

## February 27, 2021 – Weekly Review

After starting the trading week strong, precious metals prices ended quite weak, with gold ending lower in late trading by \$53 (3%) for the week and with silver finishing down by 65 cents (2.4%). Silver's better relative performance resulted in the silver/gold price ratio tightening in yet again, this time by just over a quarter of a point, to 64.9 to 1, just enough to establish a new 7 year low in the price ratio valuing silver over gold.

In practical terms, such a fraction of a point change in the price ratio is not usually the makings for profound declarations, but hopefully, you'll forgive me for noting that anyone switching from gold to silver, or buying silver instead of gold since 2014, has now been rewarded for taking such action. Such a favoring of silver over gold has been a staple feature of these pages for even longer than that and, while I am still convinced that gold can and will rally strongly from current levels, I remained even more convinced that silver will outperform handily on a relative basis.

In fact, the standout feature from last summer and since the start of the New Year has been the price weakness in gold and lack of such weakness in silver. As I indicated last week, it's quite unusual for the silver/gold price ratio to tighten on overall price weakness compared to overall price strength, so this week's relative performance is par for recent times.

Gold closed at a new 9 month low this week, down \$325 (16%) from its all-time weekly closing high of early August, while silver is down about \$2 (7%) from its weekly closing high back then. Since the turn of the year, gold is down \$165 (9%), while silver is flat to a bit higher. Who would have thunk it? Again, it's quite unusual (in that I don't recall any such prior instance) for the silver/gold price ratio to tighten with gold price weakness, but if I had an ounce of silver for every instance of what's unusual in the world nowadays, I think I'd have quite a pile of silver.

A word about yesterday's price bombing in gold and silver. There's absolutely no doubt in my mind it was a show of force by the big 4 and 8 shorts in gold and, particularly in silver to demonstrate that they are fully in control (which I seriously doubt). There was absolutely nothing, including the first day's deliveries in silver or any other aspect of real world developments that remotely justified the price shellacking, which started in the early hours of Globex trading (late Thursday, early Friday) – prime play time for the assorted COMEX short vermin.

With so many prepared for silver price fireworks to the upside, due mainly to the pending March deliveries and the ongoing talk of a silver short squeeze, what better way to confound and frustrate those expectations than by bombing the price? After all, the vast majority of market observers and participants look to price first for explanations of what's going on. And in the heat of a vicious and deliberate price smash, who has time for reasoned thought? Yet these are precisely the times for such reasoned thought.

With your indulgence, please allow me to wax philosophical on a wider perspective for what's going on in silver in real world terms for a bit before returning to the usual weekly format. Searching for some balance to the price drubbing yesterday morning, I happened to catch an interesting interview on CNBC with the CEO of Eaton Corporation, an industrial company specializing in electrical power transmission solutions, that has been listed on the New York Stock Exchange and paying continuous

dividends for nearly 100 years. ETN has annual revenues of more than \$20 billion, a market cap of more than \$50 billion and 92,000 employees. Not exactly a fly by night organization.

What caught my attention was that as the interview was ending and all the necessary company specific information was covered, the CEO, Craig Arnold, was asked about prospects for the company in light of expected economic developments. What blew me away was in how excited he got about his conviction that the world was increasingly becoming electrified in every possible aspect, from transportation, to industrially, to energy production and to the home – a theme I have harped on endlessly, but nowhere near to the extent of Mr. Arnold.

And all this was occurring just as silver, the world's best conductor of electricity was being rigged sharply lower by a handful of crooked COMEX traders intent on showing the world that silver was not worth the price it had been trading at the day before. Talk about smoke and mirrors and corrupt COMEX trading practices designed to manipulate prices.

I know much is being made of the current investment surge in silver, which is just in its infancy and was expected by me for longer than I care to remember and is more than justified. But the really special thing about silver is in its highly unique dual demand profile – as both an investment asset and as a critical industrial commodity. It's no secret that I feel that silver is the best investment of all (and that's saying a lot), but when added to its indispensable industrial usage, there's simply no way we are not going to run out of available supplies.

