December 21, 2022 – Lessons Learned in 2022

Weâ??re close enough to the end of 2022 to review the year for any lessons learned in gold and silver. Speaking in round numbers, weâ??re essentially unchanged price-wise from where we began the year. Of course, there was price volatility and at the high in March, gold prices were up almost $250 from year end, only to fall nearly $450 from that peak to the lows of Sep to Nov, before recovering to where we started the year. In silver, there was a rally of $4 to the highs ($27.50) of early March and a fall of $10 from that peak to the lows ($17.50) of Sep to Nov, before a $6 rally brought us back to unchanged for the year.

So, while we ended the year, to this point, essentially unchanged, the $450 trading range in gold and the $10 trading range in silver appear to be the widest annual trading ranges on record for years in which the prices ended, essentially, unchanged. Thatâ??s a lot of price huffing and puffing to get back to where we started the year. For anyone interested in gold and silver price movement, both past and prospective, itâ??s only natural to look into the reasons that caused the unusual price pattern of 2022.

Looking for the reasons behind the unusual gold and silver price pattern of 2022, letâ??s first consider the primary reasons investors buy or sell precious metals. I think itâ??s fair to say a big reason motivating investors to buy precious metals is as protection against inflation. Well, guess what? Inflation rates rose sharply throughout 2022, in fact, hitting the highest rates in 40 years. Speaking rationally, itâ??s hard to connect the surge in the rate of inflation to the flat year-over-year price performance of gold and silver. Moreover, gold and silver prices fell the most as inflation surged higher and rose as signs of cooling inflation rates emerged. Iâ??m not saying buying gold and silver as a hedge against inflation is wrong, just that it didnâ??t seem to correlate at all this year.

The same thing goes for other financial developments this year, like the largest increase in interest rates in 40 years. Admittedly, a year ago, interest rates were extremely and artificially depressed, so the actual percentage increases in interest rates are hard to calculate because the rate of increase was so large, causing the prices of bonds to fall quite dramatically. It wouldnâ??t appear to be a productive exercise to try to measure what effect rising rates and falling bond prices had on gold and silver, since precious metals prices ended up largely unchanged for the year.

Ditto for the stock market â?? where prices fell broadly for the year with, again, no discernible impact on gold and silver prices. I do admit that lately there have been times when stock prices and gold and silver prices move in unison, but other times when they donâ??t â?? although I havenâ??t uncovered a convincing reason for why there should be a causal connection. For the year as a whole, no correlation connection seems apparent, since stocks are lower and metals are unchanged.

The thereâ??s the stunning collapse in cryptocurrencies this year and one could not be faulted for thinking that the collapse might result in some inflow of funds into precious metals, seeing how cryptos were touted as some better form of gold. No dice, since gold prices were flat.

I suppose there might be some better correlation between movements in the dollar index and precious metals prices, certainly compared to inflation, interest rates or stocks, but thatâ??s not saying much, considering how uncorrelated those things were to precious metals prices. And for the life of me,Iâ??ve never quite grasped why changes in the dollar index would affect precious metals prices.

Looking at non-financial developments over the past year, this has been a year to forget, starting off with the horribly tragic war in Ukraine, where many millions have been displaced and hundreds of thousands needlessly killed and injured. On top of the horror of a useless war is the increasing threat of nuclear weapons. Forgive me for even thinking it, but one would think being closer to a nuclear holocaust than anytime in more than 75 years, might result in some significant increase in precious metals prices. Apparently not.

While I respect the reasons why many turn to precious metals as Iâ??ve outlined above â?? as a protection against financial and others calamities â?? those are peripheral issues for me. Based upon my personal experience, Iâ??m mostly a commodity supply and demand guy, so I look at silver and gold through that perspective. What got me attracted to silver in the first place (more than 37 years ago) was the disconnect between actual supply and demand and silverâ??s price. Thatâ??s still my attraction. Please donâ??t misinterpret what Iâ??m saying. I believe there are many valid reasons for people to buy and hold gold and silver, itâ??s just that my song and dance routine revolves around actual supply and demand. And hereâ??s where it gets really interesting.

