

February 12, 2022 – Weekly Review

A strong, late-day rally on the back of new warnings about an imminent invasion of Ukraine jolted markets yesterday, resulting in gold ending the week up \$52 (2.9%) and with silver ending the week \$1.10 (4.9%) higher. Even though gold exhibited greater strength on the late Friday rally, earlier gains in silver in the week resulted in the silver/gold price ratio tightening in by a point and a half, to 78.8 to 1, for the week.

For gold, it was the highest weekly close in three months and a weekly close another \$10 higher would make it the highest close in nine months. Silver has to climb much more to be similarly positioned, given its more recent weaker relative performance.

The strong late-Friday precious metals performance overcame what was, at least to me, quite a disappointing reaction to the greater than expected increase in consumer prices the day before. Until the late Friday rally, I had resigned myself to the realization that the manipulation I write so incessantly about was destined to stay in force until it ended for reasons impossible to predict. But there was something about this sudden rally that looked different.

Please be forewarned that yesterday's rally might prove short-lived if diplomatic solutions prevail and armed conflict is avoided (as I pray is the case), as there is a strong history of similar precious metals' rallies evaporating near-instantaneously on a change in the news cycle. To be sure, the expectation of serious shooting wars is not a core case that I build into my reasons for holding silver, as life is too short to wish for the four horsemen to appear in order to make a buck.

That said, sooner or later, something has to at least appear to break the ongoing manipulation and if it is dreadful news, then so be it. It certainly wasn't the worse-than-expected consumer price increase the day before. Look, it is guaranteed that the price manipulation on the COMEX will end and end abruptly, just that no one can know exactly when that time will occur beforehand.

One thing that is widely-anticipated is the ending of the manipulation is likely to be caused by demands for physical metal growing so intense so as to overcome the paper control on the COMEX. Quite frankly, this thought was more central to silver than to gold, given silver's dual demand profile (industrial plus investment demand) but there was something about yesterday's late-rally that shifted attention to gold.

No doubt there was a flight to safe havens evident in yesterday's market reaction to the Ukraine news, as stocks sank, bonds and the dollar rose, while crude oil and gold surged (with silver dragged along). But what stood out to me the most was the explosion in trading volume in GLD, the big gold ETF, which rose to its highest daily up side volume in years (nearly 26 million shares), some three times more than average daily volume with most of that occurring in just the last two hours of trading. Trading volume in SLV was also quite strong at nearly 48 million shares, double average daily trading volume, but the volumes in GLD still stood out to me for a number of reasons.

As I have long intoned in SLV, the hard-metal ETFs are required to deposit physical metal commensurate with net new investment demand for shares, otherwise the short position must rise (more on this in a moment). GLD is very much part of this same ETF equation, with the difference being my perception that the physical realities in silver made this much more critical than in gold. I still

feel this way, but I was super-impressed with the obvious explosion in flight-to-quality type buying in GLD late yesterday, as evidenced by the surge in trading volume.

It seems inescapable to me that when the rubber meets the road and the markets are staring down the gun barrel of something that scares the dickens out of them, the first reaction was to sell nearly everything and run to gold. As I have long concluded in silver, when that moment arrives, investors will not take the time to open commodity futures trading accounts or establish separate accounts to buy physical metal — they will do what comes most comfortable and easy to them, namely, they will buy the metal ETFs. After all, who in these modern times, doesn't have a stock account?

There doesn't appear to be any question that investors, mostly of the larger variety, were the big buyers of GLD (and SLV) late yesterday. Of course, we can't know if this will continue or not, as that depends largely on the news cycle to come. But after so many years of stock overperformance and the suppressed prices of gold and silver, it certainly is possible that yesterday's late experience could persist. If it does and investors turn to gold and silver as safe havens, any new net investor buying in shares of GLD and SLV, will require physical metal being deposited into the trusts.

Also, as I have mentioned incessantly regarding SLV, it doesn't matter one bit whether the new ETF investors know or care whether physical metal must be deposited to meet new investor demand. The physical metal must be secured and deposited according to the prospectus. So, any big new investor buying (as appears apparent late yesterday) in the ETFs, must result in demand for physical metal (or a sharp increase in the short positions). Effectively, this has the potential of turning physical demand on its head. Again, it seems more likely for this phenomenon to occur in silver than in gold, but if yesterday's surge of buying in GLD is a harbinger of things to come, then there is no reason it can't be a game-changer in gold as well.

