

January 28, 2023 – Weekly Review

For the fifth week in a row, gold outperformed silver, with gold prices finishing unchanged and with silver prices declining by 35 cents (1.5%). As a result of gold's continued relative outperformance (or silver's relative underperformance), the silver/gold price ratio widened out by more than a full point to 81.4 to 1.

This level represents about the most undervalued silver has been to gold in three months. Considering all that is happening in the real world of gold and silver, silver's current relative undervaluation to gold is perhaps the most bizarre development in our increasingly bizarre world. How so?

Well, for starters, since silver is very much an industrial metal, consumed by industry in a remarkably-diverse number of vital applications, and gold is not, being primarily a store of value, this means that silver is quite capable of getting into a physical shortage situation in which there simply isn't enough to go around and in which industrial users must fight for adequate current supplies, while the same circumstance is impossible in gold since it is not an industrial metal. As always, this is not to say that gold can't climb sharply in price due to investment demand, just that it is impossible for industrial users to drive the price of gold higher (since there are so few industrial consumers of gold).

At this particular time, there happens to be a developing physical shortage in a wide range of industrial metals related to silver (in both production and consumption terms), including copper, zinc, nickel, lead and other metals, as evidenced by markedly declining world inventories and real constraints to increased production. So, the developing physical shortage in silver is far from unique, in that its roots are completely on display in just about every industrial base metal in existence.

Of course, there is an additional very special distinction that separates silver from all over industrial metals and that special distinction is that only silver can also be considered as a primary investment asset, given silver's quite unique dual demand profile – as both an industrial commodity and primary investment asset. That's not to say that hedge funds and others won't game the industrial metals at times, just that broad numbers of the investing public are not likely to buy coins and bars of copper, zinc, nickel or lead.

It is this primary investment demand for silver that not only distinguishes it from other metals, but also creates the rationale for comparison to gold, which is essentially, a pure investment asset. The shared investment asset commonality between silver and gold, which dates back thousands of years, is what makes the silver/gold price ratio relevant and is what explains my focus on it. And the current highly visible and easy to document evidence which points to a growing physical shortage in silver (along with all other industrial metals) and no such shortage in gold, is precisely what makes silver's extreme relative undervaluation to gold so bizarre.

OK, if my claims that it is bizarre that silver should be so undervalued relative to gold (again, not that gold is necessarily overvalued in absolute terms) are valid, then what the heck could account for silver's extreme relative undervaluation? The answer is one thing and one thing only – the ongoing price manipulation on the COMEX. More specifically, while both metals, gold and silver alike, are manipulated to a certain degree, the manipulation in silver is head and shoulders more extreme than the manipulation in gold – as is evidenced in silver's extreme relative undervaluation, not

only to gold, but also to just about every other commodity and investment asset in the world.

The COMEX paper positioning responsible for the silver manipulation for 40 years was on full-display in this week's COT report, where the results came in about as expected to a degree that was remarkable. At the same time, developments in the physical silver market, while impossible to predict like the COT report, point to a coming reckoning between the world of paper and physical that promises to end the silver manipulation. I'll return to this theme after running through the usual weekly format.

The turnover or physical movement of metal either brought into or removed from the COMEX-approved silver warehouses turned sharply higher this week (despite a rare zero movement day yesterday), as 8.5 million oz were moved. Total silver holdings in the COMEX warehouses declined by 0.9 million oz, to 292.8 million oz, another slight new multi-year low and less than 2 million oz lower than the previous low-water mark of a couple of months ago. Holdings in the JPMorgan COMEX silver warehouse fell by a sharper 2.1 million oz to 149.3 million oz.

I'm still of the opinion, despite the move to slight new lows in total COMEX silver inventories both this week and in the prior week, that we have reached the bottom of the barrel in terms of the combined available inventories in the COMEX warehouses and in SLV, the two largest stockpiles of silver in the world. More in a moment.

Total gold holdings in the COMEX warehouses fell again, this week by 0.4 million oz to 22.3 million oz, to another new multi-year low (multi-year means I'm too lazy to take the time to pinpoint it more definitely). Most of this week's reduction was reflected in the 0.32 million oz decline in the JPM warehouse, which fell to 8.3 million oz.

There were slight additions to the holdings in the world's gold ETFs, mainly GLD, befitting the mostly steady gold price action, but the big story was the massive additions to SLV, which I covered extensively on Wednesday. Total additions for the week amounted for more than a 23 million share increase in total outstanding shares and a 21 million oz increase in physical silver ounces deposited. As I described on Wednesday, the overwhelming reason for the sudden large and counterintuitive inflow in physical holdings into SLV was to reduce the excessive short position I have complained about for past six months. There doesn't seem to be a compelling alternative explanation for the large deposit this week, particularly considering that the deposit was unique to SLV, and not any other silver ETF.

