June 10, 2023 – Weekly Review

Largely due to a sharp rally on Thursday, particularly in silver, gold and silver prices ended higher for a second week; with gold ending $12 (0.6%) higher and with silver ending the week 70 cents (3%) higher. As a result of silverâ??s much stronger relative performance, the silver/gold price ratio tightened in by two full points to 81 to 1, the strongest silver has been relative to gold in five weeks.

While there was some news that may have appeared to support higher silver prices, such as the work stoppage at Newmont Goldâ??s giant Penasquito silver mine and reports of strong silver industrial demand in China, it still appears to me that the rally in silver was due to paper positioning on the COMEX. However, since the rally occurred after the cutoff for this weekâ??s Commitments of Traders (COT) report on Tuesday, weâ??ll have to wait until next Fridayâ??s report to what positioning changes took place since the cutoff.

Obviously, this was a week of extraordinary developments, for everything from the smoke-choked Â Northeast to the first federal criminal indictment of a former US president in history; but what, if any, influence this may have had on markets or precious metals was unclear (no pun intended). I do intend to offer some extended comments on the big managed money short seller in silver (whose position appears to have been reduced this week), so let me get on with the usual weekly format first.

The turnover or movement of physical metal either brought into or removed from the COMEX-approved silver warehouses, cooled slightly this week from the pace of recent weeks, but at 4.1 million oz, this weekâ??s physical movement can hardly be called tepid, as weâ??re still talking about an annual rate of more than 200 million oz â?? a rate of physical turnover unheard of in any other commodity (and which has persisted in COMEX silver for 12 years running). Total COMEX silver warehouse inventories fell by a slight 0.3 million oz to 273.1 million oz, not that far above the low set in April (269.5 million oz). Holdings in the JPMorgan COMEX warehouse rose by 0.5 million oz to 141.9 million oz.

Earlier this year, I speculated that the combined holdings in the COMEX warehouses and in SLV, the big silver ETF, the two largest stockpiles of silver in the world, may have bottomed out at 750 million oz. As of last night, these two holdings amount to 740 million oz (after some big deposits and withdrawals earlier in SLV), so my premise has yet to be blown out of the water.

Holdings in the COMEX gold warehouses were unchanged (due to rounding) at 22.9 million oz for a third week. Holdings in the JPM COMEX gold warehouse were also unchanged, at 8.77 million oz, for a fourth week.

Deliveries on the June gold contract have inched up to just over 18,000 total contracts, which while large, are in line with previous traditional delivery months. Iâ??m still encouraged (from a bullish perspective) that JPMorgan is the big stopper, having taken around 7200 net contracts for customers and 545 gold contracts in its own house account. However, I can still deduce hardly any real meaning from deliveries (which is why I donâ??t discuss them much).

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

There some minor redemptions in the worldâ??s leading gold and silver ETFs this week, with most of the silver (2 million oz) coming out of SIVR. I was, once again, quite impressed with last nightâ??s

400,000 oz deposit in PSLV, making it 700,000 oz over the past two weeks. This silver ETF is a very good indicator of net investor buying and based upon other factors, it looks like the buyer in PSLV is a big single entity (perhaps BlackRock).

The new short report on stocks released last night indicated a further reduction in the short position on SLV, by nearly 2 million shares to 14.2 million shares (13 million oz), as of May 31. This is the lowest short position on SLV in years, even lower than the position was in Feb 2021, before it began a steady increase.

https://www.wsj.com/market-data/quotes/etf/SLV

This latest reduction in the short position on SLV is one of those things that seems to make sense. Not only is the total short position down a remarkable 46 million shares (76%) from the 60 million share level of last August; in terms of shares held short as a percentage of total outstanding shares, the percentage has dropped from 12% to 2.8% – meaning the amount of physical silver not backing shares has dropped precipitously â?? a very good thing (if youâ??re a silver bull).

As I hope I have made clear, my expectations have been for the short position on SLV to continue to decline and, hopefully, never to increase significantly in the future â?? perhaps an over-optimistic assumption. As to whether my complaints to the S.E.C. and BlackRock had any influence on the shocking reduction in the short position on SLV, will likely remain unknown, but I do know that I heard of no serious rebuttal to my argument that the short position on SLV was inherently fraudulent to shareholders and manipulative to the price of silver.

Turning to yesterdayâ??s COT report, I expected no significant positioning changes and that was the certainly the case in silver, although there was a bit of positioning change in gold. I shied away from actual contract predictions. Of course, the data in yesterdayâ??s report may be already old news, in the sense Iâ??d like to know what transpired on Thursdayâ??s price pop in silver.

In COMEX gold futures, the commercials increased their total net short position by 8200 contracts to 198,200 contracts. By commercial categories, the 4 big commercial shorts added 2900 new shorts to a short position amounting to 176,702 contracts (17.7 million oz) as of Tuesday. The next 5 thru 8 largest shorts added 500 new shorts and the big 8 short position rose to 232,985 contracts (23.3 million oz). The gold raptors (the smaller commercials apart from the big 8) sold off 5400 longs, reducing their net long position to 34,800 contracts.

