July 29, 2023 – Weekly Review/A Long Silver Whale Surfaces

A bone-jarring and out-of-the-blue sharp and orchestrated Thursday selloff, which took gold prices down by more than $40 and silver by a full dollar from earlier highs that day, resulted in losses for the week for gold of $5 (0.3%) and for silver of 35 cents (1.4%). As a result of silverâ??s relative underperformance, the silver/gold price ratio widened out by nearly a full point to just over 80 to 1.

(Although the switch from August to December this week for the most active COMEX gold month artificially adds around $40 to the price of gold. Iâ??ll try to explain later in closing housekeeping notes â?? but no, gold didnâ??t suddenly jump by $40 â?? although price reporting and quote services will make it appear that way)

While it has only been a one-day affair to this point, the out-of-nowhere price rig job lower on Thursday was of the caliber I had in mind in my recent Code Red warnings for silver. The sudden and manipulative price blast lower brought to mind the possibility (or likelihood) that this was just the start of a feared larger takedown and while that possibility is still very much on the table, some quite surprising developments in yesterdayâ??s new Commitments of Traders (COT) report may throw a monkey wrench into the collusive COMEX commercialsâ?? plans to rig silver prices lower to flush out recent long positioning by the managed money technical funds.

The biggest surprises in the new COT report, aside from rather hefty improvements in market structure (managed money selling and commercial buying) in both gold and silver, were the notable increase in new short selling by the big managed money short in silver and what very much looks to be the emergence of a silver whale on the long side. Iâ??ll go over the COT report details in a moment and treat the prospects of a new big long separately. First, the usual weekly format.

The turnover or movement of physical metal either brought into or removed from the COMEX-approved silver warehouses â??cooledâ?• slightly this week to just over 5.3 million oz, quite close to the weekly average of the past 12 years. Thatâ??s still at an annualized rate of 275 million oz, or close to 35% of total annual world silver mine production and so far above what has occurred in any other commodity as to make comparisons impossible. Total COMEX silver holdings rose by 1.8 million oz, to 278.5 million oz, while the holdings in the JPMorgan warehouse fell by 0.6 million oz to 139.3 million oz.

Total gold holdings in the COMEX warehouse system rose by a bit over 0.1 million oz to 22.3 million oz, while holdings in the JPM COMEX gold warehouse fell slightly to 8.33 million oz.

First day deliveries on the big August COMEX gold contract were a bit on the light side as just over 5400 contracts were issued and less than that remain open. The only â??troublesomeâ?• sign was the emergence of JPMorgan as the biggest gold issuer at 2928 total contracts, including 451 contracts from its house account. JPM was also the biggest stopper (taker) of gold deliveries at 1718 contracts for customers, somewhat mitigation its large issues.

JPM was also the biggest issuer of silver deliveries (although August is not a traditionally large silver delivery month) at 430 of the 482 total silver deliveries issued, but just for customers and not in its house account. I just canâ??t help it, but seeing JPM as an issuer anytime just â??creepsâ?• me out, because this bank is so dominant and self-serving in metal dealings.

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

Metal flows in the worldâ??s gold ETFs indicated close to 200,000 oz coming out of the big gold ETF, GLD. In silver ETF flows, a bit over 1.5 million oz was redeemed from the big silver ETF, SLV and more than that in other silver ETFs â?? which still very much looks like metal being sent to places of more urgent need, as opposed to plain vanilla investor liquidation. In my â??bottom of the barrelâ?• premise for combined holdings in SLV and COMEX warehouse holdings, the combined 730 million oz level still appears to be holding fairly close to the 750 million oz level referenced at the start of the year.

Turning to yesterdayâ??s new COT report, Iâ??m happy to report I was way off in my feelings that there would not be much change in overall positioning, as the improvements in market structure were quite noteworthy and welcomed â?? both by the headline numbers of the total commercial net short positions in each, but also by even larger managed money net long position reductions. Plus, there were some real luluâ??s to report on in silver when looking under the hood.

