

## February 6, 2021 – Weekly Review/What Everyone Has Missed

Over what has to have been the week in which more attention and commentary has been focused on silver than any other week in the 35 years in which I have studied it closely, its price managed to finish about unchanged from last Friday. Gold, over the week finished \$34 (1.8%) lower, but up from its weekly lows. As a result of silver's relative outperformance (or gold's underperformance), the silver/gold price ratio tightened in by more than a full point to 67.2 to 1.

Gold closed at its lowest weekly level in nearly three months, while silver ended at just about its highest weekly close in five months and the silver/gold price ratio finished at the best level for relative silver valuation in four years. A little less than a year ago, silver was the most undervalued it had been to gold in a history that goes back thousands of years, when the ratio hit 125 to 1. In terms of relative valuation, a swing from a low that was never seen in history to a four year high in one year, is beyond extreme – even for someone who has been steadfast in suggesting silver over gold. Once again, when it comes to how much stronger silver will prove to be relative to gold, you ain't seen nothing yet.

Of course, while silver did manage to finish unchanged for the week, it ended a full \$3 lower than the intraday price highs recorded on Monday, amid a continuing physical shortage on the retail front and extraordinary wholesale conditions featuring historic net inflows of physical metal into the world's silver ETFs, particularly the largest, SLV. There is even an active debate about whether the physical flows into SLV are legitimate, they are so large. I'm going to save that discussion for later, if not today, then on Wednesday. But my sense is that the physical deposits are real, although I've fully conceded that the metal was already in place at the appropriate warehouse(s) and not physically moved.

Aside from what the phenomenally-large deposits into the ETFs mean, which I will discuss today, there were some stunning developments in the latest COT report released yesterday that tie in completely with what's going on in the ETFs. Once again, the issue I have nearly beaten to death for decades – the concentrated short position in COMEX silver futures – took center stage to a degree that had me check and recheck my calculation of the data several times. It seems the 4 largest shorts in COMEX silver doubled-down and added more new shorts in the reporting week ended Tuesday than in any other week (save one) in the last few years – with the important distinction this increase in concentrated short selling was the first in which JPMorgan wasn't one of the big 4 (or even in the big 8).

If you are looking for a reason why silver was capped at \$30 and declined thereafter in the face of visible physical shortages in the retail market and extreme tightness in the wholesale (1000 oz bar) market, then look no more. The price capping had to do with concentrated short selling on the COMEX and non-economic and highly illegitimate (and easy to prove) selling in the silver ETFs. Let me quickly run through the usual weekly developments before turning first to the new COT report and then to the silver ETFs.

The turnover or physical movement of metal either brought in to or removed from the COMEX-approved silver warehouse bounced back this week to nearly 5.5 million oz, not far from the incredibly high level of average weekly physical movement of the past ten years. Total COMEX silver inventories

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rose by 0.9 million oz to 398.2 million oz, just shy of the all-time record set a few weeks back. No change in the JPMorgan COMEX warehouse, still stuck at 193.9 million oz.

Nothing special to report on deliveries on the big traditional Feb gold contract or the smaller non-traditional Feb silver contract, aside from the intra-month spread differentials continue to tighten, particularly in silver. The nearby March silver contract has slipped back into a discount of less than 4 cents to the May silver contract from the premium or backwardation set on Monday. There still appears to be telltale signs of growing physical tightness in the silver spreads. For instance, yesterday there was a full ten cent tightening in the one year spread of March to ~~March~~ March (2022) to around 12 cents, or a penny per month, the tightest I've seen in quite some time. This is a sure indication of growing physical tightness in the wholesale market.

The developing or should I say the growing recognition of tightness in the 1000 oz bar form market of silver stands in stark contrast to the unmistakably pronounced shortage and tightness in retail forms of silver. I've seen offers to sell Silver Eagles a full \$14 (100%) over the wholesale price of silver and only if you are willing to wait for a delayed delivery. I've never seen such premiums or tightness.

