December 10, 2022 – Weekly Review/Stunning BPR

After fairly sharp price declines to start the week ($30 in gold and more than a dollar in silver), prices rallied into weekâ??s end, with gold notching only a $2 loss and silver adding on 35 cents (1.5%). As a result of silverâ??s relative outperformance, the silver/gold price ratio tightened by more than a full point to 76.5 to 1, the strongest silver has been relative to gold in nearly 8 months. Over the past three months, the price ratio has tightened in by 20 points, with the only amazement being how silver got to be so weak relative to gold in the first place (surely, no one was messing with the price or anything like that?).

Silverâ??s price close yesterday was the highest in 8 months and goldâ??s close fell just shy of 4-month highs; all the result of a sharp rally over the past month or so of around $200 in gold and $4.50 in silver. The strong rally was primarily the result of positioning changes on the COMEX (no surprise), but with enough new developments, largely in the physical markets, to make this rally unlike any other that comes to mind. To top it off, there were some completely unexpected changes in yesterdayâ??s Bank Participation Report that has my mind reeling (Iâ??ll treat this separately in a bit).

The turnover or physical movement of metal either brought into or removed from the COMEX-approved silver warehouses â??cooled-offâ?• a bit from recent torrid movements, as this week just over 6.1 million oz were moved. After witnessing nearly 12 years of physical turnover of some 4 to 5 million oz of average weekly movement, I find myself amazed to term the 6 million oz movement this week as representing a cooling off â?? but, whoop, there it is. Total COMEX silver warehouse inventories increased by a very slight 0.2 million oz to 300 million oz. Holdings in the JPMorgan COMEX warehouse slipped by the same 0.2 million oz to 150.8 million oz. Having dealt with the extraordinary COMEX silver warehouse turnover on Wednesday, Iâ??ll not rehash the issue today â?? except to point out that this week, the turnover exceeded the net change by more than 30-fold. Just sayinâ??.

Total COMEX gold warehouse inventories nudged up by a slight 0.1 million oz to 23.5 million oz. The holdings in the JPM COMEX gold warehouse were flat at 9.29 million oz.

Deliveries on the ongoing December COMEX gold and silver contracts continued their rather notable feature of lower total amounts issued and stopped than in previous traditional delivery months and not excessive amounts of still-open contracts to be settled â?? but with an underlying â??vibeâ?• of physical tightness, particularly in silver. In fact, this might have some connection with the unusual changes in the Bank Participation report Iâ??ll discuss in a moment.

Total gold deliveries, so far, of 16,578 contracts and total silver deliveries of 3393 contracts are well-off the pace of previous deliveries at this point, as are the number of remaining open contracts (around 2500 in gold and 1300 in silver), but with deliveries continuing until monthâ??s end, I suppose those number could change. Still, even with such subdued delivery numbers, which could represent delivery tightness and not disinterest, several glimpses of physical tightness have been flashed.

https://www.cmegroup.com/delivery_reports/MetalsIssuesAndStopsYTDReport.pdf

For instance, on Wednesday in silver, there was a rather sharp tightening of the December/March silver switch or spread differential of 3 cents, as a trader short the December contract rushed to buy back around 200 contracts, paying up the equivalent of $30,000 to get out of being short December.

(Iâ??m sensitive to this type of transaction because it was the type of spread I traded in the distant past and in a galaxy far, far away). The most plausible interpretation is the trader who was short December wanted out of having to deliver and paid up for getting out from that obligation.
Â Admittedly, this is but a slight and subtle sign, but added to all the other signs of physical tightness in silver, it stood out to me.

Physical metal flows in the gold ETFs may have finally flipped to inflows, at least in GLD, as would be expected following a $200 rally in the gold price. However, the flows of metal into the silver ETFs, particularly in SLV, the largest, continue to be highly counterintuitive. Through Thursday, there were offsetting in and out flows of 2 million oz, followed by a 2 million oz outflow yesterday. Here we have silver prices moving to 8-month highs and, supposedly, silver investors are liquidating shares? To that, I say nonsense. Granted, the low trading volumes and relatively stealth nature of the price rally doesnâ??t necessarily suggest that investors are busting down the doors to buy, but it certainly doesnâ??t suggest they are dumping silver either.

