

January 16, 2021 – Weekly Review

A second consecutive sharp Friday selloff put gold and silver prices lower in as many weeks, as gold ended \$21 (1.1%) down on the week, with silver off a sharper 65 cents (2.5%). As a result of silver's relative underperformance, the silver/gold price ratio widened out by just over a full point to 73.6 to 1. I'll spare you my usual sermon about how silver will far outdistance gold performance-wise in time, as long as you know my rap hasn't changed.

The highly-anticipated Commitments of Traders (COT) report released yesterday and covering the reporting week ended Tuesday, which included the dramatic price smash below all the key moving averages in gold and a couple in silver came in almost exactly as expected, namely, with significant commercial buying and managed money selling. In addition, many of the hoped-for category changes came to fruition as well. I'll have all the details in a bit, but first I'd like to attempt (again) to put the positioning changes into proper perspective.

As you know, I eschew attempts at trying to predict short term price movements as I have learned such attempts are not dependable (by me or others). Yet I persist in trying to handicap (when possible) how prospective COT reports will turn out. The difference, of course, rests in the fact that handicapping COT reports is not at all prediction because estimates are not based upon future developments but on past positioning changes not yet reported.

The only reason I and others can accurately estimate (for the most part) significant positioning changes in advance is because there is a logic and dependable pattern to the data. By now, it is common knowledge that on sharp selloffs in which key moving averages are penetrated, there is a near-certainty that there will be significant managed money technical fund selling and commercial buying. The exceptions to this pattern are so rare as to be dismissed.

And please remember, this pattern has existed for several decades in COMEX gold and silver (and other markets), so it's not exactly akin to some suddenly profound discovery of how markets operate – it's more like learning that touching a hot stove burns your hand. I'm not belittling those who have come to grasp the significance of the managed money/commercial price tango, because I'm very much in that group. What I'm getting at is something else, namely, the refusal or inability of those correctly analyzing significant COT positioning changes, either in advance or after the fact, to step back and properly recognize what they are analyzing.

Let me put it this way – since it is a known fact that on sharp price plunges below key moving averages that the managed money technical funds will sell en masse and that the commercials will be the big buyers, shouldn't some thought be given as to why this is always the case. No one would advance the idea that the managed money traders colluded beforehand to collectively sell large numbers of long positions at sharply lower prices in order to inflict maximum damage upon themselves. That would be absurd, particularly if repeated continuously for decades. Yet that's what the COT report data might suggest this week and for the past four decades.

Because it's impossible that the managed money traders are deliberately doing themselves in, the only plausible (possible) explanation is that someone else is deliberately causing the managed money traders to behave in such a collectively destructive manner. And since the commercials are the obvious

beneficiaries of the managed money tradersâ?? collective destructive behavior, itâ??s obvious that the commercials are colluding, in collective action if not by prior agreement, against the managed money traders. It simple canâ??t be anything else.

I guess my gripe is that those (no names) correctly analyzing the COT data have to see that the continuous managed money/commercial positioning tango is a case of deliberate intent by the commercials to snooker and hoodwink the technical funds. This is manipulation pure and simple, so the real question is why it is not being labeled as such. My best guess as to why so few call it manipulation is because of false pride from not seeing it sooner. Thatâ??s pathetic.

The turnover or physical movement of metal either brought into or removed from the COMEX-approved silver warehouses remained a bit below the weekly average of the past decade, as nearly 3.7 million oz were moved this week. Total COMEX silver warehouse inventories fell a slight 0.1 million oz to 396.4 million oz from the prior weekâ??s record levels. No change in the JPMorgan COMEX warehouse, which stood at 192.8 million oz.

There was an increase of 0.3 million oz in the COMEX gold warehouses, which put the total gold inventories at 38.5 million oz, another new all-time high, but it remains to be seen whether this signifies the start of new up leg in COMEX gold inventories. After all, these inventories are only about a million oz higher than the levels of several months ago, after rising 30 million oz in the 4 months prior. Inflows of around 130,000 oz in the JPMorgan COMEX warehouses, to 13.72 million oz were part of the total COMEX gold inventory increase.

Just about all of the near 8 million oz of inflows into the big silver ETF, SLV, over the prior two weeks were reversed this week, but there were also inflows of 4 million oz into other silver ETFs this week. A large and counterintuitive deposit into the big gold ETF, GLD, mostly neutralized withdrawals earlier in the week. In summary, a lot of huffing and puffing in silver and gold deposits/withdrawals in ETFs this week, but no great overall change.

In fact, the standout feature to total silver and gold ETF and COMEX warehouse physical movements over the past year was a super-surge in total inflows of 400 million oz in silver and 50 million oz in gold over four months ended in July and a flat line since. These inflows were the largest in history. Likewise, retail demand for gold and silver remains super-strong, as evidenced in sales reports from the US Mint and other issuers of gold and silver coins. Still, prices have been undeniably dictated and set by positioning changes in COMEX gold and silver futures.

