December 3, 2022 – Weekly Review

Precious metals prices powered higher this week, with virtually all of the gains coming after Tuesdayâ??s (the cutoff for the COT report) early settlement close on the COMEX. At weekâ??s end, gold was higher by $41 (2.3%), while silver surged to close the week up by $1.64 (7.6%).

As a result of silverâ??s sharp relative outperformance, the silver/gold price ratio tightened in by 4 full points to 77.6 to 1. This puts silver, relative to gold, at near 7-month highs and more than 15 points stronger than the price ratio was in August, when silver traded more than $5 lower than yesterdayâ??s close. Itâ??s somewhat refreshing in a world where so much seems hard to reconcile, that silver exhibiting greater relative price strength than gold is a welcome respite. Not that goldâ??s price performance has been shabby nor unexpected.

This weekâ??s price gains in each put silver back to unchanged since yearend and gold down only a bit. If you told me eleven months ago that after the year that weâ??ve experienced, that silver would be unchanged and gold nearly so, I wouldnâ??t have believed you. If you told me that this still left both silver and gold substantially below their price highs of early March, Iâ??d suggest you should change your medications.

Most remarkable, however, is that the near-$200 rally in gold and $4.50 rally in silver over the past month or so, still seems so widely-underappreciated and disbelieved in investor-sentiment terms. Yes, there has been documented positioning changes in the COMEX market structure, featuring managed money buying (mostly short-covering) and commercial selling (mostly new short-selling by the big concentrated commercial crooks) that was expected and text-book in nature â?? but Iâ??m speaking of something else. I sense little overall bullish enthusiasm in gold and silver at this time (which, of course, must be considered bullish, given the contrary nature of sentiment interpretation).

Some of the measures I look at to measure overall investor sentiment, like trying to monitor chat sites, are decidedly subjective; but there is little discernible collective belief that weâ??re at the start of an upside journey and more belief that prices will soon set back. Thatâ??s understandable, considering gold is still below its all-time highs reached earlier this year and barely back to the highs of 2011. Silver is still down 50% from its highs of both 2011 and 1980, so itâ??s understandable that sentiment is very much on the skeptical side in most eyes.

Other less-subjective measurements also point to skepticism towards higher gold and silver prices, at least through the latest COT report. While there has been managed money short-covering (with expected losses), these same traders have yet to initiate notable new long positions â?? implying significant additional new buying should prices continue higher.

And while itâ??s not an important trading category in raw numbers of contracts, the smaller non-reporting traders in gold hold their lowest gross long position in six years â?? back when gold traded around $1100. As Iâ??ve reported over the past few months, the small trader positioning in COMEX silver isnâ??t much different. To me, this is a pretty objective indicator suggesting the collective sentiment is way too bearish and skeptical of a potential strong upside move which, in sentiment terms, suggests a greater likelihood of such a strong price push to the upside.

Of course, all this completely ignores the powerful indicators flashing from the real world of actual metal production and consumption, where, particularly in silver, prices should have already blown the roof off. And forgive me for fantasizing, but after the recent FTX debacle and scandal, one would think the regulators, particularly at the CFTC, which had been lobbying aggressively to be the primary regulator for cryptoâ??s, might be thinking twice about its quest for regulatory dominance of the space.

Letâ??s face it, at the very least, the CFTC had no clue, despite numerous meetings with SBF, of the problems at FTX and were caught completely flat-footed. By its sudden collapse. Â My fantasy includes the agency, having received a wake-up call on FTX, thinking about what it may have missed in COMEX silver and actually doing something behind the scenes. Another part of my fantasy, includes the SEC and BlackRock, realizing the short position in SLV is every bit the fraud and manipulation I allege it to be, also moving behind the scenes to get it reduced.

COMEX positioning, sentiment and fantasies aside, with gold and silver prices at more than six-month highs, it can be factually-stated that anyone buying over this time is in the black and anyone selling or selling short is worse off or in the red. So, it can be stated objectively that something has caused the shift in price performance. Maybe the shift is temporary and maybe itâ??s not. But after such a long time of counterintuitive poor price action against a backdrop of spectacularly bullish fundamentals, particularly in silver, if the shift in price action isnâ??t temporary, then itâ??s likely to turn out to be profound.

The turnover or physical movement of metal either brought into or removed from the COMEX-approved silver warehouses proved to be quite close to the past few weeks of movement, as 7.7 million oz were turned over and physically-moved this week, with the total amount of metal in these warehouses increasing by 2.8 million oz to 299.8 million oz. There was slight reduction of 0.2 million oz to 151 million oz in the JPMorgan COMEX warehouse.