Instead, the most plausible explanation for the highly counterintuitive outflows from SLV is user demand â?? also the most plausible explanation for the insanely frantic physical turnover on the COMEX. As to that not being bullish, I canâ??t imagine what could be more bullish.

Yesterdayâ??s release of the new short report for stocks, indicated a hefty reduction in the short position on SLV, of just over 9 million shares to 45.4 million shares (41 million oz), as of Nov 30. It also reduced slightly the percentage of shares shorted relative to total shares outstanding to 8.8% from over 10%. There is no question that the short position on SLV is still excessive, fraudulent and manipulative and must and will be reduced in time â?? but, at least, it may be finally moving in the right direction â?? down by 15 million shares from the 60 million share peak of a couple of months ago.

https://www.wsj.com/market-data/quotes/etf/SLV

Certainly, those manipulative short sellers which plowed onto the short side of SLV havenâ??t fared well, considering the sharp rise in the price of silver â?? yeah, too bad for them. Then again, it was never about making a profitable trade as only a nitwit would short silver in the teens â?? it was always about shorting because there wasnâ??t enough silver to deposit without causing prices to soar. Also, good news (of a selfish variety) is that it spares me from having to complain again to the SEC and BlackRock, although I stand ready to do so again should the short position turn back up meaningfully. Iâ??d like to think something did take place behind the scenes, because neither the SEC nor BlackRock has ever suggested that my allegations were unfounded.

Turning to yesterdayâ??s new Commitments of Traders (COT) report, although I refrained from offering specific contract predictions, we did get the rather mild deterioration I hoped for. As a reminder, we did rally pretty sharply in both gold and silver (by $50 and $2, respectively) early in the reporting week, before gains were trimmed into the Tuesday cutoff, and it was reasonable to expect overall deterioration â?? hopefully, not of the excessive kind. That turned out to be the case and it is quite notable how little the COMEX market structures in both gold and silver have deteriorated, given the extent of the rally.

In COMEX gold futures, the commercials increased their total net short position by 10,800 contracts to 130,100 contracts. In a statistical oddity, this is the same number of contracts the commercials were net buyers of in the prior reporting week â?? not something I recall occurring previously. Of course, there were differences in individual categories from two weeks ago.

The 4 big gold shorts increased their short position by 4400 contracts to 123,253 contracts, while the 5 thru 8 big shorts added another 800 contracts, increasing the big 8 short position to 205,563 contracts (20.6 million oz). This weekâ??s report also made very clear that the 8 big gold shorts are all commercials and that was the case in last weekâ??s report as well (and there was no managed money trader in the big 5 thru 8 category as I previously suggested).

This means that the gold raptors were net long 81,000 gold contracts last week and they sold 5500 of those longs this week, leaving them 75,500 contracts net long as of Tuesday. Despite this weekâ??s unified commercial selling across the board, it is truly remarkable how large the raptorsâ?? net long position is and how large the big 8 concentrated short position is.

On the managed money side of things in gold, these traders bought 8767 net contracts, consisting of the new purchase of 5597 longs and the buyback and covering of 3170 short contracts. The resultant managed money net long position of 23,487 contracts (93,629 longs versus 70,142 shorts) is still quite low and bullish on a historical basis and particularly considering gold prices rallied by $200. Then again, gold has yet to decisively upwardly penetrate its 200-day moving average, due the quirk of the recent rollover from Dec to Feb.

Explaining the difference between what the commercials sold and the managed money traders bought in gold was net selling of 3600 contracts by the other large reporting traders and net buying of 5700 contracts by the smaller non-reporting traders.

In COMEX silver futures, the commercials increased their total net short position by 3300 contracts to 32,300 contracts. The 4 big shorts added around 1200 new shorts to a short position up to 43,508 contracts (218 million oz) as of Tuesday. The next 5 thru 8 largest shorts bought back around 500 shorts and the big 8 short position rose to 63,362 contracts (317 million oz). The raptors sold off 2600 longs and now hold 31,100 contracts net long. All in all, not bad for a reporting week featuring a $2 intra-week rally to multi-month price highs.

