April 27, 2024 – Weekly Review

As a result of the highly-deliberate price smash last Sunday evening, the price of gold and silver finished sharply lower for the week, with gold ending lower by $56 (2.3%) and with silver lower by $1.47 (5.1%). As a result of silverâ??s much steeper relative weakness, the silver/gold price ratio widened out by two and a half points to 86.3 to 1. Despite the sharp weekly losses, gold is still up by $300 (14.6%) since the end of February, with silver still ahead by $4.75 (21%), among the sharpest rallies in years. At the extreme price lows this week, gold was off by $100 and silver by $2.

At least for this week, gold and silver prices were set on the COMEX and not in China, India, or elsewhere. Sunday nightâ??s sharp selloff was solely a COMEX orchestration. This could not be proven in yesterdayâ??s latest Commitments of Traders (COT) report, but neither could it be disproven. There was some deterioration in gold (managed money buying and commercial selling) where I expected the opposite, but at least in silver there was some managed money selling against commercial selling. In retrospect, I believe the results in the COT report reflected a bifurcated week, with both gold and silver ending at sharp new closing price highs on Friday of the reporting week, only to be followed by the sharp selloff on Monday and Tuesday. The important point about the sell-off was that as sharp as it was, it didnâ??t come close to penetrating gold or silverâ??s key moving averages (the 50, 100, and 200-day moving averages) and thus, didnâ??t provide compelling incentive for the technical funds to sell (yet).

Since there wouldnâ??t seem to be much argument that the COT market structure in COMEX silver and gold is bearish, given the large commercial short position in each, should we fall sharply in price from here, there shouldnâ??t be much question that the bearish market structure will be the sole cause and explanation for a sharp selloff (Iâ??m talking $150+ in gold and $2 to $3+ in silver). While always at similar bearish market structures over the past 40 years, such sharp price selloffs were the result, itâ??s also true that the specific conditions in gold and silver have never been close to what they are currently, in terms of bullishness. Thus, the lines of demarcation between the bearishness of the COMEX market structure and the bullishness of just about every other imaginable factor away from COMEX paper contract positioning has never been starker.

This has been the basis for my recent speculation of the â??drop first, then pop â?? or no drop, just popâ?• price scenario in silver. It comes down to a question of how much control the collusive COMEX commercials have on prices after decades on near-total control. The question arises not only due to the deepening physical shortage in silver, the first such shortage in history, but also due to the peculiar circumstances of the current market structure in terms of the financial hole the COMEX gold and silver shorts have dug themselves into. Yes, the engineered selloff in gold and silver erased $4 billion of the $20 billion hole the shorts were in at this point last week, but who celebrates being only $16 billion in the financial hole? At this point, complete victory for the shorts would involve coming close to breaking even. Then what? Regardless of what happens from here, what has occurred to this point isnâ??t suggestive of some genius master plan by the shorts. Iâ??ll have more to say on this in a bit.

The turnover of physical movement of metal either brought into or removed from the COMEX-approved silver warehouses increased this week to more than 6.5 million oz, as total inventories increased by 2.6 million oz to 294 million oz, a new one-year+ high-water mark. It would appear the net deposits may be related to deliveries on the traditional May contract set to begin on Tuesday. I still maintain the relatively high level of COMEX silver inventories is related to them hitting theÂ rock-bottom level of investor ownership. No change in the holdings in the JPMorgan COMEX silver warehouse, still at 130.2 million oz â?? if one overlooks the double-counting of 103 million oz also included in SLV holdings.

No change in either total COMEX gold warehouse inventories, at 17.6 million oz or in the JPM gold warehouse at 6.65 million oz.

Deliveries in the April COMEX gold contract remained high to the end, although itâ??s still hard to decipher the actual impact on price.

