January 31, 2024 – A Big New Development

A recent development in COMEX silver futures positioning has been unusual enough that I didnâ??t detect it at first, because it has been somewhat gradual. Over the past five reporting weeks, from the COT report as of Dec 19, 2023 to the most recent report of January 23, 2024, the number of long traders in the Other Large Reporting Traders category has increased by 29 traders, from 49 to 78 traders â?? which I believe is both the largest increase and largest number of long traders in this category.

I didnâ??t pick up immediately on what is a rather radical development because the sharp increase in the number long traders in the Other Large Reporting Traders category was so gradual, increasing by around 6 traders each week for the past 5 reporting weeks. The total number of gross longs in this category added over the past five reporting weeks was close to 6000 contracts (30 million oz) and looking at the data every which way, indicates to me that the average holding per each new trader is quite close to 200 contracts each or a nice round one million oz silver equivalent.

Let me provide some background explanation before getting into any speculation about what all this may mean. The Commitments of Traders (COT) report is constructed around the Large Trader Reporting Program in place just about forever. The CFTC has set the level of contracts held (either long or short) at and above which determines whether one is a large reporting trader. In COMEX silver futures, the reporting level is 150 contracts and any trader holding that number of contracts or more is considered a large reporting trader and must report any changes in his or her position daily, until the number of contracts held falls below 150 contracts.

In addition to the continual reporting of changes in contract holdings as long as a trader remains above contract reporting levels, when a trader first enters into the ranks of being a large trader, a rather extensive personal disclosure form must be submitted and any intentional misstatement of ownership of this or any related account or trading authority can and will result in civil or criminal penalties. This is designed to protect against any attempt to hide the identity of anyone attempting to deal in multiple accounts sharing common ownership. By the way, the CFTC has proven to be quite proficient in uncovering misrepresentations of ownership and control of large reporting trader accounts. After all, whatâ??s the purpose of having a large trader reporting program if lying is tolerated in large trader representations?

I mention this because if the 29 or so new long silver traders in the Other Large Reporting Traderâ??s category are actually just one or two large traders masquerading as many separate traders, that is a ruse that could and should be quickly uncovered and punished. Itâ??s hard for me to imagine anyone being so reckless to attempt this and Iâ??m inclined to believe these 29 new reporting traders are separate and legitimate entities, and not some attempt by one or two large traders to hide their identity and involvement in the new reporting traders

Let me make this clear, while not for everyone â?? the idea of buying 200 COMEX silver contracts for those qualified to do so makes all the sense in the world. While I would never recommend anyone buy silver on a leveraged basis, if anyone did decided to do so, COMEX futures contracts make sense. Hereâ??s perhaps the best way of holding the equivalent of 1 million oz of silver, worth roughly $23 million on a highly leveraged basis in which only roughly $2 million is required for an initial margin requirement. Of course, such deep leverage cuts both ways and every dollar lower from what looks like an average cost of around $23, would require an additional $1 million in maintenance margin.

Then again, every dollar higher equals $1 million in unrealized profit and it appears certain to me that silver is likely to climb much more sharply than it may fall over time. And there are other costs to a long, such as rollover costs as nearby contracts come up for delivery and must be rolled into more expensive deferred contract months, which at current levels of interest rates can run close to $40,000 per month on 200 contracts. Still, all things considered, being long one million oz of silver is much more appealing than being short a million oz.

Upon first discovering, a few days ago, the sharp increase of 60% in the number of new traders (29) over the past five reporting weeks, I thought the new traders were actually brand new to futures trading, in the sense they all just happened to open new commodity accounts over the past five weeks and each decide to buy around 200 contracts per trader. But the practicality and logic of that explanation began to quickly wear thin, as for one thing, such an occurrence most likely would involve some type of collusion.

Then it dawned on me. These 29 â??newâ?• traders werenâ??t really new at all, but rather existing traders which were previously classified in the non-reportable, or small trader category, and which had increased their individual holdings sufficiently enough to meet and exceed the threshold for being a large reporting trader.

As mentioned above, the threshold level in silver for being classified as a large reporting trader (commercial and non-commercial alike) is 150 contracts (750,000 oz of silver). Any trader holding less than that amount is considered a non-reporting trader and is not subject to the detailed disclosures required of large reporting traders, and are, generally, considered smaller traders. Usually, we tend to think of traders in the non-reporting category as holding one or two contracts or perhaps five or ten. But thatâ??s not the case across the wide sweep of non-reporting traders.

Youâ??ll forgive me, but anyone holding 100 contracts of silver (500,000 oz) or say, 140 contracts (700,000 oz) doesnâ??t strike me as being particularly small â?? not when a one dollar move amounts to $500,000 or $700,000 and margin requirements exceed $1 million and much more. When you get down to it, is there really all that much of a gulf between a trader holding 140 silver contracts and one holding Â 150 or 200 contracts? I donâ??t think so.

Therefore, whereas I first thought that the 29 new long traders in the Other Large Reporting Traders category were brand-new traders to the world of COMEX silver futures, recognizing the particulars of what determines being a large reporting trader convinces me to conclude that the â??newâ?• traders were much more likely to be former non-reporting traders holding less than 150 contracts who increased their holdings above that reporting level.

Moreover, the gradual and consistent manner of the increase in new reporting traders over the course of 5 reporting weeks supports my â??upgradingâ?• premise as explaining where the new traders came from. Finally, I must emphasize that the increase in new reporting traders came on a fairly significant and consistent decline in the price of silver of more than two dollars, which strongly suggests that these traders were not increasing their already substantial long positions on the flakey moving average penetrations that motivate the braindead managed money technical funds. The â??newâ?• longs obviously perceived value in extremely undervalued silver prices.