There was even better news on the managed money side of silver as these traders were actually net sellers (imagine that on a $2 rally) of 255 contracts, consisting of new longs of 432 contracts and the new sale of 687 short contracts. The resultant managed money net long position of 13,338 contracts (37,392 longs versus 24,054 shorts) is still extremely low and bullish on a historical basis, particularly considering the sharp price rally over the past month or so. Explaining the difference between what the commercials sold and the managed money traders didnâ??t buy, was 3500 contracts of combined net buying by the other large reporting traders and the smaller non-reporting traders.

A Stunning Bank Participation Report

While I was quite happy with the results in yesterdayâ??s COT report, there was an unexpected shock in the Bank Participation Report (BPR), also issued yesterday and covering changes in the COMEX market structures in gold and silver over the past month, but isolated to bank positions on the COMEX, both US and non-US. While I have studied the BPR for decades, very rarely do I comment on it, mostly because I know most readersâ?? eyes glaze-over in any recitation of the actual numbers and why bother if there is usually nothing to be really learned.

But every once in a while, data that I follow in this and other reports (like the OCC derivatives report of the past two years regarding Bank of Americaâ??s billion oz silver short position) appear as a huge rogue wave out of nowhere. Such was the case in yesterdayâ??s BPR for December. Please allow me to provide some historical background to explain why yesterdayâ??s BPR has me so atwitter â?? as I assure you, Iâ??m not just trying to make a short story any longer than necessary.

The last (and first time) I made a big deal about a Bank Participation Report was for the BPR of August 2008. Up until that report, I had studied the report for more than 20 years, yet donâ??t believe I ever publicly commented on this data series. But the BPR of August 2008 was so shocking that I was almost besides myself in contemplating the data. That report revealed that a US bank had suddenly shorted massive amounts of COMEX silver and gold contracts.

I quickly learned (including written confirmation from the CFTC) that the cause of shocking increase was a reflection of JPMorganâ??s takeover of Bear Stearns earlier that year. So monumental was this revelation that my discovery set off a series of reactions, including the near-immediate 5-year formal Enforcement Division investigation of whether silver was manipulated in price by JPMorgan. It also enabled me to finger JPMorgan as the big COMEX silver and gold short crook thereafter and say so openly and repetitively since then, with no fear (he says now) of retaliation of any kind â?? admittedly, a not small pleasure in my life.

Of course, the 5-year investigation went nowhere and was finally concluded, I believe at the direction of the Federal Reserve and US Treasury Dept, which had orchestrated the Bear Stearnsâ?? takeover. Letâ??s face it, there was no way the Feds were going to allow the pipsqueak CFTC to accuse JPM of a gold and silver price manipulation, as that would most likely have put the crooks at JPM out of business and who were the Feds going to call in to rescue JPM?

Still, it was downright shocking what the BPR of August 2008 led to in terms of our collective understanding of what makes the gold and silver market tick. Quite frankly, I believed it was largely, a one and done event as far as any future shocking revelations from the BPR and for the past 14 years that was largely true. But yesterdayâ??s BPR for December brings a real sense of dÃ©jÃ vu to how I felt when first reviewing the BPR of August 2008, of course, in very different ways.

What was so shocking about yesterdayâ??s Bank Participation report is almost the opposite of what occurred 14 years ago. Instead of the shocking and unexpected increase in bank short selling in Aug 2008, yesterdayâ??s report is nearly the opposite â?? a shocking lack of increase in bank short selling, when there should have been. Let me see if I can explain this in a coherent manner.

The data collected for the BPR is exactly the same as the data collected and disseminated for the weekly COT report, only the BPR is monthly and only the data pertaining to banks are included. Therefore, if one goes back to the prior monthâ??s BPR and compares it to what the weekly COT report was at the time, in this case the BPR and COT report of Nov 1, one can usually predict fairly accurately what a new BPR will look like by measuring what the COT reports have indicated in the interim.