Along those same lines, the new short position report, released late on Wednesday, indicated that the short position on SLV, as of January 13, fell by 3 million shares, to 43.8 million shares (40 million oz). This is very much in keeping with my premise that there is a move afoot to reduce the massive short position in SLV, which had grown to 60 million shares at its peak months back, with the only question being how much a role the regulators at the Securities & Exchange Commission and/or BlackRock (the trust's sponsor) may have played behind the scenes in the reduction to date. I think (and hope) either's role was significant, since there was no justification for a short position that was both fraudulent to shareholders of SLV and manipulative to the price of silver. If this week's massive silver inflows into SLV is intended to reduce the short position as I conclude, the total short position has been cut in half from the reduced level as of Jan 13.

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

Last week, I concluded that we had reached the bottom of the barrel in terms of available silver in the two largest stockpiles of silver in the world, those in the COMEX warehouses and on deposit in SLV, which amounted to a combined 750 million oz, based upon my reasoning that all the non-investment held silver remaining no longer existed. Of course, any prediction about any future event can always be shown to be wrong, but this week's massive inflows into SLV raises the combined total in the COMEX warehouses and SLV to 772 million oz, giving me a bit of a cushion before I have to admit my premise was wrong or premature.

Turning to yesterday's new Commitments of Traders (COT) report, it came in quite close to expectations, perhaps even a bit more than expected. As a reminder, price action over the reporting week ended Tuesday featured fairly strong price action in gold, just about mandating managed money buying and commercial selling, while the rather punk price action in silver mandated the opposite. Once again, much like the movement of the tides or the rotation of the earth, paper positioning followed its timeless pattern. Folks, this isn't some simple correlation, this is absolutely causal. When the managed money traders buy (induced by the commercials), prices move higher and when the managed money traders sell, prices move lower.

In COMEX gold futures, the commercials increased their total net short position by 4600 contracts to 180,500 contracts, the largest commercial short position since June. While there is still some distance to go before the commercial short position (and counterparty managed money long position) reaches the extremely bearish levels of last March/April, a somewhat disappointing feature of this week's positioning is that all the total commercial selling was on the part of the 4 largest commercial shorts.

The big 4 did all the selling, in adding 6200 new shorts to a concentrated short position now (as of Tuesday) at 140,479 contracts (14 million oz). The next 5 thru 8 largest gold shorts bought back around 1200 short contracts and the big 8 short position increased to 217,968 contracts (21.8 million oz). The raptors bought 400 new longs and hold 37,500 net long contracts. Clearly, it is somewhat disturbing that without the exclusive commercial selling by the 4 largest shorts - the key feature of any price manipulation - gold prices would have climbed much higher than they did and that statement is irrefutable.

The managed money traders in gold bought a lot more than the commercials (the big 4) sold, as these traders bought 10,502 net contracts, consisting of the purchase of 7279 new longs and the buyback and covering of 3223 short contracts. The resultant managed money net long position is now up to 79,879 contracts (131,501 longs versus 51,622 shorts), about equidistant between the bullish and bearish readings of the past five years, but now a bit more bearish than bullish than the extremes of the past two years. Let's call the positioning in gold as back to neutral.

Explaining the difference between managed money buying and commercial selling in gold was net selling by the other large reporting traders of more than 6000 contracts, mostly in the form of new short selling - another disturbing development.

In COMEX silver futures, the commercials reduced their total net short position by a rather hefty 5900 contracts to 39,500 contracts. In sharp contrast to gold positioning, which reached seven month highs in commercial selling, the commercial short position in silver is now lower than since Dec 13. And while

the 4 largest shorts did all the commercial selling this week in silver, as was the case in gold, the actual numbers weren't near as much as disturbing. The big 4 short position in silver hasn't grown that much in months, whereas the big 4 short position in gold has.

The 4 big shorts in silver added 600 new shorts to a short position amounting to 43,850 contracts (234 million oz), while the next 5 thru 8 largest shorts bought back 700 shorts and the big 8 short position fell by 100 contracts to 65,977 contracts (330 million oz). The lion's share of the commercial buying this week in silver was by the raptors (the smaller commercials apart from the big 8), as these traders added 5800 new longs to a net long position amounting to 26,500 contracts.

While it can certainly be said that the 4 big shorts contributed to the price weakness in silver, nowhere to the same extent as the capping of gold prices by 4 big gold shorts. Moreover, I was encouraged by the aggressive buying by the raptors in silver as it suggests these traders are most likely intent on increased buying on lower silver prices ahead, not something that can be said about their raptor counterparts in gold at this point.

And while it's not at particularly obvious extremes at this point, I can't help but observe that the concentrated long position of the 4 largest longs (not usually mentioned by me, but always monitored) has crept up by 5000 contracts or so from the aforementioned previous low point on Dec 13 when the total commercial short position was similar to current readings. Interestingly, at 25,676 contracts, this week's changes in the disaggregated COT report indicate that this large concentrated long position is mostly held by commercials in the swap dealers category, rather than by traders in the managed money category. Admittedly, this is somewhat in the weeds and uber-technical, but it suggests long silver accumulation by commercial interests, which when taken together with all the other unusual developments in silver, must be considered bullish.

