

April 29, 2023 – Weekly Review

Gold prices finished slightly higher for the week, up by \$5 (0.3%), while silver ended 7 cents (0.3%) lower. As a result, the silver/gold price ratio widened slightly, by a fraction to 79.7 to 1. (When adjusted for the switch from May to July in silver for closing prices, the price ratio was actually closer to unchanged).

For much of April, prices have chopped around the \$2000 level in gold and \$25 level in silver, after a significant price rally to those levels of \$200 in gold and \$5 in silver the prior month. The significant rally was largely driven by managed money net buying on the COMEX of roughly 100,000 contracts (10 million oz) in gold and 40,000 net contracts (200 million oz) in silver – same as it ever was.

Now the question has become – will we experience the usual sequel – price declines of roughly the same proportion as the rallies, as the collusive commercials on the COMEX rig prices lower in order to induce near equivalent net selling by the managed money traders? Despite what would appear to be countless reasons for gold and, particularly, silver to race higher from here, there is one potential reason for a price decline instead – the very same reason that has caused every price decline over the past 40 years.

There's no sugar-coating when it comes to explaining why we will selloff, if we selloff and that explanation is an extension of the same COMEX price manipulation in place for silver since 1982. On a pure price basis, it would appear much harder to explain a price manipulation in gold, since its price is close to all-time highs. But in silver, since it is the only commodity more than 50% below its price highs of 12 years ago, the manipulation case would appear clear. Interestingly, when I slice and dice the COMEX market structures in each, there appears to be more of a reason for silver to buck the usual trend of a sharp selloff – this time around, and I'll get to those reasons a bit later.

The turnover or physical movement of metal either brought into or removed from the COMEX-approved silver warehouses picked up this week to nearly 7.1 million oz, as total COMEX silver inventories continued to fall, this week by 2.8 million oz to 271 million oz – another new five-year low. Much of the decline can be traced to a decline of 2 million oz in the JPMorgan COMEX warehouse, to 139.6 million oz, also a five-year low.

Making the inventory declines more unusual was the fact that they occurred into the start of the deliveries on the May COMEX contract – a time normally thought to witness increases in warehouse holdings for delivery purposes. Clearly, these are anything but usual times in silver. I'm going to have some comments on the May silver deliveries later, but please allow me to update my comments about declining COMEX silver inventories and turnover.

Since early 2021, COMEX silver inventories have fallen from 400 million oz to 271 million oz, a decline of around 130 million oz over the past 28 months – an average of roughly 4.6 million oz per month. Over those same 28 months, there has been a total physical turnover of 650 million oz (with turnover defined as the total amount of silver moved physically into and out from the COMEX warehouses). The average monthly turnover comes to 23.2 million oz or 5 times the actual monthly decline.

You'll forgive me (yet again) for being astounded about the physical silver turnover, as well as its lack of recognition in most quarters, since it doesn't occur in any other commodity. The only reason

I can attach to the unprecedented physical turnover is continuing physical tightness; a tightness now apparent in increasing ways.

Total COMEX gold warehouse holdings rose by nearly 0.2 million oz to 22.4 million oz, with much of the increase due to an increase in the JPMorgan gold warehouse to 8.56 million oz.

In terms of ETF flows this week, there were some increases in gold ETFs, mainly GLD, but much larger flows and turnover occurred in silver ETFs, led by SLV. After Monday's deposit of near 8 million oz (which still looks connected to a coming further reduction in the short position on SLV), more than 3 million oz were redeemed over the past three days which look very much like silver being shipped elsewhere because it was more urgently needed or conversions to metal by a large investor to reduce or eliminate share ownership reporting requirements.

Turning to yesterday's Commitments of Traders (COT) report, I was off on my expectations (hopes) for an improvement (managed money selling and commercial buying) in silver, but aside from the disappointment of being wrong, it wouldn't appear to matter much in the total scheme of things. Although I don't believe I mentioned it on Wednesday, we did get, as expected, a significant reduction of spread positions in silver.