Right now, the visible signs of insufficient quantities of raw materials, particularly industrial resources like copper, cobalt, uranium, palladium, rhodium and others have emerged and the only thing plentiful is the talk of the start of a commodities super cycle. It is not possible for silver not to be in the group of commodities not being sufficiently supplied to industrial consumers, even before you take into account its highly unique dual role as an investment asset, which no other industrial commodity can lay claim to.

Hey, if there isn't enough silver around to satisfy investment demand (the real lesson of the prospectus change in SLV), it won't be long before the industrial users get the message in delayed deliveries. As and when that occurs, the crooked price rigging games by the big shorts on the COMEX won't amount to much. And after years of severe underinvestment in natural resource development (I've read where 75% or more of exploration investment has gone towards gold), the stage is set for restrained industrial production and, particularly metal production for years to come. And just as supply line issues are cropping up daily. Heck, it's already occurring in silver on both a retail and wholesale basis.

On Wednesday, I asked what you would do (if you were one of the big silver shorts)? The deliberate price smash yesterday is the best answer possible. Not only did the lower prices take some of the edge off the intensifying rhetoric of the silver squeeze talk, the commercial shorts were no doubt able to buy back short positions, most likely in gold, as was evident in yesterday's COT report. But there is a limit to price smashes, or so I believe. For the time being, yesterday's price smash was the very best the big shorts could come up with and did temporarily achieve its primary goal. For how much longer is the real question.

The turnover or movement of physical metal either brought into or removed from the COMEX-approved silver warehouses was quite active this week, as 10.4 million oz were moved, the most since September (and 540 million oz when annualized). Even more unusual, total COMEX silver warehouse

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inventories fell a sharp 3.6 million oz for the week, to 393.1 million oz. I say unusual because warehouse inventories typically rise into a big first notice of delivery day, not fall. The holdings in JPMorgan's COIMEX warehouse fell by 1.2 million oz to 195.8 million oz.

In contrast, the total amount of gold in the COMEX warehouses remained unchanged at 39.4 million oz, as did the holdings in the JPM gold warehouses (13.72 million oz).

In ETF physical flows, there were net redemptions for the week in the big silver ETF, SLV, but overall silver holdings rose, mostly as a result of continued inflows into PSLV. However, we'll have to wait until late Monday to see what physical flows resulted from yesterday's high volume and lower prices. I'm still very much of the opinion that vast majority of the 65+ million oz in redemptions in the SLV since the big three day 110 million oz deposit were of conversions of shares to metal, something that has yet to occur in PSLV or other silver ETFs.

It's a much different situation in gold ETFs, principally, GLD, where there have been notable withdrawals due to plain vanilla investor net selling in response to the COMEX-induced lower prices. In fact, for the first time ever, there is now more gold in the COMEX warehouses than there is in the GLD (39.4 million oz versus 37.5 million oz). There's nothing particularly complicated about the declining holdings of physical gold in the GLD, as it's usually the case when gold prices decline that investors liquidate holdings.

At the same time, however, the declining gold holdings in GLD (and other gold ETFs) are a lagging, rather than leading indicator. And it's certainly not the case that the 2 million oz of gold that have been liquidated and redeemed from GLD over the past month have been abandoned and left unowned on the streets of London. There definitely is a new owner of this gold and my best bet is none other than you-know-who. (OK, I'll give you a hint - it's known by three initials and the first is J and the last is M). In fact, I would estimate that friends and family of this mysterious entity now own more than 1.1 billion oz of physical silver and as many as 30 million oz of physical gold.

The latest report on short interest for stocks indicated a pretty decent reduction in the short position on SLV, as of Feb 13, of 2.6 million shares, to 14.4 million shares (ounces). As a percent of total shares outstanding, SLV's short interest is less than 2.2% and way less than any level that would require any rattling of BlackRock's cage on my part (he said with great relief). I can't help but believe that the recent change in wording in the prospectus on SLV warning short sellers is behind the reduction in the short position. There was a sharp increase in the short selling on PSLV, but in terms of total shares outstanding the percentage held short in PSLV is even less than that of SLV, so no big alarm.

