December 2, 2023 – Weekly Review

Yet another explosive late Friday rally sent gold to what were arguably new all-time price highs, up $68 (3.4%) for the week; with silver tagging along on Friday, but still ending $1.11 (4.6%) higher for the week. As result of silverâ??s greater relative strength for the week, the silver/gold price ratio tightened in by a point to just under 81 to 1, even though silver lagged gold on Friday.

As to what sent gold and silver prices higher this week and since the price lows of early October, while a whole host of reasons seem to be coming from remarkably tight physical conditions in each metal, itâ??s impossible to dismiss the effect of dramatic positioning changes in COMEX futures contracts, including the surprisingly bullish Commitments of Traders (COT) report in Mondayâ??s delayed report on gold.

Since the COT report of Oct 10, which marked the price lows for gold and silver, at $1830 and $21 respectively, at Fridayâ??s close, gold was up by $260 (14%) and silver by just under $5 (24%) â?? although both gains were somewhat enhanced by the effect of rollovers from the December contract. From the price correction into mid-November, gold is higher by $150 (7.7%), while silver is up by $4 (18%). Just to keep it in proper perspective, year-to-date, gold is up $260 (14%), while silver is up by $1.55 (6.4%).

According to the data from the COT report from the Oct price lows, through the Â report issued yesterday (for positions held on Tuesday), the managed money traders have been net buyers of more than 140,000 gold contracts (14 million oz) and have been net buyers of 29,000 silver contracts (145 million oz). Granted, these are, essentially, paper ounces, as opposed to physical ounces, but at the same time are the equivalent of one full month of world gold mine production and two months of world silver mine production and as such, represent the single largest buying force in gold and silver over this time.

As such, itâ??s not possible that this concerted buying on the COMEX by a single category of speculative traders, few in number (no more than 125 in gold and 75 in silver), was not the primary force behind the recent price rise in gold and silver. Please dismiss immediately any thought that I am â??blamingâ?• the managed money traders for the price rise in gold and silver in any way, despite being concerned with a system that allows paper speculative traders to exert such strong price influence on a whole host of vital world commodities, including crude oil, the most important.

To my mind, the guilty parties in distorting prices in the speculative paper game are the counterparties to the managed money traders â?? euphemistically called commercials â?? but which are nothing more than speculators themselves, which have thrived on tricking (spoofing) the managed money traders into long and short positions and then rigging prices the other way for personal gain. The problem is that this phony paper price game has lasted for so long that it has replaced the actual law of supply and demand in the real world â?? with the effect being most evident in the shockingly low price of silver, in particular.

I guess what Iâ??m trying to say is that we have reached a point where the COMEX positioning in gold has to be considered bearish and close to that in silver, yet at the same time the actual physical conditions, particularly in silver, have never been more bullish. Somethings got to give â?? either the commercials succeed in soon rigging a sharp enough selloff to induce the type of managed money selling weâ??ve seen in the past, or we face a â??full pants downâ?• commercial failure envisioned by Izzy Friedman long ago. Let me run through the usual weekly format and the details of last nightâ??s new COT report, before returning to this all-important theme.

The turnover or physical movement of metal either removed or brought into the COMEX-approved silver warehouses snapped back from recent low levels, as more than 5.1 million oz were moved this week and as total inventories fell by 0.5 million oz to 267.1 million oz. Â No change in the JPMorgan COMEX silver warehouse for the seventh week, stuck at 134.4 million oz.

Total COMEX gold warehouse stocks rose a slight less than 0.1 million oz to 20 million oz, with holdings in the JPM warehouse again unchanged at 7.34 million oz.

After three days of deliveries on the traditionally big December gold and silver COMEX contracts, it is shaping up as an overall light delivery period (even if there is still a good amount of time for that to change). I was a bit concerned on first delivery day as JPMorgan issued some gold and silver contracts from its house account, but not any subsequently and by far, customers of JPM have been the biggest net stoppers in both metals, always reassuring.

