January 27, 2021 – Greatest Short Squeeze/SLV Revisited

Back in December, I wrote about Tesla and how I contended that the main reason for its stock having risen more than 30-fold over the past year and a half was largely due to the covering of its short position which had grown too large. I should have added that tremendous speculation in call options along the way added to the historic price surge.

The short position in Tesla had reached 20% or more of total shares outstanding at the price lows and had fallen to 6% or so, as short sellers scrambled to buy back shares (the short interest in Tesla increased to 8% of shares outstanding at yearend, no doubt fueling price gains into 2021. New short data will be published late tonight).

Typically, the short position on a common stock runs in the 2% to 3% range of total shares outstanding, so the short position in Tesla was certainly unusually large. And in dollar terms the increase in the total market capitalization to more than $850 billion in Tesla shares is not likely to be exceeded by any other stock any time soon. But that doesnâ??t mean the spectacular percentage increase in Tesla shares over the past year and a half couldnâ??t be bested and, in fact, over just the past two weeks, a new historic short covering record has been set.

Of course, Iâ??m referring to the short covering and historic price rise in the stock of Gamestop (symbol GME). As recently as Jan 12, GME was trading for roughly $20 a share. Over the next 10 trading days (including today), the stock traded as high as more than $350 per share, an increase of more than 17 times. There is universal agreement that the actual fundamentals of Gamestopâ??s ongoing business, a bricks and mortar retailer experiencing declining revenue over the past few years, have nothing to do with the stockâ??s performance. Instead, GMEâ??s market cap has soared from $1.5 billion on Jan 12 to as much as $24 billion at todayâ??s price highs due to a historic short covering.

As far as the obvious question of whether silver could run up 17 times in price (to more than $400) in little more than two weeks due to a concerted short covering melt up – one answer is why not considering the mechanic of short covering and the extremely large concentrated short position? But cut that in half and then half again and it looks less implausible.

It seems that the short position in GME was extraordinarily large for some time (sound familiar?) and had reached the hard to fathom extreme of being as large or larger than the total shares outstanding (70 million shares). Quite frankly, I donâ??t understand how GMEâ??s short position could grow so large as my understanding is that short sales in stocks require the borrowing of shares in order to sell short. I canâ??t understand how all the shares outstanding (and then some) could be borrowed and then sold short â?? but that is what the public short data indicates.

Here, I would blame the Securities and Exchange Commission for allowing the short position in GME to grow so large to begin with, but when compared to the regulators at the CFTC which have stood by and allowed a concentrated short position in COMEX silver to go unchallenged for decades, the SECâ??s failures must be put into perspective.

Please understand that I have no idea or interest in what GME stock does from here, as it long passed extreme overvaluation status. Instead, my interest is in the mechanics of what just occurred. A short position, whether in Tesla, GME or silver, is an open position that needs to be closed out at some point, either by repurchase or actual delivery (in the case of silver). Thereâ??s no way to know exactly when this close out will occur, only that it must occur at some point.

In the case of Tesla and GME, the short position got so large that when a concerted short covering began, it quickly feed on itself (much like a nuclear meltdown) and short covering drove prices higher which begot even more short covering. In such cases, thereâ??s not much to prevent a price melt up which will persist until the short covering burns itself out. Such melt ups are typically quite short in time duration but quite dramatic in terms of price movement.

And remember, even if a short seller runs out of money or goes bankrupt does that negate the need to buy back a short position â?? it just transfers the short position and need to buy back to the brokerage holding the position. In my experience, any such involuntary assumption of a short position due to the financial failure of a customer just creates even more motivated short covering on the part of the brokerage itself.

Hoping to catch and time what I believe to be a coming melt up in silver prices due to a short covering event is what explains my obsession with kamikaze call options, which has been unsuccessful to this point, but hope springs eternal. At a minimum, the existence of the documented short position in COMEX silver is all one needs to know to justify an â??all inâ?• position on a cash basis. I believe thatâ??s the real lesson from the historic short covering in Tesla and GME and other heavily shorted shares.