[https://www.apmex.com/category/10002/gold-silver-platinum-palladium-top-picks?page=1&f\\_allAvailable=true](https://www.apmex.com/category/10002/gold-silver-platinum-palladium-top-picks?page=1&f_allAvailable=true)

Turning to the new Commitments of Traders (COT) report, it was all about silver. The reporting week covered the three trading days in which silver soared by more than \$4 into Monday's close, before falling \$3 into the close on Tuesday, the cutoff day. Since total open interest rose by nearly 12,000 contracts over the reporting week, I envisioned managed money buying and commercial selling and was nearly completely wrong (I'm happy to report). I did anticipate individual trader category changes to be of special interest and that turned out to be an extreme understatement. Let me cover gold first, before shining the spotlight on silver.

In COMEX gold futures, the commercials reduced their total net short position by a slim 1000 contracts to 298,000 contracts, largely as expected given the rather subdued price action compared to silver. Considering the overall subdued price action in gold and overall change in the level of the total commercial net short position, the category changes were quite remarkable, both for the commercial categories and the non-commercial categories.

By commercial category, the 4 big shorts increased their concentrated short position by nearly 5000 contracts to 169,524 contracts, while the next 5 thru 8 largest shorts actually bought back more than 10,700 short contracts, a parting of the ways I don't believe I have seen before. The net result is while the concentrated short position of the 4 big shorts grew, the concentrated short position of the 8 largest traders fell by 5460 contracts to 252, 205 contracts (25.2 million oz). The smaller commercials that I refer to as the raptors added around 4600 new shorts. Best I can interpret these commercial category changes, the big 4 were interested in capping gold prices, while the next 4 largest shorts were eager to buyback shorts. Please remember gold deliveries were heavy and this impacts futures positions.

On the non-commercial side of gold, the managed money traders were net sellers of 8621 contracts, consisting of the sale and liquidation of 5753 long contracts and the new short sale of 2868 contracts. The managed money net long position of 87,778 contracts, while not at a new low, is quite close to a new low over the past year and a half and is quite bullish on its face. Considering the price weakness

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in gold since the Tuesday cutoff, the managed money net long position is likely to be even lower and more bullish.

The other large reporting traders (who are these guys?) returned to the buy side in gold and came close to equaling what the managed money traders sold, by buying 8201 net gold contracts consisting of the purchase of 6573 new long contracts, as well the buyback and covering of 1628 short contracts. Their net long position of 169,348 contracts is not an all-time high, but close enough to be considered extremely bullish.

The radical category changes in gold, both on the commercial and non-commercial sides, were nothing short of profound. My gut sense is that the big 4 commercial shorts leaned on gold to help contain the growing silver fire.

In COMEX silver futures, the commercials increased their total, net short position by a tiny 400 contracts to 73,900 contracts. But as was the case in gold, the category changes in silver were even more profound. The 4 big silver shorts (or should I say crooks?) added an astounding 6672 new shorts (33.4 million oz) to a short position now amounting to 65,262 contracts (326.3 million oz). This is the largest concentrated short position by the 4 largest traders in nearly a year and, by far, the largest big 4 short position in 13 years where JPMorgan wasn't in the big 4 and mostly the biggest short. (I'd peg JPM as flat or only as much as a thousand contracts or two net short, as well as being flat in gold).

The next 4 largest shorts added a scant 366 new shorts (unlike the 5 thru 8 shorts in gold which covered shorts ferociously). The total concentrated short position of the 8 largest traders in silver did rise to 84,499 contracts (422.5 million oz), also the highest in nearly a year, but nearly all of the increase came about due the 4 largest shorts.

A big surprise in silver was also that the smaller commercials away from the big 8 (which I call the raptors) added a fairly astounding 6400 new long contracts. I would assume the raptors added so aggressively to their silver longs on the big Tuesday selloff, but regardless, in no way is their buying typical for a reporting week in which prices ended higher, not lower. My gut sense is that the raptors now realize something quite big is developing in silver (or perhaps they have taken to the Reddit chat sites).

