

## February 17, 2024 – Weekly Review

In what must be considered a trading week unlike any we have witnessed lately, gold prices fell \$15 (0.7%), while silver prices rose a sharp 81 cents (3.6%). As a result of silver's standout relative outperformance, the silver/gold price ratio tightened in by nearly 4 full points to 86.2 to 1 – in effect, bringing the price ratio back to where we started the year in one fell swoop. However, not for a moment am I suggesting that silver is still not vastly undervalued relative to gold – or any other investment asset.

What made this week's ending price results even more of a standout was that as of Wednesday morning, both gold and silver made new price lows not seen for months, before rallying strongly (gold by \$30 and silver by \$1.50) into week's end. In fact, silver put in a quite-rare weekly upside reversal – where new weekly lows were made only to see prices end higher than the previous week's price highs. (No, I haven't succumbed to the technical side – but a man has to stay well-rounded, no?).

For someone (me) who has been clamoring like a mockingbird about an immediate upside price explosion in silver for a wide variety of reasons (like the first physical silver shortage in history), it's hard not to view the sharp upside price reversal the past few days as significant. Not only is there no letup in the signs of the deepening physical silver shortage, the true price-setting mechanism – positioning of paper futures contracts on the COMEX – indicated an increase of bullishness in yesterday's new COT report – in silver and, particularly, in gold.

Of particular note were the extremely bullish readings in other COMEX/NYMEX metals in yesterday's new COT report, most notably in copper. I'll get into the details of the extraordinary positioning changes in the yesterday's report momentarily, after the typical weekly format.

The turnover or physical movement of metal either brought into or removed from the COMEX-approved silver warehouses remained quite high, as 5.9 million oz were physically moved this week and as total COMEX warehouse holdings rose by a sharp 3.6 million oz to 278.2 million oz. Somewhat surprisingly, there was no change in the JPMorgan COMEX warehouse, which remained at 129.8 million oz.

After last week's extensive comments about the lack of attention given to the unprecedented physical movement in the COMEX silver warehouses over the past 13 years, I'll give it a rest this week, but it still astounds me how few commentators reflect on this. Also, no reply from the CFTC to my question about double-counting by JPM in the COMEX/SLV inventories – with this Monday marking the 14<sup>th</sup> week and nearly 100 days since I asked what should have been a question simple enough to answer with a single phone call (to you-know-who).

There was another sharp decline this week in the gold holdings in the COMEX warehouses of 500,000 oz to 18.5 million oz. The holdings in the JPM COMEX warehouse fell by 150,000 oz to 6.67 million oz. Both the total and JPMorgan COMEX gold holdings are at fresh multi-year lows. As with the sharp recent declines in gold ETF holdings, it does not appear to me that the reductions in gold holdings are related to plain-vanilla collective investor liquidation. Rather it appears to me the physical gold being removed is to satisfy the continuing demand for physical gold by central banks and demand from the East.

Deliveries against the traditional February contract in gold on the COMEX are strong and in line with previous years, although the continuous adding and delivering-on of new contracts in Feb is different from previous years. Not sure what this means, but I'm always encouraged when JPMorgan is not the standout net issuer, as has been the case this month.

[https://www.cmegroup.com/delivery\\_reports/MetalsIssuesAndStopsYTDReport.pdf](https://www.cmegroup.com/delivery_reports/MetalsIssuesAndStopsYTDReport.pdf)

I mentioned last week the unusual case of there being around 240 contracts (1.2 million oz) remaining open in the Feb silver contract after a couple of days with no delivery. What made the lack of deliveries notable was that there was no benefit to the short(s) to not delivering quickly, as it costs them money, particularly at a time of high short term interest rates, raising the question if they had to scrounge up the metal. All this week, there were no silver deliveries until last night, when HSBC issued 119 silver deliveries, half of the 240 open contracts. These are not big numbers by any measure and it is inconceivable such quantities would lead to a delivery default – but the big takeaway is that this is just another tell-tale sign of physical silver tightness/shortage.