The turnover or physical movement of metal either brought into or removed from the COMEX-approved silver warehouses cooled off to 2.8 million oz this past week. Total COMEX silver inventories remained unchanged at 352.2 million oz, while holdings in the JPMorgan COMEX silver warehouse fell by 0.3 million oz to 184.3 million oz. Gold holdings in the COMEX warehouses fell by 0.1 million oz to 32.7 million oz. with a slight decline in the JPMorgan gold warehouse to 12.74 million oz.

For the week, there were fairly impressive amounts of physical metal deposited into the gold and silver ETFs, some 400,000 oz of gold and 5 million oz of silver, but I doubt any of the metal now owed to the trusts as a result of the explosive late volume yesterday are included in these figures.

The new short report on stocks was released mid-week and indicated another slight rise in the short position on SLV, the big silver ETF, as well as a slight decline in the short position of GLD (which hasn't been notable of late). For SLV, the short position increased by 1.7 million shares to 31.7 million shares (ounces) as of Jan 31.

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

While still below to peak of 38 million shares short a few months back, what made the latest increase noteworthy is that it increased while the commercial short position on the COMEX fell precipitously over the same period. Normally, the short position in SLV rises and falls in concert with the COMEX commercial short position, but that didn't occur this time. My conclusion is that those Authorized Participants responsible for making a market in SLV are having a difficult time securing the physical

silver required to be deposited into the trust and are short the shares in lieu of buying and depositing the required physical amounts so as not to drive prices higher. Undoubtedly, this situation was likely exacerbated by yesterday's late high-volume rally in SLV and it's getting close to the time when I have to rattle BlackRock's cage (the trusts sponsor), reminding it about its warning in the prospectus a year ago to short sellers.

Turning to yesterday's Commitments of Traders (COT) report, it was generally in line with expectations of a moderate deterioration (managed money buying and commercial selling) in gold and not so much in silver, based upon a gold rally of \$30 that took prices up through all the key moving averages and a silver rally of as much as 70 cents, but which only decisively penetrated one key moving average. The actual results showed a bit more deterioration in gold than expected, but less so in silver, where an actual improvement occurred. Of course, there has had to have been market structure deterioration since the cutoff. Please keep in mind that yesterday's reported increases in total open interest does not include the surge in buying after the close of the day session on the COMEX and that's where most of the action took place.

In COMEX gold futures, the commercials increased their total net short position by 10,100 contracts to 211,400 contracts, still a quite low and very bullish reading. (Actually, that was within expectations, it was managed money buying that was higher than expected). By commercial categories, the big 4 added 2900 new shorts to a short position of 143,083 contracts (14.3 million oz), while the big 5 thru 8 commercial shorts bought back and covered 1900 shorts for a big 8 short position of 231,292 contracts (23.1 million oz), as of Tuesday. The smaller commercials (the raptors) sold off 9400 longs and held 19,900 contracts net long as of Tuesday.

On the buy side of gold, the managed money traders bought 19,553 net contracts, consisting of the purchase of 8925 new longs and the buyback and covering of 10,628 short contracts. The resulting net long position of the managed money traders increased fairly sharply, but at 70,000 contracts was still quite low historically as of Tuesday, and bullish although it has had to have increased substantially through yesterday's late trade.

Accounting for the difference in what the commercials sold and what the managed money traders bought in gold was net selling by the other large reporting traders of around 5000 contracts and another 4500 contracts of net selling by the smaller non-reporting traders. Although the concentrated long position of the 4 largest longs didn't change much this reporting week, there was, for the second week running, a reduction in the gross long position of the other large reporting traders, home to the gold whale I have highlighted since August. While I still feel it is likely that the gold whale may be John Paulson, a new thought has occurred to me that it is possible the gold whale is none other than Bank of America.

This new thought occurred to me as a result of the sharp reduction in the gross long position of the other large reporting traders (10,000 contracts) over the past two reporting weeks, which coincides with the start of the traditionally-large Feb COMEX delivery month. BofA is the leading stopper of gold deliveries this month and whenever a delivery is made on the COMEX, both the long and short side of the contracts delivered are automatically (mechanically) closed out. Curiously, there has been little in the way of contracts in the commercial categories (Producer/Merchant and Swap Dealer) closed out, only in the other large reporting category. This would mean that Bank of America is classified under the Other Larger Reporting category, which according to my understanding of trader classifications, is

entirely possible.

It would certainly make sense that BofA could be the gold whale, seeing as I believe it is short 30 million oz in the OTC market and the 40,000 COMEX contracts it may be long (futures plus deliveries) amounts to 4 million oz. While this leaves BofA far short of being fully covered, it is just as logical a candidate to being the COMEX gold whale as Paulson or anyone else. Of course, this could be settled easily enough with further clarification from Bank of America or the Office of the Comptroller of the Currency, explaining why BofA's precious metals derivatives position grew by 10,000% in just 18 months.

