July 8, 2023 – Weekly Review

For a second week, a sharp Friday rally enabled gold and silver to finish somewhat higher for the week; with gold ending $4 (0.2%) higher and silver ending the week 33 cents (1.4%) higher. As a result of silverâ??s slight relative outperformance, the silver/gold price ratio tightened in by a full point to just under 83 to 1 â?? meaning that silver is still wildly undervalued relative to gold.

In fact, comparing the relative prices of gold and silver on a daily, weekly or monthly basis gives a generally biased perspective on what a â??trueâ?• relative valuation between the two metals â??shouldâ?• be. It is not natural and normal (in a free market sense) for silver to have been so extremely undervalued relative toÂ gold for as long as it has been. Itâ??s just something that has persisted for so long that it is just something collectively assumed to somehow be normal.

Here we are, with gold only 5% below its highest weekly close ever and with silver still lower by 50% from its highest weekly closes of both 43 and 12 years ago and even the rants of a few (guilty as charged) that this is completely nuts is taken with a collective yawn because the relative price mismatch has existed for so long. But I would remind you that the extremely undervalued metal is in a pronounced and undeniable physical shortage, while the other canâ??t possibly go into a physical shortage because it is not consumed and there is more of it daily.

The nuttiest thing is that the price indications I follow seem to be quite positive overall for the relatively-overpriced metal, gold â?? so please donâ??t take this as me being bearish on gold. Instead, please do take this as me being almost hyperbolic in my bullishness for silver. As always, any such extreme assertions demand some type of legitimate explanation, so let me cut to the chase again.

The explanation for the extreme undervaluation of silver relative to gold is the continuous and ongoing silver price suppression on the COMEX over the past 40 years. The good news, as I have been reporting, is that the long-term silver price manipulation looks to be on its last legs. More on this later, after the usual weekly format.

The turnover or movement of physical metal either brought into or removed from the COMEX-approved silver warehouses fell by half from last weekâ??s record weekly turnover, but was still blisteringly hot, as 6.9 million oz were physically moved over the holiday-shortened four-day work week â?? an extraordinarily large amount. Total COMEX silver holdings rose again for a second week, this time by 1.9 million oz to 278.4 million oz. Holdings in the JPMorgan COMEX silver warehouses fell by 1.3 million oz to Â 140 million oz â?? a fresh five-year low.

Just like the collective numbness that has set in as a result of seeing silver so relatively underpriced to gold for so long, looking as normal, this same phenomenon is at work with the unprecedented and persistent physical turnover of silver in the COMEX warehouses â?? alone among all commodities. This hyper-turnover has been occurring non-stop for more than 12 straight years.

The kicker is that over the past couple of years increased and exquisite attention has been placedupon the COMEX silver inventories, particularly concerning the registered, eligible and total levels â??but there continues to be a type of â??blackoutâ?• of attention given to the daily and weekly actualphysical movement, which as you know, is the single most important factor if one looks at warehousedata.

Again, Iâ??m not suggesting that the decline in total and registered COMEX silver warehouse inventories over the past two and half years is in anyway insignificant, I just have trouble in understanding why so little mention is made of the turnover â?? which can only be due to frantic demand and the need to replenish inventories on a daily basis.

There was slight 0.1 million oz increase (mostly due to rounding) in the COMEX gold warehouses, to 22.5 million oz. No change in the JPM COMEX gold warehouse, still at 8.55 million oz for the fourth week running.

No delivery drama to report concerning this monthâ??s (July) COMEX deliveries. But neither would I interpret this as a negative to the price of silver. As I explained last week, the collusive commercials and the CME Group will move heaven and earth to prevent the coming silver price explosion from appearing to be set off by any thought of it being triggered by a failure to deliver. But thatâ??s not the same as there being such a delivery failure being at some point down the road (and not that long a road).

