

April 16, 2022 – Weekly Review

Gold and silver prices pulled back a bit from the Wednesday highs in a holiday-shortened trading week, but both still finished at five-week highs; with gold ending the week \$27 (1.4%) higher and with silver up by 95 cents (3.8%). As a result of silver's relative outperformance, the silver/gold price ratio tightened in by two and half points to 76.5 to 1.

Against a backdrop of a tragic war in Ukraine that grows more horrific and senseless as everyday passes, it seems out of place to discuss things as mundane as price changes and prospects for gold and silver, but this is not a running political commentary service. Still, it is beyond horrific that such human carnage and suffering is occurring at the holiest time of the year for many major religions. The developments concerning price prospects for gold and silver still point to circumstances still very much in line with Wednesday's break out or fake out outline.

The turnover or physical movement of metal either brought into or removed from the COMEX-approved silver warehouses exploded this four-day work week, as 9 million oz were moved this week, the most in more than three months. Total COMEX silver warehouse holdings slipped by 0.6 million oz (one truckload), another slight new low going back to July 2020. No change in the JPMorgan COMEX silver warehouse, which remained at 176.5 million oz.

Adjusted for the shortened-week, this past week's physical movement (the equivalent of 11.25 million oz) would have placed perhaps in the top ten highest weeks of movement over the past 11 years and on an adjusted annualized basis that comes to 585 million oz – more silver than exists in the world's largest depository of metal – the big silver ETF, SLV. Yet, to my knowledge, the only other commentary that even mentions the COMEX silver warehouse movement is Ed Steer's. You'll forgive me, but why is this?

Instead, it seems many discuss the intricacies of how much total COMEX silver warehouse have varied (hint – not that much) or sillier still, the amounts classified as registered and eligible. Detailed COMEX silver warehouse data are published daily and many study them closely (certainly including me), even though total COMEX inventories make up only 17% of the world's accepted inventory of 2 billion oz in 1000 oz bar form. Despite the actual daily physical movement being part and parcel of the same daily statistical data source, the movement is never mentioned. I don't get it.

Here we have in full view the same data source in which relatively meaningless total and category changes are examined with a magnifying glass, showing an unprecedented and unique to silver physical movement (from the individual warehouses and onto trucks and vice versa) occurring for 11 straight years and no one seems to notice. It's as if a team of homicide investigators looking for clues at the scene of a crime kept stepping over and ignoring multiple corpses.

That the unusual physical movement of COMEX silver warehouse movement began at the precise moment that JPMorgan first opened its COMEX silver warehouse in April 2011 (when it began to accumulate its hoard of physical silver) is a detail beyond connection for those commenting on the COMEX warehouse data, I suppose. I still think it's the motion (the turnover) and not the ocean (the total levels of inventory) and believe the turnover reflects, in addition to accumulation by JPM, overall tightness in the one wholesale form of silver (1000 oz bars) that matters most. I know I've asked

before, but if anyone has a clue as to why and how the physical movement of COMEX warehouse holdings can be continued to be ignored, please clue me in.

While there was some turnover, the COMEX gold warehouse holdings remained unchanged at the same 35.9 million oz as the prior week and at one-year highs. Holdings in the JPM COMEX gold warehouse rose slightly to nearly 14.42 million oz.

There were continued net inflows of physical metal into the world's gold and silver ETFs this week of around 0.2 million oz into the gold ETFs, principally GLD and close to 5 million oz of silver into the silver ETFs, mostly SLV. This is as it should be, namely, net investor buying on higher prices although the deposits in SLV could also be the result of further short covering, as appeared to be the case in the last short report.

Turning to yesterday's new Commitments of Traders (COT) report, there were some surprises, but more developments that were expected. As a reminder, both gold and silver prices traded sharply higher over the reporting week ended Tuesday, gold by as much as more than \$50 and silver by as much as \$1.30.

Therefore, it was expected that there would be managed money buying and commercial selling and there was, although not as much as the 20,000 contracts I expected in gold, where the commercials only added 9300 shorts (the managed money traders did buy a bit over 15,000 contracts). I didn't offer contract expectations in silver, although I was hoping any commercial selling would be less than the 10,000 contract increase in total open interest and that turned out to be the case. All in all, the numbers were a bit better than expected, although there was deterioration and the overall market structure can't be considered bullish unless the commercials finally give up on the manipulation.