On the non-commercial side of COMEX silver, much to my surprise (and delight), the managed money traders sold 4360 net silver contracts, consisting of the sale and liquidation of 5042 long contracts, as well as the buyback and covering of 682 short contracts. The managed money net long position is now under 39,000 contracts, not near record lows, but remarkable low nonetheless (and remarkably bullish in my eyes).

The managed money traders are thought to be more technically motivated than other categories, generally in regards to moving averages. Therefore, it is no big surprise that the managed money net long position in gold is so low, since the price of gold has been trading consistently of late below all of gold's key moving averages (the 50, 100 and 200 day moving averages). But in silver, the price has been consistently above those same three key moving averages, even remaining above them on the sharp selloff from Monday's highs. Therefore, it's more of a surprise that the managed money traders were such heavy sellers in silver this reporting week, but it's all good news since it means they will be less able to sell from here. Call it a Spidey-sense, but I get the feeling that some of the managed money traders' prime brokers may have whispered in their ears to sell silver for,

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let's say, reasons more to the benefit of the brokers than their managed money clients.

Finishing up on the non-commercial side of COMEX silver, the other large reporting traders bought 1309 net contracts, lifting their net long position to 12,771 contracts, the largest it has been since April. These traders have now bought around 20,000 net contracts (100 million oz) since August, when they were 7000 contracts net short. There are 57 traders on the long side of the other reportable category in silver, so the position wouldn't appear to be concentrated.

In fact, the concentrated net long position of the 4 largest traders in COMEX silver, at 32,361 contracts, is less than half of the 65,262 contracts held net short by the 4 largest shorts (18% of total open interest for the big longs versus 36.3% for the 4 largest shorts). This despite the compelling economic logic of it making more sense to be long a commodity that is dirt cheap, as opposed to being massively short that same commodity. That's the thing about silver â it makes much more sense to be long than it does to be short, yet it is the concentrated short position that towers over the concentrated long position. Now why oh why do you suppose this is so?

Let me not beat around the bush â it is this way because the silver price is rigged to be lower by the 4 big shorts. There can be no other reason. I suppose we could debate what's behind the motivation of the 4 big silver shorts, but that's somewhat beside the point. If someone wants to argue that it is the evil US Government behind the concentrated short position of the 4 big shorts, then knock yourself out. For me, the spotlight still shines on the 4 big shorts by a highly-objective and mechanical analysis of the government's own market data.

From my perspective, the 4 big COMEX silver shorts are in a fight for their financial lives and they added with reckless abandon to their manipulative short positions this week in a desperate attempt to stem the tide of surging silver prices â much like an individual, in the unfortunate circumstance of drowning in debt, maxing out his credit cards in a final desperate attempt to put food on the table or keep the heat on. Only the big shorts deserve no sympathy because they were engaged in illegal and manipulative practices for decades and victimized innocent investors every step of the way. As such, these 4 crooked and greedy pigs deserve everything that is coming their way and the only regret I have is that the biggest crook of them all, JPMorgan, may escape justice.

## What Everyone Has Missed

On the surface, this title borders on the obnoxious, but it's certainly not meant that way. I believe there is something so big, so important and so obvious about recent developments in the silver market that either I am completely mistaken about what I'm about to present or that just about everyone else has missed it. It's got to be one or the other. And if it's me that is misreading the facts, I deserve to be mocked and put in my place.

Over the three trading days, starting on Thursday, January 28 and ending on Monday, Feb 1, the total trading volume in shares of the big silver ETF, SLV, soared to the highest three day level in history as more than 545 million shares were traded. SLV prices closed on Monday up a bit more than \$3 from where they closed on Wednesday Jan 27. Subsequently, the share price of SLV fell back by \$2 by the

close on Tuesday Feb 2, meaning for all the record trading volume, the price of SLV (and silver) only had a net gain of \$1 to show after the dust settled. The highest trading volume in history, by far, on the COMEX and in SLV and both gained only a dollar.