Holdings in the gold and silver ETFs, fell this week, with 210,000 oz being redeemed in GLD, the big gold ETF, plus more in other gold ETFs, mostly following the generally flat to lower gold prices over the recent past. Holdings in the big silver ETF, SLV, fell by 3.3 million oz this week, following large recent inflows. Whereas the flows of metal into and out from the gold ETFs appear in line with price movement (set on the COMEX), the flows of metal into and out from the silver ETFs appear completely counterintuitive and not to related to usual collective investor behavior.

It appears very much to me that the flows of physical metal in the silver ETFs have taken on the characteristics of the COMEX warehouse turnover â?? with metal coming in and out in the manner of plugging fingers into a dike to prevent a collapse â?? which in silver is a price explosion.

Turning to yesterdayâ??s Commitments of Traders (COT) report for the holiday-shortened reporting week, given the rather choppy price action, I sensed no major positioning changes, which turned out to be correct for silver, but not on the mark for gold, which featured notable net managed money buying. But even here, there were some mitigating factors.

In COMEX gold futures, the commercials increased their total net short position by 9400 contracts to 184,700 contracts. However, there was no actual increase in commercial shorting, as all the selling was long liquidation by the smaller commercials, the raptors â?? which has the effect of increasing the total commercial short position. In fact, the 4 big commercial shorts bought back 2700 shorts, reducing their net short position to 163,543 contracts (16.4 million oz), their lowest short position since March 28.

The next 5 thru 8 largest commercial shorts stood pat for a second week and the big 8 short positionfell to 222,687 contracts (12.2 million oz), also the lowest big 8 short position since March 28. Theraptors (the smaller commercials apart from the big 8) did all the selling, in liquidating 12,100 longs,reducing their net long position to 38,000 contracts.

Because I am extremely focused on what the largest shorts in gold and silver do, despite the increase in the total commercial net short position in gold this week, which would usually be considered bearish, the reduction in the big 4 and 8 short positions more than neutralizes the usual bearish concerns.

The managed money traders in gold bought 13,473 net contracts, consisting of the purchase of 14,808 new longs, as well as the new sale of 1335 short contracts. The resultant net managed money long position grew to 83,148 contracts (123,017 longs versus 39,869 shorts), hardly bullish on its face, but not necessarily bearish. Explaining the difference between what the commercials sold and the managed money traders bought was combined net selling of 4000 contracts by the other large reporting and the smaller non-reporting traders.

In COMEX silver futures, the commercials increased their total net short position by a microscopic 200 contracts to 29,600 contracts. With such a tiny overall positioning change, it follows that the individual category changes wouldnâ??t be great and they werenâ??t â?? although larger than the net change. The 4 big shorts increased their net short position by a bit under 400 contracts, to 34,097 contracts (170 million oz). While I never like to see any increase in big 4 shorting (since it is at the heart of the 40-year silver manipulation), we are still at rock-bottom levels of the concentrated short position. One big surprise was aggressive short-covering by the 5 thru 8 next largest shorts of close to 1700 contracts, reducing the big 8 short position to 51,947 contracts, the lowest since March 28.

From mid-March, when the big 5 thru 8 short category was around 17,500 contracts (among the lowest in recent times), it grew to 25,000 contracts by mid-April, remaining at close to that level until the beginning of June. Since then, it has fallen back below 18,000 contracts. I donâ??t have an explanation for the behavior of the big 5 thru 8 silver traders, other than some influence by changes in the level of shorts held by the big managed money short â?? but even if they enter more aggressively on the short side on the next silver rally, I donâ??t sense the big 5 thru 8 can succeed in capping prices without big 4 aggressive shorting â?? which I donâ??t believe is in the cards. All during growth and subsequent decline in the size of the big 5 thru 8 short position, the 4 big shorts didnâ??t change much at all.

Regarding the big managed money short, it looks like the CFTC misstated the change in the number of traders in the managed money short category last week when it lowered the number of traders to 20 from the prior weekâ??s 29, because this week the number of traders bounced back to 28.
Â Regardless, it now looks to me that the big managed money trader is not short more than 3000 to 4000 contracts. The significance of the remaining big managed money short position (which has turned out to be a highly-successful trade to this point) is it determines how large or small the raptor net long position is.

