

July 1, 2023 – Weekly Review

In the face of a sharp gold price decline (\$30) to fresh multi-month lows on Thursday (silver did not make new lows), prices came back to end the week only \$4 (0.2%) lower; while silver ended the week higher by 30 cents (1.3%) – a somewhat rare occurrence.

As a result of silver's relative outperformance, the silver/gold price ratio tightened in by two full points to 84 to 1 (aided by a switch to the September contract – which adds a further 20 cents to the price of silver for price tracking purposes). It goes almost without saying that silver is ridiculously cheap relative to gold and just as ridiculously cheap compared to just about everything else and on an absolute basis. That's reason enough to be loaded up to the gills with silver.

I know it gets to be repetitive and tiresome for me to proclaim that I've never been more bullish on silver than now, but that's the truth. And it has nothing to do with anything popularly proclaimed – like inflation, the dollar, the end of the US and the world or the great reset. My reasons for being hyper-bullish on silver has to do with only two things – the actual supply/demand circumstances and the current market structure of COMEX futures contracts.

Given the demonstrative corruption of the collusive COMEX commercials, I will and can never say that these crooks can't arrange one more final selloff, but the results in this week's COT report are suggestive that the final selloff is less likely – although not impossible.

In fact, I went into this week armed with a mental check list for what I'd like to see occur in light of the big COMEX July silver delivery month, the COT report and the end of the second quarter and first half and I have to conclude that every possible bullish point from my perspective wish list was checked off. Since each point is regularly featured in the typical weekly format, let me just jump into it.

The turnover or physical movement of metal either brought into or removed from the COMEX-approved silver warehouses exploded to what may be the largest (or second largest) weekly movement ever, as 14.9 million oz were physically shuffled. We did have two weeks over the past year or so where nearly, but not quite as much silver was physically moved and aside from a thought in the recesses of my mind, there may have been a prior 15+ million oz weekly movement.

Just to put this into perspective, this week's 14.9 million oz physical turnover, when annualized (by using my sophisticated secret formula of multiplying by 52), comes to 775 million oz or close to 95% of total annual silver mine production – which I'd say is rather unique since it never (or could have) occurred in any other commodity. Remember, this is the actual physical movement of silver either brought into the COMEX warehouses by truck or removed from these same warehouses by truck.

Certainly not at this week's pace, this unprecedented physical warehouse turnover in the COMEX silver warehouses has been occurring non-stop for more than 12 years, yet I read of it in these terms nowhere else and that perplexes the heck out of me. Again, I interpret this unprecedented physical silver turnover as occurring due to extreme demand, more recently confirmed by any number of other bona fide data points.

This week's movement resulted in an increase (I believe to be a record) of 8.6 million oz in total COMEX silver inventories to 276.5 million oz. That does mean, of course, that while there was

significant in-movement, there was still significant out-movement of 6.3 million oz. It's almost as if the movement is some sort of game, in which the silver is being moved for the movements' sake, but that's so absurd as not to be contemplated. Suffice it to say, the record turnover checked off one of my bullish hopes.

Much of this week's increase of 8.6 million oz came in the form of an increase in the registered category of COMEX silver and much was delivered against on first notice day. Inordinate attention (in my opinion) has been placed on the level of the registered category as a reason not enough silver was available for delivery, along with the size of the remaining open interest in the delivery month (July, in this case). While these things are important, of course, not to the extent generally portrayed.

I am not saying it's a complete waste of time contemplating a COMEX delivery failure as we approach a big first delivery day, it's more that I did this for many years, but stopped 15 or more years ago. Don't get me wrong, as I firmly believe in the coming silver price explosion, a run on COMEX deliveries will occur it's just that I doubt we will experience such an event being the trigger for the explosion. I think I've compared it to France building the Maginot Line to fend off an invasion by Germany prior to WW II, where Germany did invade, but went around, not through, the Line. It would be way too obvious for a major delivery default to occur with so many expecting just that.

The question (highly legitimate) has been asked as to where all the silver brought into the COMEX this week came from in face of the increasingly obvious physical shortage? The answer is that 8.6 million oz is still not even a rounding error for the world's 2 billion oz silver bullion stockpile (plus, there was sizable 4 million oz reduction the prior week).

A more pertinent question is why so much silver was moved into the COMEX warehouses this week, with the only plausible answer being it was needed to satisfy delivery demands. In other words, whatever metal did reside in the warehouses prior to this week, was, obviously, not fully available to satisfy delivery demands new silver had to be brought in to complete delivery. That's the biggest takeaway and another very big checkoff on my hoped-for bullish list. By the way, despite the big increase in total COMEX silver inventories this week, holdings in the JPM COMEX warehouse fell by 0.5 million oz, to 141.3 million oz.

