January 7, 2023 – Weekly Review

For the first holiday-shortened trading week of the New Year, gold turned in a very strong performance, ending higher by $40 (2.2%), while a late day rally yesterday only resulted in silver narrowing its losses for the week to 18 cents (-0.7%). As a result of silverâ??s extreme relative underperformance, the silver/gold price ratio widened out by just over two full points to 78 to 1.

As far as trying to explain the surge in gold prices and silverâ??s failure to keep up over these past few days, letâ??s start with the obvious, namely, no one was selling long-tern physical silver to convert to gold. Gold and silver prices are set by manipulative paper positioning on the COMEX, so look no further for explanations. As I have warned of late, we must gird ourselves for deliberate manipulative smack downs, such as seen this week in silver (complete with middle-of-the-night Â non-economic price stabs to the downside).

However, this takes nothing away from the surge in gold prices, where the recent changes in COMEX market structure and the still-extraordinary developments in the Bank Participation report, now including yesterdayâ??s new release for positions held through Jan 3, still point to a â??sea changeâ?• in the positioning of the banks. The fact is that the positioning on the COMEX was more bullish in gold than in silver.

Importantly, even though gold closed at six-month price highs on first day of trading of the new year and the cutoff day for yesterdayâ??s COT and Bank Participation reports, the deterioration (managed money buying and commercial selling) feared failed to materialize and, essentially, didnâ??t exist at all in silver. Gold is now higher by $250 from the lows of early November and another $200 from here will put us at all-time highs and itâ??s still my impression that many donâ??t trust the current move higher (climbing a wall of worry). Same with silver. Thatâ??s music to a contrarianâ??s ears.

Let me run through the usual weekly format before turning attention to yesterdayâ??s COT and Bank Participation reports. I did get an email from a subscriber shortly after the reports were published who asked, not about the details of the Bank Participation report, which he knew I would cover today, but just to give him a â??thumbs upâ?• or â??thumbs downâ?• on whether the report coincided with my recent conclusion of a serious and highly encouraging change in bank shorting. My answer to Greg was â??thumbs upâ?•.

The turnover or physical movement of metal either brought into or removed from the COMEX-approved silver warehouses snapped back sharply from last weekâ??s subdued movement, despite this being another 4-day work week. This week, some 7.8 million oz were physically moved and total COMEX silver warehouse holdings rose by 1.6 million oz to 300.6 million oz. Holdings in the JPMorgan COMEX warehouse rose by a much-sharper 3.4 million oz to 152.8 million oz.

I know I have devoted much time discussing the extraordinary physical movement of silver in the COMEX warehouses, both recently and over the past near 12 years, but I also know this is an issue not widely appreciated. Truth be told, I count that as a personal failure of me not being able to communicate an issue that I have come to believe is every bit as important as to whether the big banks step aside in adding aggressively to short positions should this rally continue.

One thing that I believe is near universally-accepted by most proponents of silver is that when the physical shortage reaches the point where its existence can no longer be hidden or managed, that will be the point at which prices can no longer be contained by manipulative paper positioning on the COMEX, as has occurred for 40 years. It has recently occurred to me that the extraordinarily large COMEX silver warehouse inventory turnover – a phenomenon that exists in no other commodity –Â is the purest sign possible that the physical shortage is very close at hand and it frustrates the heck out of me that I have been unable to convey that.

My dear departed friend and silver mentor, Izzy Friedman, always referred to this point as the â??moment of trueâ?•, as the certainty of too low of a price not causing a physical shortage at some point was impossible. Yet, aside from that basic truth, there was little to go on as indicating how close we might be to that moment. The start of the highly unusual physical movement of silver into and out from the COMEX warehouses began close to 12 years ago, almost precisely at the time Izzy no longer followed silver, so I have been left to ponder the meaning of the physical movement without the benefit of my mentorâ??s wisdom and input.

That said, let me state it this way â?? I believe the extraordinary physical turnover in the COMEX silver warehouses is the surest possible sign anyone could ever get in advance that the physical shortage is close at hand. I know that it has been 12 years since this physical movement began, so who the heck am I to suggest it is signaling we are close to the point where the silver shortage will soon be highly visible and unmanageable? Iâ??d answer that, taken together with all the extraordinary developments over this time, from JPMorgan accumulating a billion oz silver and 30 million oz (maybe more) gold physical position, to then settling with the DOJ and double crossing its fellow big COMEX shorts, to more things than I can recite here. Â Itâ??s the totality of the issues.

I would point out that it has been nearly three months where total COMEX silver warehouse inventories, after declining sharply over the two prior years (by as much as 100 million oz), have now hovered around the 300 million oz level. Yet, the turnover persists. Without getting too deep into the weeds, this suggests to me that we may be actually at the point where only new stuff brought in can satisfy new demands for physical silver â?? and where the silver in the warehouses Â are owned by those not interested in selling. Yes, this is very speculative on my part and it could easily turn out weâ??re not as close as I suggest. But would anyone prefer I hide my thoughts and only after the physical silver shortage becomes highly visible, then say it was on my mind?