I canâ??t tell you Â what these new reporting traders will do in the future, other than in speculative terms. But thatâ??s different from analyzing what they have done to date. Clearly, these traders have taken it upon themselves to increase their long silver positions in a manner consistent Â with the accumulation of an asset they perceive as undervalued. While I canâ??t know for sure, it doesnâ??t appear to me that they are looking for small short-term gains, but something much more substantial than that.

One question the recent unusual futures contract long positioning answers is the perennially question of why doesnâ??t someone step up and buy silver in decent quantities? And buying COMEX futures contracts would be the preferred method if one chose to buy silver on a leveraged-basis (not something I ever recommended) and in the form least disruptive to price, COMEX futures would be the way to go. Stated differently, I donâ??t think that 30 million oz of physical silver could be purchased outright or through the purchase of shares of silver ETFs over five weeks with prices falling by $2. Real physical silver? No. Paper silver on the COMEX? Yes.

I canâ??t help but believe that the notable increase in buying by the new reporting traders is largely a reaction to the remarkably-bullish developments in the physical silver market and the increasingly obvious deepening physical shortage. While I donâ??t expect the collusive and crooked COMEX commercials to give up easily on their long-term manipulation and suppression of silver prices, there can be little question the manipulative scam is on its last legs and we have just seen compelling new proof of that in the new buying by the former non-reporting traders who crossed over to large trader reporting status.

Of course, I canâ??t know what the new Other Large Reporting Traders will do from here, but I am hard-pressed to view what they have done so far as being anything but bullish for the price of silver going forward. I wouldnâ??t look for much more in the way of big increases in the number of new reporting traders from this point on, but had you asked me that same question a number of weeks back (had I discovered all this back then), I would likely have said that as well (and had been wrong). All I can say now is that you can be sure Iâ??ll continue to monitor and report on any subsequent changes from this point forward. And that it looks like a very big deal â?? nothing less than another â??epiphanyâ?• moment of other similar discoveries over the decades.

More than anything else, this sharp increase in the number of new large reporting traders supports and amplifies my idea of an imminent price explosion in silver. To be sure, this appears to be a development highly-unique and specific to silver and not gold or any other market of which Iâ??m aware. Some of the newly-designated large silver traders may sell on a quick silver rally, but not necessarily most or all and some might add to new positions with unrealized profits on any price upswing.

One of the most encouraging signs about the big increase in the number of new long traders and the overall increase of 6000 long contracts in the Other Large Reporting Trader category, is that it wasnâ??t the collusive and crooked COMEX commercial traders which sold to them. Over the course of the past five reporting weeks, from Dec 19 to Jan 23, the total commercial net short position fell by 14,700 contracts, from 48,800 contracts to 34,100 contracts (mostly due to raptor buying, whoâ??s buying mathematically reduces the total commercial short position).

So, even though it appears to be good news that so many traders previously classified as non-reporting traders stepped up to add to their existing long positions enough to push them into large reporting trader status; itâ??s even better news that the crooked and collusive COMEX commercials werenâ??t the counterparties selling. As to who were the sellers, the data make it clear it was primarily the braindead managed money traders, who sold more than 17,500 net contracts over the five reporting weeks in question (including long liquidation and new short selling). This is a beautifully-bullish combination.

In conclusion, itâ??s hard not to interpret this recent surprising positioning in COMEX silver futures contracts as unabashedly bullish. However, when added to the already white-hot bullish circumstance of a deepening physical silver shortage, the combination is enough to warrant an expectation of an immediate liftoff in silver prices by a preponderance of the evidence. Once again, the only possible explanation for why silver prices havenâ??t exploded is the continued price suppression by what appears to be increasingly trapped and desperate COMEX commercial traders.

As far as what to expect in Fridayâ??s new COT report, Iâ??m not sure. Silver prices rose by a full dollar over the course of the reporting week ended yesterday, so that would indicate managed money buying and commercial selling, particularly of the short covering type considering the large increase in managed money shorting in the prior reporting week. Perhaps arguing against less than significant managed money short covering is the fact that none of silverâ??s key moving averages (the 50, 100, and 200-day moving averages) were penetrated to the upside (although the 20-day moving average was penetrated). Sometimes, some of the managed money traders add to short positions on price rallies that come close to, but do not actually penetrate the Â moving averages. So, while I wouldnâ??t be surprised with managed money short covering, I am more interested in analyzing all the data, considering what I wrote above.

In gold, prices were mixed over the reporting week ended yesterday, although some charting services show a sharp increase in yesterdayâ??s close above the 50-day moving average, that largely reflects to switch to April from Feb, I mentioned in Saturdayâ??s review. Plus, there was a large drop in total open interest over the reporting week, but much of that appears due to the liquidation of phony and uneconomic spreads into first delivery day for the Feb COMEX contract. I would expect some managed money buying and commercial selling in gold, based on prior improvements in market structure, but nowhere near the extent of the decline in total open interest. Howâ??s that for being wishy-washy?

(On a housekeeping note, I am switching to the April COMEX contract in gold from Feb for current prices and I am sending this article out much earlier than usual, primarily because itâ??s finished and I thought the info contained was important enough to share sooner rather than waiting for the usual posting time.)

Ted Butler

January 31, 2024

Silver – $23.35Â Â (200-day ma – $23.70, 50-day ma – $23.78. 100-day ma – $23.45)

Gold – $2065Â Â Â Â Â (200-day ma – $1978, 50-day ma – $2034, 100-day ma – $2003)

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