In COMEX gold futures, the commercials did reduce their total net short position by 4500 contracts to 211,900 contracts, the third week running of modest improvement which mirroring the choppy but mostly flat price change. This week, all three commercial categories were modest buyers, with the 4 big shorts buying back 1900 short contracts and holding 174,141 short contracts (17.4 million oz) as of Tuesday. The next 5 thru 8 shorts bought back 600 short contracts and the big 8 short position fell to 232,819 contracts (23.3 million oz). The raptors (the smaller commercials apart from big 8) added 2000 longs to a net long position of 20,900 contracts.

The managed money traders did next to nothing, actually buying 107 net gold contracts, consisting of the sale and liquidation of 1191 longs and the buyback and liquidation of 1298 shorts. The resultant managed money net long position of 102,803 contracts (135,979 longs versus 33,176 shorts) was little changed. Explaining the offset to the commercial buying was net selling by the other large reporting traders of 4700 contracts. Basically, a nothing COT report in gold.

In COMEX silver futures, the commercials increased their total net short position by 2900 contracts to 41,500 contracts, the largest level since mid-January. The 4 big shorts increased their concentrated short position by 100 contracts to 36,375 contracts, while the 5 thru 8 big shorts bought back 800 shorts, reducing the big 8 short position to 60,448 contracts. Normally that would indicate a raptor net long position of 19,300 contracts, but I don't believe that's the case.

Because I'm convinced that a managed money trader is holding a short position of around 8000 contracts (or more), placing that trader in the big 4 category, the true big 4 commercial-only short position is just over 28,000 contracts and the true big 8 commercial only component is less than 53,000 contracts, making the raptor net long position less than 11,500 contracts. If my analysis is correct (which I obviously believe to be the case), this is a remarkable situation, as I'll explain momentarily.

Finishing up on the silver COT report, the managed money traders bought 4259 net contracts, consisting of the purchase of 4318 new longs and the new short sale of 59 contracts. The resultant net managed money long position increased to 24,072 contracts (53,377 longs versus 29,305 shorts), the

highest since January. While I was disappointed by the new longs and the lack of more significant new managed money short selling, I still find it remarkable that the gross managed money short position is as large as it is considering the price rally since early March.

This is the first time I can recall such a large managed money gross short position on a pronounced silver rally and that can't possibly be based upon purely technical considerations which is another prime reason for me concluding there is a single big managed money short trader in the big 4 category. While I am, naturally, concerned about the commercials rigging prices lower in an attempt to force liquidation of the 20,000 net new managed money longs coming into silver over the past few weeks, I am still more than intrigued by the existence of a big managed money short and the very low commercial-only big 4 and big 8 short position after a pronounced silver rally of more than \$5.

In fact, the biggest differences between the relative market structures in COMEX gold and silver are the quite usual heavy big 4 commercial shorting in gold, but the opposite in silver, where the big 4 commercial-only selling has been extremely light due the highly unusual selling by what looks to be a single managed money short. There is no such notable managed money shorting in gold.

It's still possible, of course, for the collusive COMEX commercials to pull off one of their typical price rig jobs to the downside in both gold and silver it's just that the set up in silver regarding the concentrated commercial short position looks better now (before such a possible selloff) than it has ever looked following a very robust silver rally. Should the crooked COMEX commercials succeed in rigging a selloff, I can only imagine just how low (and bullish) the commercial-only concentrated short position would be at that point, since it's plenty good enough now in historical terms.

I should mention the rather-remarkable market structure changes in COMEX copper futures. The managed money traders were net sellers of close to 30,000 copper contracts this past reporting week, pushing them to a net short position where a significant rally shouldn't be far off.

A few words about the COMEX silver deliveries, the subject of which is closely watched by many (certainly including yours truly). I've been monitoring COMEX silver deliveries, well, just about forever. For instance, I remember a time in the late 1980s when it was not unusual to witness 15,000 contracts (75 million oz) being issued and stopped on first notice day. This was a time when the bullion banks were flooding the market with physical silver as a result of silver (and gold) leasing, which created a physical surplus that was absorbed by massive cash and carry spread transactions.