Turning to yesterdayâ??s COT report, it checked off just about every expected and hoped-for box on my list, starting with reductions in the headline number of the total commercial net short positions. On Wednesday, I indicated I was expecting net positioning changes in gold of as much as twice the reduction in total open interest of just over 13,000 contracts and the reduction in the commercial short position was even higher at more than 30,000 contracts. And on the managed money side in gold, these traders sold nearly three times as much as the gross reduction in total open interest. In this case, more is better.

In silver, I was expecting a somewhat larger net positioning change than the 6000 contract reduction in total open interest and the commercial short position was reduced by 7500 contracts, although the managed money traders accounted for just under 4000 contracts on the sell side. Likewise, other specific category changes came in quite close to hoped-for changes.

In COMEX gold futures, the commercials reduced their total net short position by 30,600 contracts to 290,300 contracts. This was the largest weekly reduction in the total commercial net short position in gold since Oct 2019. There have been much larger multi-week reductions in the commercial short position in gold, including over the course of the sharp decline in gold prices last March, but it does stand out that this week's reduction exceeded any one week back then. Again, I wish more would look beyond the actual numbers, then and now, and contemplate how these numbers came to be.

By commercial category in gold, the 8 big shorts accounted for nearly 20,500 contracts of the net buying and reduced their concentrated short position to 259,436 contracts (25.9 million oz). The smaller commercial shorts (the raptors) bought back the balance of the commercial short covering or 10,100 contracts. JPMorgan appears to have been a buyer of at least a couple of thousand contracts and is now (as of Tuesday) net long by 2000 contracts. As a reminder, JPM has not been net short gold (or silver) in any significant way since last spring – the longest such stretch in at least the last now-near 13 years. If you think that may be just coincidence, I don't think anything involving any market and JPMorgan has ever been coincidental.

On the sell side of gold, the managed money traders sold a remarkable and even higher than hoped-for total of 38,335 net gold contracts, consisting of the sale and liquidation of 36,039 long contracts and the new sale of 2296 short contracts. What made the long liquidation remarkable was the already quite low number of gross managed money longs open going into the selloff.

After this reporting week's selling, the net managed money long position of 78,234 contracts (131,057 longs versus 52,823 shorts) is, essentially, the lowest it has been since the gold price advance began in the early summer of 2019 on both a gross and net basis. I would ask you to think about this for a moment. Here we have the managed money long position at close to the same level it was at when the price of gold was close to \$500 below where it is today.

What this means to me is that the managed money traders, typically the largest driver of gold prices in the past, are now more sold out than they were when gold was close to \$1350 in price. I can't help but interpret the gold market structure as incredibly washed out and not capable of generating much additional selling, unless the managed money traders add great numbers of new short positions; not something they have demonstrated over the past year and half, even as they have sold off long positions aggressively (a similar story in silver).

The largest component for the difference in commercial buying and managed money selling was net buying by the other large reporting traders, but not exactly in the manner I would have anticipated. It seems these other guys sold a scant 690 long contracts, but bought back a more significant 5934 short contracts. This does have the effect of increasing the net long position of the other large reporting traders to a hair under 168,000 contracts, just 5000 contracts or so away from all-time record levels. The bottom line is that the other large reporting traders now hold a net long position more than twice as large as the managed money traders, which looks to me as being undeniably bullish. In simple words, in the face of a sharp and a most deliberate selloff, the other large reporting traders in gold hung tough.

In COMEX silver futures, the commercials reduced their total net short position by 7500 contracts to 70,000 contracts. This was the largest one-week reduction since July. By commercial category, the 4 biggest shorts bought back just over 3100 contracts, in reducing their concentrated short position to 59,342 contracts (296.7 million oz). The concentrated short position of the 8 largest traders was reduced by only slightly more than 2600 contracts to 78,215 contracts (391 million oz), meaning the 5 thru 8 largest traders actually increased their portion of the concentrated short position by just over 500 contracts.

Silver fell by more than \$3 from the highs of the reporting week and the best the 8 largest shorts could muster was the buyback of 2600 contracts, reinforcing my take that the big shorts in gold and silver appear to be in deep trouble, aside from their success in rigging prices lower the past two weeks. Finishing off the results by commercial category in silver, the raptors, the smaller commercials which are long, added 4900 new longs from last week's multi-year low long position.

I was curious to see how much buying competition the raptors would present to the 8 big shorts and the verdict for this reporting week is in and confirms the competition was fierce. JPMorgan also provided stiff buying competition and accounted for as many as 3000 contracts of buying, pushing it to a net long position of 1000 contracts or so from a net short position of as many as 2000 contracts in the prior reporting week.

