April 13, 2024 – Weekly Review

On a weekly closing basis, the price performance in gold and silver looked fine, as gold closed up by $15 (0.6%) and yet another all-time weekly price high, while silver ended 50 cents (1.8%) higher to close at three-year highs.Â As a result, the silver/gold price ratio tightened in by three full points to 84.3 to 1, the best relative showing silver has had in 2024.

Before getting into some new observations about what may have driven gold and silver prices higher over the past six reporting weeks and the new COT report, first a few words on yesterdayâ??s unusual trading.

While this weekâ??s price results will remain established, itâ??s hard to overlook the tremendous price volatility that occurred yesterday, when both gold and silver established sharp new price highs, only to fall precipitously by the close of trading, with gold down by about $100 and with silver down by $2 from their earlier highs. What the heck happened? Letâ??s look at the facts as we know them to be, and then construct the most reasonable explanation possible (hint â?? thatâ??s what analysis is all about, as well as proper regulation).

The first and most important fact is that at the time of the sharp selloff, the only market open was the COMEX, with markets in London, China and everywhere else closed. Therefore, it is beyond question that the selloff was a COMEX-arranged orchestration. Further, since the only beneficiaries of a price selloff are those short futures and other derivatives contracts, it can be concluded these shorts were behind the selloff. After all, no one would suggest the longs arranged the selloff to punish themselves. (That I have to recite these basic and irrefutable facts and not the regulators at the CFTC and the CME Group is rather shameful on them, but whatâ??s new?).

Further, itâ??s no secret that the shorts in COMEX gold and silver futures contracts have been taking it on the chin, in terms of deepening unrealized losses on the run up in prices since Feb 27, as gold prices rose by $320 since then, while silver closed yesterday $5.50 higher since Feb 27. That translates into a total open loss to the shorts in COMEX gold and silver of $17.5 billion ($13.5 billion in gold and $4 billion in silver). Had gold and silver prices closed at yesterdayâ??s price highs, the total open losses would have been $5.5 billion higher or a total loss of $23 billion. So, not only can I show that yesterdayâ??s sharp selloff from the price highs earlier in the day was orchestrated by the shorts, I can quantify the dollar amount of the loss and what the collusive COMEX commercial shorts saved all the shorts as a result of orchestrating the selloff. Â How much more specific can one get? Actually, I can get even more specific in describing the methodology of how the big collusive COMEX shorts managed to pull off the sharp selloff.

As is usually the case over the years and decades, the manner by which the COMEX commercial shorts orchestrate sharp selloffs is akin to martial arts fighting, like Jiu-jitsu or Karate, where the force of the opponent (the longs in this case) is used against the longs to the benefit of the shorts. In other words, at critical points in the market, as was clearly the case at yesterdayâ??s high price point, the shorts allow the longs (mostly new longs driven by the new price highs) to establish new long positions at high prices, only to quickly lower the price boom, causing those new longs to suffer large losses and then run for the exits. I can almost understand those suggesting that allâ??s fair in market dealings â?? except for the obvious collusion on the part of many COMEX commercial shorts, as pulling off what I just described is not possible without a good number of COMEX commercials banding together to pull off the obvious collusion.

Finally, I canâ??t help but think that at yesterdayâ??s price highs, it was looking like the article I wrote on Wednesday about the odds improving that the shorts were close to the breaking point in terms that a price melt up might be coming to fruition. The deliberate price smash yesterday may have temporarily postponed that melt up, but thereâ??s no way of telling now. It does appear to me that those new longs who established positions close to yesterdayâ??s price highs look to be flushed out by the close yesterday and itâ??s impossible to know if there is more to go or if weâ??re mostly done with the selloff. I do know, at least in silver, that prices never got high enough to come close to altering the physical shortage and that lower prices certainly wonâ??t do anything but intensify the shortage.

The turnover or physical movement of metal either brought into or removed from the COMEX-approved silver warehouses amounted to 4.8 million oz this week (thanks to a big turnover day yesterday), close to the weekly-average over the past 13 years (250 million oz annually), as total inventories rose yet again by 2.3 million oz, to 291.8 million oz. There was finally an increase in the JPMorgan COMEX silver warehouse of 0.6 million oz to 130.4 million oz (with no allowance for the 103 million oz of double-counting).

Total COMEX silver inventories are now the largest since January a year ago, which Iâ??m sure confuses those who have called for ever-declining inventories amid calls of â??drain the COMEXâ?•. True, COMEX warehouse inventories are still lower by more than 100 million oz from where they were three years ago, but the steady to higher total inventories over the past year and longer have run against the grain of what was expected by many. Here, I want to be very careful about reaching conclusions that could prove wide of the mark in the future, but a year ago, when silver inventories were still steadily falling, I speculated that inventories couldnâ??t fall forever, given how so much of the remaining inventories were held by those not looking to sell. Sometimes you get predictions right, sometimes wrong â?? but to this point that specific prediction is in the â??correctâ?• column. And while itâ??s true that the silver inventories held at SLV are lower by around 25 million oz from a year ago, overall silver ETF holdings appear to have offset that. Again, the most plausible explanation for the cessation in the decline of recorded world silver inventories over the past year and longer would appear to be reaching the rock-bottom level of investor holdings.

