August 28, 2021 – Weekly Review

A strong Friday surge pushed gold and silver prices higher for the week, with gold ending up $38 (2.1%) and silver up $1.05 (4.6%). For gold, it was the highest close in nearly three months, while it was the highest weekly close for silver in three weeks. As a result of silverâ??s relative outperformance, the silver/gold price ratio tightened in by nearly two full points to 75.7 to 1, but leaving silver still much closer to its most undervalued level of the year to date (as well as a bargain).

Is this the start of the upside market event Iâ??ve been expecting? So far, the signs seem to be pointing that way, including a quite rare â??golden crossâ?• in gold where all three key moving averages (50, 100 and 200-day maâ??s) were upwardly penetrated on Friday (at least from that dayâ??s price lows). Again, Iâ??m not a proponent of the moving average church of technical analysis, but the religion does have enough adherents to matter. Silver prices are still far below moving average crossovers, but if any market can move sharply in a hurry, it surely is silver.

No doubt there are many factors pointing to much higher gold and silver prices â?? just read any newspaper â?? but the one thing thatâ??s been missing is strong long speculative positioning in COMEX futures. In fact, as the ongoing data in the COT reports illustrate over the past few months, it has been technical speculative selling that has resulted in the recent low prices. But, as always, there is a limit to how many contracts the speculative element can be induced (tricked) into selling (both long liquidation and new short selling) and while subjective and only truly known in hindsight, those limits now appear to be in the rear-view mirror.

If weâ??re not there already, we will soon be there as to what will determine prices, particularly in silver, and that determination will be based upon whether the biggest silver shorts add aggressively to short positions on the developing rally. Yes, I know I have been a broken record on this matter, but Iâ??ve been a broken record on other things as well, such as insisting that silver (and gold) prices have been manipulated by COMEX paper positioning for decades and a heck of lot more folks have come to accept that than not over the years. But there is a big difference between coming to accept a long-term manipulation in the face of the endless confirmation of COT data over the years and accepting any idea that the manipulation may be about to end suddenly.

Not only do I fully-understand the extreme reluctance to accept any suggestion that something could be about to change that has taken many years to come to accept, there is no way I could guarantee the change is at hand. And being the very first to uncover the COMEX manipulation decades ago doesnâ??t bestow any particular insight as to when, if ever, it may end. However, neither does my personal involvement (like petitioning the regulators from the beginning) necessarily disqualify me in assessing the manipulationâ??s end.

Rather than try to predict the manipulationâ??s end in date-specific terms (which is all that anyone wants to hear), instead I have constructed the precise manner of the manipulationâ??s end, namely, the behavior of those responsible for the manipulation. The North Star of the COMEX silver manipulation for the past four decades has been the ability of the largest commercial short sellers to add enough new shorts on any and every rally to eventually cap those rallies. Therefore, it follows that the very first time those big shorts donâ??t add new shorts, the manipulation is history. Â Whether that time is finally at hand, as I strongly suspect, should be known in the near future. Let me take up this line of thought in a bit, including a slightly different take on the whole matter, after a brief review of the usual weekly developments.

The turnover or physical movement of metal either brought into or removed from the COMEX-approved silver warehouses remained â??subduedâ?• as â??onlyâ?• 4.5 million oz were moved this week. Iâ??m using quotation marks to emphasize how a slow weekâ??s movement in silver is still so large, 30% of annual world mine production, that would be unprecedented for any other industrial commodity. Plus, weâ??re talking about a handful of warehouses in and around NYC, not an especially well-known mining center. For the benefit of newer subscribers, Iâ??ve postulated from the time this unusually large physical movement began, 10 years ago, that it was due to strong demand for physical silver and thatâ??s still my take. Total COMEX silver inventories rose 0.3 million oz to 362.1 million oz (not particularly large considering that Tuesday is the first delivery day for a traditional COMEX silver contract). No change in the JPMorgan COMEX silver warehouse, still at 186.2 million oz.

Total gold holdings in the COMEX warehouses slipped another 0.4 million oz to 34.5 million oz and the holdings in the JPMorgan COMEX warehouse fell by 0.16 million oz to 12.64 million oz.

Physical metal holdings in the worldâ??s gold and silver ETFs fell this week, with the reductions more pronounced in gold than in silver. Should we be about to embark on a higher price journey, as I suspect, it should be expected that physical inflows would resume. As it stands, silver ETF holdings have been rather steady since earlier in the year, while gold ETF holdings are noticeably lower.

It takes a day or so for physical holdings in the big silver ETF, SLV, to be fully reported, so I am especially interested in what the next day or so indicates for deposits or withdrawals in light of yesterdayâ??s extremely large and somewhat unexpected trading volume in shares of SLV. Yesterdayâ??s large trading volume in SLV (38 million shares) struck me as well-informed, particularly since there had been no reduction in the very large short position, as I discussed on Wednesday.