This week the outflows of close to 900,000 oz of gold from the worldâ??s gold ETFs at least werenâ??t counterintuitive as prices were sharply lower. Of course, it was different in silver as close to 8 million oz were deposited into the worldâ?? silver ETFs, including a net deposit of around 11.5 million oz in SLV and a 6 million oz withdrawal from Â the Wisdom Tree silver ETF. The highly-unusual pattern of big sudden deposits in SLV and ultimate withdrawals over he past 7 months and involving 100 million oz has become as regular as the tides, but has yet to be recognized by hardly anyone â?? much like the unusual churn in the COMEX silver warehouses over the past 13 years. The only difference is that I canâ??t detect any direct involvement by the Department of Justice in the COMEX warehouse movement, whereas if the DOJ isnâ??t involved in the pattern of big sudden deposits in SLV (to meet ongoing needs for physical silver), after its intensive regulatory dealings with JPMorgan the past several years, then that would represent such a level of incompetence so as to suggest having no confidence in anything the DOJ is involved in. Of course, I hope Iâ??m wrong and the wheels of justice are moving at a more measured pace than anyone would desire.

The combined silver holdings in the COMEX silver warehouses and in SLV increased this week by 15 million oz to 722.7 million oz â?? after falling by 18 million oz the previous week. The physical turnover in SLV and other silver ETFs has gotten to be mind-boggling, with the only plausible explanation being due to the deepening physical shortage. (Of course, the 722.7 million oz total must be reduced by 103 million oz, due to double-counting).

The new short report on Wednesday indicated a slight reduction in the short position on SLV of 3 million shares to 29 million shares (26.5 million oz), as of April 15. Since I had been girding for a large increase, the reduction was a relief. The short position in still too high, but at least itâ??s lower than feared.

Turning to yesterdayâ??s new COT report, I have to admit I was a bit disappointed to see straight deterioration in gold and partial deterioration in silver, where I was looking for some slight improvements. Then again, it was a bifurcated reporting week with gold and silver prices closing at important highs on Friday, only to fall sharply into Tuesday. Plus, trading volume in silver has been quite low, particularly on the selloff, limiting the prospects of large positioning changes.

In COMEX gold futures, the commercials increased their total net short position by 4100 contracts to 226,900 contracts. While this is a slight new high in the total net commercial short position in gold since the start of the year, thereâ??s another interesting pattern Iâ??ll discuss momentarily. By commercial categories in gold, the big 4 added around 2300 shorts and held a net short position amounting to 158,488 contracts (15.8 million oz) as of Tuesday. The 5 thru 8 largest shorts bought back around 600 shorts and the big 8 short position amounted to 232,312 contracts (23.2 million oz. The raptors (the smaller commercials apart from the big 8) sold off 2500 longs and held a net long position of 5400 contracts.

The managed money traders in gold bought 7403 net contracts, consisting of the purchase of 6490 new longs and the buyback and liquidation of 913 short contracts. The net managed money net long position increased to 142,139 contracts (176,400 longs versus 34,261 shorts). Explaining the difference between what the commercials sold and what the managed money traders bought was net selling of 6400 contracts by the other large reporting traders, with the smaller non-reporting traders buying 3000 net contracts. A real mixed bag.

The unusual pattern I noticed in gold is that both the commercial net short position is at recent highs, as is the managed money net long position and while both must be considered bearish, each respective position has changed little over the past 7 or 8 reporting weeks, when gold first touched $2200 around March 12. On the subsequent move to over $2400 on last Fridayâ??s close, neither the total commercial net short position, nor managed money net long position has changed very much. One obvious conclusion is that COMEX positioning would appear to have had little influence on the gold price over the past near-two months. Since the interplay between the commercials and the managed money traders has had the strongest influence on gold (and silver) prices over the past 40 years, I canâ??t help but notice the sharp change in pattern. And while the pattern isnâ??t as clearly defined in silver as it is in gold, neither is it completely absent. Iâ??d define the pattern as larger price moves than would be expected by reported large positioning changes â?? meaning something else is affecting prices as much or more than pure paper positioning changes.

