

February 11, 2023 – Weekly Review

Gold and silver prices fell for the week, with gold down a scant \$2, and with silver down a sharper 40 cents (1.8%). It was the fourth straight week of price declines for silver and the lowest close in 11 weeks, whereas gold finished at 4-week price lows. From year end, silver is down \$2.18 (9%), while gold is still up by \$45 (2.5%).

As a result of silver's absolute and relative poor price performance, the silver/gold price ratio widened out by more than another full point to 85.3 to 1. This is the most undervalued silver has been to gold in 3.5 months. One would think the actual supply/demand fundamentals in silver must have turned decidedly negative relative to gold over the past few months to account for such rotten silver price performance. However, no such evidence could be found.

Instead, all the evidence from the real world of supply and demand points to an even tighter situation in wholesale physical silver conditions than existed prior to the last few months and, in fact, ever before. I won't insult your intelligence by pretending some sudden brand new factor had emerged to explain the dilemma between the most extremely bullish real world circumstance possible – a developing physical silver shortage – and the completely rotten and counterintuitive price action; because I'm sure you know the reason. Sadly, the federal commodities regulator, the CFTC, knows the reason as well, but refuses to do anything about it, even though this is its main reason for existence – preventing price manipulation.

Of course, I'm speaking of the deliberate positioning of paper contracts on the COMEX, billed as the world's leading precious metals derivative exchange, but in reality nothing more than a private betting game between commercial banks on one side and other speculators (called managed money traders) on the other side. The game has involved a continuous hoodwinking of the managed money traders by the commercials for 40 years and has featured the commercials always buying as prices fall (on induced managed money selling) and the commercials selling as prices rise (on induced managed money buying). This pattern hasn't varied for four decades.

The problem is that the price effects of the private paper betting game on the COMEX are not confined to the COMEX. So accepted have become the price signals emanating from the private betting game that the whole world, quite literally, accepts the price signals as legitimate. In no uncertain terms, silver prices are made on the COMEX private betting game and the rest of the world takes those prices as legitimate. By the rest of the world, I mean all the silver miners, users and investors. It's completely nuts that this situation exists, particularly since it is in direct violation of US commodity law, but lots of things in the world are nuts.

But rather than continue in the vein of how rotten and crooked is the COMEX private betting game and its effect on world prices, as well the failure of the regulators to shut the game down, let me segue to the good news, because the good news is so much better than the bad. The rotten private betting game on the COMEX is coming to an end, but not because the participants have come to recognize the great harm they have brought to the rest of the world by their artificial price signals and not because the regulators have finally had enough of the malfeasance they have demonstrated for decades.

The reason the rein of the private betting game on the COMEX is coming to an end is the increasingly obvious physical silver shortage. The single biggest factor in how and why the artificial price signals emanating from the COMEX succeeded in dictating silver prices for decades is that there was enough previously produced silver to supplement and satisfy growing physical demand for the past 40 years. Now the signs are increasingly clear that we have reached the bottom of the barrel of the previously inexhaustible physical supplies. Along with all the other sea changes in silver, this is, by far, the most significant.

So, when this current deliberate COMEX commercial rig job lower runs its course, a new world should exist in silver; a world where adequate physical silver supplies will require much higher prices. This is not a world any of us has ever experienced. I'll get into what the prospects are for whether we've reached a price bottom a bit later, but I can say even if we move lower still, silver accumulated at current prices will prove quite profitable in time and not that much time.

The turnover or physical movement of metal either brought into or removed from the COMEX-approved silver warehouses was down a bit this week, as 4.4 million oz were moved. Of course, while this appears to be a "slow" week in silver movement, it would still register as "hyper" physical movement in any other commodity. Total COMEX silver inventories fell by 1.7 million oz to 291.2 million oz, another new four-year low. Holdings in the JPMorgan COMEX silver warehouse fell by 1.4 million oz to 146.9 million oz, which also appears to be a 4-year low.

This week's decline in total COMEX silver inventories brings us 3.2 million oz lower than the low-water mark in mid-Nov and increases the monthly rate of reduction to just over 1 million oz since then, up from the 0.8 million oz monthly rate of decline I wrote about on Wednesday. But this is still markedly lower than the 4 million oz monthly rate of decline in 2021 and the 5 million oz monthly rate of reduction for most of 2022. While COMEX silver warehouse inventories have slipped to slight new lows on a stand-alone basis, on a combined basis with SLV holdings, the two largest stockpiles in the world, total holdings of the two are nearly 775 million oz or 25 million oz more from where I opined my bottom of the barrel premise.