In COMEX gold futures, the commercials reduced their total net short position by 15,500 contracts to 198,200 contracts â?? still within the fairly tight range of the past 4 months. All three commercial categories were buyers, with the 4 big shorts buying back a rather hefty 5900 short contracts and reducing their net short position to 165,709 contracts (16.6 million oz). The next 5 thru 8 largest commercial shorts bought back 3100 short contracts and the big 8 short position fell to 220,946 contracts (22.1 million oz), the lowest (most bullish) such since March 28. The raptors (the smaller commercials apart from the big 8) added 6500 new longs to a net long position amounting to 22,800 contracts as of Tuesday.

On the sell side of gold, the managed money traders were net sellers of 20,031 contracts, consisting of the sale and liquidation of 15,041 longs and the new sale of 4990 short contracts. The resultant net managed money long position fell to 95,287 contracts (132, 603 longs versus 37,316 shorts), well-within the range of the past four months. Explaining the difference between what the commercials bought and the managed money traders sold was mostly smaller non-reporting trader net buying of more than 4200 contracts.

In COMEX silver futures, the commercials reduced their total net short position by a surprisingly large 6300 contracts, but even more surprising (and confusing) is how they did so. You may remember that total open interest only changed by 35 contracts over the reporting week and the total net short position of the 4 largest traders changed even less, increasing by 10 contracts to 40,838 contracts for the reporting week ended Tuesday. With such tiny changes in total and big 4 positioning, the 6300-contract reduction in the total commercial short position seems remarkable, if not impossible.

The explanation is that the big managed money short trader increased its short position by at least 4000 contracts and maybe more to the point it appears to me that this big short is now up to close to 10,000 contracts (50 million oz) short and is squarely back into the big 4 short category. Therefore, this same roughly 10,000 contracts short must be deducted from both the big 4 and big 8 commercial-only component of the concentrated short positions. (The big 8 short position fell a bit to 64,046 contracts this week).

One of the lessons this weekâ??s remarkable silver COT report proves is that we can only guess at the actual changes in COT reports, sometimes accurately, other times not so much, but must await the actual release of the report to know for sure. Itâ??s only upon the actual release of the data in the COT reports that the â??rubber meets the roadâ?• and we know for sure what transpired over the reporting week. And given the exquisite Â details provided by this report, we are indeed fortunate that this data series exists.

For instance, Iâ??d love to know what positioning changes occurred on Thursdayâ??s brutal price takedown, but we will only learn for sure when next Fridayâ??s report is published. Lastly, it sometimes takes a number of COT reports to get the full picture on individual trader category changes â?? like the big managed moneyÂ shortâ??s silver position, as well as the big new silver long position in the other large reporting tradersâ?? category. In other words, the cumulative weight of recent reports is usually more instructive that any one report.

On the sell side of silver, the managed money traders sold a very large 10,088 net contracts, consisting of the sale and liquidation of 5650 longs and the new short sale of 4438 contracts. The resultant managed money net long position fell to 19,601 contracts (48,131 longs versus 28530 shorts), much more of an improvement than I was expecting, but welcomed nonetheless. Explaining the difference between what the commercials bought and the managed money traders sold was net buying by the other large reporting traders of just over 3000 contracts.

A New Silver Whale?

Data published in the Commitments of Traders (COT) reports over the past four reporting weeks indicate a number of highly unusual changes in COMEX silver futures positioning. One such highly unusual change is the emergence of a big managed money trader on the short side, which appears to be holding a net short position of roughly 10,000 contracts (50 million oz) in COMEX silver futures contracts.

This large managed money short trader first appeared a few months back and after reducing its short position profitably on lower prices, has come back on the short side as aggressively as at previous peak short levels. Thereâ??s no way of knowing in advance whether this big managed money short will be able to buy back the current large short position on lower prices again, but fortunately we will come to learn that in future COT reports.