At yearend, less than a month ago, there wasnâ??t much public discussion given to dramatic short covering melt ups (aside from what occurred in Tesla or in my persistent thoughts of a pending melt up in silver). The continuing bull market in stocks had driven overall short selling to record lows. But there were still isolated instances of extremely large short positions, such as in GME and silver. Now the landscape has changed completely in that active efforts are underway to seek out and target those securities in which large short positions exist in order to trip off short covering that may turn into price melt ups similar to what occurred in GME.

So far, there has been no attempt (or success) to trip off a short covering price melt up in silver as far as I can tell. All such attempts have been confined to individual stocks, mostly of the down and out fundamental variety. Since I do believe a short covering melt up is coming to silver (and gold), Iâ??d like to speculate on how such a melt up might occur. One thing that distinguishes the short covering melt up in GME and possibly other stocks is that the short positions exist on the stocks themselves. In silver, the concentrated short position exists in COMEX silver (and gold) futures, not in SLV.

But I donâ??t foresee an army of Robinhood or Reddit chat board retail traders rushing to open futures trading accounts and buying futures contracts on silver and gold. Nor do I see such traders converging in great numbers to buy retail forms of physical silver (although there may be some of that). But I can easily envision such traders moving to buy shares of SLV and other silver ETFs, as well as call options on such securities. Mechanically, such buying mandates the buying of physical silver, despite still widespread misgivings about the silver ETFs.

I heard one pundit proclaim that the recent 20 million oz one day deposit into SLV was impossible â?? strongly implying the SLV was phony. As Iâ??ve indicated, I donâ??t believe the deposit was a one day actual movement of physical silver, but rather a change in ownership of silver already on deposit in the appropriate warehouse in London. Besides, what possible motivation could BlackRock have in allowing a phony deposit to occur? I guess it comes down to who is more trustworthy â?? a financial institution managing $9 trillion in investor assets with everything to lose and nothing to gain by allowing phony information to be issued or a pundit on the Internet promulgating false information without substantiation.

If, as seems entirely reasonable to me, those traders looking to uncover excessive short positions capable of being induced into a forced short covering happen to stumble onto the extremely large and concentrated short position that exist in COMEX silver futures, buying in SLV and other silver ETFs would be right up their alley. The only difference between Gamestop and silver, is that short covering in Gamestop was the only thing capable of causing the price to explode â?? the fundamentals of the company were non-existent. In silver, not only does the coming short covering portend a sharp price rally, the fundamentals in silver are nothing short of spectacular.

SLV Revisited

I received an email this week from a newer subscriber asking me why I was sure that the metal purportedly on deposit with the big silver ETF, SLV, really existed as reported. I answered Tyler separately, but his query reminded me that it is an issue still on many minds. I have a bad habit of thinking that just because Iâ??ve written about something in the past that means there is no need to revisit the matter. I suppose Iâ??m also sensitive to accusations of repeating myself unnecessarily, or as my grandmother would say in the very distant past, of â??chewing my cabbage twiceâ?•.

Truth be told, there was a time when I had serious doubts that all the physical silver reported to be in the SLV was actually there, so in no way am I off-handedly dismissing any doubts that anyone else may have. My doubts emerged more than 13 years ago, about a year or so after the SLV began trading and coincided with another seminal event at the time â?? the class action settlement with Morgan Stanley brought about by one of my readers questioning me about the 1000 oz bars he had stored at the brokerage and for which he was paying storage and insurance fees for years.