I just explained how all the popular reasons I described for why folks buy and hold precious metals (inflation, financial protection, etc.) havenâ??t made much of an impact of prices (since gold and silver are unchanged for the year). But neither have the most extreme actual supply/demand fundamentals in silver in all the time I have studied the market. Everywhere I look, observers of every stripe are concluding that silver has never been in greater physical demand and pressing up against stagnant supply. In other words, the flat prices of the past year have frustrated and proven â??wrongâ?• any and all reasons why anyone would be bullish on silver (and gold) â?? myself included.

How could it be that everyone is or has been wrong? The answer to that question is the real lesson of 2022 and itâ??s not a new lesson. Itâ??s not a case that everyone has been wrong, as much as it is that the price is wrong. I know, I know â?? the price is never wrong and if it isnâ??t what you think it should be, then it means you are wrong because, again, the price is never wrong â?? or so has this always been drilled into us. But there is a giant and largely unrecognized exception to the solemn commandment that the price is never wrong and that exception is when the price is manipulated and made artificial.

There is an explanation for why every possible reason to expect higher prices this year, particularly in silver, has failed to materialize and that reason is the same one I have been describing for decades, namely, the artificial price-setting of paper contract positioning on the COMEX. In fact, itâ??s gotten to the point where I canâ??t even imagine a logical alternative explanation for why gold and silver are flat year-to-date other than paper positioning on the COMEX.

As is revealed in the data published by the CFTC, in the form of the weekly Commitments of Traders (COT) reports, there is a never-ending series whereby the commercials maneuver and hoodwink the managed money traders into buying and selling hundreds of millions of silver paper ounces and tens of millions of gold paper ounces that perfectly coincide with the big up and down price movements of the past year (and for decades before that). Price tops are always defined as maximum managed money buying and commercial selling and price bottoms are always defined as maximum managed money selling and commercial buying. Not even the movement of the moon and the tides are as regular as the COMEX paper positioning and its effect on prices.

The good news about the artificial paper price-setting on the COMEX is that, despite enduring for decades (far longer than I ever imagined), it appears to be not long for this world. There comes a point when the price of silver is controlled and kept too low for too long that it so distorts the real world of actual supply and demand that a physical shortage becomes inevitable to the point where it finally overwhelms the paper price control. Every signal from the physical world dictates that the physical shortage process is so advanced that it canâ??t be maintained for much longer.

Moreover, the path to the critical moment where the physical silver shortage can no longer be â??papered overâ?• has been developing for years and has become quite intense over the past several months. The evidence can be seen wherever one looks, from declining inventories in the COMEX warehouses and holdings in the silver ETFs, to the unprecedented physical turnover in those same inventories, to the obvious recent struggle to deliver promptly on the remaining relatively small number of open contracts in the expiring December contract.

The ironic thing about the well-advanced physical silver shortage is that itâ??s much like Hemmingwayâ??s description of the path to bankruptcy as being gradual, then sudden. Silver has been gradually moving to a physical shortage that must end suddenly at some point. No one can precisely predict in advance when the silver shortage will turn sudden, just that it wouldnâ??t appear to be too much longer until it does. Itâ??s difficult to imagine what could derail or prevent a sudden manifestation of the silver shortage.

Iâ??m certainly mindful of the power of the collusive COMEX commercials which have been behind the long-term manipulation of silver prices to delay the impact of the silver shortage, but there are signs that those most responsible for the manipulation have taken steps to prepare as best they can for the inevitable sudden end. Here, Iâ??m talking about the recent signs of a reluctance to aggressively add new shorts by the former big shorts as revealed in the most recent Bank Participation report.

