COURSE OF THE EXCHANGE

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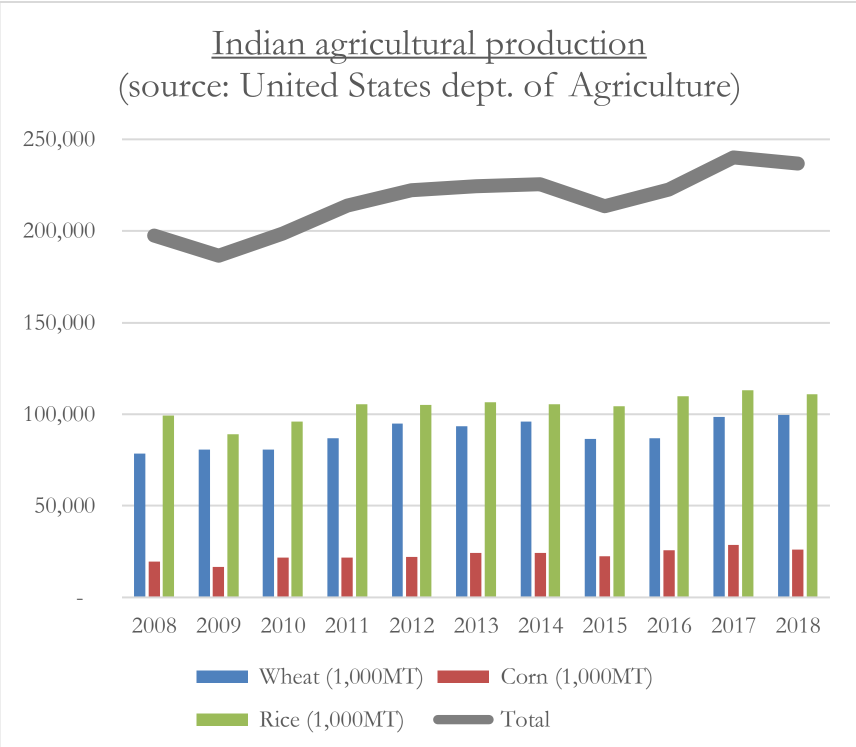
Developments in metals: backwardation across the board

'*The Indian basmati rice industry is on the verge of clocking its highest ever exports…* †' is the kind of headline that most people wouldn't associate with the silver market… but as little as 100 years ago, quantities of rice were traded against quantities of silver masked through 'rupees.' Harvest in any particular produce that was greater than expected would result in demand for silver that was greater than expected from producers of that produce (and vice-versa.)

