April 3, 2021 – Weekly Review

After setting new four-month lows in silver and retesting nine-month lows in gold into the quarter end mid-week, silver and gold prices came back strongly on Thursdayâ??s end to the trading week, finishing down only 6 cents in silver and a dollar in gold. While the end of the first quarter did feature a reduction in the 8 big gold and silver shortsâ?? total loss, by Thursdayâ??s close the loss remained at last Fridayâ??s level, or just under $9 billion from when I started calculating in June 2019.

As a result of the near unchanged weekly price close, the silver/gold price ratio ended at 69.1 to 1, a tiny change in goldâ??s favor. Since I am convinced the price lows are behind us for both metals, I would expect silver to regain its relative price momentum in the immediate time ahead, certainly over the longer term.

In fact, the prospects for an immediate price surge higher look especially promising, particularly after the changes in market structure reported in yesterdayâ??s Commitments of Traders (COT) report, which Iâ??ll dig into momentarily. Iâ??m hard pressed to find any convincing evidence for why both gold and silver prices arenâ??t set to rocket higher.

The turnover or physical movement of metal either brought into or removed from the COMEX-approved silver warehouses â??cooled offâ?• in the holiday shortened 4-day reporting week, as just under 4.1 million oz were moved. I should point out that on an average daily basis, this weekâ??s turnover is still slightly above the average weekly of the past ten years. Another 2.3 million net oz were removed from the COMEX silver warehouses this week, leaving the total at 369.5 million oz, the lowest level in more than six months. No change this week in the JPMorgan COMEX silver warehouse, where holdings remained at 189.2 million oz.

Since I canâ??t easily imagine why investors would remove the nearly 30 million oz that has come out of the COMEX silver warehouses since yearend, I canâ??t help but believe the withdrawals are related to user demand, an integral component of silverâ??s highly unique investment/user dual demand profile. Jumping ahead, I think user demand is also at play in the continued reductions in physical holdings in the big silver ETF, SLV, but I still believe most of the redemptions in SLV are related to conversions of shares into direct metal ownership.

There was a net reduction of 0.3 million oz in the COMEX gold warehouse inventories, to 37 million oz, with the holdings in the JPMorgan warehouses accounting for about half the reduction as JPMâ??s totals fell by 150,000 oz to 13.33 million oz.

Deliveries against the big April COMEX gold contract were heavy at more than 20,000 contracts (2 million oz) for the first two delivery days, with Goldman Sachs on both sides, first issuing 8900 contracts (the exact same amount it issued in Feb) out of its house account and then turning around and stopping nearly 5000 contracts, also in its house account. JPMorgan was the standout stopper of more than 12,700 contracts, virtually all for clients. While large, for the life of me, I donâ??t know what the deliveries signify â?? certainly nowhere near the significance of paper positioning, as strange as that may sound.

Since COMEX paper positioning has been all that matters when it comes to price, let me turn to the new COT report. Going into this weekâ??s Tuesday cutoff, both gold and silver prices were sharply lower, with gold down as much as $45 and silver by as much as $1.25 and penetrating its 200-day moving average for the first time in a year. Therefore, it was preordained that there would be non-commercial selling and commercial buying because that is an axiom so strong that I can count on one finger the times that axiom has proven wrong over more than three decades. The only question was how much commercial buying there would be.

As it turned, I ventured a guess on the amount of commercial buying there might be, for the first time in weeks, and was relieved I didnâ??t embarrass myself. I guessed a reduction in the headline number of the total commercial short position in silver of between 3000 to 5000 contracts and between 5000 to 10,000 contracts in gold and threaded the needle, as the numbers were 4400 in silver and 8100 contracts in gold.

Again, the whole point of the exercise is not to lament when off or pat myself on the back when correct, but to demonstrate (mostly to myself) if Iâ??m reading the positioning and the meaning of the positioning correctly. And certainly, I wasnâ??t disappointed by the specific category changes, which turned out to be quite dramatic, but still beyond any legitimate way to predict beforehand.

In COMEX gold futures, the commercials reduced their total net short position by 8100 contracts to 193,700 contracts, a new (bullish) low not seen since June 4, 2019. While the change in the headline number was fully expected, the changes by commercial categories were not. The 4 big shorts actually added around 3000 new shorts (to 147,673 contracts) and the next 5 thru 8 largest shorts added 400 more, increasing the big 8 short position by nearly 3400 contracts to 200,948 contracts (20.1 million oz).