Total C0MEX gold warehouse inventories fell by 0.2 million oz to 17.6 million oz, another near-4 year low, with holdings in the JPM COMEX gold warehouse unchanged at 6.65 million oz.

There were some interesting silver deliveries in the April COMEX contract (certainly not a traditional month) of some 700 contracts (3.5 million oz), which struck me as being due to immediate physical needs over the past couple of days. There was a sharp tightening of the spreads involving April on one of those days, indicating the stopper was the initiator of the delivery transaction.

There still appeared to be counterintuitive withdrawals from the world gold ETFs, despite higher prices. In silver, there was the 8 million oz two-day withdrawal from SLV midweek, but no change yesterday. It still looks to me that any withdrawals from SLV and other silver ETFs are largely the result of needing physical metal more urgently elsewhere to plug developing holes in the world physical silver dyke. Yesterdayâ??s trading volume in SLV and on the COMEX appeared to be the highest on record andas far as I can determine, consisted of new long positions established early and liquidated later,although that is, admittedly, a rather broad take.

The combined holdings in the COMEX warehouses and in SLV came to 725.7 million oz, down 5.2 million oz from last week and still closer to the highest levels over the past 6 to 8 months, than the lowest. Of course, one still has to deduct 103 million oz for the double-counting (since no one else in an official capacity will adjust the numbers).

Turning to yesterdayâ??s new Commitments of Traders (COT) report, with a price increase of more than $100 in gold and more than $2.50 in silver, it was expected that there would be deterioration (managed money buying and commercials selling), but that wasnâ??t the case in gold and was quite moderate in silver, as of the Tuesday close to the reporting week.

In COMEX gold futures, the commercials actually reduced their total net short position by a scant 1100 contracts, to 224,600 contracts. The commercial category breakdown was also moderate as the big 4 added 1600 new shorts to a short position amounting to 154,595 contracts (15.5 million oz) as of Tuesday. The big 5 through 8 commercial shorts added around 800 contracts to a big 8 short position amounting to 229,872 contracts (23 million oz). The raptors (the smaller commercials apart from the big 8) added 3500 new longs to a net long position amounting to 5300 contracts.

The managed money traders in gold surprisingly sold 5348 net contracts, consisting of the new purchase of 1544 longs and the new sale of 6892 short contracts. The net long position of he managed money shorts declined slightly to 141,732 contracts (174.617 longs versus 32,885 shorts), still on the bearish side. Explaining the difference between what the commercials bought and the managed money traders sold was 3700 net contracts of buying by the smaller non-reporting traders.

In COMEX silver futures, the commercials increased their total net short position by 3600 contracts to 71.300 contracts, the highest (most bearish) level in nearly three years. This week, the entire commercial selling was courtesy of the big 8, with the big 4 responsible for 600 new shorts and the big 5 thru 8 responsible for 3000 contracts of new shorting. Iâ??d much prefer this breakdown than if the big 4 were the biggest short sellers. As it is, since Feb 27 and on the $5.50 rally in silver prices since then, Â the big 4 have only accounted for 2000 of new shorting, compared to 4400 contracts of big 5 thru 8 short selling of the 39,000 contracts of total commercial selling. This means that the raptors (the smaller commercials apart from the bigÂ and 8), have sold 32,600 contracts of the 39,000 total commercial contracts sold since Feb 27, having sold 21,600 longs and initiating 11,000 contracts of new shorts. I donâ??t ever recall a larger raptor net short position.

Incorporated in these numbers is the continued existence of the big managed money short holding a short position of around 8000 contracts. As of the Tuesday close, this trader was in the hole to the tune of $130 million, or more than what I have estimated as his total realized profits on the short side last year, so at the very least, I am just as surprised this trader has hung in there, just as I am surprised about the raptors going as short as they have. My surprise aside, Iâ??m just thankful we get a new

COT report each week that reveals such things.

The managed money traders did buy 3330 net silver contracts, consisting of the purchase of 1742 new longs, as well as the buyback and covering of 1588 short contracts. The net managed money long position grew to 36.631 contracts (59,605 longs versus 22,974 shorts), still large and bearish, but not much larger than a month or so ago, when silver was close the $3 lower in price.