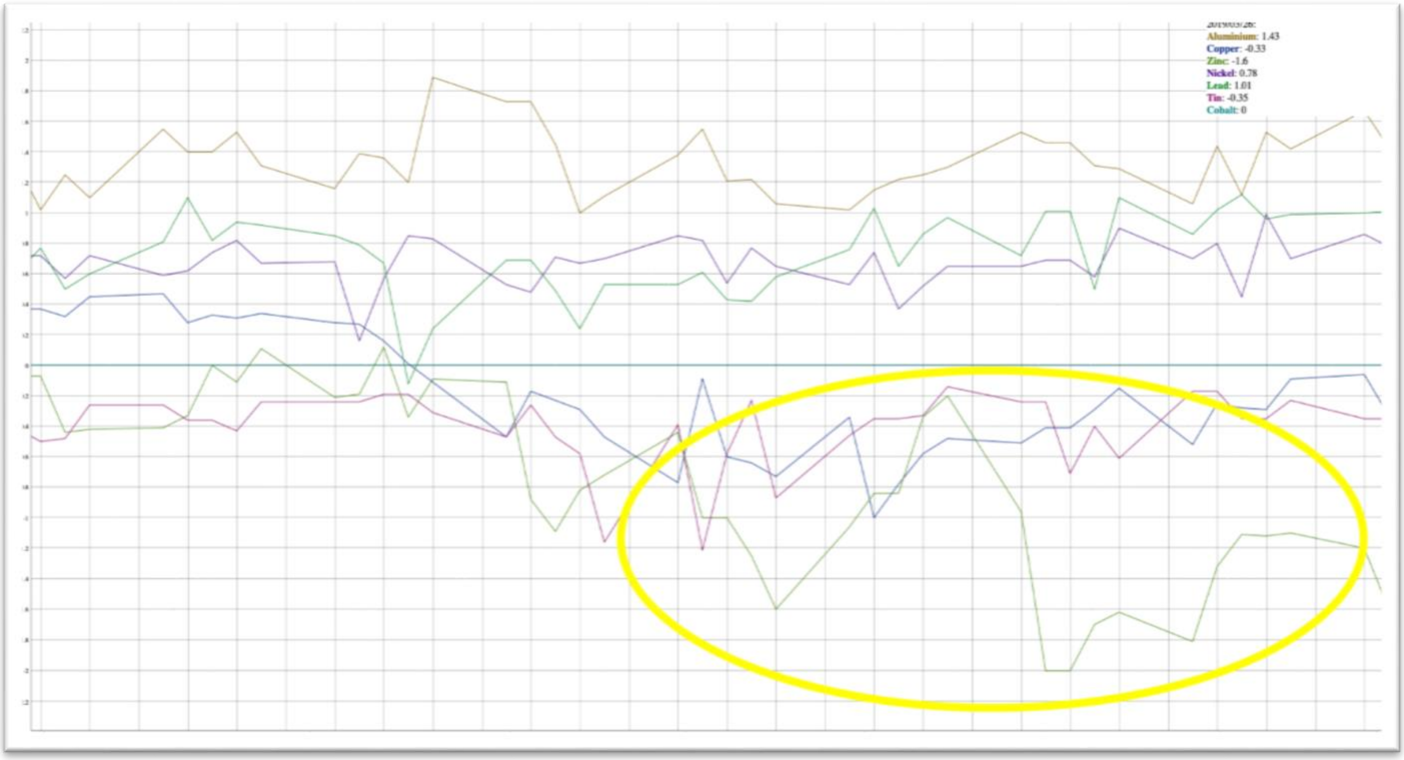


Since 2008, India has grown production in wheat, corn and rice to record levels. Those surpluses are increasingly finding their way into silver over gold, perhaps due to gold's relative overvaluation to silver. 'Property' of various descriptions bought 'to rent out' do not form the savings of the vast majority of Indians. With *marginally* better harvests in various agricultural commodities, there's *marginally* more demand for silver.

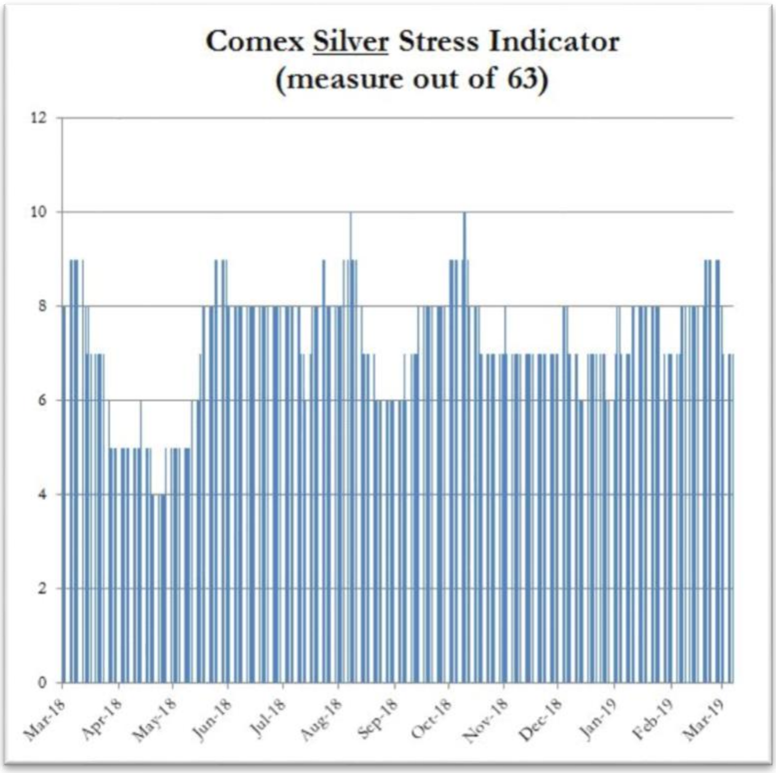
This preference for silver over gold will have profound consequences for silver markets. Fiat exchange between 'nation states' is framed to secure gold settlement from default, not silver - 'silver is money' is a sentiment forgotten by everyone. However, this forgotten sentiment doesn't mean that silver will be consigned to the dustbin and this is being evidenced by silver's growing backwardation - something not witnessed since 2008.

Over the past four weeks, May silver's cobasis; that measure of fiat earned by switching from 'spot' to 'forward' ownership of silver, has advanced from –13c/oz to +2c/oz. This means that extreme tightness is developing in the silver market. Silver backwardation is back.

'Default' can be said to have occurred if a three-day delivery gets shifted to the end of the week; an end-of-week delivery to end-of-month and so on. The best example we have of this is default of nickel in 2006. When nickel inventories were dwindling well below stock required to clear forward purchases where underlying nickel was demanded, a 'backwardation limit' of $300/tonne was introduced with prices having shot up beforehand ‡. Switch forward to 2019 and joining silver in backwardation are 'industrial' metals copper, zinc and tin.



The chart above shows the three-month bases for aluminium, copper, zinc, nickel, lead, tin and cobalt. As can be seen within the yellow circle, copper, tin and zinc have been in sustained backwardations along with silver. 'Industrial' metals have joined silver by moving into sustained backwardation. Such an event has no precedent.



The 'Comex silver stress indicator,' a measure based on the flux of silver inventories leaving and entering the Comex system of repositories, has begun to rise higher indicating that the expectation of those who wish to exchange silver futures for underlying silver is moving ahead of silver available to accommodate that. Sharply higher silver prices, as well as 'industrial' metal prices lie ahead means 'fiat as saving is imploding.'

† https://www.world-grain.com/articles/11776-india-forecast-to-harvest-record-rice-crop

‡ https://www.ft.com/content/6cb1ac70-2e19-11db-93ad-0000779e2340

28th March 2019.

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