The only way the total commercial short position could decline with big 4 and 8 new shorting was with raptor (smaller commercial) buying and this reporting week, the raptors bought 11,400 net contracts, reversing what had been a 4,200 net contract short position the prior week into a 7,200 net contract long position. This is the first time the gold raptors have been net long since June 11, 2019 and is flat-out bullish.

I donâ??t sense that JPMorgan did much in gold (or silver) and is still net long by maybe 9000 contracts or so, with my major impression being that the worldâ??s most crooked bank is laying as low in profile in COMEX gold and silver dealings as possible in order to avoid any appearance of causing what I sense will be dramatic upside price action ahead. Meanwhile, just about all the cause for any dramatic price action ahead can be laid at the feet of JPMorgan.

On the sell side of gold, the managed money traders were, somewhat surprisingly, small net sellers of only 448 net contracts, consisting of new longs of 5068 contracts and new shorts of 5516 contracts (with the new longs more the surprise). With so little net managed money selling, it fell to the other large reporting traders and the smaller non-reporting traders to sell and they did so with more than 6000 contracts and 1500 net contracts respectively.

Overall, the managed money net long position is still quite low and the other large reporting net long position still quite large to perfectly compliment the low commercial net short position in pronouncing the gold market structure as so exceedingly bullish so as to make me believe it is up, up and away from here in gold.

In COMEX silver futures, the commercials reduced their total net short position by an expected 4400 contracts to 45,200 contracts, the lowest (most bullish) level since May 19, 2020. But the commercial category changes were even more surprising and opposite to what was seen in gold. Whereas the big 4 were sellers in gold, the big 4 in silver were the standout buyers, in buying back and covering 3800 short contracts and reducing their concentrated short position to 52,851 contracts (264.3 million oz).

Let me stop here a moment to point out that since the price top of Feb 2 â?? a top that was capped by exclusive big 4 short selling â?? the 4 big shorts have now bought back and covered 12,411 short contracts or 62 million oz, thus completing another near-perfect price cap and flush out. Remarkably, even after the large short covering, the 264 million oz short position of the big 4 remains fully a third of total world annual silver mine production. While Iâ??m still awaiting the coming response from the CFTC of my letter of March 5, the 4 big crooks have pulled off yet another rigged price take down in silver. Thanks for quick regulatory response and staying on top of things guys. Iâ??ll come back to this in a bit.

Finishing up on the commercial side of silver, the big 5 thru 8 shorts didnâ??t do anything and the resultant big 8 concentrated short position fell to 70,209 contracts (on the big 4 covering) or 351 million oz or 44% of annual production. This week, the raptors â??onlyâ?• bought about 600 contracts, increasing their net long position to 25,000 contracts, their largest net long position since last June and bullish without question. As already indicated, I donâ??t sense JPMorgan did much and is still flat to maybe a thousand contracts net long, as it tries to make itself as low-profile as it can.

On the sell side of silver, the managed money traders did sell a less than expected 1033 net contracts, consisting of the sale and liquidation of 2474 long contracts (no surprise) and the purchase and liquidation of 1441 short contracts (a pleasant surprise). The reason Iâ??m calling the short covering a pleasant surprise is that it further diminishes any fears I may have expressed on Wednesday about the potential for a big increase in managed money shorting. As was the case in gold, the other large reporting traders and smaller non-reporting traders providing the bulk of the net selling in silver with nearly 1500 net contracts and more than 2300 net contracts respectively.

As was the case in gold, the market structure in silver looks to be as good as it will get and I will be very disappointed if itâ??s not up, up and away in silver from here as well, only to a much greater degree.

The large raptor net long position in silver (and to a much smaller extent in gold) does still provide the opportunity for the 4 big shorts to buy aggressively to the upside should the raptors revert to past form and sell longs on a quick rally of $2 or $3 and the big shorts race to get ahead of expected managed money buying on higher prices. Neither this or big 4 short covering has ever occurred before, but thereâ??s always a first time for everything and I still believe that time is at hand in silver.

Getting back to matters concerning the CFTC, there were a number of notable occurrences this week, including the announcement that the former chairman Heath Tarbert signed on with Citadel Securities as chief legal officer less than a month after he left the Commission on March 5. Â I donâ??t begrudge anyone the opportunity to advance him or herself financially, but I canâ??t help be taken aback by the appearance of the notorious revolving door between regulators and the regulated.

https://www.reuters.com/article/us-heath-tarbert-citadel-securities-idUSKBN2BO6X3

Much more important was the public statement of Commissioner Dan Berkovitz in the matter of the epic meltdown of Archegos Capital Management, a â??family officeâ?• that has created so much consternation in financial markets. A family office is just another term for a hedge fund with no outside investors and that operates on the wealth of its own participants.Â The arrangement results in lax regulatory oversight under the belief that no outside investors mean less oversight is required.

https://www.cftc.gov/PressRoom/SpeechesTestimony/berkovitzstatement040121

The problem is that the amount of assets controlled by family offices ranges into the trillions of dollars, said to exceed the levels in more traditional and more closely regulated hedge funds. As Commissioner Berkovitz correctly points out, regulations have been greatly loosened over the past couple of years, instead of being tightened, directly leading to the recent unprecedented losses of billions of dollars suffered by stock market investors and the banks that served as prime brokers to Archegos.

