December 16, 2023 – Weekly Review

Gold and silver finished higher for the week, gold by $13 (0.6%) and silver up by 85 cents (3.6%), after last weekâ??s price blast to the downside. As a result of silverâ??s relative outperformance, the silver/gold price ratio tightened in by around 3 full points, to just over 84 to 1 â?? about half the widening of the previous week. Yes, both absolute and relative silver prices have been quite volatile.

The turnaround in prices this week has been universally credited to the Fedâ??s perceived easing stance late Wednesday and while itâ??s hard to argue with the timing of the statement and news conference, from my vantage point it looked like something else was afoot in gold and, particularly silver. While no one should be surprised at my labeling as the cause of the sharp price turnaround on Wednesday and into Thursday as COMEX paper contract positioning, there was an element to the paper positioning that I had long expected (actually, hoped-for), that for the first time in decades (ever) appears to have occurred.

The â??elementâ?• that I speak of is the indication that for perhaps the very first time, the biggest commercial shorts in COMEX silver (and gold) may have actually bought back short positions on the sharply higher prices into Thursdayâ??s trading. Please understand that this is quite tentative on my part, since Iâ??m talking about just one dayâ??s trading and what I think I may be seeing has yet to be confirmed (but which shouldnâ??t take too long). On the other hand, if it is confirmed (in subsequent COT data), then it is something of importance impossible to overstate.

As I hope everyone understands, I have stated incessantly over the decades that the key element behind the long-term COMEX silver suppression/manipulation has been the ability of the 4 largest commercial shorts to always add as many new short contracts as required to cap and contain every silver price rally and that the regulators failed miserably in dealing with this specific point. I have also contended that, as and when the 4 biggest COMEX commercial shorts cease to add price-capping new shorts that the price should then explode.

Because this is such a remarkably specific point that I have laid out for decades, perhaps you will understand why I would be so sensitive to any sign, no matter how tentative, that the 4 big shorts were refraining from adding new shorts and may, in fact, be rushing to buyback and cover existing short positions on a silver price rally. So, with the full admission that the data at this point is tentative and subject to some misinterpretation on my part, let me lay out what I think is the profound change that may have occurred. After all, the nature of what I am talking about is a heck of a lot more useful in risking being proven mistaken than in explaining the details after the fact.

For the first real time that I can ever recall, the sharp rally that occurred in silver starting when the Fed news came out late Wednesday and continuing into the close Thursday, accompanied by extremely heavy trading volume and suddenly upwardly penetrating all of silverâ??s key moving averages, resulted in a sharp reduction in total open interest, instead of the sharp increase that â??should haveâ?• occurred.

As a result of the heavy trading volume and sharp price rally into Thursday, I was prepared (and admittedly a bit depressed) for as much as 10,000 contract increase in silverâ??s total open interest (and a 25,000-contract increase in goldâ??s open interest). The reason for my depression or wariness beforehand is that such increases in total open interest would most likely indicate big new shorting by the 4 largest COMEX commercial shorts and signal yet-another regular â??wash, rinse, repeatâ?• price-capping and rig-job lower of the type weâ??ve been subjected to in silver for decades.

Much to my surprise and tentative-delight, was that the actual open interest data indicated that, instead of increasing sharply, total open interest in silver actually fell by 5000 contracts (with goldâ??s oi up less than 4000 contracts). I donâ??t think Iâ??m overstating anything to say I have a pretty good handle on prospective changes in the COT reports and that, essentially, extends to my private daily guesses on changes in open interest. So, Iâ??m not overstating my surprise at the sharp reduction in Thursdayâ??s open interest as it was the sharpest departure or â??missâ?• from what I was expecting ever.

Naturally, having been so thoroughly surprised, I was forced to examine how I could be so far off in my expectations and what could account for it. No matter from what angle I tried to analyze the details under the hood, it came up very likely that the 4 big shorts in silver bought back short positions (rather than adding new shorts), with the sellers being theÂ smaller commercial longs (the raptors), as well as other speculative traders (which happened to be very aggressive buyers in the COT report released last night).

Not to overstate it, nor to miss what could be a sea-change of monumental proportions, the sharp decline in total open interest for Thursdayâ??s trading could be the final piece to the puzzle of when will the COMEX silver manipulation end â?? on top of all the other signs that have occurred over the past six months or so. And think of how ironic it would be if, after postulating that the key to the silver manipulation was unlimited short selling on higher prices by the 4 biggest COMEX commercial shorts, I failed to recognize the same potential change I described so many times in advance.Â More in a bit.

The turnover or physical movement of metal either brought into or removed from the COMEX-approved silver warehouses came in close to the weekly average of the past near-13 years, as 5 million oz were physically moved (260 million oz on an annualized basis) and as total inventories rose by 2.4 million oz to 269.7 million oz. Holdings in the JPMorgan COMEX silver warehouse fell 0.7 million oz to 133.1 million oz, a fresh 5-year low. And, no I havenâ??t received a response from the S.E.C. or the CFTC about whether JPMâ??s COMEX silver holdings are being â??double-countedâ?• with the 103 million oz held in SLV in NY by JPM â?? with this coming Monday marking the 5-week mark of my email to both agencyâ??s chairs.

