July 31, 2021 – Weekly Review

Despite a late-Friday fade, gold and silver prices ended higher for the week, with gold ending $11 (0.6%) higher and with silver ending 31 cents (1.2%) higher. (Iâ??m switching to the December gold contract from the August contract, which adds close to $5 to the price of gold and throws off a bit the closing prices and the silver/gold price ratio calculations). After adjusting for the new gold price input, the silver/gold price ratio tightened in a bit to just over 71 to 1.

There were some significant and largely expected improvements in the COMEX market structure in silver in yesterdayâ??s Commitments of Traders (COT) report which I would consider the top highlight for the week, but let me run through the usual weekly format first.

The turnover or physical movement of metal either brought into or removed from the COMEX-approved silver warehouses surged to the highest level in ten weeks, as more than 8.7 million oz were physically moved. On an annualized basis, that comes to 450 million oz or nearly 60% of total world annual mine production. Total COMEX silver inventories rose by 1.4 million oz to 354 million oz. While there was some movement this week in the JPMorgan COMEX warehouse, by weekâ??s end there was no change in the silver holdings in that facility, which stood unchanged at 187.4 million oz.

There was an obvious clerical reporting error this week in one of the COMEX silver warehouses of some 1.2 billion oz, which a number of pundits tried to claim pointed to the corruption on the COMEX â?? which is absurd (not that the COMEX isnâ??t a den of iniquity, just that a clerical error wouldnâ??t prove it). On a broader perspective, the attention to the error, along with dramatic pronouncements whenever COMEX silver stocks fall to new lows is proof positive that the daily release of the COMEX silver warehouse statistics are widely followed. This is as it should be, as the COMEX silver warehouse inventories are the second largest stockpile of silver in the world (after the holdings in SLV). Iâ??ve followed these statistics daily for more than 35 years.

But hereâ??s what I donâ??t get â?? with the obvious widespread attention placed upon the daily COMEX silver warehouse statistics, how is it that no one ever mentions the glaring and unprecedented physical movement, unique to silver among all commodities? This week, close to 25 (not full) truckloads of silver were used to move the 8.7 million oz that is posted on the report for all to see. Over the past ten years, some 2.5 billion oz of silver have been physically moved in and out from the COMEX warehouses â?? or more than all the 2 billion oz of silver that exists in the world in the form of 1000 oz bars. Someone has time to gloat over an obvious error while at the same time avoiding comment on a phenomenon unique to silver of all commodities? As I said, I donâ??t get it.

There was some movement in the COMEX gold warehouse inventories which resulted in a 0.2 million oz reduction in total gold holdings to 35.3 million oz. No change in the JPMorgan COMEX gold warehouses, still stuck at 13.09 million oz.

There wasnâ??t significant movement of physical metal in the gold or silver ETFs, but I did catch a report that indicated gold holdings in ETFs had fallen over the first half of this year. Checking where total gold holdings (ETFs and COMEX warehouse inventories combined) stood at yesterdayâ??s month end, for the first seven months of this year, some 7.5 million oz has left, leaving total gold holdings at 150 million oz. Unlike many things nowadays, this reduction in physical gold holdings makes sense, since gold prices have been lower since yearend and itâ??s a well-proven thesis that investors collectively buy assets that are rising and sell assets falling in price.

On the other hand, total physical silver holdings (ETFs plus the COMEX warehouses) have increased by around 100 million oz from yearend to 1.6 billion oz, despite silver prices being choppy and ending the month down a dollar from yearend (and despite a near 45 million oz reduction in COMEX warehouse inventories). Hard not to conclude that silver investors are strong holders.

There were fairly large deliveries against the August COMEX gold contract over the first two days of delivery of 17,711 contracts, but in comparison to traditional delivery months over the past year and longer, this monthâ??s gold deliveries look to be less than in past months. And there appears to be less than 2000 contracts remaining open in the August gold contract. The only thing that matters to me in COMEX deliveries is what JPMorgan is up to in its own account. This month (so far) in gold, JPM is a net issuer of more than 1100 contracts for customers, but has stopped (taken) more than 1600 contracts in its own account. In silver, JPM has issued more than 800 net contracts for customers, but has done nothing in its own account. Bottom-line to me is that COMEX deliveries look like a non-event this month â?? although it is probably more correct to say that I canâ??t see any big influence on price.