Selwyn kept asking me, prompted by my continuous public advice that it was imperative to get the serial numbers, weights and hallmarks of each bar in order to be sure the metal existed, why Morgan Stanley wouldnâ??t give him the required data. I kept telling him it most likely meant that Morgan Stanley didnâ??t actually hold the metal and was charging storage for metal that didnâ??t exist. Selwyn then retained an attorney and Morgan Stanley quickly settled in a case that involved 22,000 clients. If Selwyn didnâ??t do his part, I doubt Morgan Stanley would ever have acknowledged its obvious fraud.

http://news.silverseek.com/TedButler/1193161018.php

This experience only further strengthened my conviction that getting the serial numbers, specific weights and hallmarks of every 1000 oz bar of silver held in storage was mandatory for anyone having silver professionally stored â?? no exceptions. Thatâ??s when my attention turned to the SLV, then owned and sponsored by Barclays Global Investors (BGI). Unlike the earlier introduced gold ETF,GLD, which did list the serial numbers, specific weights and hallmarks of all the 400 oz gold bars itheld, BGI wasnâ??t providing the same data for the silver bars it held in SLV.

Rather than to curse the darkness and bemoan BGIâ??s lack of public reporting of information that I felt was essential to silver investors, I lit a candle instead and offered the simple and constructive solution to Barclays to begin publishing the required data and invited those interested to contact BGI as well. I knew it was a somewhat expensive and time consuming task for BGI, but I wrote to it in a most constructive manner (my grandmother also always said you could attract more flies with a spoonful of honey than a gallon of vinegar â?? not that I ever understood why one would seek to attract flies).

http://news.silverseek.com/TedButler/1193732279.php

Sure enough, within months BGI did the right thing and started publishing all the serial numbers, specific weights and hallmarks of all the silver bars held in the SLV, a practice that has continued to this day under the new owner and sponsor of SLV, BlackRock, which subsequently acquired BGIâ??s ETF business. Appropriately, I publicly commended BGI for doing the right thing. I suppose that had I not proposed to BGI to include the serial numbers, weights and hallmarks of the silver bars held in the SLV that someone else may have come along to make that proposal, but thatâ??s something that will never be known.

http://news.silverseek.com/TedButler/1199736334.php

All this occurred more than 13 years ago and while all the events remain etched in my mind, I realize that those newer to the silver market are not likely to be aware of what transpired back then. My point, of course, is not to simply stroll down memory lane and relive the good old days, but to acknowledge how there could be genuine doubts about all the silver that has come into SLV (and other silver ETFs), as I once held those very same doubts. But I would ask those still harboring such doubts what else could be done to assuage those doubts in a constructive manner? Please know that I canâ??t personally guarantee the silver ETFs, nor do I wish to â?? all I can do is analyze as objectively as possible and sometimes offer suggestions on how to improve their operations.

One thing that has stood the test of time is my expectation that more and more silver would flow into SLV and other silver ETFs as time progressed. So efficient are the operations of the silver ETFs that itâ??s no wonder the amount of physical silver that has come into the worldâ??s silver ETFs. At last count, more than 1.15 billion oz is now held in these investment vehicles or more than half of all the silver bullion in the world in the form of 1000 oz bars. Add in the near 400 million oz in the COMEX warehouses and more than 75% of all the silver bullion in the world is held in the ETFs and COMEX warehouses.

Just to put this into proper perspective, all the gold bullion held in the gold ETFs and COMEX warehouses (160 million oz) is only around 5% of all the worldâ??s gold bullion (3 billion oz) and that includes a stunning increase of 30 million oz in the COMEX gold warehouses over the past 10 months.

So why is there such a disproportionately larger percentage of silver in ETF and COMEX warehouse holdings than in gold? The answer should be obvious, namely, silver is so darn cheap that you get so much more metal for the money that professional storage is soon mandatory, whereas thatâ??s not the case in gold.

