July 24, 2021 – Weekly Review

Silver prices finished lower for a third week, ending down by 46 cents (1.8%), with gold also ending lower after two weeks of higher prices; falling this week by $10 (0.6%). The continued relative price weakness in silver pushed the silver/gold price ratio out by another near full point to 71.4 to 1, having definitively broken the six-month trading range in place since early in the new year. What does this portend for the relative performance of silver compared to gold going forward?

Perhaps Iâ??m just being recalcitrant, but I donâ??t think the crummy near-term relative performance of silver matters a whit about what will unfold over the long term â?? mainly because I canâ??t even imagine, nor see a hint of any evidence that anyone in the world was actually swapping silver for gold over the past few weeks. As always, and I do mean always, the price of silver and gold is set on the COMEX in strictly paper positioning terms. Further, I donâ??t sense any paper selling of silver in order to buy gold.

Yes, of course, there was substantial and fully-expected non-commercial selling and commercial buying in silver (and not in gold) in the just-released reporting week, but that had absolutely nothing to do with any concerted effort to switch silver for gold; it was strictly an exercise of commercial hoodwinking of the managed money traders in silver and not in gold. My point is simple â?? no one in their right mind would switch silver for gold at current prices. And thatâ??s why there exists a reddit community for silver and not for gold.

There is much to discuss in yesterdayâ??s COT report and the price action since the Tuesday cutoff, centered on the unusually large increase in total gold open interest, but first things first – allow me to run through the usual weekly format. But in no way am I suggesting that paper positioning on the COMEX has not had everything to do with gold and silver prices.

The turnover or physical movement of metal either brought into or removed from the COMEX-approved silver warehouses came in just shy of 5 million oz this week, very close to the average physical weekly movement of the past decade. Also, as always, this physical movement was universally overlooked, even though it is unprecedented and unique to silver of all commodities. Total COMEX silver warehouse silver inventories rose by a full 2 million oz to 352.6 million oz from last weekâ??s 10-month lows. No change in the JPMorgan COMEX silver warehouse from last weekâ??s 187.4 million oz.

Due to a slight rounding adjustment, COMEX gold warehouse inventories rose to 35.5 million oz, with holdings in the JPM warehouse edging down by the smallest fraction to 13.09 million oz. Nothing new to see here, or for that matter, in the COMEX deliveries for July, as the August deliveries (mostly for gold) are set to begin next week.

The physical metal holdings in the worldâ??s gold and silver ETFs also didnâ??t change much, but there have been notable recent increases in the silver ETFs away from SLV and PSLV, such as the SIVR and the Deutsche Bank silver ETF. The biggest takeaway for me is how notable it has been that silver ETF holdings, after spiking by 500 million oz (the most in history) over the trailing 10 months into February of this year, have basically flatlined since then. What this signals to me is how tightly physical silver is being held in the face of the continued price congestion/correction.

I also canâ??t shake the thought that on the next genuine silver rally (say over $30), there wonâ??t be enough physical silver to accommodate growing ETF demand, further igniting the rally. I base this on the very serious prospectus changes in SLV and SIVR back in February which all but admitted silver availability was limited. I also believe JPMorgan has exhausted its leasable supplies of silver, even if there exist dummies wishing to borrow it. Â As they say, we should know all in the fullness of time, along with the key feature of whether the 4 big COMEX shorts will add aggressively to their short positions on that rally.

Turning to yesterdayâ??s Commitments of Traders (COT) report, the results in silver not only fully met my expectations, but ranged into the hoped-for amounts of non-commercial selling and commercial buying. Goldâ??s results were basically inconsequential, but also made me glad I didnâ??t venture a guess.

As a reminder, silver prices were truly hammered over the reporting week, having fallen by as much as $1.50 from peak to trough and decisively penetrating the key 200-day moving average for the first time in a few months, having already penetrated the other two key moving averages (the 50 and 100-day moving averages). Iâ??m not going to deliberately demean myself (as Iâ??ve done on past occasions), by suggesting Iâ??m not that smart in being able to regularly anticipate correctly what prospective COT reports are likely to indicate, because itâ??s more a matter of simple repetition, once you grasp whatâ??s going on.

Essentially, whatâ??s going on is nothing more than the setting of gold and silver prices on the COMEX between two main adversaries â?? traders we call commercials which trick and hoodwink other traders called managed money traders. The commercials rig prices by various means (spoofing and other HFT tricks) in an attempt to induce the managed money traders to buy or sell so that the commercials can take the opposite side of the transaction. The key to the game is that the commercials have the means to rig prices and the managed money traders are mostly reliable in their reaction to the rigged prices â?? buying when prices are rigged higher and selling when the commercials rig prices lower.