On the sell side of silver, the managed money traders were net sellers to the tune of 6647 contracts, consisting of the sale and liquidation of 2608 long contracts, as well as the new sale of 4039 short contracts. The resultant managed money net long position was reduced to 19,821 contracts (43,507 longs versus 23,686 shorts) looks and feels more bullish than the managed money set up in gold, but I suppose that might be highly subjective on my part.

Certainly, if the commercials succeed in inducing the managed money traders in silver to once again foolishly add aggressively to short positions, silver prices can and will move lower, since there is much more room for new short selling by these traders than for long liquidation. What's so bizarre is that according to what's going on in the real world of physical silver, the thought at this point of lower prices is nonsensical. Then again, nonsensical is but another word for price manipulation, at least according to US commodity law, where developments in the physical world are what's supposed to determine prices.

Every day I wake up (Saturdays and Sundays excepted), I expect this will be the day of the silver price explosion and every day I am disappointed by no such price explosion. Then I console myself that I know why silver prices haven't exploded, namely, because just like nearly every day over the past 40 years, silver continues to be manipulated on the COMEX - so what's another day, week or month of continued manipulation? Since I know full-well that this is the only possible explanation and that one day it must change, I put aside my disappointment as now is not the time to lose focus, not after so many years of manipulative water under the bridge.

And it's not just due to stubbornness, as it's always been a case that if the price of any commodity is artificially suppressed, sooner or later there will develop a physical shortage guaranteed to break the artificial price suppression - Izzy's famous moment of truth. Yes, it's taken decades in silver where it should have taken months and perhaps years, but in hindsight, it took hundreds of years to accumulate the mountain of silver that needed to be burned through due to the discovery of the metal's miracle industrial applications starting about a hundred years ago..

Now, the evidence is clear that the mountain of silver not held by investors no longer exists or nearly so, so that the time remaining before the physical silver shortage hits with a vengeance is closer at hand than ever before. And while it appears the same circumstance exists in just about every other industrial metal as in silver, even here silver stands out like a sore thumb in that I'm not aware of any comparable short position present in other metals as exists in silver. So, not only is silver unique among all other industrial metals due to its dual demand profile (industrial consumption plus investment demand), it is further differentiated by the verifiable short position. I would submit no such circumstance has ever existed in any commodity away from silver.

As a result of gold's superior price performance over the past month or two, relative to silver, which driven almost exclusively by much more pronounced managed money buying (and proportionate commercial selling), the relative COMEX market structures in gold and silver have changed rather dramatically. If you go back a month or two, I'm sure you'll uncover where I held that gold's market structure was superior to that in silver - simply because silver had been stronger pricewise due to greater relative managed money buying to that point.

Now, however, that relative structural relationship has changed, in that I'm more concerned about a sharp selloff in gold could lead to selling in silver, simply because the only reason for silver to drop sharply at this point will be due to an all-out COMEX commercial campaign to clean the decks and all things considered, I'm at a loss to imagine how else the crooked and collusive COMEX commercials could arrange such a silver selloff.

Please understand that I'm not predicting such a silver selloff - because considering developments in the physical world of silver, any such selloff would appear impossible (unless someone was thinking with a criminal mind). Should no such selloff in gold materialize, then I'm hard-pressed to imagine a selloff in silver except in the shortest time frame. As I indicated above, I'm quite encouraged by the aggressive buying by the silver raptors on the rather limited selloff in silver of late.

So, while I'm always looking over my shoulder for the arrival of the crooked and collusive COMEX commercials to illegally override the realities of the physical market, even more I continue to expect that the next day will be the day that silver prices explode and never look back. I have no expectation of regulatory relief in the form of the CFTC or the CME Group (the designated industry self-regulator), stepping up to the plate and finally doing their job, as that train has long-departed the station. And if it is the physical market that finally trumps the paper manipulation as everything indicates at this point, I'm encouraged that there doesn't appear to be much either failed regulator can do to prevent the silver price explosion.

That said, I'm still hopeful that the SEC did intervene behind the scene in the case of the short position in SLV, although I don't expect clear proof of that in any real way (other than in price movement). - So, color me as looking over my shoulder, always mindful of what the crooked COMEX

commercials are capable of, but please include the expectation that every future day holds the promise of the coming certain inevitable price explosion. Yes, that's another way of saying silver is the best long-term buy and hold in the world.

Ted Butler

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Silver – \$23.70 (200-day ma – \$21.16, 50-day ma – \$23.16, 100-day ma – \$21.35)

Gold – \$1928 (200-day ma – \$1786, 50-day ma – \$1830, 100-day ma – \$1757)

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