Total COMEX gold warehouse holdings were unchanged (on a rounding basis) this week at 22.2 million oz, with holdings in the JPM COMEX gold warehouse down 0.1 million oz to 8.19 million oz.

In COMEX gold and silver deliveries, the key features include Bank of America being the biggest stopper in each for its house account, with customers of JPMorgan being the biggest net issuers. I'm always a bit uncomfortable whenever JPM is a big issuer, although the overall number of deliveries isn't particularly large.

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

There were some slight redemptions in the world's gold ETFs, principally GLD, but some 9 million oz of silver were deposited into two silver ETFs, with SLV accounting for more than 7 million oz (and SVR the balance). This brings to 27 million oz the total amount of silver deposits into SLV of late - all of which I would consider as the creation of new shares intended as a covering of the short position, even though Thursday's short report didn't reflect that.

The new short report on stocks, for positions held as of January 31, indicated only a 3.5 million share

reduction in the short position on SLV, to 40 million shares (36.5 million oz). I had expected a much larger reduction of as much as 20 million shares, given the massive deposits over a few days during the reporting period. Still, the level of short sales on SLV has now fallen to its lowest level in six months and the percentage of shares shorted compared to total shares outstanding has fallen to a new six-month low of 7.6%, down from 11.9% on August 31. Total shares shorted have fallen by 20 million shares from the peak of 60 million shares, or a third, from the all-time high of 60 million shares on Aug 31.

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

To be sure, the short position on SLV is still way too high, in addition to being fraudulent and manipulative. Fraudulent because any short sales on SLV represent no metal backing on those shorted shares, as required by the prospectus and this inherently cheats shareholders of the trust. Manipulative because the prime motive behind the short selling is to sidestep the physical metal deposit requirement to avoid the resultant upward pressure on the price of silver. That was the message of my complaints to the SEC and BlackRock over the past six months.

As I described on Wednesday, that no matter what the short report indicated, the best and only plausible explanation for the large deposit of more than 20 million oz within a few days in the reporting period (plus this week's deposits of more than 7 million additional oz in SLV) was for the creation of new shares intended to close out the short position. Clearly, however, there was no commensurate reduction in the short position just reported. However, as I also described on Wednesday, the mechanism existed whereby new shares could be created but not yet applied against the short position in SLV. This was the basis of my "shorting against the box" review.

I described how the practice was intended to delay any capital gains tax liability on the sale of an appreciated stock to the next tax year. In the case of SLV, there wouldn't appear to be such a motive, as the shorted shares resulted in a loss. I commented that the delay in crossing the newly created shares and closing out the shorts on SLV could be for other unknown reasons. After reviewing the new short report, I started to think more about what the other reasons could be behind the delay in applying the newly created shares in SLV against the shorted shares and closing out the short position.

One reason could be that, at least cosmetically, waiting for a selloff after the new shares were created before crossing the new long shares against the shorted shares would reduce the reported loss on the shorted shares although it wouldn't change the overall financial result, in that any reduction in the privately-reported loss on the shorted shares would increase the loss on the newly created shares. Since I'm convinced the new shares were created with metal borrowed from interests related to JPMorgan, this is all for purely cosmetic purposes.

A more compelling reason for the failure to immediately apply the newly-created shares against the published short position revolves around the clear signal such a sudden close-out and covering of 20 million shorted shares in a single short report would send. Even the most nonchalant observer (or regulator) should notice a sudden reduction of 50% or more in the massive short position on SLV and connect it to the extremely counterintuitive deposit of the same amount of metal in the reporting period thus bringing potential widespread attention to an issue that I have almost singularly championed for nearly forever.

Any such new attention might cause previously-unaware observers to wonder how 20+ million oz could

suddenly appear in the tightest physical silver conditions ever experienced and draw focus on the metal being borrowed from the master market criminal of all-time, JPMorgan. As previously opined, the reason I don't believe JPMorgan was the big SLV short to begin with is that if it were, it might be akin to putting these master market crooks right back into the hangman's noose it so deftly sidestepped a few years back with its settlement with the DOJ. The \$920 million fine (if it ever actually paid it) was chump change for JPM, but the deferred criminal prosecution agreement was far more serious than most realize and something that JPM doesn't wish to resurrect.

Now, I believe the effective short position on SLV is down to 16 million shares or so (as a result of the 27 million oz deposited over the past few weeks), but whether that's reflected in the next short report is unknowable. Ironically, such an effective level would bring us back to the level on Feb 2, 2021, when BlackRock revised the prospectus on SLV to reflect the danger short selling posed to those short a full circle as it were. It's quite possible the short position on SLV to be slowly bled down gradually so as not to attract undue attention that a sudden sharp reduction might bring. Such behind-the-scenes gamesmanship also helps explain why I've always had such trouble trying to handicap this particular data series.