This past reporting week, the commercials rigged silver prices lower (not in gold) and got the intended result of getting the managed money traders to react by selling aggressively â?? which the commercials bought. Having observed this process repeat itself for decades, it quickly dawned on me in the beginning the essence of the game without anyone explaining to me what was going on â?? hence, the general ability to handicap prospective COT reports â?? which cover positioning changes after they have occurred.

The real wonder is why everyone hasnâ??t seen this by now, as I have explained it on what some would say are too many occasions. I donâ??t think itâ??s any real wonder why the regulators have allowed the artificial pricing to continue, as the CFTC and the CME Group can hardly be expected to cry foul after decades of denying the obvious, namely, that paper speculative positioning was setting silver prices. Â Or did anyone really think that just because we call one side the commercials that they are actually involved in legitimate hedging activities?

In COMEX gold futures, the commercials increased their total net short position by 7500 contracts to 228,500 contracts., By commercial categories, the big 4 increased their concentrated short position by 2400 contracts to 144,703 contracts (14.5 million oz), while the next 5 thru 8 largest traders bought back around 700 short contracts, which still resulted in the big 8 short position increasing to 213,867 contracts (21.4 million oz). The smaller raptors were the largest commercial sellers, as they added

5800 new shorts to a short position now at 14.600 contracts as of Tuesdayâ??s close.

On the buy side of gold, the managed money traders were net buyers of 4137 net contracts, consisting of the sale and liquidation of 775 long contracts and the buyback of 4912 short contracts. The other large reporting traders and the smaller non-reporting traders were net buyers of the difference between what the commercials sold and the manged money traders bought. These werenâ??t significant changes in gold and left the market structure as still very constructive, but with some room for further improvement.

The big development in gold this week was the very sharp increase in total open interest since the Tuesday cutoff â?? all told, gold total open interest increased by 32,000 contracts over the last three trading days. As for what accounted for the large increase, thatâ??s less clear â?? at least to me. Gold prices were lower over the last three trading days compared to where they closed on the Tuesday cutoff (not the case in silver), making successive new lows each day (in classic salami-slicing fashion). Â Further, the remaining key moving average yet to be penetrated in gold (the 100-day) was toyed with and penetrated intraday on Friday, but gold prices have yet to close below that average.

Normally, I would conclude from the above set of facts that the price action in gold would suggest (if not dictate) non-commercial selling and commercial buying. Yet given that the commercials are already net short (including the raptors), any commercial buying would result (all things being equal) in a decline in total open interest, not the large increase that was reported. A knee-jerk response would be to look to spread creation, but weâ??re in the time when spreads should be liquidated.

Iâ??m much more inclined to believe the price action points to non-commercial selling and commercial buying in gold since the cutoff, but this flies in the face of the large increase in total open interest. Quite frankly, it is a set of facts I havenâ??t seen before and, accordingly, I am not sure what to conclude â?? other than I will be more than interested in what next weekâ??s COT report reveals. It could be nothing big or something of significance. Again, these facts are unique to gold; silver seems more straightforward.

In COMEX silver futures, the commercials reduced their total net short position by a rather significant 8300 contracts (41.5 million oz) to 52,500 contracts. I had projected 5000 contracts, hoping for more. While not the absolute low in the total commercial net short position of the past year or so, it is definitely on the low (bullish) end. When you stop and put it into perspective, it should be considered an eye-opener.

More than 40 million ounces of silver (paper ounces to be sure) were bought by the commercials and sold by the managed money traders as silver prices declined by $1.50. These were actual position changes, not the mostly make-believe total trading volumes so many seem to quote. What makes the total trading volumes make-believe is that 90% of all trading volumes in everything are mostly HFT day-trading, not actual overnight positioning. The COT report documents actual positioning changes, not total (and largely meaningless) trading volume. This is a concept that less than one percent of market observers seem to grasp â?? although it is the key to understanding how prices are set.

Not only was the total commercial positioning change in silver significant this week, the category changes were as well. The big 4 reduced their concentrated short position by 2510 contracts to 49,778 contracts (249 million oz). This is the lowest big 4 concentrated short position since last September. The 5 thru 8 largest shorts bought back 500 shorts and the resultant big 8 short position is down to

65,410 contracts (327 million oz). Unless my eyes deceive me, this is the lowest big 8 short position since 2015. In addition, the big 5 thru 8 short position is now the lowest it has been (at 15,632 contracts) since a year before that.Â What does this mean?

To me, it means the largest COMEX silver short traders, both the big 4 and the big 8 are beating a â??bee-lineâ?• towards getting as least short as they can. Although I have been demonstrably wrong in opining in the past that the big silver shorts would refrain from adding new shorts designed to cap prices in the future, Iâ??m still of that opinion at this time. For those readers curious as to what â??bee-lineâ?• means, I had to look it up, even though the phrase just rolled off my tongue.

https://www.google.com/search?q=Why+do+we+say+bee+line%3F&sa=X&ved=2ahUKEwi8i5awk_zxAhW

Finishing up on the commercial categories in silver, the raptors were the biggest buyers, in adding 5300 new longs and increasing their net long position to 12,900 contracts. It goes without saying that had the raptors not been so aggressive on the buy side that the big 4 and 8 would have bought back even more short contracts than they did, but, hey everyone has limitations of some kind. Alert readers will note that no longer do I reference what JPMorgan did for any reporting week, as it is my opinion that the bank is done with overt positioning in COMEX futures contracts and is now content to sit back and let things play out, while holding the largest physical silver (and gold) position in history. Nice of them.