There were continued outflows from the world's gold ETFs, of close to 250,000 oz (in addition to the 500,000 oz from the COMEX warehouses), but despite gold price weakness, I'm still not inclined to believe the outflows represented investor liquidation.

Following last week's one-day 5 million oz deposit into SLV, that deposit has now been largely removed, continuing the pattern I described last week of big one-day deposits into SLV being quickly removed. What seems to be transpiring is that the crooks at JPMorgan are behind the big deposits into SLV, which are meant to supply enough physical silver to keep the physical silver shortage at bay and to keep silver prices from exploding. The question of how long JPMorgan will continue its artificial and manipulative physical silver donations is based upon how much more it wishes to donate and how long before the regulators can continue to pretend this isn't occurring.

The combination of increase in the COMEX silver warehouses and reductions in SLV, largely balanced out this week as the combined holdings in the two largest silver recorded inventories rose by 0.5 million oz to 713.2 million oz . (Leaving aside, as the CFTC appears determined to do, the question of the possible-double-counting of 103 million oz).

Turning to yesterday's new Commitments of Traders (COT) report, the sharp selloff on the Tuesday cutoff did result in managed money selling and commercial buying, as has been the case on every significant selloff over the past 40 years – so no one can claim to be surprised. But, as I said earlier, the amount of managed money selling and commercial buying in gold was a bullish surprise.

In COMEX gold futures, the commercials bought and reduced their total net short position by a hefty

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27,300 contracts to 153,000 contracts. This is the lowest (most bullish) level since Oct 17, just as gold had rallied \$100 into what would be a total rally of \$300 into early December. There's no reason to believe gold will not rally by \$300 (or more) on this go-around. Of particular bullish note was the composition of buying in the various commercial categories, continuing a recent trend.

The 4 big gold shorts bought back and covered more than 10,800 contracts, reducing their net short position to 122,035 contracts (12.2 million oz), also the lowest level since mid-October and barring one other week in October, is now the lowest big 4 short position since the end of November 2022. The next 5 thru 8 largest shorts bought back more than 6000 short contracts and the big 8 short position fell to 188,524 contracts, also an extremely low and bullish level. The raptors (the smaller commercials apart from the big 8) added more than 10,000 longs and held 35,500 net longs as of Tuesday.

In many ways, the COMEX gold market structure is now looking more like the market structure in silver than previously, in that the extremely low big 4 and big 8 short position makes the strength of the inevitable gold price rally quite dependent on whether the biggest shorts step into the coming rally with aggressive new short selling. If these traditionally aggressive short sellers don't sell aggressively on the next gold rally, then that rally should prove quite forceful.

And as I have been commenting on the past few weeks, there's another aspect to the quite-notable aggressiveness of the big 4 and 8 in gold in buying back short positions. The standout buying by the big 4 and 8 has limited the smaller raptors from building up as much of a long position as typically seen. For instance, and factoring in the presence of a managed money short in the big 5 thru 8 position back in October, the gold raptor net long position at the Oct low was closer to 75,000 contracts, or around 40,000 contracts more than it is now.

What this means is that the gold raptors have 40,000 less longs to sell and liquidate than they had back in Oct, before they will have to go short if they choose to continue selling into gold price strength. It is precisely the combination of the potential refusal of the big gold shorts to aggressively add to short positions on the next rally, coupled with the extremely reduced raptor long position capable of being sold, that creates the possibility of a rather spirited gold price rally - same as exists (in spade) in silver.

On the managed money side in gold, these traders sold even more than the commercials bought, in selling 33,893 net gold contracts, consisting of the sale and liquidation of 13,674 longs and the new sale of 20,219 short contracts. That the collusive COMEX commercials were able to hoodwink the managed money traders into selling this many contracts, particularly on the short side, was a testimony to price and positioning manipulative magnificence.

The resultant managed money net long position fell to 34,176 contracts (100,642 longs versus 66,466 shorts), the lowest and most bullish managed money net long position since October. Combined net buying of more than 6000 contracts by the other large traders and smaller non-reporting traders explained the difference between what the commercials bought and the managed money traders sold. Beyond question, this was an extraordinarily bullish COT report for gold.