Trying to make heads and tails of the developments in the silver COT report, I am still struck by the lack of shorting by the big 4 and by the aggressive selling and short selling by the raptors. As such, itâ??s hard to point to the big 4 as taking aa active a role in the daily â??managementâ?• of the price of silver. Iâ??m not saying the big 4 wouldnâ??t join in and collude with the raptors in rigging the price lower, as that would clearly benefit the big 4 and all the shorts. It just seems to me that the big 4 are laying low and not leading the price rigs to the downside as they have often in the past. This relative lack of leadership on the short side of silver by the big 4 may, in fact, account for much of the rally in silver. As a result, it will be interesting to see how far the correction on Friday (if you can call it that) continues from here.

Like others, I have been searching for what has been behind the surge in price, particularly in gold. Undoubtedly, itâ??s not just one issue, and I canâ??t help but believe one of the causes has been the growing losses to those short COMEX futures, as I have recounted on these pages. However, in tracking down and checking out what others have suggested, I was intrigued by suggestions that it might be related to Over-the-Counter options trading in London. The problem with this is that there is no documented data one can study from the LBMA, as such data simply doesnâ??t exist. While this non-existent data makes it convenient to postulate whatever one desires, itâ??s not particularly substantive. However, the thought did intrigue me, and I did something I had gotten out of the habit of doing quite some time ago and what I found was interesting to say the least.

Over the years, I have gotten into the habit of sticking with the COT report covering futures contracts only, as opposed to the version that includes futures and options contracts. I did so, mostly for the sake of simplicity, since the true net positions in either version didnâ??t vary and to avoid the matter of options expirations, which added a â??jerkinessâ?• to total open interest levels. Additionally, the futures and options report included a â??delta adjustmentâ?• calculation which essentially largely excluded those options way out of the money. Needless, to say, my previous and built-in assumptions and preconceived notions accounted for me not even considering the futures and options combined COT report. As a result, when I did review this report (in trying to track down what could be impacting gold prices), I was quite surprised.

What I found was a shockingly large increase in the total open interest in COMEX gold and silver futures and options since Feb 27, as compared to the already large increase in the total open interest for futures alone (which is what I always quote). For futures contracts alone, total open interest for gold increased by about 94,000 contracts since Feb 27, while total silver futures open interest increased by about 30,000 contracts. But on a futures and options combined basis, total gold open interest increased by a massive 314,000 contracts (31.4 million oz) from Feb 27 to April 9, while in silver the increase in combined futures and options total open interest came to 77,000 contracts (385 million oz). In checking further, these are among the largest increases in history. Â Now, I know that much of this massive increase is included in the spread category and is due to common covered call selling Â against futures contracts purchases and spreads between different strike prices among calls and puts, but in keeping in mind the delta-adjustment feature to how the combined futures and options report is calculated, it also means that hundreds of thousands of gold call options werenâ??t counted either back on Feb 27 or currently because they were or are so far out of the money. But after a rally of several hundred dollars in gold, more of these out of the money options are either in or closer to being in the money.

What this means is that while I was careful to only include the losses accruing to the COMEX gold and silver futures contract holders, it is now clear that significant additional losses have been taken by the short holders of gold and silver call options, I would say to the tune of many additional billions of dollars. Not having the exact number of existing â??naked call optionsâ?•, I canâ??t be more precise, although I would very much like to be. Itâ??s important to remember that call options purchased and sold (created) when hundreds of dollars out of the money involve little money to purchase and little money to margin in the case of a short sale, but should the underlying price of the option, gold or silver, rise dramatically in price, a short option that moves close or into the money, would then involve unlimited maintenance margin, making such short instruments even more dangerous than straight short sales on futures contracts.

And while I have been throwing around many billions of dollar losses on short futures contracts over the past few weeks, now to include billions of dollars of additional losses for those short options (think Bonfire of the Shorts), I would remind you that 16 years ago, the major investment bank Bear Stearns became insolvent and was taken over by JPMorgan. I still believe the proximate cause of Bear Stearnsâ?? failure was its short position in COMEX gold and silver futures, which the $200 gold and $5 rally from Dec 31, 2007 to mid-March 2008 caused it to sustain a billion-dollar loss in each metal (which it couldnâ??t cover). Weâ??ve just witnessed a bigger rally in gold and silver over a shorter period of time and itâ??s hard for me to see how there havenâ??t been big casualties this time around. I believe itâ??s a case where the damage has been recorded, but itâ??s just a case where the bodies havenâ??t surfaced yet.

Of course, the shortsâ?? backs are still up against the wall and many are fighting for their continued financial existence and thatâ??s not something to be taken lightly. But even if they do succeed in rigging prices lower (as the regulators stand by), with a physical silver shortage already evident, lower silver prices will only aggravate the shortage even more. If there is one thing to be certain of it is that silver prices are still cheap as dirt and that wonâ??t stand for long.

Ted Butler

April 13, 2024

Silver – $28.00Â Â Â Â (200-day ma – $23.73, 50-day ma – $24.46, 100-day ma – $24.11)

Gold – $2360Â Â Â Â Â Â Â (200-day ma – $2019, 50-day ma – $2150, 100-day ma – $2092)

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