Thus, the pattern of rather aggressive new short selling by the 4 largest commercial shorts in gold continued, in stark contrast to what has developed in silver â?? where the biggest former commercial shorts are holding a stunningly low concentrated short position. Then again, the concentrated short position of the 4 largest traders has always been much more critical in silver than in gold â?? but itâ??s still a bit unnerving to see such a contrast.

On the buy side of gold, it was mostly a managed money affair, as these traders bought 6725 net contracts, consisting of the sale and liquidation 1919 long contracts and the buyback and covering of 8644 short contracts. Essentially, the managed money short covering was about equal to the total commercial selling. Â The resultant managed money net long position of 93,401 contracts (120,985 longs versus 27,557 shorts) is â??onlyâ?• down around 20,000 contracts on the $100+ gold price selloff from May 9 and represents the single biggest potential reason for a gold price selloff (that, plus the large big 4 short position). But it is still unknown at this point whether we will see such a selloff.

In COMEX silver futures, the total commercial net short position was reduced by around 500 contracts to 34,100 contracts. The big 4 short position, on a straight calculation basis was reduced by 1200 contracts to 35,295 contracts (176 million oz), but I believe the reduction was due to short covering by the big managed money short of around 1000 or so contracts (to 8000 contracts) â?? meaning the commercial-only component of the big 4 short position remained around 27,000 to 27,500 contracts â?? still shockingly low and bullish.

The 5 thru 8 biggest silver shorts added 400 new shorts and the big 8 short position on a straight calculation basis was reduced to 59,560 contracts, with the commercial-only component reduced to around 51,500 contracts (after deducting the 8000-contractmanaged money short position). The silver raptor net long position would appear to be around 17,500 contracts. Sorry if this is confusing, but this big managed money short does distort things, although Iâ??m glad it exists. But just to put this into perspective, even without adjusting for the 8000-contract estimated managed money short position, the 35,295-contract straight calculation for the big 4 short position is among the lowest ever.

On the managed money side of silver, these traders bought 721 net contracts, but did so in a somewhat unusual manner, namely, with the sale and liquidation of 1677 longs and the buyback of 2398 short contracts. You donâ??t usually see this particular combination, with the managed money traders both selling longs and buying back shorts. The resultant managed money net long position of 9995 contracts (37,526 longs versus 27,531 shorts) leaves somewhat limited additional long liquidation ahead and much more potential new short selling, should the commercials be able to rig prices sharply lower â?? which remains to be seen.

Iâ??m happy about the long liquidation by the technical longs, as it brings the total gross long liquidation of the managed money traders close to 19,000 contracts since May 9, leaving only around 7000 or so contracts to go for a complete flush out of the longs. As I just indicated , it is potential new managed money technical fund short selling that provides the biggest potential for significant net managed money selling, although that potential selling is far from certain.

As expected in Wednesdayâ??s article, the increase by 4200 contracts in total open silver interest can be traced to the onset of the prime period for phony spread creation, as almost all the increase in total open interest was due to phony spread creation. The phony spread creation in silver should last until shortly after the 15th of the month and decline into first delivery day for the July silver contract.

As to the short covering by the big managed money short, which I estimate as being around 1000 contracts this week to around 8000 contracts (it could be higher or lower), since this position is unprecedented, in that weâ??ve never seen such a large managed money short position come to exist on increasing silver prices, it makes it impossible to predict how the big managed money short will behave since it is not a technical-oriented trader.

I have indicated recently, however, that because the big managed money short is, obviously, a speculative, as opposed to a commercial trader, it is virtually impossible to imagine this new short as actually delivering physical silver to close out the short position. That leaves only a buyback of theshort position as the only other means of closing out the short position in time. Therefore, Iâ??m not particularly surprised by this weekâ??s apparent partial short covering (although prediction of same is completely a different matter).

Ever since I uncovered the existence of a new big managed money short in COMEX silver futures, Iâ??ve noticed increased speculation as to the purpose of the short position andÂ to the identity of the trader. I suppose this is only natural, particularly considering the times in which we live (in which all manner of conspiracy theories abound) and the human condition of seeking to put a name to the new trader. Since the COT report shields the identity of traders (unless and until they are charged with a violation), anyone can suggest any name (like BlackRock, for instance) as the new big managed money short without fear of contradiction.

For me, itâ??s a waste of time and effort to speculate on the identity of the big managed money short (and BlackRock looks extremely unlikely as the candidate). What matters much more is what we can say definitively about the trader â?? which is a lot. I know the most popular knee-jerk reaction to the big managed money short was that this trader was masquerading as a wolf in sheepâ??s disguise and an end run to shield what was a commercial short position in a different form. But as I just explained, even if one excludes my conclusion of a big managed money trader being in the big 4 category, the position is still remarkably low (and in stark contrast to whatâ??s developed in gold, where the concentrated commercial short position is extremely large). Â But thereâ??s much more to it than that.