Because the banks, both US and non-US, constitute the vast bulk of commercial trading and positioning on the COMEX for the past 40 years, itâ??s almost always the case that any sharp increase or decrease in the total commercial and big 4 and 8 concentrated commercial net positions in COMEX gold and silver positions dovetails perfectly in both the BPR and COT reports.

In other words, if the weekly COT reports between the monthly BPR reporting dates indicate a fairly sharp increase in the total commercial net short position (along with a corresponding sharp increase in the commercial concentrated short position), then you can set your watch that there will be a sharp increase in the banksâ?? short position in the BPR, perhaps not contract for contract, but nearly so.

Therefore, since the running COT reports from Nov 1 to Dec 6 featured a rather sharp increase in the total commercial net short position of 55,000 contracts in gold and a much sharper increase of 93,000 contracts in the big 8 commercial-only short component, it was expected that the BPR of Dec 6 would feature comparable increases in the banksâ?? short positions. But shockingly, the banksâ?? net short position in yesterdayâ??s gold BPR only increased by 17,000 contracts, from 65,000 contracts to 82,000 contracts. A 17,000contract net increase is a far cry from the 55,000 and 93,000 contract increases indicated in the COT reports from Nov 1 to Dec 6.

The numbers are similar in silver, where the running COT reports from Nov 1 to Dec 6 indicated a 22,000 net contract increase in the total commercial short position over that time and a 16,000 net contract increase in the big 8 commercial-only concentrated short position. Instead, the total increase in the banksâ?? net short position in the BPR was only 8500 contracts (35,500 contracts net short on Nov 1 to 44,000 contracts net short on Dec 6).

So, for the first time ever, there was a stark and stunning difference between what the commercials sold short over the past month in COMEX gold and silver according to the running COT reports over that time and what the banks sold short over that same time according to the BPR. I canâ??t imagine this being a reporting error of any type because that would suggest a level of incompetence almost beyond comprehension.

Instead, I believe the reports are accurate and suggest something else entirely. Taken at face value, something has changed drastically enough that the banks which have always shorted heavily, particularly on a concentrated basis, on any and every gold and silver rally over the past 4 decades, are no longer shorting this rally as they always have â?? again, if the CFTC hasnâ??t badly bungled the data.

It’s not just a case of me being super-alert to any changes in the typical pattern of price manipulation over the past 40 years â?? this happens to be a change in the one thing I have claimed matters more than any other â?? whether the big COMEX shorts would add aggressively on the next gold and silver price rally. To be sure, I didnâ??t drill down to whether the banks would do the shorting or not â?? but Iâ??m an analyst not a clairvoyant. It didnâ??t dawn on me to speak specifically of the banks.

What Iâ??m saying, according to the hard data published by the CFTC (still an official US federal agency, last I looked), that for the first time ever, the banks, both US and non-US, which have collectively dominated and controlled prices on the COMEX for 40 years, have taken a back seat to some other commercial traders. This does raise some questions, like who are these other commercials replacing the banks and why arenâ??t the banks adding more aggressively to short positions?

As far as whoâ??s replacing the banks â?? I donâ??t know (yet). As far as why arenâ??t the banks aggressively shorting on this pronounced gold and silver rally, a number of thoughts come to mind. Like, how about it has always been the illegal and manipulative to price practice I have always alleged and the banks finally woke up to this fact â?? either with (hopefully) a push from the CFTC, or on their own â?? as in for purposes of self-preservation.

Let me admit, flat-out, that I might be over-reacting to the data, because they match up so closely with how I have perceived things would turn out, but I am trying hard not to put things in a false perspective. Ever-sensitive to changes in the traditional pattern of manipulation, this mismatch between how the banks have behaved over the decades and how they have behaved over the past month, according to the Bank Participation report, has my head spinning. Needless to say, my head is not spinning with bearish thoughts.

Ted Butler

December 10, 2022

Silver – $23.65Â Â Â Â (200 day ma – $21.38, 50 day ma – $20.60, 100 day ma – $19.92)

Gold – $1809Â Â Â Â Â Â Â (200 day ma – $1800, 50 day ma – $1715, 100 day ma – $1726)

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