While there was some movement in the COMEX gold warehouses, by week's end the total remained unchanged (due to rounding) at 22.4 million oz, with no change in the JPM warehouses, at 8.55 million oz.

Actually, I thought the first day deliveries of 2710 silver contracts (13.5+ million oz) were fine, as it basically clears the deck for sharply higher silver prices without the stigma of the price being goosed by delivery concerns something the CME Group would prefer to be avoided. The big issuer was Standard Chartered, which issued 2400 contracts (12 million oz), with the big stopper drumroll, please being JPMorgan which was a net stopper of 1200 contracts for customers. As I have long maintained, seeing JPM on the stopper side of any silver delivery is always on my bullish check list.

https://www.cmegroup.com/delivery_reports/MetalsIssuesAndStopsYTDReport.pdf

Physical metal flows in the world's gold and silver ETFs, featured fairly-hefty redemptions of 450,000 oz or so on the gold side, mostly in GLD, clearly following the lower prices generated on the COMEX. Silver holdings also fell by 1.6 million oz in the big silver ETF, SLV, but in light of the prior

week's massive inflow of 6.6 million oz, doesn't look like much. As a result of this week's massive increase in COMEX silver holdings, the combined silver holdings in the COMEX warehouses and in SLV amounted to more than 744 million oz, quite close to the "bottom of the barrel" level of 750 million oz opined by me several months ago.

Turning to yesterday's new Commitments of Traders (COT) report, it was much better than the improvements I expected, given the decline in gold and silver prices over the reporting week with some particularly-notable category changes in silver. I believe I may have mentioned last week I was slightly disappointed there wasn't more of an improvement in the market structures in gold and silver, so with the better-than-expected results this week, I do believe there was some misreporting last week due the Juneteenth federal holiday and the large price fall on the prior week's cutoff day. This is not a particularly big deal just that it is in keeping with my take on the flow of price and data.

In COMEX gold futures, the commercials reduced their total net short position by 11,200 contracts to 175,300 contracts. This is the lowest (most bullish) short position since March 14 and, I would expect is now even lower given price action since the Tuesday cutoff. By commercial categories, it was mostly a big 4 and raptor affair. The 4 big shorts bought back 5000 shorts and hold a short position of 166,266 contracts (16.6 million oz) their lowest short position since April 4. The next 5 thru 8 largest shorts stood pat and the big 8 short position fell to 225,431 contracts (22.5 million oz), also the lowest big 8 position since April 4. The raptors (the smaller commercials apart from the big 8) added 6200 new longs to a net long position amounting to 50,100 contracts the largest since March 14.

On the sell side of gold, the managed money traders were net sellers of 6364 contracts, consisting of the sale and liquidation of 2105 longs and the new sale of 4259 short contracts. The resultant net managed money long position fell to 69,675 contracts (108,209 longs versus 38,534 shorts), the lowest since mid-March. Explaining the difference between what the commercials bought and the managed money traders sold was net selling by the other large reporting traders of nearly 4700 contracts. While nowhere as bullish as the market structure in silver, the set up in gold looks to be much better than what I sense is the popular consensus for still-lower prices.

In COMEX silver futures, the commercials reduced their total net short position by a rather-hefty 6900 contracts to 29,300 contracts. This is the lowest total commercial short position since March 28 (and just before the big managed money short entered the scene). By commercial categories, the big 4 bought back just over 1500 contracts, reducing their concentrated short position to 33,713 contracts (169 million oz), one of the lowest big 4 concentrated positions on record and just about half the level it was on Feb 2, 2021, when I wrote to the CFTC a month later. In the end, on the next silver rally, how the big commercial shorts behave (adding to shorts or standing aside) will determine silver prices.

For the first time in months, I detect that the big managed money short trader is no longer in the big 4 category, although I suspect he has moved to the big 5 thru 8 category, still holding a short position of close to 5000 contracts. I'll get into greater detail momentarily. Despite the big managed money trader likely being in the big 5 thru 8 category, these traders reduced their short position by just over 2400 contracts. The big 8 short position fell to 53,225 contracts (266 million oz, also the lowest big 8 short position since March 28. If the big managed money traded is still holding 5000 contracts short, the raptor long position increased to 19,000 contracts, more if the big managed money short is holding less than 5000 contracts short.

One of two big surprises in silver was that the managed money traders were net buyers of 650

contracts. This was the result of the selling and liquidation of 4042 long contracts and the particularly surprising buying back of 4692 short contracts. It was amazing to witness the large commercial buying and no net managed money selling. The resultant managed money net long position didn't change much at 10,906 contracts (33,247 longs versus 22,341 shorts) and remains still relatively low and bullish, but the thought that there would be managed money short covering on lower prices was the standout.