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

Turning to yesterdayâ??s COT report, it was one for the record books in silver and a push in gold. I had been expecting an improvement (commercial buying and non-commercial selling) in silver and to a lessor extent in gold. It is my custom to re-read what I had predicted for the report shortly before or after the new report is issued to see how close or far away I came to the published results. In re-reading my comments on silver on Wednesday, I see I refrained from overall contract predictions, but turned around and gave quite specific contract guesses for the silver managed money traders â?? a bit of a non-sequitur.

In COMEX gold futures, the commercials increased their total net short position by a scant 300 contracts to 228,800 contracts. By commercial categories, the 4 big shorts increased their concentrated short position by nearly 3900 contracts to 148,556 contracts (14.9 million oz). The 5 thru 8 next largest shorts bought back 1200 short contracts and the big 8 short position rose to 216,581 contracts (21.7 million oz). The smaller commercials, the raptors, bought back 2400 contracts, reducing their net short position to 12,200 contracts.

The managed money traders in gold were net sellers of 198 contracts, consisting of the sale and liquidation of 3528 long contracts and the buyback and liquidation of 3330 short contracts. The other large reporting traders were net buyers of 3600 contracts (almost all short covering) and the smaller non-reporting traders were net sellers of 3100 contracts, largely balancing each other out. There was nothing of real note in the gold COT report, so I wonâ??t dwell on it, although I did get an answer to my question about the large increases in total open interest over the first few days of the reporting week. Turns out the managed money traders added (created) more than 24,000 completely uneconomic spreads.

A bigger question in gold is what happened after the Tuesday cutoff, particularly on the sharp rally on Thursday and selloff yesterday. Best I can tell (and this will undoubtedly change based upon trading activity on Monday and Tuesday), there was fairly significant managed money buying on Thursday as moving averages were penetrated, and managed money selling on Fridayâ??s selloff back down through the same moving averages. On balance, I would guess the managed money traders bought and the commercials sold around 10,000 net gold contracts since the cutoff, not a particularly large amount given goldâ??s still bullish market structure.

In COMEX silver futures, the position changes were much more significant this reporting week (and for the two prior weeks). The commercials reduced their total net short position by 5600 contracts to 46,900 contracts. Save for only one reporting week (the quarter ending week of March 30), this is the lowest (most bullish) market structure in silver since last August. However, even more significant were the changes in the commercial categories.

The 4 big silver shorts bought back another 2100 short contracts, reducing their concentrated short position to 47,657 contracts (238 million oz). This is the lowest big 4 concentrated short position since Oct 2018 and among the lowest on record. The big 5 thru 8 shorts bought back 700 shorts and the big 8 now hold 62,588 contracts short (313 million oz). This is the lowest big 8 short position since March 2015 and the 14,931 contracts that the big 5 thru 8 traders are short is among the lowest on record. The raptors added 2800 longs to a net long position amounting to 15,700 contracts.

Even worse than someone could beat a rented mule, I fully-admit to beating the issue of the concentrated short position in silver to near death. It has always been the main issue as far as Iâ??m concerned in accounting for the silver price suppression. That the concentrated short position has dropped to multi-year lows is potentially among the most important issues in silver ever; right up there with JPMorgan amassing the largest physical silver position in history and skating out from its short position on the COMEX completely.

There can be no doubt that the big 4 and big 8 silver shorts have methodically reduced their silver short positions over the past few months. As recently as the end of May, two months ago, the big 4 short position was more than 12,000 contracts (60 million oz) more than it was on Tuesday and the big 8 short position then was 17,000 contracts (85 million oz) more than it was on Tuesday. Itâ??s also true that the price of silver had fallen around $3 from the end of May until now, penetrating all the key moving averages that had set off the managed money selling which had allowed the big shorts to buy back so many contracts. Let me finish up with the silver COT report before getting to what comes next.

The managed money traders in silver sold 5156 net silver contracts, comprised of the sale and liquidation of 2369 long contracts and the new sale of 2787 short contracts. On Wednesday, I refrained from contract numbers in my call for an improvement in the silver market structure. As it turns out, I did give very specific numbers when it came to predicting what the managed money traders would do. I guessed the gross managed money long position would come down to near 50,000 contracts, the lowest (and most bullish) level of the past year and the actual number came in at 50,845 contracts. I guessed the gross short position of these traders would come in at 30,000 contracts and the actual number was 29,920. I guessed the net managed money long position to come down to 20,000 contracts and the actual number was 20,926 contracts.