Today, the situation is nearly the opposite, as the first notice of delivery day for the May COMEX contract was about the smallest in history, as just over 1000 contracts were issued. While I was concerned that JPMorgan did transfer 1.8 million oz from eligible to registered and did deliver that amount on the first delivery day in its house account (along with lesser amounts by JPM's customers), other customers of JPM stopped many of the silver contracts issued. While the number of contracts issued by JPMorgan in its house account were a clear indication it needed to supply the physical silver to contain prices, the amounts weren't large enough to try to convince the Justice Dept that JPM is violating its deferred criminal prosecution agreement yet.

I believe I understand the reason why so many look closely at the approach of first delivery days in any of the five traditional delivery months in COMEX silver, namely, for signs that physical is finally overpowering the paper manipulation of prices. This is why many put under the microscope how much silver, particularly of the registered variety, is in the COMEX warehouses, as well as the remaining

open contracts in the delivery month. And I'm not knocking this attention in any way and plead guilty to doing the same thing for many, many years myself. The fact that I don't do so any longer is no suggestion that such attention is invalid in any way - it's just that my thinking has changed over the years (and decades).

So, while the inevitable physical crunch could easily develop in a traditionally active COMEX delivery month, that is not guaranteed. It's sort of like the Maginot Line built by France as a protection against a German invasion before WW2, that was easily outflanked by the Germans. Just like the Germans were destined to invade, there will be a COMEX silver delivery crunch at some point - I'm just not so sure it will come as many expect with an obvious mismatch going into the first delivery day of a traditional delivery month. I'm not saying it can't happen, just that won't necessarily be the only way.

Further, I think it is more constructive to focus on what makes such a COMEX silver delivery crunch inevitable and not in trying to predict the exact timing. This includes a clear understanding of the facts. Those facts currently in place in silver indicate that while there has been phenomenally strong demand for silver for five straight weeks for retail forms of the metal (with a cooling off the last week or so) due to concerns about the banking crisis and the dollar, that strong demand hasn't yet tripped over into the wholesale demand for 1000 oz bars, nor is there any sign of user stockpiling of physical inventories.

Simply stated, the standout feature or explanation for the very low deliveries on the COMEX and the lack of silver ETF buying is because the big potential buyers have yet to be motivated to buy - just the retail buyers for now. The COMEX delivery and silver ETF statistics clearly point to a lack of demand, as opposed to the sellers flooding the market with physical metal in an effort to contain prices. But it would be a mistake to assume this current state of affairs is permanent.

Just yesterday, an official report was released attempting to explain the recent bank failures involving Silicon Valley Bank and Signature Bank. I would imagine a new report will be published about First Republic Bank, now in the process of failure. So many bank failures, so many reports explaining why. As we all know by now (but not before), there were maturity collateral mismatches and a lack of interest rate hedging, a lack of sufficient liquidity and a mountain of bank deposits, both concentrated and well-above the FDIC insurance limits. None of this information was secret or hidden, as these banks were publicly-owned and traded. It's more a case of the public data being ignored or overlooked in terms of what a dangerous set up existed.

Still, the results over the past two months were nothing short of stunning. Bank stocks that were worth \$100 or \$200 per share or more, fell to near-zero in a matter of weeks, if not days - wiping out hundreds of billions of dollars of bank stock value. The well-advertised \$30 billion deposit rescue of First Republic Bank by a consortium of banks led by JPMorgan, failed so quickly as if the rescue attempt never took place. Even more stunning was the flight and transfer of many, many hundreds of billions of dollars from smaller banks perceived to be weak to larger banks and to government securities - even though there was a de facto guarantee for deposits of all amounts by US banking authorities.

The conclusion is clear - we are in a time when the sudden movement of hundreds of billions of dollars can occur in a literal instant. Bank runs and other sudden movements of capital between financial institutions and market segments are occurring so fast and frequently so as to make your

head spin. So much money has been created by QE (quantitative easing) since the great financial crisis, quite literally many trillions of dollars, with a disproportionate share of that new money going into the pockets of a relative few (income and wealth inequality) that one of things revealed in the bank failures over the past two months was a remarkable fact overlooked that suddenly became clear – the staggering amount of money that was deposited in banks being well above the FDIC \$250,000 deposit insurance limit.