As a result of the record trading volume to the upside and allowing for the typical one-day delay in the reporting of how much physical silver was deposited to meet the record buying and obvious new share creation, some 110 million oz of silver were added to the holdings of SLV. Just like the record trading volume, the three-day deposit of physical silver was, by far, the most in history. The 110 million oz physical deposit equaled roughly \$3 billion. Even more significantly, the deposit equaled a full 5.5% of all the 2 billion oz of silver in 1000 oz bar form in the world.

The facts, as I just laid out, are easy enough to verify. Not even the subsequent withdrawal of 22 million oz from the SLV over the past few days changes things, as the most plausible explanation for the "outflows" were conversions of shares into metal by a large holder(s) to avoid SEC reporting requirements (and not at all illegal). What either I or everyone else is missing is the explanation for the incredibly subdued price reaction in silver in the face of what was the largest wholesale purchase in history.

Never before had such a large amount of physical silver or any other commodity, for that matter, been bought in such a short period of time with such a small impact on price. The Hunt Bros. bought much less physical silver than 110 million oz over a much longer period of time – years, not days and drove prices higher by nearly 8 fold over the last year into 1980. Admittedly, the objective of the Hunts was to drive prices higher, but the facts are still as I outlined. Not even Warren Buffet, who bought slightly more than 110 million oz of physical silver in 1997 over more than 6 months and tried his best not to cause the price to rise, could prevent silver prices from doubling over the six months into Feb 1998. Remember, I'm now talking about 110 million oz in three trading days.

So what is it were the buyers in SLV so skilled and clandestine in their purchases that they were capable of outsmarting the sellers? Is there anything clandestine about Reddit or Robinhood that could remotely be described as such? Yeah, about as skilled and clandestine as a bulldozer in a china shop. Then how the heck did so much silver get purchase in such a short period of time without the price exploding by \$10 or \$20 or much more?

The simple answer is that the lack of an appropriate price response had absolutely nothing to do with the buyers and everything to do with the sellers. It was the sellers that prevented silver prices from soaring. Now why in God's world would a seller not seek the highest price possible for what he is selling? When accepting the highest price possible would result in his financial ruin. Huh? Let me explain.

By accepting a higher sale price, say \$40 or \$50, the sellers of the 110 million oz of silver that was bought in SLV would have set off even more buying and even higher silver prices, thus bringing complete ruin to the sellers which were already short up the ying yang. Decades of price suppression and manipulation have brought us to the sad and perverse state where the sellers can't afford higher prices because of the large size of their existing silver short positions.

Normally, I would argue that this was the most plausible explanation for the absolutely bizarre circumstance of the most physical silver being bought in the shortest time ever not having any notable impact on price, but I must amend that to it being the only possible explanation. Certainly, if anyone

can offer another explanation for how much silver could be bought with hardly any price reaction, please fire away.

Remember, we're talking about the basic law of supply and demand, which underscores the capitalist economic system. When demand suddenly exceeds supply, prices must rise sharply. Period. Silver is a market where 2.5 million oz are produced and consumed each day, 7 days a week, 365 days a year, year after year. For buyers to suddenly buy 110 million oz in days and for there not to be a violent price surge is impossible in a free market. This is the ultimate proof that silver is manipulated in price. No one could possibly advance that 110 million oz of real supply just as suddenly legitimately appeared as did the buying demand for that amount. But it's not about the buyers, it's about the sellers.

It's even more extreme and outrageous than I am portraying. Since it's beyond impossible for there to have been a sudden surge in mining or recycling production, then it's clear that the 110 million oz that were bought and sold in the SLV had to come from existing inventories. Before the big deposit, the amount of silver in all the world's silver ETFs was approximately 1.15 billion oz, plus another near 400 million oz in the COMEX warehouses, or 1.55 billion oz combined. After the three day deposit, the total came to 1.65 billion oz.