On the sell side of silver, it was largely a managed money affair, as these traders sold 8073 net contracts, consisting of the sale and liquidation of 6233 longs and the new sale of 1840 short contracts. Both the net and gross managed money long positions are within striking distance of the lows they have been in a year and may, in fact, be there as a result of trading since the cutoff. Also notable was that net buying by the other large reporting traders was offset by net selling by the smaller non-reporting traders, both in the amounts of close to 2000 contracts.

A couple of reporting weeks back (the COT report of June 29), I made a big deal about how the 4 big shorts bought 5000 short contracts back, largely from raptor long liquidation of that same amount â?? something I had written about in the past if not recently. As it turned out, there was a serious reporting error by the CFTC that week, so no such big 4 buying and raptor selling took place â?? although I didnâ??t know that at the time (although I had some suspicions). In any event, I have no choice but to examine each report as being accurate and change my opinion as the facts change (whether the CFTC admits to its errors or not).

I raise the issue of the big 4 buying and the raptors selling again, not because that has actually occurred, but because the set up is there for that to occur. Letâ??s face it – the 4 and 8 big silver shorts would buy as many silver contracts as they could â?? 25,000 or 50,000 contracts or more â?? if there were parties willing to sell that quantity of contracts to them. Alas, for the big silver shorts, no such willing sellers in quantity appear ready to accommodate the big shorts. Therefore, it has turned into a grind â?? evidenced in price action â?? for the big shorts to methodically reduce their concentrated short position when and as they can.

I still believe the CFTC gave the word to the big silver shorts to clear the heck out of Dodge City, but itâ??s also in the best interests of the Commission and big shorts to do this with the least amount of fanfare as possible. As and when silver prices turn higher and the big shorts refrain from adding shorts, there will be plenty of price fireworks, regardless of the level of big 4 short positions at the time.

My point is that it looks likely that on further silver price declines, should they come, the 4 big shorts will be up against two factors which will limit the amount of additional silver contracts they can buy back â?? the diminishing level of managed money selling, as well as the continued buying by the raptors. Therefore, it wouldnâ??t surprise me that as and when silver prices turn higher, the 4 big shorts might rush to buy the expected raptor selling before the managed money traders rush to buy. I thought I saw that a few weeks back, but it was only a mirage created by the CFTCâ??s reporting error. Maybe it wonâ??t be a mirage the next time.

Just to demonstrate that I try not to criticize the CFTC unfairly, I was glad to see that it prevailed again in its ongoing legal case against Monex, the California precious metals dealer accused of cheating hundreds of clients out of hundreds of millions of dollars in leveraged dealings. I know every time I bring up this issue, I hear from Monex customers defending the firm, but as far as Iâ??m concerned Monex should have been shut down as far as leveraged precious metals dealings long ago. Â Now, if only the Commission would take on the real crooks at JPMorgan and the CME Group. Hey â?? a guy is allowed to dream, no?

https://www.cftc.gov/PressRoom/PressReleases/8410-21

Iâ??m still of a mind that copper prices will embark on an explosive upward price journey and couldnâ??t help but notice that tin prices have soared to record highs on the same actual supply/demand fundamentals taking place in just about every industrial metal. The kicker in tin was that in addition to curtailed production (also inflicting silver), demand for tin in electronic devices, 50% of total tin demand, was exploding. I think I remember reading someplace how silver was the best conductor of electricity and used in just about every electronic device under the sun. Funny how the demand for tin for electronic devices wouldnâ??t also reflect demand for silver in those same devices. Also funny was that I didnâ??t read anything about tin having the largest concentrated short position of any commodity â?? or any notable concentrated short position at all â?? impeding its record price climb.

The decline in gold and silver prices this week shaved about $350 to $400 million off the 8 big COMEX shortsâ?? total losses, leaving those losses at $10.4 billion. Â Â And just so that there is no misunderstanding from the all the above, I still believe that gold and particularly silver is destined to move sharply higher whenever the current rigging of prices in the short term is complete â?? which will come without a formal announcement.

Ted Butler

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Silver – $25.24Â Â Â (200 day ma – $25.90, 50 day ma – $26.88, 100 day ma – $26.39)

Gold – $1802Â Â Â Â Â Â (200 day ma – $1826, 50 day ma – $1836, 100 day ma – $1794)

Date Created

2021/07/24