Over the past three months, some 40 million oz have departed the COMEX silver warehouses, while more than 140 million oz have been moved in and out. Over that same time, the world mined 210 million oz, making the physical movement on the COMEX all the more remarkable. Itâ??s easy and correct to focus on the net amount removed, but a mistake to overlook the frantic turnover â?? which implies extreme physical tightness.

It would appear the total increase this week was related to Wednesdayâ??s first delivery day on the December contract and is strongly suggestive that new supplies of silver needed to be brought in to meet delivery demands (and meaning the metal already there was not available for delivery). Plus, the largest percentage of the new silver deposits into the COMEX warehouses (as well as the last minute large transfers of eligible to registered) came on Wednesday and Thursday and not before then â?? which strikes me as â??last minuteâ?• and somewhat unexpected by the sellers and issuers.

It’s kind of ironic that the gold and silver deliveries on the traditionally large COMEX December contract have been much lighter than typically after 4 delivery days, at just under 12,000 contracts in gold and less than 2800 contracts in silver. JPMorgan has been the biggest net stopper in gold for customers and the second largest net stopper for customers in silver (Bank of America has been the largest stopper in silver for its house account). JPM has done nothing on either side for its house account in gold or silver, which suits me as just fine.

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

What makes the low deliveries, so far, so ironic is that most have become accustomed to believing that it will be very large delivery demands, most likely in a traditionally big delivery month (like December), most likely to set off a scramble for deliveries on the COMEX, similar to what occurred in LME nickel back in March. But as I mentioned recently, such large delivery demands would most likely, at this time, come from large speculators and I donâ??t think the CME Group or the CFTC would sit by and allow large speculators to roil the delivery process.

Instead, Iâ??m more inclined to believe that any delivery problems in COMEX silver would have to come from legitimate users of silver and not large speculators, as I recently opined. I donâ??t know what signs would appear to suggest that users were demanding delivery, other than it wouldnâ??t necessarily be reflected in large deliveries or high remaining open interest in the delivery month. For this reason, I canâ??t help but think some of this may already be in place currently. I am also mindful that price performance since Wednesday (first delivery day) has been much different than typically and may be serving as an indicator of some type of low-visibility delivery squeeze. Then again, itâ??s hard to prove anything at this time, but I am quite sensitive to changes in the typical pattern seen over the decades and unless Iâ??m losing my mind, changes in the typical patterns have been coming fast and furious of late.

There were continued withdrawals of metal from both the gold and silver ETFs this week, most notably in SLV, where some 4.5 million oz were redeemed (in sharp contrast to last weeks near 7 million oz deposits. With silver prices quite strong this week, it would be an understatement to say that this weekâ??s redemptions from SLV were counterintuitive â?? but whatâ??s new? It is becoming increasingly clear that deposits and withdrawals in SLV are mimicking the movements in the COMEX silver warehouses, namely, they are being driven by the immediate need for physical silver and not the typical flows dictated by price.

Turning to yesterdayâ??s new Commitments of Traders (COT) report, I was particularly undecided about what to expect, so the actual results werenâ??t terribly shocking, although the gold report stood out more due to a reduction in the commercial short position, always a welcome development. Likewise for the net selling in the managed money category, which was somewhat counterintuitive considering the price action. There were, as has been the case of late, some notable positioning changes under the hood.

In COMEX gold futures, the commercials reduced their total net short position by 10,800 contracts to 119,200 contracts, the second reduction in two weeks. While itâ??s true that gold prices have been relatively flat over the past two reporting weeks, having turned sharply higher after Tuesdayâ??s cutoff, there continues to be significant category changes of a different kind. While the total commercial net short position has decreased by 15,000 contracts over the past two reporting weeks, the short position of the four largest shorts (now purely commercial) has bucked the trend and increased by nearly 6000 contracts (1100 this week) to 118,823 contracts (11.9 million oz).

I still detect a managed money trader in the big 5 thru 8 gold short position of around 10,000 contracts, so the big 8 short position of 200,351 contracts (20 million oz) must be reduced to 190,000 contracts to reflect the true pure commercial component. Doing so means that the gold raptor (smaller commercial) net long position is around 71,000 contracts, a strange and unusual commercial configuration. I donâ??t ever recall such a large big 4 or big 8 pure commercial gold short position and such a large raptor long position.