The flows of physical metal continued to be steady in the gold ETFs, and this week, flows of physical metal into SLV, the big silver ETF, turned positive, to the tune of 1.5 million oz, as a result of last nightâ??s near 3 million oz deposit. Even if the deposit was designed to reduce the short position , as I suspect, it wonâ??t be reflected in Wednesdayâ??s new short report, but I wonâ??t be able to discuss it until the next weekly review (since the report comes out late that day). Should there be a sharp increase in the short position on SLV, I do plan to complain anew to the SEC and BlackRock.

Turning to yesterdayâ??s reports, let me deal with the Commitments of Traders (COT) report first. Since gold did close at its highest price pointÂ in six months on the cutoff on heavy trading volume (silver surged initially that day, but sold off pretty sharply into the close), it was not unreasonable to fear significant deterioration. Fortunately, that did not turn out to be the case.

In COMEX gold futures, the commercials increased their total net short position by 6200 contracts to 160,000 contracts. While this is the largest total commercial short position in six months, it still does not look excessive. Thereâ??s no way gold could rise more than $200 without market structure deterioration, much like thereâ??s no way to make an omelet without cracking some eggs. Moreover, the changes by commercial categories werenâ??t alarming.

The 4 biggest commercial shorts added 2700 new shorts to a short position now at 130,324 contracts (13 million oz), and the next largest 5 thru 8 shorts added 800 more shorts, bringing the big 8 short position to 211,215 contracts (21.1 million oz). The raptors (the smaller commercials apart from the big 8) sold off 2700 long contracts, reducing their net long position to 51,200 contracts â?? still a very large net long position.

On the buy side of gold, the managed money traders were net buyers of 3704 contracts, consisting of the purchase of 2157 new longs and the buyback and covering of 1547 shorts. Given the price action, the managed money buying was quite muted and adds to my previous point of how unloved or disbelieved in the rally in gold has been so far. The net managed money long position is now 54,581 contracts (109,140 longs versus 54,559 shorts), up from the net short position of a few months back, but nowhere near close to the Â dangerously-large net long positions of the past.

Iâ??m starting to think, if the former big COMEX commercial shorts (the banks) are as devious as I believe them to be and they continue to refrain from adding aggressively to short positions, aside from continued raptor long liquidation, that the big managed money longs may wind up missing a major portion of a big gold rally.

Explaining the difference between what the commercial sold and the managed money traders bought was some net buying by the other large reporting traders and the smaller non-reporting traders â?? but keep in mind that there wasnâ??t significant positioning in this report.

In COMEX silver futures, the commercials increased their total net short position by a scant 1300 contracts, to 44,200 contracts. Actually, there was no new shorting, as the raptors sold off 1300 longs, in reducing their net long position to 22,100 contracts. The 4 big silver shorts bought back 100 shorts and held 44,085 shorts (220 million oz), while the big 5 thru 8 added 100 shorts, leaving the big 8 short position unchanged at 66,259 contracts (331 million oz). In this case, watching paint dry was good.

The managed money traders in silver actually sold 1039 net contracts, consisting of the purchase of 1907 new longs and the new short sale of 2946 contracts. The net managed money long position contracted a bit to 27,777 contracts (46,929 longs versus 19,152 shorts) â?? always good news. Both the other large reporting traders and smaller non-reporting traders were net buyers, mostly via short covering.

Turning to the new Bank Participation report, this monthâ??s report featured a reversal of sorts from the prior report, in that the relative lack of bank selling was more pronounced in silver, whereas it was in gold in the prior report. From Dec 6 to Jan 3, while the total commercial net short position in gold increased by roughly 30,000 contracts, the banks in the BPR only accounted for 13,000 contracts of the selling, with non-banks (a variety of swap dealers), accounted for the balance of 17,000 contracts. A s a reminder, the price of gold rose about $80 over this time.

Looking back from the BPR as of Nov 1, the total commercial net short position in gold increased by 85,000 contracts to Jan 3, as gold prices rose by $200, and the portion of total commercial selling by banks was 30,000 contracts, compared to non-bank commercial selling of 55,000 contracts. This is about the smallest bank selling in memory.

Thus, the â??thumbs upâ?• as far as my tentative conclusion of a sea change in bank shorting. Of course, I suppose the banks could come onto the short side at higher prices, so nothing is written in stone at this point. But let me run through silver first, before I offer yet another speculative conclusion worthy of the Twilight Zone.

From Dec 6 to Jan 3, the total commercial net short position in COMEX silver increased by 12,000 contracts, as prices rose more than $2. Yet, the banks accounted for less than 2000 contracts of that selling. From Nov 1 to Jan 3, the total commercial short position in COMEX silver increased by 34,000 contracts on a rally of more than $5. Yet the banks only accounted for little more than 10,000 contracts of the selling, with non-bank commercials (swap dealers) making up the vast bulk of commercial selling. Unusual, to say the least, and to this point, very much in sticking to my sea change premise.

