April 22, 2023 – Weekly Review

For the second week running, a sharp Friday selloff resulted in lower gold prices on the week, this time by $24 (1.2%). The same Friday selloff succeeded in pushing silver lower for the first time in six weeks, with prices down by 32 cents (1.3%). As a result of the similar percentage declines in each, there was little change in the silver/gold price ratio, which came to 79.3 to 1 at weekâ??s end.

It was notable that Fridayâ??s selloff was somewhat unusual in that it took place starting around 9:45 AM EST, not a time I recall for any previous deliberate COMEX smash down and was also notable for the very low volume it generated, particularly in silver. I hadnâ??t been expecting big price action into yesterday, considering it was a big option expiration for stocks, and was somewhat expecting prices to settle at a round strike price for SLV, in this case the $23 strike (equivalent to $25 on the COMEX). Still, I was a bit taken aback by the egregiousness of the sudden selloff.

Iâ??m a bit anxious to get to the results in the new Commitments of Traders (COT) report on silver, even though I must warn you that it may sound difficult to understand and even more difficult to explain. As always, please get back to me with any questions.

The turnover or physical movement of metal either brought into or removed from the COMEX-approved silver warehouses came to 4.4 million oz this week, as total COMEX silver holdings fell by 0.3 million oz to 273.8 million oz, another five-year low. Holdings in the JPMorgan COMEX warehouse were unchanged at 141.7 million oz. Weâ??re now down about 25 million oz in total COMEX silver warehouse holdings from year end and 20 million oz from the previous low-water mark in November.

Much attention was generated this week on the roughly 3.5 million oz switched from the registered category to the eligible category in the JPM warehouse and while itâ??s worthy of attention, perhaps not to the extent put forth. First, there was no physical movement, as occurs in the turnover statistics I recite regularly and it remains to be seen if the category change results in any future movement (outflows). Second, the transfer looks related to a reverse movement at the start of now-expired March delivery period, when an even bigger transfer from eligible to registered occurred in the same JPM warehouse â?? rather than having any connection with the upcoming May COMEX silver delivery, which starts late next week.

I do think itâ??s bullish when silver is transferred from registered to eligible as it implies those transferring are seeking the lowest cost storage charges and plan on holding the metal on a long-term basis. Itâ??s also bullish that total COMEX silver inventories are not growing approaching a major delivery month, but so far there have been no real signs of any rush to secure physical silver via COMEX deliveries which I find a bit puzzling, but something that can change quickly. And I put little stock in the goings-on in EFP and EFR transactions as major delivery periods in COMEX gold and silver approach as actually involving true physical metal activities or anything other than involving phony spread creation and liquidation, although these transactions attract quite fanciful interpretations.

Bottom line is that COMEX silver inventories look rather tight, as is befitting all the other evidence of physical tightness in wholesale forms of silver. I donâ??t mention it often, but total silver holdings are even tighter than the data suggest, in that 103 million oz in the JPM COMEX warehouse appears as belonging to SLV, which, in effect, is a double-counting of the combined COMEX and SLV holdings. In essence, if this 103 million oz does belong to SLV, then JPMâ??s total COMEX holdings are 38.7 million oz and not 141.7 million oz. I have tried to solicit clarity on this issue from JPM, to no avail.

Holdings in the COMEX gold warehouses rose for a second week, this week by 0.3 million oz to 22.2 million oz. Holdings in the JPM COMEX gold warehouse accounted for about half the total increase, in rising to 8.4 million oz.

Total gold holdings in the worldâ??s gold ETFs rose a bit this week, while holdings in worldâ??s silver ETFs, particularly SLV, fell sharply, by 6.3 million oz. All things considered, the redemptions look to be conversions of shares to metal, although I canâ??t tell if the metal is being shipped to more urgently needed destinations or on behalf of a large entity desiring to convert shares to metal to reduce share ownership for reporting requirements (to enable future purchases of shares). It does not look like plain-vanilla investor liquidation.

Tuesday night the new short position on stocks is scheduled to be published and Iâ??m hopeful there is no significant increase in the short position on SLV, for the admittedly selfish reason that Iâ??m growing weary of complaining to the S.E.C. and BlackRock about the blatant fraud and manipulation the excessively large short position on SLV represents. But, I suppose, a manâ??s gotta do what a manâ??s gotta do.

Turning to the new COT report published yesterday, I did expect and hope for a number of things. I expected not much Â of an overall positioning change in the managed money versus commercial contest and that was largely the case in both gold and silver. Youâ??ll remember that the reporting week ended Tuesday featured two sharp up days, followed by two sharp down days and a near unchanged price level on the week â?? a formula for not much of overall positioning change.