Hereâ??s an observation â?? while we are down around 30 million oz in COMEX silver inventories on a year-to-date basis and down 130 million oz from early 2021, total COMEX inventories are, essentially, unchanged over the past 9 months (since April) â?? despite all the huffing and puffing about declining inventories and absolutely no commentary of the physical turnover which equals 100% the total holdings over the past year (as well as the 12 years before this year). It simply astounds me how something so obvious as the unprecedented physical turnover in the COMEX silver warehouses can continue to be neglected as providing yet another proof of the deepening physical shortage.

Total COMEX gold warehouse inventories remained unchanged on a rounding basis at 20.1 million oz, meaning there was some minor movement (as always), just not enough to change the totals much. Also, no change again in the JPM COMEX gold warehouse, still stuck at the same 7.34 million oz of the past two months or more.

There wasnâ??t much net change in the physical holdings of the gold ETFs this week, but there were sizable inflows into the silver ETF, paced by the large one-day inflow of 7.3 million oz into SLV earlier in the week. Based upon very large trading volume and price movement on Wednesday and Thursday, I would estimate at least 5 million oz or more is â??owedâ?• to the SLV, due to net investor buying.

Largely as a result on this weekâ??s big one-day deposit in SLV, the combined holdings in the two largest silver stockpiles, that in the COMEX warehouses and in SLV, rose by 8 million oz to 710.3 million oz. I still contend this may be close to an effective zero inventory level, once investor holdings are factored in.

One last comment on physical silver included bona fide reports that Turkey would import a record 30 million oz this year and other reports that India imported more than 20 million oz in November, after its 60 million oz import blowout in October.

Turning to yesterdayâ??s Commitments of Traders (COT) report, we did get the required managed money selling and commercial buying dictated by the falling prices over the reporting week, so the earth didnâ??t stop rotating, as would be the equivalent of there being no such positioning in silver and gold. I didnâ??t offer specific contract predictions, but in hindsight, the managed money selling in silver was as much as I privately expected and hoped for, but came in less than what I expected in gold. The bottom line was that yesterdayâ??s report fits in nicely (in hindsight, to be sure) with the unexpected drop in total open interest for Thursday trading.

In COMEX gold futures, the commercials reduced their total net short position by 14,100 contracts to 212,800 contracts. This is still â??up thereâ?• and, objectively, canâ??t be called anything but neutral to bearish, although there is still room for additional commercial selling. Certainly, non-COMEX positioning considerations would appear to be highly-supportive of higher gold prices, although not perhaps to the extent of some recent calls for the tripling and much more for gold prices.

I suppose anything is possible (particularly in silver), but a well-known commentatorâ??s call for $15,000 gold within two years Â would involve the 6 billion oz in total world gold holdings increasing in total value from $12 trillion to $90 trillion, which strikes me as a bit excessive.

By commercial categories in gold, the big 4 bought back 8700 short contracts and held 155,080 contracts (15.5 million oz) as of Tuesday, always a good sign. The next 5 thru 8 largest commercials shorts bought back an additional 700 short contracts, with the big 8 short position falling to 226,981 contracts (22.7 million oz). The raptors added 4700 new longs to a net long position amounting to 14,200 contracts.

The managed money traders in gold sold 13,859 net contracts, nearly matching the net commercial buying and consisting of the sale and liquidation of 10,273 longs and the new sale of 3586 short contracts. The resultant net managed money long position fell to 95,528 contracts (149,634 longs versus 54,106 shorts), as neutral to bearish as is the net commercial short position.

In COMEX silver futures, the commercials reduced their total net short position by â??onlyâ?• 4500 contracts, to 47,500 contracts â?? admittedly disappointing when first viewed, but not upon further reflection. There was a 1500-contract reduction in the big 4 short position to 43,641 contracts (218 million oz), but the big 5 thru 8 added 200 new shorts, making the big 8 short position lower to 62,172 contracts (311 million oz). My perception that a managed money trader resides in the big 5 thru 8 category seemed to be confirmed this week and I would peg that position to have increased slightly to 3200 contracts. This would make the raptor net long position as having grown by around 3000 contracts this week to 11,500 contracts (Iâ??ll return to this in a moment).

Even though the commercials only bought 4500 net contracts, the managed money traders in silver sold a quite significant 12,863 net silver contracts, consisting of the sale and liquidation of 10,380 longs and the new short sale of 2483 contracts. The resultant net managed money long position fell to 8667 contracts (33,472 longs versus 24,805 shorts). By way of comparison, this makes the managed money net long position in silver much more bullish than the comparable position in gold, particularly considering that weâ??re back to what have been bedrock low levels of gross managed money longs in silver.

Explaining the phenomenon of how the managed money traders in silver could sell nearly three times the number of contracts bought by the commercials, was the extraordinarily large buying by the other large reporting traders and the smaller non-reporting traders, which combined bought more than 8300 net silver contracts. In fact, the net long position of the other large reporting traders in silver (20,000 contracts) is now the largest in nearly 4 years, while the net long position of the smaller non-reporting traders is now (as of Tuesday) the largest in two years.