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

Standing out like a sore thumb has been the extremely counterintuitive flows (or lack therefore) in the gold and silver ETFs. There was finally a deposit of 75,000 oz or so into GLD, the big gold ETF, last night, but gold ETF flows were still down 100,000 oz or so for the week as a whole Â â?? in stark contrast to the strong price gains in gold and heavy trading volumes, which included some of the highest weekly upside trading volumes in GLD. It doesnâ??t seem possible that there wasnâ??t net investor buying that would require big metal deposits. Itâ??s starting to look like the same phenomenon present in SLV, namely, an inability to deposit the metal required to meet net new investment demand is starting to infect GLD as well.

Of course, itâ??s much more extreme in SLV (and other silver ETFs), as strong prices and trading volume not only donâ??t result in big metal deposits, but redemptions occur. This week, more than 6.7 million oz were withdrawn from SLV, and yesterday, metal was withdrawn from five of the big silver ETFs, including PSLV, where 275,000 oz were redeemed. Again, the most plausible explanations for the remarkable redemptions in the face or rising prices is that the metal is more urgently needed elsewhere or, in the case of SLV, large shareholders are converting shares to metal to avoid current or future Â share reporting requirements (not at all illegal) â?? and nothing but bullish.

The combined silver holdings in the COMEX silver warehouses and in SLV, the two largest silver stockpiles in the world, fell by nearly 7.5 million oz to 700.5 million oz, the lowest level in years and now down by 50 million oz from earlier in the year. That such declines are occurring, at least currently in the face of rising silver prices is beyond counterintuitive â?? they point squarely at what can be termed undeniable evidence of a deepening physical shortage. Inventories rarely shrink for reasons other than demand exceeding supply. Monday will mark the three-week mark from when I emailed the regulators and main parties about the possible double-counting in the combined COMEX and SLV silver inventories.

Turning to yesterdayâ??s COT report for positions as of Tuesday, we did get the significant managed money buying and commercial selling that I feared as a result of the strong price gains, although I did indicate I was unsure and more concerned with commercial category changes. As it turned out, we got the changes in gold that I expected in the prior week, not this week, as the prior weekâ??s results were bullish and likely led to this weekâ??s strong price gains in gold.

In COMEX gold futures, the commercials increased their total net short position by 28,400 contracts to 218,600 contracts. This the largest (most bearish) level since May 9, after what was a $250 rally from the lows of that March. Just like the gold price rally that has just unfolded since Oct 10, the rally from early March to May was driven by net managed money buying of around 100,000 contracts and followed commercially-induced managed money selling of close to 70,000 net contracts into early March.

Obviously, I wouldnâ??t be much of an objective analyst if I failed to mention the strong parallels between the fall and rise (and then fall) of gold prices in March/May and what has just occurred (and also has occurred in silver). In all cases, it was the collusive COMEX commercials leading the managed money traders to sell, then buy, then sell again. This is the pattern of the past 40 years, although not always this pronounced. As such, not to point to the possibility of yet another commercially-rigged selloff would be downright negligent. At the same time, knowing that the ongoing COMEX paper manipulation is running smack-dab against the ironclad law of actual supply and demand, particularly in silver, makes the prospective selloff less than inevitable this time around.

By commercial categories in gold, the big 4 turned sellers (after last weekâ??s bullish short buyback) and added 9800 new shorts to a short position of 155,742 contracts (15.6 million oz) as of Tuesday. The next 5 thru 8 continued to add shorts, this week by 3700 contracts to a big 8 position of 226,029 contract (22.6 million oz). The gold raptors sold off 14,900 longs, reducing their net long position to 7400 contracts. I would point out that more than the entire commercial net short position is held by just 8 traders, in effect, putting the hopes for a significant price selloff squarely on the backs of these traders â?? as opposed to the countless numbers of traders and investors worldwide interested in a continued gold rally –Â a bit lopsided, I would say.