In COMEX silver futures, the commercials bought and reduced their total net short position by 3800 contracts, to 29,700 contracts. This is the lowest (most bullish) position since Oct 10. On a straight calculation basis, the big 4 reduced their net short position by 900 contracts to 42,102 contracts and big 5 thru 8 bought back a further 1100 contracts to equate to a big 8 short position of 62,085 contracts

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â?? but we need to throw those numbers out the window, due the presence of a managed money trader in the big 4 and possibly another one in the big 5 thru 8 category.Â? In any event, there are a minimum of 8000 short contracts held by a managed money trader(s) to as many as 12,000 short contracts. If I could be more precise, I would do so.

The bottom line is that the raptors are net long anywhere from 24,300 contracts to as few as 20,300 contracts â?? which means, as I just discussed in gold, the number of raptor long positions capable of being sold on a silver rally (that has already appeared to have begun) is very small compared to the start of previous silver rallies and that makes it incumbent on the 4 big shorts to add aggressively to short positions, something I donâ??t think will occur – setting the stage for a silver price explosion.

On the managed money side of silver, these traders sold 4384 net contracts, consisting of the purchase of 903 contracts of new longs and the new sale of 5287 short contracts. The resultant managed money net short position increased to 8983 contracts (33,004 longs versus 41,987 shorts), the largest net and gross short position in nearly a year and so white-hot bullish that one has to stand back a bit so as not to get burnt or blinded.

The gross long position of the other large reporting traders increased by a bit more than 500 contracts, as did the number of traders by 3 (to 73), and I would imagine on the sharp rally that developed after the Tuesday cutoff, a good number of these traders likely liquidated, as did the raptors into managed money buying (mostly of the short-covering variety). Itâ??s hard to imagine a two-day rally of more than a full dollar not setting off such trading. Of course, the key question is what the 4 and 8 big shorts did and while I could guess, we should know for sure next Friday.

Iâ??d be lying if I said anything other than this looks like the start of the big rally in silver for a whole host of reasons, but that too will be learned over the next few days and weeks, along with a very strong rally in gold. Further, I am taken aback by the shockingly-bullish COT set ups in all the other metals, including palladium, platinum and, particularly, in copper, where the net and gross managed money short position grew to its largest in 4 years (back when copper was close to \$2/lbs.). So, itâ??s not just in silver where the managed money traders are played for fools.

Thereâ??s also little doubt that given copperâ??s sharp high-volume two-day rally of nearly 14 cents which brought prices back above all of its key moving averages, that the resultant managed money buying has begun in earnest, as can be seen in yesterdayâ??s sharp drop in total open interest. So, the same question that exists in all the other metals (and in crude oil) also applies to copper, with that question being if the commercials will accommodate all the managed money buying to come by selling to those traders at prices similar to past occasions.

Most puzzling to me is how little of the copper commentary I run across, all of which seems to be universally bullish on the actual supply/demand fundamentals, ever acknowledges the paper positioning on the COMEX and LME. Over just the past two reporting weeks, the managed money traders have added 40,000 new short contracts in COMEX copper contracts, driving prices nearly 30 cents (8%) lower. Thatâ??s the equivalent of half a million tons of copper sold short by traders known to be purely speculative, as opposed to being engaged in legitimate hedging activities.

How can the CFTC and the CME Group (the designated industry self-regulator) sit back and pretend not to notice that a group of speculators is being used to set prices in copper and in the other key metals by commercial traders clearly colluding? Wait, I take that back, since I understand that the CME

is favoring its most important commercial members and as I mentioned on Wednesday so, apparently, is the CFTC, as well. All this aside, I can't help but believe that we are on the cusp of a massive price move higher in the metals, no doubt led by what looks to me to be the big move higher in silver.

Ted Butler

February 17, 2024

Silver – \$23.48 (200-day ma – \$23.54, 50-day ma – 23.29, 100-day ma – \$23.28)

Gold – \$2024 (200-day ma – \$1981, 50-day ma – \$2038, 100-day ma – \$2011)

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