It doesnâ??t bother me in the least that this big managed money short exists, for the simple reason that at some point â?? with silver prices lower or higher â?? this trader will buy back its large short position, as it stands no chance of closing out the short position by actual physical delivery. And while itâ??s possible, I donâ??t see this big managed money short as working in concert with the highly collusive COMEX commercial shorts. As such, knowing this trader must buy back this large short position at some point, I consider Â the existence of the short position as positive to the direction of future silver prices. Even if this trader buys back lower, the buying will be a supportive influence for the price of silver. If this trader is forced to buy back on higher prices, that will only enhance the buying frenzy I see ahead in my Code Red market emergency.

But it is the evidence of the emergence of new big silver long in COMEX futures over the past four reporting weeks that is, potentially, much more exciting. The evidence lies in the increase in the concentrated long position of the 4 largest traders in COMEX silver from 20,253 contracts on July 3 to 30,702 contracts as of July 25, the most recent COT report. (Usually, I speak of the concentrated short position in silver as the mechanism for the decades-old price manipulation, so please note that I am pointing to the concentrated long position at this time).

What makes the new concentrated long position in silver so unusual is that in times past, any concentrated long position was usually held by the managed money technical funds and when silver prices eventually traded lower due to commercial price-rigging, the big managed money long positions were also flushed out to the downside. But this time, the big new concentrated long position, which I would estimate as being around 10,000 contracts (50 million oz), appears to be held by a trader in the other large reporting category and not by a managed money technical fund long(s).

I further believe that the big managed money short that is holding a 10,000-contract short and the trader in the other large reporting category holding a nearlyÂ identical large long position to be completely unrelated and coincidental. Aside from that, I consider the large long position to be potentially much more significant and would like to explore my reasons for thinking that way.

Please know upfront, that there is no way I can predict what this new large silver long will do in the future. That will only be learned as time progresses and the actual data is reported in future COT reports. At the same time, however, if I suspect something important is afoot in silver, I donâ??t see what is to be gained by keeping it to myself and not reporting on something that could be profoundly important.

The 10,000-contract long position involves a derivativesâ?? position equal to 50 million oz at a rough average cost of around $24.50 or so, meaning that if the big new long established over the past four weeks, chickens out and sells out on a three-dollar selloff, the loss would come to $150 million. Conversely, if the new big long gets â??luckyâ?• and bails out after a three dollar increase in the price of silver, the gain would also be $150 million, or $50 million per each dollar move in the price of silver â?? same as if there was a loss of three dollars. And on an initial margin of roughly $125 million, thatâ??s plenty of leverage for the biggest short-term trader.

Perhaps Iâ??m fantasizing, but I canâ??t help but read more into this particular long position, especially considering my recent Code Red market emergency warnings for COMEX silver. For one thing, the establishment of the position looks to me to be a work of art, in that there is no other way that I can conceive that such a large position in silver could possibly be established other than by a steady accumulation of COMEX silver futures contracts in the manner seen over the last four weeks. No one could buy the equivalent of 50 million oz in any other venue â?? cash, silver ETFs, or any other manner â?? in four weeks without setting the price sharply higher.

In other words, the magic and promise of this new long position is that it was established with minimal impact on price and that gives me hope that it is more than just a short-term speculation (I believe the big managed money short position is nothing more than a short-term speculation). Moreover, this new long position was established at precisely the most critical and promising time in the history of the silver market. Thatâ??s because of the deepening and increasingly undeniable physical silver shortage and the current Code Red market emergency in COMEX silver. Thereâ??s just never been a better time for a knowledgeable and well-informed trader to come into silver big.

As such, the new big silver long is in a remarkably-unique position and should he (or she) intend that this position be held for the long-term and not as simply a short-term speculation, please allow me to be so bold as to offer some (free) advice, since itâ??s possible the big long may have run across my writings and that may played a role in acquiring the position.

My first advice would be to not, I repeat, not to increase the position beyond the 10,000-contract level. In fact, I believe the only reason the corrupt regulators at the CFTC and CME Group have not already moved against the new big long (ordering a reduction in the position) is that, despite their desire to do just that, the concentrated short positions of a few traders is at or around the same 10,000-contract level and that affords a degree of protection against the regulators ordering the long position reduced.