One hundred ounces of gold (the standard COMEX contract) is worth $185,000 and is deliverable in a bar weighing around 7 lbs. â??easily storable and movable by just about anyone. The same $185,000 would buy more than 7200 oz of silver or an amount of metal weighing more than 500 lbs. Whenâ??s the last time you lifted 500 lbs.? Yes, I know â?? gold is easier to transport if you need to cross the border in an emergency, but crossing the border is not high up on my or most folksâ?? list of things to worry about â??getting the best investment value and potential profit is much higher.Â It just means that most have to store metal professionally in the case of silver for larger amounts of money. Â No biggie â?? just a fact of life.

Therefore, itâ??s no surprise so much of the worldâ??s supply of 1000 oz bars of silver have ended up in the ETFs. Here, we are indebted to my friend Carl Loeb for coining the phrase â??Death Starâ?• to describe the SLV as likely to attract all the silver in the world at some point. At the time of the designation, SLV was essentially alone in the silver ETF universe, but now there are offspring and competitors holding an amount of silver fully equal to the record holding of 575 million oz held by SLV. This proliferation of silver ETFs just accelerates the Death Star accumulation timeline.

The important point here is that the mechanics of SLV and other silver ETFs, as well as the mechanics of what can happen when large short positions are forced to be covered are as plain as the nose on your face. While no one can know the exact timing in advance of when a concerted short covering in silver will commence, the exact timing is much less important than the more certain knowledge that it is coming eventually. Best of all, the concentrated short position explains why silver is the cheapest investment asset of all. What better way to await the eventual short covering than by holding the cheapest asset?

Turning to other matters since the Saturday review, after what were net deposits in SLV over the past week or so or 23 million oz, there was a withdrawal of 3.1 million oz last night. Just like occurred on the deposits, trading volumes and price action was muted on the withdrawal as well. My best explanation is that the large buyer I believe acquired the bulk of the SLV (and other silver ETF) shares recently may have started to â??convertâ?• its shares into actual metal and by doing so is reducing its share position while fully maintaining a silver physical position. If Iâ??m correct, there may be more share to metal conversions to come but its purpose may be to enable more buying ahead. Remember, the ability to convert shares to actual metal and vice versa is what gives SLV its basic legitimacy.

I suppose there is some chance of a big increase in the short position of SLV when the new short interest data is published late this evening and that might help to explain the big recent deposit, but rather than go into what this might imply, let me just mention it now to indicate the possibility exists, although is not likely. I wish I had the short report in hand, but publishing deadlines make that impossible.

There is no doubt in my mind that todayâ??s sharp selloff (moderating into the close) was the work of the big COMEX shorts trying to stave off anyone believing there is any connection between the short covering in GME and other heavily shorted stocks and their own excessive short positions in silver and gold. The only way to do this is by rigging prices lower as in â?? â??nothing to see here, just move along â?? our excessive short positions are completely detached and different from whatâ??s going on in the stock market?â?• Yeah right. These big COMEX shorts canâ??t help but know they are trapped by what they are observing in real time in GME and other stocks facing extreme short covering.

As far as what to expect in Fridayâ??s COT report, the short answer is either not much or I donâ??t know. Trading volumes were light in both gold and silver and the price pattern was also subdued overall. Total open interest increased by only 1000 contracts in silver and while total open interest declined by 7000 contracts in gold, including yesterdayâ??s 15,000 contract decrease, that looks due to spread liquidation ahead of Fridayâ??s first delivery day in gold. Add in the still washed out condition of the market structure and I still come up with not much change or I donâ??t know.

Despite the sharp selloff this morning, the subsequent recovery in gold and silver prices helped to limit truly significant relief to the 8 big gold and silver COMEX shorts. At publication time, the big shorts made back close to $300 million of their $12.2 billion loss as of Friday â?? putting them down $11.9 billion.

Ted Butler

January 27, 2021

Silver – $25.35Â Â Â Â (200 day ma – $22.51, 50 day ma – $25.10, 100 day ma – $25.02)

Gold – $1845Â Â Â Â Â Â (200 day ma – $1850, 50 day ma – $1861, 100 day ma – $1887)

Date Created
2021/01/27