August 20, 2022 – Weekly Review

Gold and silver prices were clobbered this week, as gold fell $57 (3.1%) and silver feel by a much steeper $1.85 (8.9%). It was the worst selloff in a couple of years, as prices of each metal fell every single day of the week. As a result of silverâ??s sharp relative underperformance, the silver/gold price ratio blew out by five and a half points to 92.7 to 1, the most undervalued silver has been relative to gold in two years.

What a difference a week makes, as last week at this time, it looked to me like both metals, but particularly silver, were about to take off, following months of sharp price declines, in which the commercials reduced their net short position by historical amounts. Yes, there was a troublesome buildup in the concentrated short position of the former large COMEX commercial shorts in gold over the two previous reporting weeks, but that was not the case in silver â?? so, the sharp relative weakness there was particularly puzzling.

Most puzzling of all is that the cause of the sharp price declines was not, as is almost always the case, didnâ??t appear to reside in COMEX futures positioning, either in the reporting week ended Tuesday or in trading since the cutoff. This weekâ??s epic selloff didnâ??t appear to me to be directly related to massive commercial snookering of the managed money traders to sell so that the commercials could buy.

To be clear, it certainly wasnâ??t a case of the commercials selling and the managed money traders buying, so there are no â??man bites dogâ?• headlines here â?? it was something else entirely. Iâ??ve been (quite literally) agonizing over what was behind this weekâ??s completely unexpected selloff to no avail, almost to the point of questioning my sanity, until a simple question from Jim Cook, president of Investment Rarities, late yesterday appeared to provide the answer. So as not to disturb the usual weekly format, let me run through that first, before turning my attention to what I think really happened this week.

The turnover or physical movement of metal either brought into or removed from the COMEX-approved silver warehouses came to 6 million oz this week, about a million oz or more above the weekly average of the past 11 years. This weekâ??s movement, when annualized, comes to more than 300 million oz when annualized, still a staggeringly large sum when compared to any other commodity over this time. Total COMEX silver holdings fell to fresh two-year lows of 332 million oz, down by 1.4 million oz for the week. Silver holdings in the JPMorgan COMEX warehouse fell a sharper 2.4 million oz, to 172.2 million oz.

Along with even sharper declines in the holdings in the big silver ETF, SLV, itâ??s hard not to make the connection that silver has been depleted from the two single largest stockpiles of metal in the world to satisfy the large reported increases in demand from two of the largest silver consumers in the world, India, by far the largest, and China. Reports from India are particularly noteworthy, as the country appears headed to import close to 250 million oz this year, or 30% of total world silver mine production.

Looking back, silver imports into India fell off a cliff in 2020 and 2021, now apparently explained by the rather sharp increase in the price of silver relative to the years prior to 2020. Indian silver consumers are traditionally extremely price sensitive, only buying when they perceive the price of silver to be low and a good bargain (different from Western investors). Silverâ??s low price this year fully explains the surge in Indian investment demand and there is nothing about the recent swoon in silver prices to suggest that the surge in demand this year will peter out.

The story with China is somewhat similar. We started out this week with price weakness across the board due to reports of economic weakness in China pressuring commodities of all types. In terms of commodity consumption, if China sneezes, the whole world catches a cold. Take copper, where China consumes 50% of world copper production and any hint of economic weakness would cause copper prices to crash. But after starting off the week lower, by weekâ??s end, copper prices were back to unchanged. Ironically, gold and, particularly silver, prices were clobbered into weekâ??s end, despite the same reports from China indicating a surge in gold and silver jewelry consumption.

Moreover, given the Chinese peoplesâ?? ingrained characteristic to work hard and save, developments there suggest the possibility of a surge of buying in gold and silver. Widespread reports of bank failures (and no FDIC-like deposit insurance) and property market distress point to structural changes in how the Chinese people may save in the future, with savings flows into gold and silver looking much more likely. As to how in the world gold and silver prices could be lower in the face of this, I hope you know by now that gold and silver prices are set on the COMEX with absolutely no regard for real world developments. And if you didnâ??t know that by now, after this week, you should. (Obviously, Iâ??m not referring to subscribers).

Likewise, holdings in the COMEX gold warehouses, fell again, this week by another 700,000 oz to 28.6 million oz, another new two-year low. Holdings in the JPM COMEX gold warehouse slipped by 0.2 million oz to 11.86 million oz.

Holdings in the worldâ??s gold and silver ETFs continued to fall, but more and more it looks like the reductions are the result of conversions of shares to metal and some of that is to satisfy flows to India and Asia, rather than plain-vanilla investor liquidation. Yes, this should be bullish for price and would be, if it werenâ??t for the increasingly obvious price manipulation on the COMEX.

Turning to yesterdayâ??s new Commitments of Traders (COT) report, unfortunately, the results were as expected and there were no positioning surprises. Yes, prices were lower over the reporting week (more after the Tuesday cutoff), but the low trading volumes were the tipoff to not much in real positioning changes. To a large extent, that most likely prevailed in trading since the Tuesday cutoff, as I hope to explain in a moment. The positioning changes this week were minor, so let me run through them quickly.