There can be no doubt that the regulators favor and have coddled the big shorts in COMEX silver and have done so for 40 years, flowing the Hunt Bros runup and collapse of silver prices in 1980. In fact, the new big long, should he or she decide to stick around for the long-term, should keep the Hunt Brosâ?? experience in mind. By that I mean to learn from what the Hunt Bros did wrong, namely, buying silver futures and physicals with the intent of driving silver prices higher.

While I would advise the new big long to cease buying COMEX silver futures contracts regardless (because the position is now large enough), should the big trader choose to buy silver in other forms, such as in ETFs or options, or physicals, that would appear to be OK â?? unless and until silver prices start rising in earnest. At that point, the big long must stop, lest he or she be prepared to suffer the same fate as the Hunt Bros.

Let me be very clear that I am rooting for the new big long to succeed, as should be the case for every silver investor and silver mine producer in the world. Just as the regulators always do whatever they can to help the silver shorts to succeed, I make no bones at cheering the new big silver long on.

Other advice to the new big long is to be careful about demanding too aggressively physical delivery on the long futures contracts, lest he or she be accused of causing market â??congestionâ?•. If the new long is subject to the US tax code, then, of course, it makes sense to convert to physicals instead of holding futures, as physical holdings are not taxable until sold, whereas those holding futures or other derivatives (options) are subject to yearend taxable mark-to-markets. But the big long must know the regulators will be gunning for him or her, regardless of the actual circumstances.

In a departure from telling the new big long what not to do, let me offer a suggestion as what to do. At the earliest practical opportunity and when the new big long feels sufficiently long, I would very much openly advertise the position and, even more importantly, the reasons for acquiring the position, namely, because silver was so cheap in price due to the long-term COMEX silver manipulation. This would be a great way, likely the best way of all, to get the real silver story out, as well as encourage others to buy silver.

To be sure, the new big long had best employ top-notch legal help to ward off the inevitable regulatory challenges, even though in a court of law and of collective opinion, allowing big shorts to dominate the price of silver, while trying to crack down on the first big long to come along shouldnâ??t sit well. Cracking down on longs while protecting big shorts at silverâ??s current super-depressed prices doesnâ??t sound like a winning ticket â?? even for the corrupt regulators.

As I just wrote, I donâ??t know what the new big silver long will or wonâ??t do –Â but the possibilities are exciting. Superimposed on what I already claim is an existing market emergency in the COMEX silver market, this new long Â only intensifies the emergency â?? not because the position is too large, but because the concentrated short positions (including that of the big managed money short) is too large.

After witnessing the blatant price-rigging on Thursday, it looked more certain than ever that the big shorts would succeed in a full flush out to the downside. While, unfortunately, that is still possible, after reviewing the data in the new COT report, itâ??s still possible the downside is by no means a certainty. And, yes, I still havenâ??t heard of any reasonable rebuttal to my Code Red warning â?? certainly not from the regulators.

(On the housekeeping matter I mentioned at the outset, with the arrival of first notice of delivery day of the COMEX August gold contract, everyone (quote and chart services) switches to the next most active monthÂ for price reporting purposes and in this case, thatâ??s the December contract. But because short-term interest rates are the highest in many years and because interest rates are the main determinant for the spread differentials between the monthly prices, the switch this time involves artificially adding close to $40 to the price of gold. Itâ??s not that gold suddenly jumped by that amount, but thatâ??s suddenly the new price. Silver prices wonâ??t get switched to December until the end of August

Additionally, an approaching thunder storm prompts me to send this out a bit early, lest I lose power or an Internet connection).

Ted Butler

July 29, 2023

Silver – $24.45Â Â (200-day ma – $22.98, 50-day ma – $23.82, 100-day ma – $23.95)

Gold – $1998Â Â Â Â Â (200-day ma – $1886, 50-day ma – $1958, 100-day ma – $1972)

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