Initially, I thought this managed money short covering was the result of the big managed money short buying back most of its 7000-contract short position, but the very sharp decline in the number of traders in this short category (from 29 the week before to 20 in this week's report) suggested otherwise. Even if the big managed money short bought back more than the 2000 contracts I suggest, there should have been more traders coming onto the managed money short side and definitely not such a large reduction.

This was one of the keys I talked about on Wednesday and recently, as to whether the commercials would be able to snooker the managed money technical funds to go heavily short on lower prices. While we'll only know for sure in the fullness of time (and not that much time at that), this lack of new managed money shorting was at the very top of my bullish wish list for the past week. Furthermore, it doesn't really matter that much whether the big managed money short only covered 2000 contracts or more, the reduction in the managed money short position was phenomenally bullish and more than I hoping for particularly if it continues.

In the no surprise category, was the liquidation of more than 17,000 phony silver spreads, accounting for more than 50% of the massive 29,000-contract reduction in total silver open interest. As always, spreads have nothing to do with net positioning.

The other big and quite bullish surprise in the silver COT report was the extremely aggressive selling of nearly 6000 net contracts by the smaller non-reporting traders (plus another 1600 contracts of net selling by the other large reporting traders). I don't talk much about the smaller non-reporting traders, because of all the trader categories, it is generally the smallest and least important. This wasn't always the case, as back in the stone ages when I first became a broker, the non-reporting traders' category was the largest non-commercial category. This was before the widespread adoption of the managed money approach more than 40 years ago.

The special feature of the non-reporting category, then and now, is it's the category that comes the closest to measuring collective investor sentiment. The largest speculative category, the managed money category, is more a function of technical signals, not collective investor sentiment. If you want to gauge general investor sentiment, the non-reporting category works best. This is definitely a contrary indicator, in that when this category is near recent bullish peaks, that's a negative indicator for price and low net long positioning is usually quite bullish for price.

This reporting week, the net long position of the smaller non-reporting traders made a very sharp move lower from what had been an overly bullish reading, one of the largest over the past two years. Assuming the data reported are correct, my interpretation is a sudden give up in bullish sentiment, which coincides with many other anecdotal signals that collective investor sentiment in silver is near rock-bottom and quite bullish in a contrary sense. I can't say that a collapse in the net long position of the smaller non-reporting traders was on my bullish check list at the start of this week, but it's sure on that list now.

Plus, we did get hoped-for buying competition between the commercials in silver and I'm hard pressed to note any missing boxes going unchecked on my prospective bullish check list. What this means to me is that we are that much closer to a blast off in silver, as it's hard for me to imagine how things can get more bullish than presently. In fact, the only bearish factor is the price itself, as investors and silver users are not bound to jump on board until they see price confirmation.

This is the most ironic factor of all, as logically, if everything lines up as bullish, except the price, you would think the low price would stimulate folks into buying silver (or any other asset) with such bullish readings. But just like crowds are more likely to go insane than individuals, I suppose it will take higher prices to get the collective juices rived up. So be it, because of all the many factors at play in silver (supply/demand, etc.), the one factor most likely to change, literally overnight, is the price itself.

I'll close with comments on an article this week in the FT. While one must be careful about seeing things through already preconceived opinions and confirmation bias if subsequent events do tend to strongly confirm previously held findings, it would be a mistake not to acknowledge the apparent confirmations. In this case, I'm referring to an article in the Financial Times of London this week concerning a report from the Federal Deposit Insurance Corp on US bank unrealized losses through the end of the first quarter.

The losses were due to the decline in the value of long-term bonds purchased over the past few years, before the spike higher in interest rates over the past year or so. This was also responsible for some high-profile bank failures of late. When interest rates rise, existing fixed rate securities are automatically marked down in value, creating unrealized losses for the holders of those bonds.

The FDIC reported that Bank of America, the nation's second largest bank had \$100 billion of such losses, while the losses of JPMorgan, the largest bank were \$40 billion, along with \$40 billion in losses for Wells Fargo, the third largest bank and \$25 billion in losses for Citigroup, the fourth largest bank. BofA's losses were nearly as large as these other banks combined and accounted for nearly a fifth of the \$515 billion combined loss for all the nation's 4,600 banks.

Having repeatedly referred to Bank of America as, essentially, abject dolts in its dealings in precious metals derivatives these past few years, it's hard for me not to see a connection with its recent dealings in long-term bonds. Maybe someone should check the quality of the water in the water coolers at BofA headquarters, as something has to be responsible for BofA's outstanding (and not in a good way) behavior.

(On a housekeeping note, I've switched from the July silver contract to September for closing price purposes, which adds 20 cents to the price)

Ted Butler

July 1, 2023

Silver – \$22.95 (200-day ma – \$22.52, 50-day ma – \$24.14, 100-day ma – \$23.42)

Gold – \$1926 (200-day ma – \$1860, 50-day ma – \$1981, 100-day ma – \$1952)

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