The managed money traders in silver accounted for 3946 contracts of net selling, consisting of the sale and liquidation of 3485 long contracts and the new sale of 461 short contracts. In the face of such a sharp price drop in the reporting week, this tends to confirm many of the managed money longs may be non-technical in nature and that there are no signs yet of an inclination for the managed money traders to go short big, as has been the case for the past year and a half. This begs the question of where the big commercial shorts will find the speculative selling they need in order to buy back their very large concentrated short position particularly in the face of buying competition from the raptors and JPMorgan.

Finishing up on the silver COT, the other large reporting traders accounted for 1187 contracts of net buying and now hold a net long position of nearly 11,000 contracts, the highest since May. This week, however, it was the smaller non-reporting traders that accounted for the largest amount of non-managed money selling, explaining the difference between managed money selling and commercial buying, as these smaller traders sold 4769 net contracts, a somewhat "normal" reaction to the large price decline.

There have been continued press reports about the pending nomination of Gary Gensler to be chairman of Securities and Exchange Commission, including a fairly detailed article in today's Wall

Street Journal. Almost every article I have read has been uniform and, I believe, correctly so, in describing Gensler as a no-nonsense and capable leader and, as the Journal points out, most likely to be the strongest chairman in decades (I would go so far as saying forever, even including the first SEC chair, Joseph Kennedy, of the famous Kennedy family).

I've made no secret of my admiration for Gensler and how well I feel he will serve the public should his nomination succeed; but at the same time, as an analyst and petitioner against the silver manipulation for most of my adult life, I still wrestle to reconcile the contrast between the clear and persuasive evidence of the existence of the manipulation and Gensler's failure to address and rectify said manipulation during his term as CFTC chairman from 2009 to early 2014. Please understand that this is no small matter to me and there are not many other things that I struggle with more.

To that end, I recently reread the CFTC's detailed response to the matter of a silver price manipulation by means of a concentrated short position in its 16 page public response on May 14, 2008. (There was a similar public letter almost exactly to the day 4 years earlier).

<https://www.cftc.gov/sites/default/files/idc/groups/public/@newsroom/documents/file/silverfuturesmarketre>

In hindsight, the CFTC's letter was an absolutely-brilliant rebuttal to my allegations. By a brilliant I mean it addressed almost all my concerns in a comprehensive manner, even though it intentionally evaded the 800 lbs. gorilla in the room at that time (the failure of the largest short seller, Bear Stearns) and also avoided the same price fixing mechanism of the commercials hoodwinking the managed money traders as I've described before and after, including today.

Simply put, the CFTC's public letter, which was unsigned and attributed to no one individual, and I've come to believe intentionally so, was very much a "white paper" setting out the Commission's official take on the matter. As such, it became the official policy of the agency, namely, that there was no price manipulation in silver, as of May 14, 2008 and for all time thereafter.

One year later, following the election of President Obama, Gary Gensler assumed the chairmanship of the agency and began the work of attempting to enact speculative position limits and what turned out to be the more comprehensive enactment of the Dodd-Frank Act. The timing between the official agency white paper and Gensler's assumption of office is no small matter.

After considering all the above for years on end, I've come to the conclusion that Gensler, as new chair, was in no position to abruptly upend official agency policy, namely, that there was no manipulation in silver. As smart as he is (the smartest guy in any room imaginable), for sure Gensler saw and understood the issues in silver early on, but was in no position to do anything about it. It's not like he had the power to come in and immediately and unilaterally dictate official agency policy. That's the way things are in real life. Look, I'm not making excuses for Gensler - I'm just trying to explain how I see things that I've considered extensively.

Besides, the bottom line on all this is that the official white paper from the CFTC explains clearly that if anyone feels that silver is too cheap due to the perceptions of a concentrated short position or any other reason, they are free to buy as much silver or as many silver futures contracts as they care to buy. Even though it has taken nearly 13 years for that concept to be put the test, better late than never.

Along with everything else, there would appear to be scant relief to the big shorts from the official stance of the CFTC, aside from the periodic price beatings they help arrange. As much as in any major war, those that win in the end are not immune from losing many battles before finally prevailing. I think that's the right way to measure the ongoing war in silver and gold, namely, as including many temporary setbacks on the journey to much higher prices eventually, particularly in silver.

This week, the 8 big shorts in gold and silver came out ahead for the second week running, seeing their total losses shrink by \$800 million to \$11.3 billion. At the same time, however, and as evidenced in COT report data, the prospective supply of potential new selling they need to buy back their large amount of remaining shorts has also shrunk sharply, perhaps giving new meaning to the term being left "high and dry". Time, most assuredly, will tell.

Ted Butler

January 16, 2021`

Silver – \$24.85 (200 day ma – \$22.20, 50 day ma – \$24.97, 100 day ma – \$25.14)

Gold – \$1829.50 (200 day ma – \$1845, 50 day ma – \$1866, 100 day ma – \$1893)

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