Berkovits should be highly commended for his public statement and I can only wonder where the heck are the CFTC or the Securities and Exchange Commission in not making similar official statements and plans to reregulate family offices. Likewise, Commissioner Berkovitz should also be applauded for the stances he has taken since he has been in office since he was sworn in on Sep 7, 2018, which have included strong dissentions to the sham of a position limits final rule passed late last year, as well as the non-conclusive CFTC study which white-washed the disaster in the oil markets last year, when prices fell to what should be impossible negative prices.

I know that many, like me, castigate the CFTC (for understandable reasons) and, unfortunately, that includes throwing what I believe to be the few good guys at the agency under the bus. Berkovitz has always been one of those good guys in my opinion, unfortunately, in a minority which made it impossible for him to succeed in doing the right thing. And I say this with the full knowledge that he was previously general counsel at the Commission from 2009 to 2013, under Gary Gensler, while the silver price manipulation was in full force.

My explanation is that both men were not in office when the Commission issued its 16-page public letter in 2008 denying that the short concentration in COMEX silver futures was manipulative in any way (the second such public letter, following the first in 2004). These public letters were â??white papersâ?• and official agency policy that severely limited what Berkovitz and Gensler could do.

But now it has been 13 years since the Commission has commented on the matter of the concentrated short position in COMEX silver futures and it is about to comment in some manner soon (within weeks, if not days), as a result of requests from lawmakers. As Iâ??ve indicated previously, I donâ??t know what the Commission will say to elected officials, other than knowing it must respond.

This creates a rather unique set up in which Iâ??ll get to soon find out (in addition to discovering if Iâ??ll be correct in my contention that the big shorts wonâ??t add to short positions on the next price rally) whether my instincts about Commissioner Berkovitz are correct. Given his outspoken and articulate dissentions to full Commission findings when he does dissent, even if the Commission responds to elected officials that my contentions are all wet, if Berkovitz dissents, he should make his feelings public â?? just as he has with position limits, the oil study, family offices and on other occasions.

What it comes down to is two things. One, what legitimate explanation exists for why COMEX silver has the largest concentrated short position of any other commodity in the real-world terms of actual production? And two, why have the big shorts in silver never (except on one reporting week this past summer) bought back and covered short positions on higher prices? Is there some type of law exempting the big silver shorts from short covering on higher prices?

Perhaps it is a bit unfair for me to put pressure on Berkovitz, but thatâ??s not my intent. I donâ??t know him and have never spoken with him but he has exhibited a certain distinct pattern of behavior in similar matters and I canâ??t see any reason for him to deviate on this one. Â I also know it is risky putting an unknown outcome on the basis of how another will act (after all, I have an ex-wife of close to 50 years ago, so itâ??s a mistake I have made before), but if I do turn out to be wrong about Berkovitz, so be it. Even if the Commission denies, yet again, that the concentrated short position in silver is no big deal, thatâ??s on them, not me. Events are developing in such a way that itâ??s hard to imagine anything at this point holding back the coming explosion in silver.

I went into yesterdayâ??s COT report expecting it to represent the final flush out to the downside and I see no reason whatsoever to alter that view. In fact, the aggressive short covering by the 4 big silver shorts was more encouraging than I was expecting. All systems appear to indicate we are cleared for liftoff. In the spirit of the season, both from the turn of the weather and the religious significance of the holiday, I believe we are about to experience a rebirth in silver and gold prices.

As mentioned at the outset, the 8 big shorts did pull off a bit of a coup into the mid-week end of quarter, but by weekâ??s end, they still ended up close to $9 billion in the hole, largely unchanged from the end of the previous week.

Ted Butler

April 3, 2021

Silver – $25.04Â Â (200 day ma – $24.77, 50 day ma – $26.32, 100 day ma – $25.67)

Gold – $1731Â Â Â Â Â (200 day ma – $1859, 50 day ma – $1772, 100 day ma – $1818)

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