From everything I know, there are little more than 2 billion oz in the world in the form of 1000 oz bars. So what this means is that before the 110 million oz purchase and deposit into SLV, no more than 500 million silver oz in 1000 oz bars existed outside of the 1.55 billion oz in the world's ETFs and in the COMEX warehouses. Since the 110 million oz newly bought in SLV couldn't logically come from the holdings already in the world's ETFs and on the COMEX, the 110 million oz had to come from the 500 million oz not already in the ETFs or on the COMEX.

What this means is that more than 20% of the remaining 500 million oz not already in the ETFs and COMEX warehouses was bought in three days and not the 5.5% of the full 2 billion oz in existence. Try to imagine the price effect on any commodity or asset, from gold, to stocks, to Bitcoin, to anything if more than 20% of the remaining and available supply was suddenly purchased in three days. Would you not envision gains of 50%, 100% or more? Does the actual price reaction in silver, where the evidence shows the actual buying occurred make sense?

Even though very few have focused on the actual facts (yet), the good news is that more people than ever sense something is wrong in silver and that sense doesn't appear to be going away anytime soon. They know something is very wrong in silver, even if they haven't hit precisely on the concentrated short selling on the COMEX and the uneconomic selling in the SLV by, most assuredly, the very same small number of sellers. The cat is out of the bag, even if the details are yet to be widely and fully understood.

Turning to other matters, this week's new short report on stocks is due to be released on Tuesday, the 9<sup>th</sup>, and therefore, available for analysis in Wednesday's mid-week article. I am an admitted fan of the SLV, which I consider, along with the other silver ETFs, to be the silver investors' best friend. How else could 1.25 billion oz or more than 60% of all the 1000 oz bars in existence have come to be owned in fully-visible form? Without SLV and the other silver ETFs, this long-running manipulation and price suppression could have run for decades longer. I know SLV has come under renewed attack in some quarters, but I believe the criticism is undeserved. I will address this further, most likely on Wednesday, as today's review has run longer than usual

All that said, there is one thing that has always concerned me about SLV and that is when the short position on SLV rises to very large levels. Generally, large increases in the short position signifies that there is physical tightness and the authorized participants resort to short sales in lieu of depositing physical silver to match new net investment demand. Long time readers know I've raised this issue with Barclays Global Investors when it was the sponsor of SLV and also with BlackRock some years ago. I'm not predicting I will have to do so again but the odds have definitely increased given all that is occurring.

There was a pretty sharp increase in the short position on SLV in the most recent short report from 14 million shares to 24 million shares (ounces), but there was a 20 million oz physical deposit just after the cutoff of the latest short report, which I assumed was to reduce the short position. Now things have changed radically with the latest surge of trading volume and physical deposits in SLV and, quite frankly, it is impossible to predict what the new and subsequent short reports will indicate. However, I am prepared for sharp changes, most likely large increases. I think we need time and the release of a few short reports before being able to draw a bead on what is occurring, but if after a few new short reports have been published that it looks like the authorized participants are shorting shares to avoid depositing physical metal, you have my pledge to take the issue up with BlackRock again. Hopefully, Gary Gensler, will have been installed as chairman of the SEC by then, so at least there will be someone smart enough to understand this issue, although, of course, that's no guarantee he will do anything about it.

By virtue of the decline in gold prices this week the 8 big shorts in COMEX gold and silver enjoyed a reprieve of just under \$900 million, reducing their total losses to just over \$11.7 billion. But the standout feature is how aggressive the 4 big silver shorts were on the COMEX and in SLV. These crooks look trapped to me, but be mindful that crooked animals can lash out when trapped in a corner. That means, no margin – just fully paid for positions in silver and call options if you feel the need for speed.

Ted Butler

February 6, 2021

Silver – \$27.03 (200 day ma – \$22.96, 50 day ma – \$25.48, 100 day ma – \$25.00)

Gold – \$1815 (200 day ma – \$1854, 50 day ma – \$1855, 100 day ma – \$1878)

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