their conscience, if they have one. Many seem to have as their overriding concern, a desire to be reelected. The national commander of the Veterans of Foreign Wars, James N. Goldsmith, leads a fine organization of military personnel, retired and active, comprising some 2,700,000 members, including the ladies auxiliary. The VFW has a budget of some \$70 million per annum, and actively lobbies Congress on behalf of concerns of military personnel. I suggest they can have no greater concern than the safety of the American military man and woman, especially when they are in hostile regions overseas. They should always have the utmost possible best of defensive and offensive instrumentalities. Since the days of spears and swords are long ago, what they need is the latest high technology gear. For this equipment, SILVER is necessary; indeed, without silver, their safety is at increased risk. I believe the VFW cares more about the lives and health of our service people, than about bullion bankers, short sellers and a users association; let the VFW membership complain loudly to Congress! Also, what will happen if a few hundred thousand Japanese savers and investors start moving into physical silver (and demanding delivery)! What will happen on Capitol Hill if Congress is deluged by faxes, e-mails, letters, phone calls and personal visits from over two and a half million concerned members of the VFW? The silver deficit time bomb will detonate ahead of schedule, fears will be realized and dreams will unfold. As silver prices jolt violently upwards, an unknown coalition of insiders will make massive profits, having shorted securities of silver consuming industries. Over 100 million

investors all around the world will make a panicked flight into silver and silver equities, and as silver takes on shocking value, the movement to return to silver as circulating medium of exchange will gain great strength as the claims of its backers are proved true in the marketplace. There will be no more trashing of silver and other precious metals by the mass media! The poet writes---

*Irresistible forces cause silver to explode;  
Silver investors, this is your mother lode!*

*30 million silver ounces seized by China;  
In the bullion banks, fear and angina!*

*A crescendo of panic in silver ignites;  
Now witness the naked shorts last rites!*

*The Frankenstein of leasing becomes a thing of the past;  
As silver blows up like a nuclear blast, unsurpassed!*

*Hearts are broken on the Commodity Exchange (full of mangle!)  
Getting deranged, watching silver prices rise like a mountain range!*

*India, Mexico & Peru embargo silver as its mushroom cloud expands;  
A worldwide crisis caused by shorts with dirty hands!*

*At long last action is taken by the feds;  
Ignoring the crisis for years, negligent deadheads!*

*Headless chickens running around on Capitol Hill,  
Scurrying to pass a silver emergency bill!*

*For a new silver stockpile, taxpayers are hit by Uncle Sam;  
Little people suffer for the leasing & short selling scam!*

*What is finally profitable? (Wildly so!) Silver mining!  
Listen to the industrial users lousy whining!*