Turning to what was supposed to be the release of the new Commitments of Traders (COT) report yesterday, no report was published the same reason as the case last week, namely, for the cyber-incident of Jan 31 and announced by the CFTC on Feb 2. The agency did issue an updated public comment yesterday, which suggested progress was being made to mitigate and resolve the situation.

<https://www.cftc.gov/PressRoom/PressReleases/8655-23>

While highly-unusual, the delay in publishing COT reports does not appear to have impacted trading in futures markets, which appear to have functioned normally since Jan 31. Of course, "normally" in the case of COMEX silver and gold (and other markets) definitely means the same crooked private betting game that artificially dictates prices it's just that we must wait for the certain data from the COT reports that confirms the manipulative positioning.

Not meant in the least as a defense of the CFTC's role in this affair, but given the choice between the publishing of potentially-incorrect data that would face significant revisions and a delay in publishing what would be correct data, I'd opt for correct but delayed data. Of course, the delays shouldn't be indefinite.

As I indicated previously, delays in COT reporting does not mean that positioning hasn't occurred it's just that we don't get to observe and re-calibrate the positioning weekly. This is the greatest significance of the COT reports and at times like this, with no reports, I appreciate all the more the "gift" of this data series. And, as I've long contended, it is this data series that proves beyond a doubt that silver has been manipulated for 40 years, both in the continuous proof that the commercials have hoodwinked the managed money traders and the fact that silver has always held the largest concentrated short position of any commodity in real world terms.

On a good number of past occasions, I have read the observations of others that concluded that the level of total open interest indicated a bullish or bearish price set up. My reaction was always confusion as to why anyone would look at the highly-monolithic total open interest, when much more exquisite positioning details were available in the COT reports. To me, looking only at changes in total open interest to divine positioning changes was always like trying to diagnose engine trouble with the

car's hood remaining closed.

Now, with the delay in the publishing of COT reports, the changes in total open interest become one of the only things to analyze and makes me appreciate even more the gift that the COT reports represent. Please don't take me wrong; I've closely observed every statistic regarding COMEX silver daily for decades, including the twice-daily reports on open interest (preliminary and final) for clues on positioning changes between COT reports. Understandably, with no COT reports, I pay even more attention to changes in daily open interest.

Unfortunately, trying to glean meaningful insight from total open interest changes in COMEX silver has been a real challenge of late. For example, from the last published COT report as of January 24, when total open interest in COMEX silver was 134,922 contracts, through yesterday's preliminary total open interest of 131,920 contracts, there has been a drop of 3002 contracts in total open interest – not that much of a change for 13 trading days and as much as a sharp \$2.50 price smash that – downwardly penetrated a key moving average for the first time in months.

Of course, a 3000-contract change in total open interest could (and should) portend a much sharper net positioning change, as managed money long liquidation and new managed money short selling can be much greater than in the changes indicted in total open interest levels. Then again, I'm a bit confused that there doesn't seem to be the typical build-up in total open interest as a result of phony spread creation, as we're in the usual prime time for such spread creation. I'm just glad that there exists such a thing as the COT report and I don't have to rely on changes in total open interest for positioning analysis.

Despite the murky interpretation of changes in total open interest, particularly at this time, I do feel comfortable in concluding that the recent sharp downdraft in prices was as intentional and orchestrated as all past such price smashes, indicating managed money selling and commercial buying. This pattern has been as constant as the North Star has been to navigation. Therefore we know the managed money traders have been sellers and the commercials have been buyers on the sharp price decline and, in fact, this is the positioning that caused the price decline. What we don't know is the extent of this positioning and how much more there might be. I'm hopeful the decline in total open interest (or lack of a serious increase) might suggest that the managed money traders are not much interested in adding aggressively to short positions from here.

Stated as objectively as possible (and as stated before the price take down), if the managed money traders in silver (and gold) can be tricked into selling longs and adding significant amounts of new short sales, silver prices will move lower. If not, the prospects for meaningful further declines in price are much more limited. In either event, when the last managed money trader is persuaded to sell, not only should the bottom in price be in, the prospects for a price explosion will be greater than ever before – not because I say so, because the physical market demands it.

Ted Butler

February 11, 2023

Silver – \$22.00 (200-day ma – \$21.05, 50-day ma – \$23.48, 100-day ma – \$21.73)

Gold – \$1876 (200-day ma – \$1784, 50-day ma – \$1859, 100-day ma – \$1776)

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