Turning to yesterdayâ??s Commitments of Traders (COT) report, there were no real surprises and, quite frankly, itâ??s much more important as to what happened in yesterdayâ??s trading than in the report just published. Gold prices did rally by more than $20 over the reporting week and hit but did not upwardly penetrate a key moving average or two into the cutoff, so managed money buying and commercial selling were expected. In contrast, silver prices were more mixed, lower over the first three trading days of the reporting week and rallying on the last two days and I was unsure of what to expect, with a key variable being whether the managed money traders rushed to cover short positions, as they did in gold.

Yesterdayâ??s report indicated no large short covering by the managed money tradersâ?? short silver, but I get the sense that rather than simply holding positions over the reporting week, the managed money traders added to short positions early in the reporting week and bought back those added shorts by the reporting weekâ??s end. Itâ??s important to remember that COT reports are a â??snapshotâ?• of positions as of the Tuesday close and not a full representation of what transpired over the course of the reporting week. At least as of Tuesday, the large managed money trader I opined was in the big 5 thru 8 category was still there, although that may no longer be the case after yesterdayâ??s trading. We should know more, of course, next Friday.

In COMEX gold futures, the commercials increased their total net short position by a hefty 20,500 contracts to 234,700 contracts, following the prior weekâ??s 18,400 contracts of net selling. Thus, the entire 35,600 contract reduction of the commercial short position as of Aug 10, has been undone (thatâ??s not quite the case with counterparty managed money activity). In simple terms, we are now back to where we were, market structure wise in gold, as on Aug 3, just prior to the $100+ highly-engineered blast to the downside into Monday, Aug 9. More and more, I believe the deliberate price blast in gold into Aug 9, had more to do with influencing silver prices lower than any other single thing.

By commercial categories in gold, the 4 big shorts added around 5400 new shorts to a concentrated short position amounting to 153,944 contracts (15.4 million oz) as of Tuesday. The 5 thru 8 next largest shorts (all commercials) added 2800 new shorts and the big 8 concentrated short position is now 232,178 contracts (23.2 million oz). Completing the Three Musketeer commercial effort, the raptors (the smaller commercials) sold 12,300 gold contracts, flipping what was a 9800 contract net long position to a net short position of 2500 contracts.

On the buy side of gold, the managed money traders bought 16,366 net contracts, consisting of new longs of 9364 contracts and the buyback and covering of 7002 short contracts. Making up the difference between what the commercials sold and the managed money traders bought were the other large reporting traders accounting for 2700 contracts of net buying and the remainder by the smaller non-reporting traders. The other large reporting traders hold their largest net long position in six months.

I would also note a fairly sharp increase of 30,000 contracts in the concentrated net long position of the 4 largest traders in gold since Aug 3, to 113,565 contracts in this weekâ??s report, which looks attributable to the other large reporting traders.

In COMEX silver futures, the commercials increased their total net short position by a scant 600 contracts to 36,100 contracts, just a hair up from the prior weekâ??s record low since May 2020. And while there was some increase, less than 1100 contracts, in the big 4 short position to 40,459 contracts (202.3 million oz), the concentrated short position is still at 6-year lows. The big 5 thru 8 shorts bought back 300 shorts and the big 8 short position was 57,641 contracts (288 million oz), also still at 6+ year lows. The raptors increased their net long position by 200 contracts to 21,500 contracts. Again, I do believe there were more substantial positioning changes within the reporting week, but those changes were largely neutralized by the close on Tuesday.

With such a small net positioning change on the part of the commercials, the managed money traders in silver also didnâ??t do much, in buying 869 net contracts, consisting of the sale and liquidation of 133 longs and the buyback and liquidation of 1002 short contracts. The lack of greater short covering convinces me the managed money short which entered the ranks of the big 5 thru 8 shorts was still there as of Tuesday.

The biggest difference between the positioning and market structures in gold and silver is that compared to where we were on Aug 3 (before the big price smash), the COMEX gold market structure is now close to where it was on that date (and earlier), while the silver market structure has improved measurably, particularly as concerns the concentrated short position. Â On Aug 3, the total commercial net short position in gold was 231,300 contracts, 3400 less contracts than on Tuesday, with no marked change in the concentrated short positions on either date. Â On Aug 3 in silver, the total commercial net short position was 16,000 contracts MORE than it was on Tuesday, with the concentrated short position of the 4 largest traders also 6000 contracts more than it was on Tuesday.