In COMEX gold futures, the commercials increased their total net short position by 9300 contracts to 288,100 contracts. By commercial categories, the 4 big shorts added around 2000 new shorts to a concentrated short position amounting to 181,956 contracts (18.2 million oz). The next largest 5 thru 8 commercial shorts added around 1500 new shorts and the big 8 short position rose to 273,225 contracts (27.3 million oz). The smaller commercials (the raptors) added 5800 new shorts, increasing their net short position to 14,900 contracts.

The managed money traders were the big buyers in gold, buying a net 15,398 contracts, consisting of the new purchase of 16,924 longs and the new sale of 1526 short contracts. Explaining the difference between what the commercials sold and the managed money traders bought was fairly sharp and impossible to predict (at least for me) selling of 6652 net contracts by the other large reporting traders, evenly split between long liquidation and new short selling. It was this selling that caused me to come up short on my expectations for total commercial selling.

There was another notable drop in the concentrated long position of the gold whale, although I can't determine whether it was due to straight long liquidation or as a result of stopping delivery. The bottom line, however, is that the big gold long only holds between 20,000 and 25,000 long futures contracts down from a peak of 40,000 contracts. As to whether the reduction involves taking delivery of 10,000 or more gold contracts can't be determined (at least by me). Even if I could determine whether it was straight long liquidation or a conversion to actual gold via deliveries, I still wouldn't be able to determine if it was bullish for prices or not so why speculate?

In COMEX silver futures, the commercials added 3700 new shorts to a total short position amounting to 63,700 contracts as of Tuesday. The good news is that much (more than 5500 contracts) of the increase in total open interest was the result of phony and uneconomic spreads, as was expected/hoped for and that the commercial category changes were also as mentioned and hoped for, in that the commercial selling was exclusively by the raptors.

By commercial category, the big 4 actually bought back a couple of hundred short contracts (yes, I was inexplicably off by a bit in last week's computations for those who may have noticed) and as of Tuesday held 51,297 contracts short (256 million oz). The next 5 thru 8 commercial shorts bought back around 100 short contracts and the big 8 short position fell to 73,689 contracts (368 million oz). The raptors, very much as hoped for, did all the commercial selling as they liquidated 4000 longs and hold a net long position of 10,000 contracts as of Tuesday (and likely less on trading after the cutoff).

I don't want to jump up and down, overly excited about the lack of new short selling by the 4 and 8 largest silver shorts on a price rally, because we are only talking about a few hundred contracts and not many thousands of contracts, but the trading action was unusual enough to notice. Plus, the fact that the raptors are now holding less than 10,000 long contracts in trading since the Tuesday cutoff makes the issue more critical about whether the obvious reluctance of the big shorts to add to short positions on a fairly sharp silver rally from the lows of a week or so ago will continue. As I've maintained for just about forever, what the big shorts do or don't do, namely, add or not to short positions on the next silver rally is really all that matters. More on this in a moment.

Finishing up on the silver COT report, the manage money traders were net buyers of 3115 net contracts, consisting of the new purchase of 2523 longs and the buyback and covering of 592 short contracts. There was an usual split by the other large reporting traders and smaller non-reporting traders, in which the larger traders sold more than 2200 net contracts and the smaller traders bought around 2700 net silver contracts. As a result, the other large reporting traders' net long position looks quite low, while the smaller traders' net long position looks a bit large, but not to a point where it signals anything. No big change in the silver whale's long position, still close to 15,000 contracts.

On balance, the market structures in COMEX gold and silver can't be considered bullish on a conventional and historic basis, but, of course, these are hardly conventional times. Therefore, the possibility of a markedly different price outcome from what usually occurs at past similar COT setups looms larger than ever. I am particularly mindful of the big silver shorts' apparent reluctance to add shorts the past couple of weeks as a possible harbinger of things to come, especially in light of the raptors' shrinking supply of longs of which to sell. This increases the singularity of the breakout or fake out premise.