The managed money traders in gold bought more than the commercials sold, in buying 35,758 net gold contracts, consisting of the purchase of 25,314 new longs and the buyback and covering of 10,444 shorts. The resultant net managed money long position rose to 114,893 contracts (169,695 longs versus 54,803 shorts), the largest (most bearish) level since July and undoubtedly larger still in trading after the Tuesday cutoff. Explaining the difference between what the commercial sold and what the managed money traders bought was net selling by the other large reporting traders of 7379 gold contracts.

In COMEX silver futures, the commercials increased their net short position by 6900 contracts to 47,900 contracts, the largest (most bearish) since July (the Code Red). Somewhat mitigating the increase was that the increase in shorting by the big 4 was, like last week, the smallest of the commercial categories, as these traders added 1400 new shorts to a net short position amounting to 43,413 contracts, as of Tuesday. The next 5 thru 8 largest shorts added 2700 new shorts, resulting in a big 8 short position amounting to 61,919 contracts (310 million oz). The raptors sold off 2800 longs, reducing their net long position to no more than 14,000 contracts (or as low as 11,000 contracts, if my hunch that a managed money trader holding as much as a 3000-contract short position still resides in the big 5 thru 8 category).

On the managed money side of silver, these traders bought much more than the commercials sold, in buying 12,293 net contracts, consisting almost entirely of new longs to the tune of 12,296 contracts and the short sale of only 3 contracts. The resultant managed money net long position rose to 23,762 contracts (45,604 longs versus 21,842 shorts), the largest since July. Where I arrive at the possibility that a managed money trader may be holding as many as 3000 contracts short is due to the sharp drop in the number of traders in the managed money short category by 6 to 24, on no decline in the number of managed money short contracts â?? meaning to me that other smaller managed money traders bought back shorts (given the sharp rise in price), while a single trader added around 1000 new shorts.

I sense there is more room for managed money buying in silver than there is proportionately in gold, but regardless, it seems the physical situation in silver is much tighter, given silverâ??s industrial usage and more pronounced reduction in recorded inventories. Â In other words, if this is the time for Izzyâ??s full pants down, it is more likely to occur in silver than in gold, or in both â?? rather than in gold and not in silver. At some point, enough of the worldâ??s investors will realize that there is a reason that gold is trading at new all-time price highs, while silver remains close to half its all-time price highs of 44 and 12 years ago, in the face of more silver metal being bought by investors than investors in gold.

The $68 increase in gold prices this week increased the value of the 3 billion oz of gold bullion by more than $200 billion â?? which happens to be four times the total value of the 2 billion oz of silver bullion in the world. Given silverâ??s non-investment (industrial) demand, which according to the Silver Institute consumes all of the worldâ??s annual silver mining and then some, I am certain the real facts surrounding silver are largely unknown to the worldâ??s investors. Squarely in the unknown category is that silver prices have been suppressed on the COMEX for the past 40 years and this explains why silver is so darn cheap, making it the investment bargain of a lifetime.

The only question is if the collusive COMEX commercials will succeed at rigging another selloff, flushing out the managed money traders one more time or if we explode in price straightaway. While I feel that I have the analytical obligation to point out the possibility of yet another selloff, as has been the case for some time, I have no intention of liquidating any existing positions. In the event of an overrun of the commercial shorts, the potential price gains so far exceed the losses should the commercials succeed in rigging prices lower (temporarily), so as to make the decision to sit tight not all that difficult.

(On a housekeeping note, todayâ??s closing prices reflect the switch to the February contract in gold and March in silver, which adds $20 to the price of gold and 35 cents to the price of silver. And yes, it is somewhat unusual for the moving averages to be as tightly bunched as they are now, particularly in gold, but I canâ??t attach any special significance).

Ted Butler

December 2, 2023

Silver – $25.87Â Â Â (200-day ma – $23.51, 50-day ma – $23.09, 100-day ma – $23.50)

Gold – $2091Â Â Â Â Â Â (200-day ma – $1956, 50-day ma – $1956, 100-day ma – $1955)

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