In the hoped-for department, I was hopeful that much of the near 16,000 contract increase in total silver open interest was related to phony spread creation and while a bit less than hoped-for, close to 7000 contracts of the increase in total open interest was indeed spread-related. Over the past two reporting weeks, of the 27,000-contract increase in total open interest in COMEX silver futures, close to 15,000 contracts of the increase is due to phony spread creation –Â which has zero-effect on price or actual net positioning. And no, I donâ??t know what this phony spread creation/liquidation is really all about â?? aside from it existing in a distinct pattern going into traditionally large delivery months.

Number one in my hoped-for department, of course, was that the 4 big silver shorts would not increase and, even more hopefully, actually decrease their concentrated short position. Alas, I was disappointed (at first) to see that the big 4 short position in silver increased by a not overly-aggressive 2000 contracts. But as I tossed and turned thinking more about it last night, Iâ??m not so sure the increase was what it appeared to be, which Iâ??ll get into momentarily.

In COMEX gold futures, the commercials reduced their total net short position by the scantest of margins, 100 contracts (rounded), to 216,400 contracts â?? statistically about as slight a change as is possible. However, in the commercial category changes, the positioning was much larger –Â a key difference between gold and silver positioning. The 4 largest commercial gold shorts increased their total concentrated short position by an additional 3000 contracts to 176,023 contracts (17.6 million oz). This is the largest big 4 short position in gold in a year, as gold was embarking on aÂ more than $300 decline into the summer/fall of last year. This remains the single starkest difference between gold and silver positioning, as the big 4 short position in silver is nowhere near the highs of a year ago.

The next 5 thru 8 largest gold shorts bought back a hundred or so short contracts and the big 8 short position grew by less than 2800 contracts to 235,340 contracts (23.5 million oz). I would point out that the big 5 thru 8 short position in gold is quite low at just-over 59,000 contracts, as compared to the more than 90,000 contracts they held a year ago â?? which I interpret as them not wanting to be as heavily short as the big 4 feel inclined to be short. The gold raptors (the smaller commercials apart from the big 8) added 2800 new longs to a net long position amounting to 18,900 contracts. Unlike the situation in silver (which Iâ??ll dig into in a moment) there can be no question that the big 4 and big 8 short position in gold is purely commercial, given the low level of managed money shorting in gold.

On the managed money side of gold, these traders sold 1910 net contracts, consisting of the purchase of 2155 new longs and the new sale of 4056 short contracts. The resulting net managed money long position of 102,696 contracts (137,170 longs versus 34,474 shorts) must still be considered bearish relative to such positioning over the past few years, but less so over longer terms â?? the same situation as with the commercial short position. The other large reporting traders were net sellers of close to 1000 contracts, while the smaller non-reporting traders were net buyers of around 2700 net gold contracts â?? not particularly encouraging for higher prices.

In COMEX silver futures, the commercials increased their total net short position by 2400 contracts to 38,700 contracts. While this is the largest total commercial net short position since late-January, it is still substantial less than the near 70,000 contract total net short position of last March. As previously mentioned, the big 4 short position increased by just over 2000 contracts to 36,267 contracts (181 million oz). While, obviously, disappointed that there wasnâ??t my hoped-for decline, I consoled myself by the still very low level of the big 4 short position compared to times past and relative to gold. For instance, the big 4 short position in silver is back to where it was on Feb 21, while the big 4 short position in gold is more than 40,000 contracts larger from then.

The big 5 thru 8 short position increased even more than the big 4 short position, as these traders added more than 2600 new shorts to a big 5 thru 8 short position of 25,181 contracts, the largest such position ever (or in a long while) and a big 8 short position now amounting to 61,448 contracts (307 million oz). If I were to calculate the big 8 short position as being purely commercial, I would calculate the raptors (the smaller commercials apart from the big 8) as adding 2200 new longs to a net long position amounting to 22,700 contracts. But in thinking more about the new COT report, I am convinced that one managed money short is, for sure, in the big 5 thru 8 short category, with a strong possibility that the managed money short I speak of being in the big 4 short position. Such a development, in essence, changes everything concerning my initial disappointment about the increase in the big 4 short position.

On the managed money side of things, these traders were net buyers of 2023 net silver contracts, which while not especially surprising, was unexpected in its composition, namely, these traders added 6296 new longs and 4273 new shorts. The resultant net managed money long position of 19,813 contracts (49,059 longs versus 29,246 shorts) is large, just not as large relative to gold.