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

The first two days of deliveries on the highly anticipated COMEX March silver contract was interesting and far from bearish, as was the intent of the message behind yesterday's price smash. Over two days, some 6800 contracts (34 million oz) were issued and stopped in total. The big issuer was Goldman Sachs with 2900 contracts and, as usual, a much larger number of stoppers. JPM was fairly evenly divided as both an issuer and stopper for clients (1400 contracts on each side) and was a slight net stopper (133 contracts) in its own house account. Somehow, someway, the world of silver seems better to me when the crooks at JPMorgan are stopping, rather than issuing silver in its own account.

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

Turning to yesterday's Commitments of Traders (COT) report, I took a pass on predictions given the bifurcated price action for the reporting week. There wasn't too much developing in silver, but the changes in gold were beyond anything I would have expected, at least on the speculative sell side.

In COMEX gold futures, the commercials bought and reduced their total net short position by a hefty 23,300 contracts, to 251,700 contracts. This is the lowest (most bullish) level of commercial shorts since June, completely coinciding with the price levels gold was at back then and before it ran to all-time price highs less than two months later.

By commercial categories, the big 4 and 8 dominated the buying with the big 4 buying back 14,400 short contracts (to 151,554) and the next largest 5 thru 8 traders buying back another 5600 short contracts, a total of 20,000 contracts bought back by the combined big 8, which now hold 218,431 contracts (21.8 million oz) short. The smaller commercials (the raptors) bought back the balance of the total commercial shorts bought this reporting week, or 3400 contracts. I'd peg JPMorgan as having bought 3000 gold contracts, increasing its net long position to 5000 contracts.

From January 5, when the 8 big gold shorts were short nearly 280,000 net gold contracts (and with gold near \$1900), the 8 biggest shorts in gold have now bought back nearly 61,500 gold short contracts (6.15 million oz) and most likely more on the gold price weakness since Tuesday's cutoff. I know many are still mystified by how the commercials can rig prices lower and buy back massive amounts of short positions along the way, but that's the way it has been for decades and how the heck these crooks do it goes a long way in explaining how they have managed to do it in full view and get away with it.

With the commercials buying so many gold contracts this reporting week. I would have assumed the managed money traders were the big sellers, despite my assessment that they were mostly "washed out". As it turns out, the managed money traders weren't big sellers, or even sellers at all, as they bought 1167 net gold contracts, as a result of short covering to the tune of 2040 short contracts. Thus, at least for this reporting week, my sense that the managed money traders were mostly washed out held true.

But someone had to sell heavily in order for the commercials to have bought so heavily and this week the big sellers were the other large reporting traders who sold 20,403 net contracts (including the sale of 18,629 longs and the new short sale of 1774 contracts). The smaller non-reporting traders pitched in by selling 4113 net gold contracts.

Not only was I surprised that these other guys sold so many gold contracts, but disappointed as well. Then again, what these traders do is impossible to predict. And not that I'm looking to make things more complicated, but I have some question about whether these other big traders sold when gold price declined early in the reporting week or later after gold prices had rallied sharply. The last time these other large traders sold similar amounts of gold contracts was last March, when gold prices fell sharply, only to rally just as sharply. I recollect (perhaps incorrectly) that the other large reporting traders did quite well in selling and buying great numbers (around 20,000) of gold contracts and I will need to see next week's COT report to get a handle on this.

In COMEX silver futures, the commercials reduced their total net short position by 900 contracts to 70,400 contracts. By commercial categories, the big 4 bought back around a thousand contracts, reducing their net short position to 61,272 contracts (306 million oz) and the next 5b thru 8 largest traders bought back nearly 700 contracts, reducing the big 8 net short position to 79,990 contracts (400 million oz). The smaller commercials (the raptors) sold off 700 long contracts. I'd peg JPM as not having done much and is still flat to short a thousand contracts.

Since I highlighted how many short contracts the big 8 shorts in gold bought back and covered since Jan 5 (61,500 contracts) on gold's near \$165 price decline, a similar comparison in silver would show virtually no price change and no (less than 1000 contract) reduction in the big 8 silver short position. I guess the question is whether the big silver shorts were unable to buy back more or will be able to do so ahead?

On the managed money side of silver, these traders were net sellers of 1262 net contracts (1000 contracts of long liquidation and 262 contracts of new shorts). The other large reporting traders also sold just over 900 net contracts and the smaller non-reporting traders were net buyers to the tune of 1200 contracts. Not much to see here, so let's move along.