A new thought has occurred to me to further explain just why it is that silver, of all commodities (certainly including gold), has failed to come close to fulfilling the near-universal expectations of sharply higher prices. Of course, the failure to fulfill its upside potential and promise is inextricably linked to the dominance of the 4 big COMEX silver shorts' refusal to buyback short positions on higher prices and my new thought is only a variation of that theme. Actually, it's not really a brand-new theme, but a corollary that first arose more than 35 years ago in my intense conversations with my dear departed friend and silver mentor, Izzy Friedman.

In the early days, when first discovering the price suppressant influence of the concentrated short

position by the commercials on the COMEX, an offshoot of that finding was imagining what the upside price performance in silver would be, if instead of the big commercials being massively short, they managed to get massively long. It is an exercise worth considering today. To my mind, there is nothing suggesting that if the big banks were ever positioned aggressively long silver, that prices would climb to levels previously not imagined – on the order of \$500 or much higher.

Not that such prices for silver would represent a true free market equilibrium long-term clearing price on a true supply/demand basis, but instead how high would the controlling commercial longs kite the price higher to achieve a maximum blow off pinnacle and extract maximum damage of whoever happened to be short? In other words, what would the price landscape in silver have looked like if the tables were reversed and the big banks had been able to maneuver themselves to hold a concentrated long position and not the short position, they have found themselves in for decades running?

Of course, you could accuse me of being a dreamer (apologies to John Lennon), but imagination aside, this mental exercise should be a good way to understand both the price history of silver over the past 40 years and the current predicament of the big COMEX silver shorts. Since all futures contracts are derivatives contracts – meaning that there must be a long for every short and vice versa – the one thing preventing the big COMEX commercial banks from ever getting big net long was the impossibility of getting a sufficiently-large enough contingent of shorts on the other side.

Yes, there were times over recent years when the managed money technical funds put on massive short positions, but even then, due to strong buying competition by the smaller commercials (the raptors), the biggest commercials were never able to get big net long, or even net long at all. I would contend that had the biggest commercials on the COMEX ever had been able to get even slightly net long, the price history of silver would have been completely different. Instead of the suppressed and contained prices we have become used to, we would have looked back in astonishment at how high silver prices had risen.

Were it ever a case of the big 4 being anywhere near as net long as they have always been net short and a group of hapless and non-collusive traders had been unfortunate enough to being short against the big 4, those hapless shorts would have surely paid a price that history would never forget. But not once in history has there ever been a large enough overall non-commercial net short position derivatives position that would have enabled the biggest COMEX commercials to get big net long and from my perspective there never will be.

Sure, there have been times when there was great net divestment of silver on a non-derivatives basis, such as the run up in 1980 when silver prices rose to \$50, close to 50 times what it had been a decade earlier and silver, quite literally, came out of the closets and cupboards in response to the historically high prices. But that was on a cash-liquidation basis – not as the result of a flood of derivatives short selling. Likewise, I can see a future time when silver rises strongly to sufficient-enough new highs that buyers of a more recent vintage seek to cash in (I hope to be among them). But it's impossible for me to imagine the average investor ever getting big net-short on a derivative basis, i.e., naked short futures contracts.

What this exercise should bring to mind is just how trapped are the 4 big COMEX commercial shorts. The best they can hope for is one more price rig to the downside in which they buy back a fairly moderate number of short contracts (5000 contracts or so). This has been the case since the biggest shorts were abandoned by JPMorgan a couple of years ago and while JPM has kept the big shorts

from being destroyed with its recent timely deliveries of silver and gold, there's no telling when JPM's largess will run out.

More than anything else, the running financial scoreboard for the big 8 COMEX gold and silver shorts have told the tale of their entrapment. Therefore, a true breakout higher could represent the death-knell for the big shorts, while a fake out price smash should only provide temporary and fleeting relief.

At week's end (Thursday), the 8 big shorts enjoyed only slight relief from Wednesday's close and ended nearly \$1.1 billion worse off than a week ago, pushing their total losses to \$13.8 billion. That's a particularly large loss for 8 traders normally considered as masters of the universe -- making them both desperate and dangerous for a rigged selloff.

Ted Butler

April 16, 2022

Silver – \$25.85 (200 day ma – \$23.99, 50 day ma – \$24.76, 100 day ma -\$23.82)

Gold – \$1977 (200 day ma – \$1828, 50 day ma – \$1922, 100 day ma – \$1862)

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