Itâ??s as if the smaller commercials might be â??taking onâ?• the big commercial shorts and the former days of commercial cooperation reminiscent of the Three Musketeers are now a thing of the past. Of course, it could just be that gold prices havenâ??t climbed high enough to induce raptor long liquidation and next Fridayâ??s COT report will be important in determining that. Still, no matter how you slice it, this reporting week just about the entire (and surprising) reduction in the total commercial net short position in gold was the result of the raptors adding 10,000 or more long contracts and unusual is not strong enough of a word to describe that. Again, Iâ??m most sensitive to any changes in the manipulative COMEX patterns of the decades and this is no minor change.

On the managed money side in gold, these traders sold about half of what the commercials (the raptors) bought, in selling 4711 net gold contracts, comprised of the sale and liquidation of 4129 long contracts, as well as the new sale of 582 short contracts. While the numbers werenâ??t particularly large, they still qualified as counterintuitive and different since gold had risen by more than $150 to Tuesdayâ??s close over the past month. The resultant managed money net long position became more bullish at 14,720 contracts (88,032 longs versus 73,312 shorts).

Much more of a standout is how small the managed money gross long position is after such a strong gold rally over the past month, as discussed at the outset of this piece in terms of low bullish sentiment. Also as discussed then, the smaller non-reporting traders stood out this week in selling more than 4700 net gold contracts, mostly in the form of long liquidation. Both the managed money and non-reporting traders appear highly skeptical of higher gold prices, just what youâ??d want as a bullish sentiment indicator.

In COMEX silver futures, the commercials increased their total net short position by 1400 contracts to 29,000 contracts, in line with general expectations. It was a relief to see the big 4 short position, now exclusively commercial, get reduced a bit, by 600 contracts to 42,319 contracts (212 million oz). Unlike what occurred in gold, where a managed money trader still was in the big 5 thru 8 category, in silver, what I suspected was a 3000 contract short position in the big 5 thru 8, was bought back and covered, so the big 8 silver short position is back to being purely commercial and stands at 62,690 contracts.

This also makes the raptor long position easier to calculate, which this reporting week came to 33,690 contracts (the big 8 short position of 62,690 contracts minus the 29,000 total commercial net short position). I canâ??t say that the silver raptors appear to be â??taking onâ?• the big commercial shorts, as appears more suggestive in gold, but itâ??s possible something like that is afoot in silver as well. Again, next weekâ??s COT report should help shine some light on all this as silver prices would now appear high enough to induce some raptor long liquidation. At this point, of course, only the Shadow knows for sure.

On the managed money side of silver, these traders bought 1894 net contracts, consisting of the sale and liquidation of 664 longs and the buyback and covering of 2558 short contracts. The resultant net managed money long position did increase to 13,593 contracts (36,960 longs versus 23,367 shorts), but still must be considered quite low and bullish by historical standards, particularly in terms of the relatively low number of longs.

More than ever, we seem to be coming down to what I have long-contended is the central issue in silver and gold, namely, what the very largest commercial shorts on the COMEX intend to do â?? add aggressively to new short positions until non-commercial buying interest is exhausted and prices are then in position to be rigged lower or something else.

That â??something elseâ?• could take a number of forms, such as the big manipulative shortsâ?? coming undone by not enough willingness to participate in the decades-old scam to be effective (including competition from the smaller commercials), or regulatory intercession at long last, or some force from the physical market, where demands for physical metal outweigh the effects of paper short-selling, including the recent large short position in SLV.

And for the past couple of years, there has existed the possibility of a miscalculation by Bank of America in the OTC derivatives market, as Iâ??m still convinced the bank is on the hook for being short more than a billion oz of silver. If my premise is correct (as I believe it to be), then the recent near $5 increase in the price has turned what was a $5 billion open profit to BofA into a slight loss â?? but with very large potential of turning into a loss of staggering proportions.

Ever on guard for changes in the repetitive manipulative patterns of the past four decades, at this point I am taken aback by the possibility that only one â??something elseâ?• might turn into more than one â??something elseâ??sâ?• being at hand. Maybe Iâ??m reading it all wrong, but there may now be several fuses already lit and connected to a stash of dynamite capable of launching prices, particularly for silver, skyward. Perhaps the collusive and highly-corrupt COMEX commercials might succeed in disarming all the lit-fuses, but price action is suggesting they may not get to all the fuses in time. Hereâ??s hoping they donâ??t succeed.

Ted Butler

December 3, 2022

Silver – $23.35Â Â Â (200 day ma – $21,41, 50 day ma – $20.17, 100 day ma – $19.70)

Gold – $1811Â Â Â Â Â Â Â (200 day ma – $1803, 50 day ma – $1700, 100 day ma – $1722)

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