I am kind of amazed that the big commercial shorts have been as successful in rigging gold prices as low as they have and in buying back so many short contracts in what I still consider a washed out market structure, but my amazement to the contrary, that's clearly what has occurred. It's just that gold is such a large market, with a total market capitalization of more than \$10 trillion in total and \$5 trillion in bullion terms alone, that the commercials rigging prices lower by \$165 (9%) over the past two months on little more than 6 million oz of paper gold (\$10 billion notional value) meant that \$450 billion of the \$5 trillion in gold bullion value was wiped out by the \$10 billion of notional value in COMEX paper positioning.

Then again, it's getting to be commonplace that the price of Bitcoin can change by many thousands of dollars in such short periods of time. Over the past 4 months, Bitcoin prices rose by \$45,000 to the recent high of \$58,500, or an increase of more than \$800 billion in total market capitalization (to over \$1 trillion). The recent fall of \$12,000 meant the total market cap shrunk by more than \$200 billion.

With only 2 billion oz of silver bullion in the form of 1000 oz bars (2 million such bars), the current market capitalization of all the silver bullion in the world that matters is less than \$54 billion — not the many trillions of dollars that exist in gold or the many hundreds of billions of dollars that exist in Bitcoin. Should the price of silver rise to \$50, the total worth of all the silver bullion in the world would be \$100 billion, still a small fraction of what all the gold or Bitcoin would be worth. Same deal if silver went to \$100 in price and all the silver bullion in the world was worth \$200 billion, the amount by which Bitcoin's market cap changed last week.

But here's the really nutty thing — if all the gold or Bitcoin in the world suddenly disappeared, aside from the empty pocketbooks it would leave their former owners, what would change in the world? Would rocks melt or the sea burn or would pigs get wings and fly? I don't think so. I think birds would still sing and children would still play and life would go on as before should gold or Bitcoin cease to exist.

But ask yourself the same question about any needed industrial metal or mineral, like copper, uranium,

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zinc or nickel suddenly disappearing. Or silver, the world's best conductor of electricity in a world in the words of the CEO of Eaton Corporation that is increasingly being electrified like never before? And to think that a commodity that the world can hardly live without is worth a mere fraction of what that which is unnecessary is worth.

And when you dug just slightly deeper and discovered that silver is the only one of the world's necessary industrial commodities that happens to be considered a direct investment asset doesn't that portend sharply higher prices, particularly now when there is undeniable evidence of physical tightness to the point of potential shortage?

And if you just happened to dig even just a little bit deeper and discovered the existence of a massive and concentrated short position that no one can explain away in legitimate terms even the regulators whose job it is to explain such things would you not get the sense that silver prices were in position to explode higher at any moment? Or would you be convinced all the above was completely incorrect because of a sudden one day deliberate price smash?

There's no question the 8 big shorts, in addition to reducing their concentrated short position in gold, benefitted themselves mightily with this week's sharp price drop. I'd estimate the big shorts made back \$1.4 billion this week, reducing their total combined losses in gold and silver to \$9.7 billion, down substantially from the \$14 billion loss at yearend. And I'm sure it was no coincidence that the low ebb in the 8 big shorts loss came right at month's end.

But here's a big twist the entire \$4.3 billion in loss recovery by the 8 big shorts since yearend came as a result of gold's price decline and short covering. The big shorts, despite a masterful success in gold (to this point), have been unable to replicate that success in silver. Forget replicate, they haven't even come close. For someone who has long identified the concentrated silver short position as the critical feature, I am both surprised and not surprised by this turn of events. As and when gold finds its legs, as I expect to be the case shortly, I'll be looking to see what magic trick the big shorts have planned next to keep silver prices from exploding.

And the really crazy thing is, even if they do succeed in driving silver prices lower, then what? At what point do these crooks throw in the towel? And now with the spectacle of physical shortages and a growing social media movement to squeeze the shorts, what comes next matters more than ever. And I still couldn't make this stuff up if I tried.

Ted Butler

February 27, 2021

Silver – \$26.70 (200 day ma – \$23.80, 50 day ma – \$26.46, 100 day ma – \$25.35)

Gold – \$1733 (200 day ma – \$1860, 50 day ma – \$1847, 100 day ma – \$1862)

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