In COMEX gold futures. The commercials reduced their total net short position by a scant 800 contracts to 153,700 contracts. With such a low total change, the individual category changes couldnâ??t have been large and they werenâ??t. The 4 big shortsâ?? position (now all-commercial) increased by a thousand contracts to 113,036 contracts (11.3 million oz) and the big 8 short position (which still appears to include a managed money trader) came to 185,212 contracts (18.5 million oz). There were marginal changes in the gold raptor net long position, depending on the size of the managed money short in the big 5 thru 8 category, which Iâ??d quantify if I had a microscope.

The managed money traders were bigger gold sellers than the commercials were buyers, to the tune of 4361 net contracts, consisting of the sale and liquidation of 3248 longs and the new sale of 1113 short contracts. The managed money net long position fell to 36,373 contracts (96,765 longs vs 60,392 shorts), still quite bullish on an historical basis, but nowhere near as bullish as a few weeks ago, when it was a net short position of 18,000 contracts or so. Net buying of nearly 2700 contracts by the other large reporting traders, plus another 800 contracts of net buying by the smaller non-reporting traders, mostly in the form of short covering accounted for the difference between what the commercials bought and the manged money traders sold.

In COMEX silver futures, the commercials reduced their total net short position by 1100 contracts to 12,500 contracts. This is still an extremely low (and bullish) commercial net short position. While there was some slight increase in the big 4 short position of the 4 and 8 largest shorts, overall net commercial buying persuades me to believe there was no real increase in big commercial shorting (despite some managed money short covering). Calculated arithmetically, the big 4 short position came to 39,686 contracts and the big 8 short position came to 62,344 contracts â?? up 900 and 2400 contracts respectively, but the commercial only component was still 29,000 and 46,000 contracts respectively. If correct, the raptors are net long 33,500 contracts. The important point is that these are minimal changes

On the non-commercial side, the managed money traders were actually slight net buyers of 452 silver contracts, consisting of the sale and liquidation of 688 longs and the buyback and liquidation of 1140 short contracts. The managed money traders are still net short 6091 contracts (31,781 longs vs 37,872 shorts), which is remarkably bullish. Net selling of more than 1700 contracts by the smaller non-reporting traders accounted for the difference between what the commercials and the managed money traders bought, but the same microscope was required to make sense of this weekâ??s slight positioning changes.

As indicated at the outset of this review, a week ago, it looked to me like the price ride up, particularly in silver, was at hand. Instead, we just witnessed the price week from hell â?? the face of nothing but extremely bullish signs from the real world of silver, particularly as concerned India and China. I spent every day agonizing over what was behind the severe disconnect between what should be transpiring price wise and what was actually occurring. This was particularly true in regards to the positioning changes on the COMEX, as was borne out in the largely as expected minor changes in the COT report.

I had little choice but to chalk it up to one of those sharp COMEX selloffs that carries much further than what I would have ever expected, very similar to the extreme selloffs of March 2020 when prices fell below $12 and, before that, the selloff into December 2009, when prices fell to under $9. But on both of those previous occasions, there was a full explanation in extreme COMEX positioning changes and both those two prior selloffs led to outsized gains in not that long a time.

However, the truth is that this time, for the first time ever, there was no obvious COMEX positioning explanation and this is what had me in a quandary. I knew, for sure, that silver prices were being driven lower due to trading on the COMEX, because not to know that by this time would mean I had lost my mind completely, but I just couldnâ??t put my finger on what the motivation was for the sharply lower prices, since big positioning changes between the commercials and the managed money traders had to be ruled out (as confirmed in yesterdayâ??s COT report).

In a conversation late yesterday with Jim Cook, he asked the question that, somehow, hadnâ??t occurred to me for some inexplicable reason. Jim asked if the highly-counterintuitive selloff I was moaning about could be related to the short position in SLV and my head nearly exploded because it was so obvious that I couldnâ??t conceive why I hadnâ??t thought of it. Talk about being too close to the trees so as not to see the forest. I had been so pre-occupied with the excessive short position in SLV, even to the point of making a portion of Wednesdayâ??s article public, that I failed to make perhaps the most obvious connection possible.

https://silverseek.com/article/short-position-slv

Simply put, the most plausible explanation for the highly-counterintuitive selloff in silver this week in the face of nothing but legitimate reasons for why prices should have exploded was due to the short position in SLV and Iâ??m embarrassed it wasnâ??t immediately obvious to me. As I have tried to explain, the excessive short position in SLV is very much a BFD (big f-ing deal) for a number or reasons â?? otherwise I wouldnâ??t have complained to the SEC and written about it publicly. The short position in SLV is such a big deal that it automatically rises to the top of the list as far as explanations for the truly putrid price performance in silver this week.