All the above is dead solid certain and easily verified (as the data come from the CFTC). What Iâ??m about to say is speculation. On the price run up on Thursday, I have the sense that the 4 big shorts were buyers, further reducing their concentrated short position with the sellers being the raptors, taking quick profits on the silver longs they bought only days before. I say this because the rally in silver on Thursday, while sharp, did not penetrate any of silverâ??s key moving averages (where the moving averages were penetrated in gold). And whereas goldâ??s total open interest jumped sharply as a result of Thursdayâ??s rally (by 18,000 contracts), silverâ??s total open interest was lower that day, in keeping with big 4 short covering and raptor long liquidation.

Of course, even if everything Iâ??ve documented or speculated on is 100% correct, weâ??re still only half way there. I believe, but canâ??t prove, that the Commission had words with the big silver shorts as a result of my writing to the CFTC in early March and the Commissionâ??s response in early May. If the agency directed the big shorts to cool it with the concentrated short selling, it seems reasonable that the Commission would give the shorts some time to reduce the short position, because ordering an immediate short covering would end up reflecting badly on the CFTC itself.

I also believe that about as much concentrated short covering that could be accomplished on lower prices has already been accomplished or nearly so. Iâ??ve held out as a possible exception to that being if the managed money traders add to shorts in extraordinarily large quantities, but I see little sign of that. If Iâ??m correct, very little further concentrated short covering is likely on lower silver prices. Yet, there is a lot more short covering to come before the concentrated short position in COMEX silver is reduced to levels comparable to other commodities, like occurred in palladium.

If there is relatively little short covering left to be achieved by the big silver shorts on lower prices, but still much short covering to be achieved before the concentrated short position in silver is â??normalâ?•, then the short covering must come on higher prices. I think thatâ??s where we are.

Itâ??s particularly at this time that I think even more of my departed friend and silver mentor, Israel Friedman, and his always-constant belief that the big shorts would get caught with a full short position (Full Pants Down). While I always agreed with my friend that it could turn out to be that way, I was always more of a mind that the big shorts would buy back as many shorts as was humanly possible before the real price liftoff. Considering that the big shorts have whittled down their silver short positions to multi-year lows, I canâ??t help but remain partial to my take at this time.

However, considering all that has transpired since I last had a heated debate with my old friend, I canâ??t help but think Izzy was more right than wrong. He never did get to learn about JPMorgan and what it accomplished, both in accumulating a virtual mountain of physical silver and passing along to the other big shorts the hot potato of the concentrated short position in the greatest double cross in history. And even if the concentrated short position is at reduced levels not seen in years, there is still the not so minor issue of 400 million oz of physical silver being lent out by JPM and requiring return, in effect a larger short position (80,000 contracts) than exists on the COMEX. Certainly, neither Izzy nor I would have ever contemplated the creation and existence of such a large short position by leasing.

As has been the case all along, what matters from this point forward is what the big silver shorts do on the next rally. Will they add aggressively to shorts on higher prices, as has always been the case for many decades and as so many expect? Or will they quit their evil ways and refrain from shorting and capping the price for the first time ever? While my guess is that the big shorts will stand aside and maybe even buyback on higher prices, no one knows for sure. However, even if the big shorts do add to their short positions, a silver rally of some measure seems to be in store.

Considering the extent of the short covering of late, it will be safe to say that if the big shorts add back as many new shorts as theyâ??ve just recently bought back, my analysis and expectations will be proven wrong. After all, a man has to admit when heâ??s been proven wrong. If we suddenly do go boom in silver to the upside, it will undoubtedly be because the big shorts refrained from adding new shorts aggressively. A man should also know when heâ??s been proven right.

The rally in gold and silver prices this week increased the total losses of the 8 big COMEX gold and silver shorts by $300 million to $10.7 billion.

Ted Butler

July 31, 2021

Silver – $25.55Â Â Â Â (200 day ma – $25.92, 50 day ma – $26.62, 100 day ma – $26.37)

Gold – $1817Â Â Â Â Â Â Â (200 day ma – $1824, 50 day ma – $1831, 100 day ma – $1799)

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