What makes these record long positions so unusual, is that they occurred over a reporting week in which the price of silver fell $1.50 to a fresh monthly price lows and as silverâ??s key moving averages were decisively penetrated to the downside (not that these traders follow the moving average signals as do the managed money traders). Still, I canâ??t help but be taken aback by the intensity of the buying by the other large reporting and smaller non-reporting traders on such a sharp price selloff in silver.

Trying to put this weekâ??s COT report in silver in context with the extraordinarily surprising drop in total open interest on Thursday (well-after the Tuesday cutoff for this weekâ??s report), I canâ??t help but speculate further on what may have taken place in Thursdayâ??s trading. Not all of the following speculations may come true, but some might and if thatâ??s the case, then it could be pretty big doings.

I think the big 4 shorts in silver bought back short positions into raptor long liquidation as well as long liquidation from the other large reporting traders and/or the smaller non-reporting traders and this would account for the decline in total open interest on Thursday.

In the case of the raptors, the smaller silver commercials which are net long around 11,500 contracts as of Tuesday (up 3000 contracts from the prior reporting week), thatâ??s still a remarkably low number of longs and I believe a good portion of those longs were sold in the sharp rally into Thursday. Yes, the raptors did make significant profits (they are the most consistently profitable of all the commercials), but any selling into Thursday necessarily reduces the number of potential additional raptor selling.

I also have the hunch that the managed money longs, having been so thoroughly and mercilessly whipsawed into and out from positions by the commercials over the past several months, may have chosen to forgo the new moving average buy signal generated late Wednesday and into Thursday. On this, I admit to the prejudice of holding this thought previously, so maybe Iâ??m imagining something I wish to see. Still, it does fit in with the decline in Thursdayâ??s total open interest.

Of course, even if my hunches are correct, we still have to contend with whatever positioning has yet to occur on Monday and Tuesday and such trading to come could alter the positioning I imagine at this point â?? even if Iâ??m mostly correct.

But the biggest speculation is on what the 4 big COMEX silver shorts do from here. If Iâ??m correct and these large and to this point dominant traders actually bought back shorts on the higher prices into Thursday and maintain that behavior, itâ??s hard for me to see how silver prices wonâ??t explode. After all, these are the traders which have always been the sellers of last resort â?? always providing the necessary short selling required to cap all previous silver rallies over the past 40 years. Therefore, itâ??s hard to imagine a circumstance in which they donâ??t sell short as many contracts as required to cap and contain future silver price rallies.

On the other hand, the deepening physical silver shortage is diametrically opposed to continued silver price capping, as the law of actual supply and demand requires sharply higher prices to increase production and decrease non-investment demand. What we have here is a genuine case of an irresistible force (the law of supply and demand) running smack into an immovable object (big 4 shorting and price capping on the COMEX).

While I admit that the immovable object of COMEX shorting has won out over the actual law of supply and demand in silver for 40 years, not for a moment do I believe that 4 essentially crooked paper traders can prevail indefinitely against the most powerful economic equation known to man. Â Some might argue that the 40 years of rigid price suppression wrought on the COMEX by 4 large traders proves that they can suppress the price of silver indefinitely, but not me. Instead, I would argue that 40 years of successful price manipulation only means that when the manipulation ends, it does so in a much more dramatic manner than if the suppression lasted for a much shorter time.

So, maybe Iâ??m overly-sensitive to the certain coming end to the COMEX silver manipulation, but when things like the continuing flow of evidence of a deepening physical shortage are accompanied by developments in COMEX paper trading that I long-suspected would occur (like the signs associated with the surprising drop in open interest on Thursday) â?? there is no way I can ignore such developments. All this adds up, in my opinion, to increased prospects of an imminent silver price explosion.

While there will always be uncertainty as to the actual timing of the silver price explosion, considering the nature of this specific irresistible force and immovable object, please be certain that the extent and force of the explosion will be beyond epic.

On a somewhat related matter, I have been fascinated by the price decline and paper positioning changes in crude oil, by far the most important commodity, where the near-three month decline in price of around $25 appears to have been caused by more than 250,000 contracts (250 million barrels) of net managed money selling on the NYMEX to the extent where the net and gross managed money long position is close to the lowest levels in a decade.

In a world physical market where a one or two-million-barrel daily surplus or shortfall can impact prices, 250 million paper barrels of speculative net selling in less than a few months seems to have had an undue and artificial impact on price. Iâ??m not complaining about the resultant lower prices as an energy consumer, Iâ??m just concerned about what happens when the trend-following managed money traders decide to all move to the other side of the price boat.

Ted Butler

December 16, 2023

Silver – $24.15Â Â Â (200-day ma – $23.63, 50-day ma – $23.40, 100-day ma – $23.38)

Gold – $2033Â Â Â Â Â Â (200-day ma – $1965, 50-day ma – $1985, 100-day ma – $1961)

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