What makes the short position in SLV such a big deal is that the most plausible, if not the only possible reason for its existence is a wholesale shortage in silver of 1000 oz bars. The short position in SLV exists because there is not sufficient physical silver available for deposit, as is required by the prospectus. There are much better and efficient ways of betting on lower silver prices than by shorting shares of SLV – for instance, shorting futures contracts or buying put options. The fact that commercial shorting on the COMEX is at extremely low levels flies in the face of extremely large levels of shorting in SLV. The only reason for an AP (Authorized Participant) to short shares of SLV at a time of extremely low silver prices and low levels of commercial shorting on the COMEX is the unavailability of physical silver to deposit for newly-created shares, as is required by the prospectus. Iâ??m still waiting for a legitimate explanation to the contrary.

But wait a minute, some may say â?? I thought you claimed prices were set on the COMEX, so whatâ??s the connection between lower prices set on the COMEX and the massive short position in SLV? For sure, silver (and gold) prices are set on the COMEX – same as it ever was – only this week prices werenâ??t set lower for the prime purpose of inducing managed money selling (which is almost always the motivation). This week, prices were rigged lower on the COMEX to make it easier for whoever is short SLV to buy back short positions in SLV. Same mechanism (COMEX price-setting), different motivation. Please think this through.

The only way the big short sellers in SLV could rig prices lower was not by shorting more shares of SLV, as that would have only dug their hole deeper; but by using the crooked and illegal price mechanism of rigging prices lower on the COMEX, so that the shorted shares of SLV could be bought back. In fact, there was no other way. For the big short sellers in SLV, to simply buy back shares without using the COMEX price mechanism to rig prices lower would have sent silver prices soaring â?? the very last thing the big SLV short sellers would desire. I canâ??t explain how I didnâ??t see this until Cook asked me the question â?? but better late than never.

As to who the big or biggest SLV shorts may be, thereâ??s no way of knowing for sure, but my senseis that itâ??s not JPMorgan, because this crooked bank seems much too smart to be a or the big shortin SLV, given the repercussions of getting caught violating its deferred prosecution agreement with the Justice Department. And as far as why gold tagged along to the downside, when the short position in GLD, the big gold ETF, is very much on the low side historically, I believe the COMEX price-riggers this week (the big SLV shorts), realized it may have looked way too suspicious had silver fallen as much as it did, with no comparable fall in gold prices.

Finally, it remains to be seen if the big SLV short sellers will prove successful in covering as many of their shorts as they desire. I believe I know what they are attempting to do, namely, rig silver prices lower by phony paper trading on the COMEX in order to buy back as many of their SLV shorts without having to resort to buying back on higher prices, but the jury is still out on how successful they may prove to be.

A big remaining question is when will we see evidence of short covering in SLV? I donâ??t know. The new short report that will be released late Wednesday (too late for inclusion in the mid-week article) will cover positions as of Monday, August 15, the first day of this weekâ??s epic selloff. Most likely, it will take until the following short report is released on Sep 12, for positions held as of August 31, to get a clearer picture. I have erred in trying to handicap the short report too many times to venture a guess on future reports. Compounding the problem for the big shorts in SLV is the continued low trading volume, as that only complicates any quest to buy back as many shorts as possible in the quickest period of time.

The biggest question, of course, is where the heck are the regulators while this is going on? I have put the SEC on notice (and have received confirmations that my complaints were received), but, obviously, this is very much a matter for the CFTC and the CME Group, as well and Iâ??ll send them this article as I have all along. The issues Iâ??m raising are substantive and documented and every bit the big deal I claim them to be. Yet, nothing ever seems to be the job of the regulators â?? what the heck do these people do all day? If they consider my observations to be trivial and devoid of the seriousness I allege, then they should simply explain why.

Then again, if I am remotely close to accurately describing whatâ??s going on (I happen to think Iâ??m spot on), what I have described is nothing less than the existence of a profound physical shortage in wholesale quantities of silver that is much closer to hitting the proverbial fan that anyone can imagine. While I wouldnâ??t attempt to try and pinpoint when the turn up may come, it seems impossible that silver prices, regardless of where they may go in the short run, will not be substantially higher in the not distant future. I have always made it a practice not to underestimate the treachery and cunning of the commercial shorts on the COMEX and now in SLV, and this latest manipulative episode in the shorted shares in SLV only prove these crooks are relentless.

That said, a physical silver shortage appears to be close at hand and based upon what has transpired this week, any other conclusion seems far-fetched. One thing of which Iâ??m increasingly certain is that whenever the real move higher in silver gets initiated, it wonâ??t be of the two steps forward, one step back variety. Instead, we go straightaway and with no looking back.

Ted Butler

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Silver – $19Â Â Â Â Â Â (200Â day ma – $22.69, 50 day ma – $20.01, 100 day ma – $21.60)

Gold – $1761Â Â Â Â (200 day ma – $1842, 50 day ma – $1781, 100 day ma – $1835)

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