Going back to June 15, the contrast between gold and silver is even more pronounced. Little more than two months ago, the total commercial net short position in gold was 231,100 contracts, nearly matching the short positions of Aug 3 and on Tuesday. The concentrated short position of the 4 largest gold traders is 16,000 contracts greater now than what it was on June 15 . In silver on June 15, the total commercial short position was 71,000 contracts or 35,000 contracts greater than it was on Tuesday (in marked contrast to gold) and the concentrated short position of the 4 largest shorts, also in stark contrast to gold, was close to 17,000 contracts more than it was on Tuesday.

Therefore, in little more than two months, both the total commercial short position and concentrated short position of the 4 largest traders in COMEX silver have fallen sharply, in sharp contrast to what transpired in gold, where the total commercial short position was static and the concentrated short position grew substantially. Over this time, gold fell by as much as $200, before recovering nearly $150, while silver fell by more than $5, recovering barely more than a dollar from the lows. What does this imply?

It suggests to me that the gold market was rigged lower to aid in the commercialsâ?? effort to both reduce the total commercial net short silver position and particularly the concentrated short position. To many, it would seem not likely that a much bigger market, gold, would be used to influence a much smaller market, silver, and I understand that line of thinking. However, knowing how much more important the concentrated short position in silver is than its counterpart in gold, it makes perfect sense that gold would be temporarily rigged lower to reduce the concentrated short position in silver. Certainly, anyone can look at the actual data and see that the selloff in gold and silver had a profoundly different outcome in each in terms of the concentrated short position in silver being much less than it was on June 15 than it is today and the opposite outcome in gold. But itâ??s more than just the raw data.

Itâ??s also much more critical whether the concentrated short position in silver increases on the next rally than it does in gold. Thatâ??s because the 4 big shorts in gold being short the equivalent of 15.4 million oz is really no big deal in a world where 3 billion oz of gold bullion exists. In silver, I would advance the idea that 4 big traders short 200 million oz of silver in a world where 2 billion oz of silver bullion exists (with most of that held in publicly-traded ETFs) is vastly more important as to whether that short position increases.

Itâ??s no accident or by happenstance that the concentrated short position in silver has been as sharply reduced as it has been, whereas the corresponding position in gold has grown, owing to the much greater criticality of the concentrated short position in silver. To my knowledge, there has never been any complaint made to the regulators about the concentrated short position in COMEX gold â?? certainly not by me. And there is absolutely no record or any acknowledgement by the CFTC that it ever considered the concentrated short position in gold.

By contrast, there has been nothing but compelling evidence of complaints about the concentrated short position in COMEX silver (by me), and public acknowledgement of consideration by the Commission that it has seriously considered the complaints, most recently on May 3 of this year. In fact, I canâ??t separate the Commissionâ??s most recent response from the actual dramatic reduction in the concentrated short position in silver. Â So, from both the actual record of the reduction in the concentrated silver short position and the CFTCâ??s official response that it was considering my recent allegations about same (and not forcefully arguing against those allegations as it had in the past), itâ??s hard not to see a direct connection, particularly when no such evidence exists in gold on either count.

Therefore, the bottom line on all this is that the concentrated short position in silver is all that matters and what matters more than anything else is whether the concentrated short position of the 4 largest traders increases on the next rally. In other words, this issue is not as critical in gold (or any other market) as it is in COMEX silver. Weâ??ll only know for sure in the fullness of time, but it stretches credulity to imagine the 4 big shorts turning around and re-shorting the many thousands of short silver contracts they just masterfully covered on just a few dollar rally â?? and squandering the opportunity to finally step aside (still with much damage ahead) from the consequences of a price manipulation that will only grow worse in time.

Just like JPMorgan abandoned its short position in COMEX gold and silver back in the spring of 2020 on the epic price smash at that time, leaving the other big shorts thoroughly double crossed and set to suffer financially ever since, it has had to dawn on the remaining big shorts that the short side is the wrong side. This is evidenced in the running total losses I have tallied since June 2019. If anyone has been truly aware of those losses, it has surely been the holders of those losses. Unless the remaining big shorts are as dumb as a bag of dirt (I donâ??t think they are), they are anxious to rid themselves of their silver short positions.

Quite simply, the recent sharp reduction in the concentrated silver short position provides the best opportunity to date for the big shorts to say adios to that position. A necessary part of saying good bye to the short position is not to add to it, which only prolongs what has not been a position fully intended from the start. The first rule when one finds himself in a deep hole is to stop digging and that is a rule from which the big silver shorts are not exempt.

The sharp rally in gold and silver prices this week added nearly $1.2 billion to the 8 big shortsâ?? total losses from last week to a total of $10.3 billion.

Having, thankfully, just dodged last weekâ??s storm, best to all in the path of Ida.

Ted Butler

August 28, 2021

Silver – $24.05Â Â (200 day ma – $25.87, 50 day ma – $25.08, 100 day ma – $26.07)

Gold – $1821Â Â Â Â Â (200 day ma – $1812, 50 day ma – $1793, 100 day ma – $1811)

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