It does take a bit of experience or knowledge in how the large trader reporting system works, but the identity of large reporting traders in all futures markets is something quite important to the CFTC and something the agency generally gets right over the years. Every large reporting trader (any trader holding 150 or more silver contracts) must fill out a detailed report attesting to the ownership of the account and any cross holdings in any other account and then report all changes in positions as long as the position remains above the reporting minimum. Mess up and expect repercussions. The CFTC has brought multiple findings and penalties over the years for misreporting and misrepresentation and is quite proficient in this matter.

We may not know the identity of the large managed money short but it is a certainty that the Commission knows and that it also knows if there is any connection with another large reporting (commercial) trader. This is Black Letter commodity regulation and it is almost unthinkable for the Commission to not crack down in the case of a very large trader in reporting cahoots with another large reporting trader for the purpose of deception. Wait, thereâ??s much more.

We also know, due to the Commissionâ??s method of classification of trader categories, that the big managed money short is just that, namely, a managed money trader. That means, in addition to being a speculator, that the trader is managing the trading funds of others, as opposed to trading on behalf of him or herself. If a large speculator were trading on his or her own behalf, that trader would be classified in the Other Large Reporting trader category and not in the managed money category.

Managed money traders are generally registered commodity trading advisors (CTAâ??s) which organize and solicit outside investors for the purpose of making trading decisions on behalf of the investors in the account or fund and in which the trading advisor seeks to generate profits (obviously) and whose compensation is generally reflected, in some way, as a percentage of any profits generated. Itâ??s generally a pretty clean business approach, most likely free of obvious conflicts in that you wonâ??t find a trading advisor churning the account to generate unnecessary commissions, for instance, and as Iâ??ve disclosed on many occasions in the past, it was a business I engaged in back in the prehistoric past when I was a commodity broker.

Knowing all this, we can be fairly sure that the emergence of the large managed money short on higher silver prices for the first time was, most likely, because the trading advisor running the account saw an opportunity for profit as the reason for initiating the large short position. And who could blame the trading advisor as there has come to be created a fairly rigid pattern (discussed continuously on these pages) of the probability of a sharp decline in silver prices whenever the managed money technical traders get increasingly long on higher prices â?? as occurred into the end of the $6 rally into early May.

I canâ??t guarantee this, of course, but it seems most reasonable to me that of all the possible reasons for why the big managed money trader did go short â?? making a profit was the prime motivation. And in light of what transpired since the position was established, it looks even more likely that the big short was initiated with the idea of making a profit for the investors in the managed money account and the trading advisor.

My estimate is that a short position of close to 10,000 contracts (50 million oz) was established by the big managed money short at an average price of around $25 or so. On the subsequent drop in silver prices to under $23 into the end of May, such a short position would have resulted in an open and unrealized profit of around $100 million â?? with an emphasis on â??open and unrealizedâ?•.

Based upon the partial close out of perhaps 2000 short contracts and the rally in silver prices from the $23 level, Iâ??d estimate the total (realized and unrealized) profit to have fallen to $50 million or less â?? still quite sizable, but a profit that can grow on falling prices or shrink on rising prices. Tell me what silver prices will do and I could make a guess how the big managed money short will perform. (I know, I know â?? youâ??d tell me, but then youâ??d have to kill me).

The point of all this, is by combining all that we do know about the big managed money short, it was, most likely, established in order to make a profit based upon the rather rigid and reliable expectation that silver prices would fall due to liquidation by the managed money longs and perhaps the hope that the managed money technical funds would go heavily short on sharply lower silver prices and in which the big managed money short could buy back its short positions at a massive profit. Heck, for all I know, that just might be the way it turns out.

However, there is an alternative version in which the best laid plans of mice and men Â and managed money traders go astray. This version holds that we may climb higher in silver prices, instead of falling and that the big managed money short may soon be staring down the gun barrel of higher silver prices and massive potential losses. After all, the trading advisor answers in the end to the investors the advisor is trading for and at some point, losses must be contained â?? otherwise the investors could sue the advisor should losses grow too large. In that case, and at some unknown higher silver price, it may very well be that the big managed money short may turn out to be a prime catalyst for muchhigher silver prices should he rush to buy back still significant short positions. Which it will be will onlybe known in the fullness of time.

What I find interesting is that should the big managed money short be forced to buy back short positions on higher prices, it would tend to favor my version of the silver price explosion coming when it was most advantageous to the big commercial shorts as compared to Izzy Friedmanâ??s full pants down version of the commercial shorts having to cover with full short positions in place. Most of all, I wish my departed friend and silver mentor were still here to give me his own opinion.

While I find the current set up in silver as fascinating, Iâ??m still not sure if we face that final price flush out to the downside or we explode forthwith. As a result, it forces you to hold enough of a long position so as not to miss the possible explosion with a â??light positionâ?•, but also not to be so overloaded with long positions (of a leveraged nature) that might have to be jettisoned in the event of a price smash. I know â?? thatâ??s no easy task. But who said it was going to be easy?

Ted Butler

June 10, 2023

Silver – $24.40Â Â Â Â Â (200-day ma – $22.19, 50-day ma – $24.63, 100-day ma – $23.46)

Gold – $1976 Â Â Â Â Â Â Â Â (200-day ma – $1846, 50-day ma – $2001, 100-day ma – $1950)

Date Created
2023/06/10