In COMEX silver futures, the commercials reduced their total net short position by 2700 contracts to 32,100 contracts. This is the lowest (most bullish) short position since Oct 12. The short position of the 4 largest traders did get reduced by around 700 contracts to 46,867 contracts (234 million oz), but may, in fact, be even lower in pure commercial terms, since it's possible a managed money trader is still in that category (and in the big 5 thru 8 category as well). The 5 thru 8 largest shorts added around 300 new shorts and the big 8 short position amounted to 65,142 contracts (326 million oz). The raptors, the smaller commercials did the majority of the commercial buying, but I'm still unable to provide an accurate number due to likely managed money involvement on the short side.

The managed money traders sold 1798 net silver contracts, consisting of the sale and liquidation of 2849 long contracts and the buyback and covering of 1051 short contracts. Thus, as of Tuesday, the net managed money long position (10,000 contracts) is about the lowest it has been in more than 3 months, while the gross managed money long position (43,252 contracts) is the lowest it has been since June 2020. In this case, lower is bullish. The managed money short position of just over 33,000 contracts was still quite large and also bullish as of Tuesday.

No change in the concentrated long position of the 4 largest silver traders, where I still believe the big long is in the Swap Dealer category and this trader is holding as many as 15,000 contracts. This is a different category than the long position of the gold whale and, therefore, not likely to be Bank of America, although that is still possible. Even if it is BofA, the 75 million oz that 15,000 contracts represent is a very far cry from what I allege is as much as an 800 million oz short position that I believe BofA holds OTC. Again, some open explanation from BofA or the OCC would go along way towards clarifying things.

No doubt that there has been significant deterioration (managed money buying and commercial selling) in both COMEX gold and silver since the Tuesday cutoff, particularly on yesterday's late explosive rally. As such, should the tensions in Ukraine suddenly cool off, price setbacks could be in order. But I'm still shaking my head at the sudden large influx of buying late yesterday in GLD and to a somewhat lesser extent in SLV. Should this type of buying continue, it has the real potential of bringing about the demise of the ongoing price manipulation. What a difference some news and a couple of hours can make.

A quick word on copper. In last week's review, I mentioned how I felt the collusive commercials in COMEX copper, while not the same crooked banks that operate in COMEX gold and silver, had succeeded in liquidating enough managed money longs to allow copper prices to respond by climbing sharply higher and joining other industrial metals on the march to higher prices. Starting on Wednesday, copper prices surged by as much as 25 cents a lbs. (5%) in two days and making the late Mrs. Butler's eldest son feeling like he knew something special.

The only problem was that over those two trading days, total open interest in COMEX copper exploded by nearly 20,000 contracts, indicating the managed money traders had, once again, plunged headlong onto the long side suggesting the collusive COMEX commercials went short and would seek to rig copper prices sharply lower to shake out the new managed money copper longs. That selloff did occur yesterday, as copper prices gave up all the gains of Wednesday and Thursday and it remains to be seen how much more price rigging lower the collusive commercials still intend.

But keep this to yourself, as we wouldn't want to disturb the regulators at the CFTC and the CME Group, as they have more important matters to attend to, such as the CFTC warning those looking for romance on the Internet to beware of scammers and providing stiff competition to Dr. Phil. All us gold and silver geezers have to keep our hormones in check.

https://www.cftc.gov/LearnAndProtect/AdvisoriesAndArticles/CustomAdvisory_RomanceScam.html

Even though it remains to be seen if yesterday's late rally has legs or not, the explosion in trading in GLD (and SLV) both introduces and confirms the importance of the same two ETFs at the top of the list of many to avoid. No, I did not anticipate the sudden surge in the buying of GLD when I wrote on Wednesday that the mechanism for physical buying in silver already exists and is fully in place to accommodate investors whenever they decide to buy. Obviously, that same mechanism exists in GLD, as well as in all the other gold and silver ETFs. So, even if the current rally fizzles out (not a prediction), there will come a time in the not-too-distant future when this issue will take center stage for real.

As a result of the sharp price rally this week, the 8 big COMEX gold and silver shorts suffered a significant mark-to-market loss of \$1.5 billion, pushing their total loss (since June 2019) to \$10.1 billion.

Ted Butler

February 12, 2022

Silver – \$23.60 (200 day ma – \$24.47, 50 day ma – \$22.87, 100 day ma – \$23.23)

Gold – \$1860 (200 day ma – \$1808, 50 day ma – \$1808, 100 day ma – \$1800)

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