Let's face it, for the average person, the \$250,000 FDIC limit works fine, especially considering multiple accounts can be opened to increase the limit. But for the ultra-wealthy (along with many businesses), many trillions of dollars was held in banks far in excess of the FDIC insurance limits. This is the ocean of money that took flight seeking greater safety in larger banks and treasury securities. Plus, the other thing that everyone quickly learned was the speed of the flight to safety thanks to modern electronic deposit/withdrawal mechanisms. Where a bank run would formerly take days or weeks, modern bank runs can be measured in hours. What's this got to do with COMEX silver deliveries or silver ETFs? Plenty.

Just like all the necessary ingredients were fully in place long before the bank runs we've witnessed recently – they were just overlooked – the same required preconditions exist for a flight of money into gold and silver. The case is particularly noteworthy for silver. What required preconditions? That's simple – the ocean of money sloshing around and the existing mechanisms that could funnel a very small portion of that ocean of money into physical silver with the ease of a single phone call or the click of a computer mouse.

For silver, the amount of money required to jolt prices is nowhere near the hundreds of billions of dollars sloshing around. At current prices, just one billion dollars amounts to 40 million oz of silver; \$2 billion amounts to 80 million oz. In my opinion, the sudden purchase of such amounts would send the price of silver spiraling higher, given the documented physical tightness and shortage. What about the existing mechanisms?

Here we're talking about a rush for delivery on COMEX futures contracts and money flows into the silver ETFs, the very same mechanisms for which there is a decided lack of buying currently. The coming rush for delivery on COMEX contracts I envision being primarily from those in the business of silver (users and their suppliers) being familiar with the knowledge that physical delivery is guaranteed by COMEX contract terms. That knowledge will only be put to the test once actual physical delays are experienced by the users.

The case for silver ETF buying is even more compelling, as while it could be utilized by actual silver users, the prime candidates will, most likely, be investors, particularly of the institutional and large investor variety (the very same entities involved in the bank runs). And it's not just SLV, the largest silver ETF, now more than 17 years in existence, as there up to ten different silver ETFs in the western world. Many years ago, a good friend of mine, Carl Loeb, coined the term "Death Star" to describe SLV as destined to garner all the silver in the world – a prediction well on its way to fulfillment; only now joined by a host of other silver ETFs. Between the silver ETFs and the COMEX warehouses, they already account for close to 70% of all the silver bullion in the world.

Therefore, it's not a question of coming up with new mechanisms to convert a small portion of the massive money flows occurring before our eyes in the banking world – it's simply a matter of time before a very small slice of those flows is directed to silver. As to the exact timing of those coming

flows – does that really matter? It could come in days, weeks, months or even longer (although it is hard for me to imagine it could take much longer in current conditions). Sometimes we get too obsessed in trying to time the inevitable (to which I plead guilty).

So, does it really matter much if current buying demand for COMEX deliveries and silver ETFs is lacking, when it seems obvious that it will kick in with a vengeance soon enough? Of course, it remains to be seen if we get a drop, then a pop in prices due to the usual COMEX price manipulation or we skip the drop part and proceed straightaway to the pop part, especially in silver.

(A couple of housekeeping announcements. First, I switching to the July contract in silver from the May contract, which has the effect of adding around 22 cents to the price. In about a month, I'll switch from the June contract for gold to the August contract, which will add around \$18 to the price of gold at that time. These wide price differentials are a function of high short term interest rates.

Secondly, I plan on a summer return to Maine early next week (weather permitting), so there won't be a mid-week article on Wednesday. It's also possible next week's review might be slightly delayed, but not beyond Sunday).

Ted Butler

April 29, 2023

Silver – \$25.30 (200-day ma – \$21.49, 50-day ma – \$23.14, 100-day ma – \$23.28)

Gold – \$1999 (200-day ma – \$1812, 50-day ma – \$1942, 100-day ma – \$1903)

Date Created

2023/04/29