

IS A COMEX SILVER DEFAULT IMMINENT?

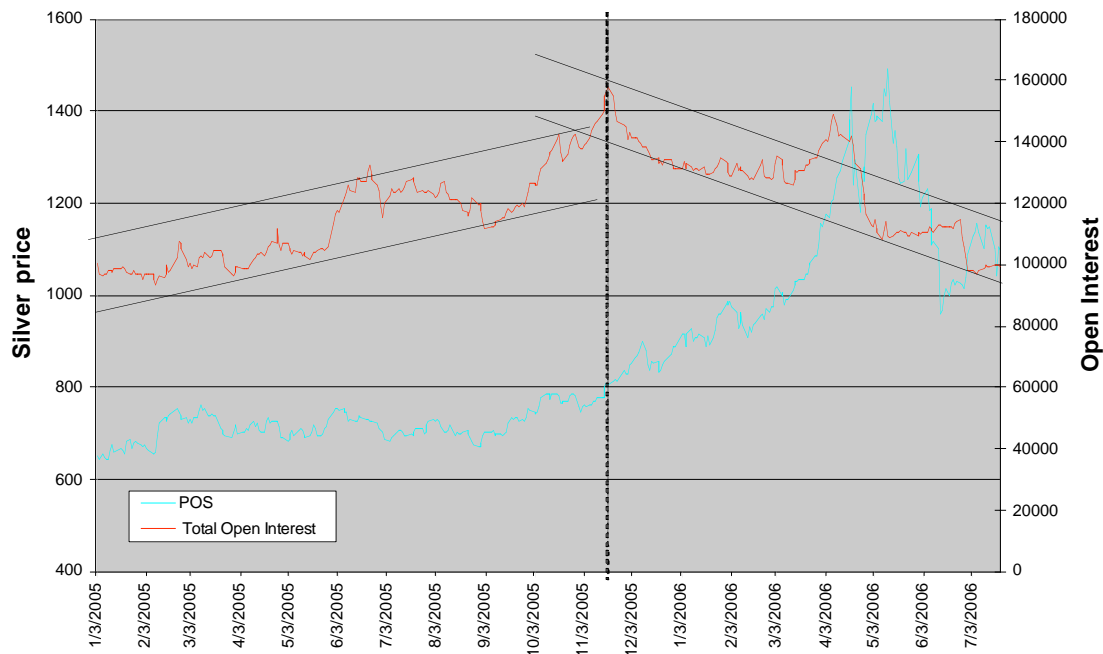
By Adrian Douglas

I have been scratching my head in total bewilderment at the developing trend in the COMEX silver Open interest and silver price.

Look at the graph of silver price (blue line) and the open interest (red line) over the last 18 months. In the last twenty years silver has languished below \$8/oz. In fact, most of the time it has been below \$6/oz. In late 2005 silver suddenly climbed to a high of around \$15/oz. This was a truly remarkable event as this had not happened in over two decades. One would think this would attract lots of new investment. Absolutely not so! Look at the Open Interest. During silver's meteoric rise the open interest in silver did nothing but decline!

I have struggled to explain this. Why would investors become less interested in an investment just when it makes a multi-decade high? My best interpretation of this is that this may well be indicative of a looming default of the COMEX. We have seen the warehouse stocks of silver decline from 130 million ozs to around 102 million ozs.

Silver Price vs Open Interest



Such draw down of stocks is inconsistent with a declining open interest. Is it that some investors do not wish to hold futures contracts for silver when there is a good chance that the silver will not be delivered? Is a delivery default imminent?

I must confess I do not know, but what I do know is that the Open Interest trend in silver is extremely anomalous. When some thing doesn't make sense it is not that it is nonsensical. It means that we are lacking some information that would result in everything making sense. In my opinion there are not too many options for that piece of missing information. The number one contender in my opinion is an imminent default.

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