If the big managed money short position is 3000 contracts, the raptor net long position is 19,400 net contracts; if the big managed money short is 4000 contracts, the raptor net long position is 18,400 contracts. Heck, if Iâ??m wrong completely and there is no big managed money short position, that would make the raptor net long position at 22,400 contracts – still on the low side historically.

The significance of the current raptor net long position was what I discussed on Wednesday, in trying the flesh out the mismatch between the amount of new buying that might come into COMEX silver futures on higher prices versus the amount of selling (long liquidation) coming from the raptors â?? without new shorting by the big 4 and 8. As long as the managed money shorts donâ??t plow heavily onto the short side on much lower prices, itâ??s hard to see how the raptors can build a much larger net long position than they currently hold â?? and without a much larger raptor long position, the raptors wonâ??t have as many contracts to sell (as the raptors havenâ??t shorted silver heavily in many years). Obviously, this makes new short selling by the big 4 and 8 all the more critical.

The managed money traders in silver did sell 1110 net contracts, consisting of the sale and liquidation of 398 longs and the new sale of 712 short contracts. The resultant net managed money long position fell to 9796 contracts (32,849 longs versus 23,053 shorts), which I consider bullish, particularly as concerns the relatively low level of gross longs â?? emphasizing the question of whether the collusive commercials can induce managed money shorting. Explaining the difference between what the commercials and managed money traders sold was net buying by the smaller non-reporting traders of 1300 contracts, in obvious counter reaction to their excessive selling (of 6000 contracts) the prior week.

I received a couple of interesting emails this week. One, from a subscriber, reminded me I was negligent in not approximating, in price terms, of what I have in mind when I speak of a silver price â??explosionâ?•. You have to remember one should be careful in putting price amounts on something that has never occurred, but I answered Paul that my sense was something on the order of a $5 move within a week or so and a doubling of the price in a month or so â?? all dependent, of course, on whether the big 4 shorts add aggressively to short positions or not. Â And, no, I donâ??t see why this would cause the earth to shift off its axis and set off other world-wide ramifications.

In addition, I received an email from a reader with whom I last corresponded with in 1998, 25 years ago and before I started this service and even before I started writing for Investment Rarities. (Where the heck did 25 years go?) Randall first thanked me for prompting him to buy silver (and gold) back then and was more than happy with the resultant performance, but couldnâ??t help but note how gold was quite close to its all-time price highs, while that was not at all the case for silver. There was no question in Randallâ??s mind that my explanation of the COMEX silver price suppression was the only possible explanation and he asked me for suggestions for how to spread the word.

Interestingly, he concluded with something Iâ??ll quote â?? â??Yes, I guess most people, to the extent they give silver any notice at all, have seen silver â??on saleâ?? for so long that they cannot fathom it ever going â??off saleâ??. Funny how even very intelligent people think about certain things.â?• Randall wins the quote and sentiment of the day award.

While one can never underestimate the treachery and cunning of the collusive COMEX commercials in attempting to rig silver prices lower in order to induce the managed money technical traders to plow onto the short side on lower prices, that intent runs extremely counter to the realties of the growing physical shortage â?? where the only free-market solution is sharply higher prices. The law of supply and demand dictates that only sharply higher silver prices can hope to eventually curtail demand and stimulate production. This puts the collusive COMEX commercials between a rock and a hard place.

Add in a COMEX market structure, which if the collusive commercial intent fail and silver prices move higher, bring the all-important issue of whether the former big commercial shorts add shorts to the forefront and creates the most potentially explosive setup in my memory.

Ted Butler

July 8, 2023

Silver – $23.28Â Â Â (200-day ma – $22.60, 50-day ma – $23.98, 100-day ma – $23.46)

Gold – $1930Â Â Â Â Â Â (200-day ma – $1865, 50-day ma – $1975, 100-day ma – $1954)

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