Bottom line is that the one real lesson of 2022 is that silver and gold prices were dictated and set by non-economic paper contract positioning on the COMEX. While certainly not new, considering all the dramatic events that occurred this year, from record inflation and interest rate increases, to declines in stocks, bonds and cryptocurrencies, to say nothing of a major war which still rages on, try coming up with another rational explanation for how gold and silver prices could end up flat for the year. The crooks on the COMEX have been manipulating silver prices for 40 years and this year takes the cake in their brazenness and criminality.

As far as price predictions for the coming year, that depends entirely on whether the COMEX manipulation continues or not. If it continues, I would expect some variation to what occurred this year. If the long-running COMEX manipulation does come to an end, as it could and should, expect higher prices of the kind none of us are familiar with.

In related developments, with about roughly 700 contracts (3.5 million oz) remaining open in the COMEX December contract, itâ??s hard to imagine a delivery default at this point. But at the same time, considering the continued frantic physical turnover in the COMEX silver warehouses and what has transpired this month in terms of deliveries, it is more than obvious that this has been one of â??tightestâ?• silver deliveries ever and, at a minimum, strongly suggests no quick relief for future deliveries.

On Saturday and recently, I reiterated my sense that we are closer than ever before to what may be â??zeroâ?• in actual available metal from either the COMEX silver warehouses and the silver ETFs â?? once long-term investment holdings are subtracted from the total levels published. To repeat, itâ??s unrealistic to expect total published levels of these silver inventories to approach zero, simply because both represent legitimate professional storage for long-term silver investors. Because of this, thereâ??s no way to accurately ascertain what the â??realâ?• level of available physical silver might be, because itâ??s a number that is, effectively, unknown.

But by the preponderance of the evidence, including the â??stickinessâ?• of this monthâ??s COMEX delivery process and the frantic turnover in both the COMEX warehouses and silver ETFs, including recent deposits into the COMEX warehouses – which add to the sense that we might be close to zero in real available supplies because it suggests the silver already there wasnâ??t available, necessitating the deposit of new silver.

We may be looking at nearly 300 million oz of silver in the COMEX warehouses, but, obviously, not all 300 million oz are available for sale at current prices and it may be shocking how few ounces are truly available, once long-term investor holdings are subtracted. It is when the truly available inventories approach zero â?? not total inventories â?? that the shortage matters most and we go from gradual to sudden. Yes, the commercials may play paper games up until that point and arrange for selloffs, but it is most unlikely that the paper games will matter much once evidence emerges that available inventories have, indeed, reached zero.

As far as what to expect in this Fridayâ??s new COT report, on Monday it looked very much like there would be an improvement (managed money selling and commercial buying) largely offsetting the prior weekâ??s deterioration. But the strong rally on yesterdayâ??s cutoff looks to have negated any improvement, with the net effect being not much real positioning change for the reporting week as a whole (he said hopefully).

There was a pretty sharp increase in yesterdayâ??s total open interest in both gold and silver, which strongly suggests new managed money buying and, by extension, commercial shorting. The key question, of course, is which commercials were shorting â?? the non-bank commercials which have shorted of late or the former big bank shorts who to this point have largely refrained from adding aggressively to shorts (for the first time in memory). Iâ??m not sure Iâ??ll be able to tell, since there will be no Bank Participation report until early in the New Year.

But one thing is for sure, namely, I can uncover no economically-legitimate reason for why anyone would choose to aggressively add to silver short positions in the face of all available evidence, save one â?? another last-ditch manipulative attempt to drive prices lower to shake out as many new speculative longs and perhaps regenerate some new managed money shorting. So, there you have it â?? the lesson of 2022 is that COMEX paper positioning was the sole determinant of silver and gold prices and, at least in the short term, will be the determinant until the physical shortage can no longer be managed.

Ted Butler

December 21, 2022

Silver – $24.18Â Â Â Â Â Â (200 day ma – $21.33, 50 day ma – $21.08, 100 day ma – $20.24)

Gold – $1824Â Â Â Â Â Â Â Â Â (200 day ma – $1795, 50 day ma – $1729, 100 day ma – $1731)

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