In COMEX silver futures, the commercials increased their total net short position by 3400 contracts, to 77,400 contracts, the largest (most bearish) short position in more than 3 years. The total commercial net short position is now larger than it was on Feb 2, 2021, although the big 4 short position is still 18,500 contracts less than it was on that day (on the occasion of my complaint to the CFTC about the big 4 short position). This reporting week, the big 4 short position did increase by about 1000 contracts to 46,747 contracts (versus 65,262 contracts on Feb 2, 2021), with the big 5 thru 8 short position also increasing by 700 contracts, making the big 8 position 71,175 contracts. The big 5 thru 8 short position, currently at 24,428 contracts, is close to the largest in history and more than 5000 contracts more than it was on Feb 2, 2021. The raptors are now holding their largest short position in history, up by 1700 contracts for the week and more than 14,000 contracts when adjusted for the big managed money short trader still holding 8000 contracts short.

At this point, it looks clear that the big managed money short has rode out the silver rally, absorbing the open losses and meeting margin calls. At last Fridayâ??s new price high close ($28.72), this big managed money short was out $150 million from his estimated $25 sale price, but this weekâ??s sharp price selloff has cut his open losses to $90 million. Still, this seems a tough way to make a buck and the jury is still out on how this position will get resolved in the end.

The managed money traders did sell 797 net silver contracts, consisting of the sale and liquidation of 385 longs and the new sale of 412 short contracts. The resulting net managed money long position decreased to 39,393 contracts (60,060 longs versus 20,667 shorts), still close to a two-year high. Explaining how the commercials and the managed money traders Â could both be net sellers was the net purchase of nearly 6800 contracts by the other large reporting traders, offset somewhat by the net sale of 2600 contracts by the smaller non-reporting traders. Both these categories are impossible to forecast, at least for me.

So, where does all this leave us? It leaves us where we often are, only more so, namely, facing the most bullish conditions ever, particularly when it comes to physical metal conditions in silver, offset by only one looming bearish factor â?? the large commercial short position on the COMEX. That this is a short position totally lacking in any legitimacy (as who the heck who legitimately short silver?) is beside the point, as it clearly exists and must be reckoned with. Since such large commercial short positions have always resulted in sharp selloffs in the past, that probability or possibility must be factored in. What does that mean exactly? To me, it means not holding positions on margin or otherwise, that will need to be sold or jettisoned if the COMEX commercial crooks do manage to pull off yet another price rig to the downside.

On the other hand, the existence of the large commercial short position also explains why silver prices are as cheap as they are and without the large commercial short position, itâ??s impossible to imagine how silver could be priced at the bargain prices currently available. Certainly, should we get the price rigging to the downside the commercials desire, at that point we will get the first leg of the â??drop first, then popâ?• scenario Iâ??ve been talking about â?? except, as you might imagine,Â it wonâ??t feel very good until the drop part is complete.

And itâ??s also at times like now that I must bring up what my dear-departed friend and silver mentor, Izzy Friedman, insisted would be the final outcome, namely, a price overrun and a rush by the shorts to buyback and cover short positions (the full pants down). In fact, Iâ??m somewhat surprised weâ??re not in the throes of such a short covering panic currently. Certainly, Izzyâ??s vision included such a short covering involving a physical shortage and no one can argue about the existence of that. Add in the $20 billion in total losses (now down to â??onlyâ?• $16 billion) in the shortest time ever and the financial impetus for a widespread short-covering panic would seem to be met. My sense is that it would not take much more of a price rally to see Izzyâ??s vision come to fruition. Thatâ??s also the great incentive for the commercials to keep things in check.

I also hope you know that I donâ??t relish times like these, when I have to talk out of both sides of my mouth, concerned about what the crooked and collusive COMEX commercials may have up their sleeves against the absolutely certainty of sharply higher silver prices to come. Maybe we get to those sharply higher silver prices forthwith, maybe we get to those sharply higher prices with some short-term detours â?? but the important point is that, no matter what, to be absolutely sure to be fully on-board when the silver train departs on its final journey.

Ted Butler

April 27, 2024

Silver – $27.25Â Â Â (200-day ma – $23.96, 50-day ma – $25.51, 100-day ma – $24.43)

Gold – $2350Â Â Â Â Â Â (200-day ma – $2041, 50-day ma – $2216, 100-day ma – $2127)

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