Having acknowledged that all of this could be but a brief respite from the 40-year COMEX price manipulation, should the banks return to the short side in an aggressive manner, let me lay out a very different scenario that might border on fantasy to many. Here, I have to repeat that when I look at silver (and gold), I consider absolutely none of the things that many put into their mix â?? things like inflation, interest rates, the economy, the stock market, the real estate market, the fate of the ongoing horrific war in Ukraine or the political circus I canâ??t seem to escape.

Donâ??t take me wrong, all these things are important to me (and everyone else) to some degree as a citizen and fellow traveler of this journey weâ??re all on. But even if I, or anyone could predict the course of inflation, interest rates, etc., over the next year or so, when it comes to silver and gold, none of these things matter in the least. One doesnâ??t have to look further than the record changes in inflation and interest rates this year compared to flat gold and silver performance. Iâ??ve spent too much of my life learning all these things donâ??t amount to squat in making any difference to the price of silver and gold. The only thing that matters is the state of the COMEX price manipulation; as in, does it continue or not.

Iâ??ve laid out the critical factor of will the big commercials add aggressively to short positions on rallies too many times (and being wrong in guessing that they wonâ??t), so that I donâ??t need to explain why Iâ??m so excited about the recent evidence in the COT and Bank Participation reports Â that the banks have been hanging back in adding shorts to this point. I further believe they may have very good reason for hanging back. I think itâ??s directly connected to incredible physical turnover in the COMEX silver warehouses, despite my inability to convey convincingly my argument.

I believe the decades of silver price suppression (nowhere near as evident in gold or any other commodity) has achieved one of the strongest dictates of the law of supply and demand, namely, in any consumable commodity, any prolonged and artificial price suppression must eventually end in a physical shortage or the inability of current supply to satisfy current demand. This is more sacrosanct and immutable than any of the teachings of the worldâ??s great religions. The problem in silver, as opposed to any other commodity, is that enormous stockpiles of metal accumulated over time; so much so that it was impossible to know in advance how much silver could come to market before existing available inventories could no longer supplement current production. Letâ??s face it â?? itâ??s quite difficult to predict the exact timing of a seminal event occurring for the very first time.

Thatâ??s the real message of the unprecedented physical turnover in the COMEX silver warehouses â?? it has persisted and intensified precisely as the ability to draw from existing inventories has been steadily depleted. No one would argue that when the precise moment of truth arrives and no more significant physical quantities are available Â at current prices – no known force in the world (except perhaps JPMorgan) â?? will be capable of providing physical silver â?? no government or commercial entity. And while JPM may be capable of forestalling the physical crunch by sacrificing its masterfully-acquired physical hoard, thatâ??s about as far from how it normally rolls, as is possible.

Since those in charge of running the ongoing massive physical turnover in the COMEX silver warehouses are precisely the very same Â banks on the COMEX which have come to be leery of adding new short positions as aggressively as in the past and since these guys donâ??t need me to explain to them how critical the physical situation in silver has become, there would appear to another connection hard to deny. Certainly, those in charge of the physical silver Â turnover in the COMEX warehouses know as well as anyone that once the silver shortage suddenly hits with a force intensified by a 40-year violation of the law of supply and demand, there will be little anyone can do to prevent a price explosion of the ages.

Perhaps the most singular spectacular achievement of the 12-year intense physical movement in the COMEX silver warehouses is that it has succeeded in keeping the worldâ??s industrial silver users and fabricators fully-supplied in this just-in-time world. The minute the on-time silver deliveries hit a snag, some users, in seeking to avert future delivery delays, will move to order extra or stockpile silver. This will set off a chain reaction. The miracle is that it hasnâ??t happened to this point. Â Some may argue that it means it will never happen, but as supply chain difficulties have developed in a wide variety of various items over the past couple of years, it seems to guarantee a silver supply snag at some point â?? the difference being that any such â??minorâ?• snag in silver should rapidly escalate into a man against man free for all.

The only thing these banks, including JPMorgan, can possibly do when the physical silver storm hits is to batten down the hatches, with everyone seeking shelter, as trying to vanquish a physical shortage 40 years in the making is simply not possible. And that, my friends, is what I think is behind the sudden reluctance of the banks which have always been most comfortable on the short side, to be as heavily short as they have in the past. This is also very much in keeping with the massive positioning changes of the past year and just about everything important over the decades.

Look, Iâ??m not trying to be a wise-guy with all the answers who will also be able to pinpoint accurately the precise moment of liftoff. As always, Iâ??m just trying to make sense out of verifiable public data. At the same time, itâ??s high-time someone stands up to admit that Â the unprecedented physical turnover in the COMEX silver warehouses is so unusual that ignoring it is no longer a legitimate option if one professes to have an interest in silver.

Ted Butler

January 7, 2023

Silver – $24.00Â Â Â (200-day ma – $21.24, 50-day ma – $22.20, 100-day ma – $20.65)

Gold – $1870Â Â Â Â Â Â (200-day ma – $1788, 50-day ma – $1767, 100-day ma – $1734)

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