One of my wishes was to see new managed money shorting, which we got. While the sharp increase in managed money gross longs over the past three weeks of more than 17,000 contracts does raise concerns of an engineered price smash ahead, I canâ??t help but focus on the more than 9000 contract increase in gross managedÂ money shorting over the past two reporting weeks.

I makes sense that the managed money technical traders have added big numbers of new longs, as thatâ??s what they always do on rising prices. On the other hand, the sharp increase in managed money shorting is highly unusual, as I donâ??t recall ever seeing such a large increase in shorting on higher prices by these traders. Because the increase in short selling by the managed money traders is so unusual on higher prices, it seems logical to me that much of the shorting may be attributed to one trader (even though the total number of managed money short traders rose to 27 from 20 two weeks ago).

Upon further rumination of the data, it now seems certain to me that a managed money trader is, at least, in the big 5 thru 8 category and more likely, in the big 4 category. In either event it would mean the total commercial portion of the big 8 short position is at least 5000 contracts less than the 61,448 contracts posted and as much as 8000 contracts less should the big managed money short be in the big 4 category. It would also mean that the raptor net long position, instead of increasing to 22,700 contracts, fell instead, to 18,000 contracts or lower (leaving fewer contracts to sell on higher prices). Explaining how the big 5 thru 8 short position could have grown so sharply if a managed money trader entered into the ranks of the big 4 shorts, is that the big commercial short â??bumpedâ?• from the big 4 into the big 5 thru 8 category, in turn â??bumpedâ?• out the smallest short previously in that category, replacing it with a bigger position.

I know this stuff can get overwhelmingly complicated and while I would prefer it not be this complicated, I donâ??t control the data â?? I just try to slice and dice it. Please donâ??t hesitate to ask as many questions as you desire, as it is my responsibility to explain fully what Iâ??m saying.

You may recall we had an even more extreme position last summer and fall when the managed money traders accounted for a much larger shares of the big 4 and big 8 short positions in silver. Unfortunately, it makes the actual calculations of true commercial-only component of the concentrated short positions more than difficult in calculating and explaining, but fortunately, itâ??s generally quite bullish â?? as was seen in the eventual sharp rally in silver prices from under $18 to over $24 into year end.

Maybe Iâ??m only seeing what I want to see, but if a managed money trader does now reside in the big 4 silver short position (as I believe to be the case), you can subtract around 8000 contracts from the posted big 4 position that is purely commercial, bringing the commercial-only component to around 28,000 contracts â?? even less than I was hoping for. Â It would also confirm that a very old premise of mine, namely, that the big 4 commercial shorts would someday buy and cover shorts into raptor long liquidation on higher prices. If there is a managed money short in the big 4 category, as I believe, then for sure that is what occurred over the past couple of weeks.

The unfortunate thing is that with the gold market structure generally bearish and subject to commercial price rigging to the downside, such gold price weakness (should it occur) could be used to pressure silver prices, especially given the sharp increase in managed money technical longs of late. Whatâ??s bad about it is that it forces me to be more wishy-washy about silver price prospects in the short term â?? something I try to avoid. Even if Iâ??m on target about the extremely bullish price prospects for silver if my take on what occurred with the big four commercial shorts is correct, thereâ??s nothing to suggest that these big commercial shorts wonâ??t seek to lower their already low short position through lower prices.

Whatâ??s most ironic is that as bullish as the market structure developments were in silver this week (if my take was correct), that while it is a strong guarantee of higher silver prices eventually, perhaps not necessarily in the short term. However, considering the clear signs of the developing physical silver shortage and the still near-unbelievable low price of silver, any thought of abandoning long-term positions of silver is the same for me as itâ??s been for quite some time, namely, unthinkable.

The thought of getting cute and trying to outfox the market on a short-term basis when Iâ??m more convinced than ever of silverâ??s massive upside price journey is not something I could live with. Most nights I donâ??t sleep as well as I should and holding less silver than I hold now will not help me sleep better. Thatâ??s particularly true sensing that the big commercial shorts seem determined to cover as many of their remaining short positions as possible.

Ted Butler

April 22, 2023

Silver – $25.15Â Â Â (200-day ma – $21.34, 50-day ma – $22.82, 100-day ma – $23.13)

Gold – $1994Â Â Â Â Â Â (200-day ma – $1805, 50-day ma – $1928, 100-day ma – $1891)

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