

June 12, 2021 – Weekly Review

In what was a rather disappointing end of week price performance, the price of gold ended \$14 (0.7%) lower for the week, while silver bucked the trend and finished 13 cents (0.5%) higher. As a result of silver's relative outperformance, the silver/gold price ratio tightened in by nearly a full point to 67 to 1, still stuck in the same 5-point trading range of the past nearly five months.

What made the price performance unusual this week is that whenever gold is weak, silver is usually weaker; and it's even rarer to see silver up when gold ends lower. I don't want to read too much into this week's price performance (as that would imply I had any real sense of short-term price action), but I got the feeling that the price pressure on gold yesterday was primarily intended to keep silver from moving substantially higher. I'm still of the opinion that the big shorts are reluctant to add new silver shorts and are resorting to other means to contain prices.

I also found it a bit strange to see weakness in gold and strength in silver in the face of the pending Basel III deadline in a few weeks, about which so much has been written and spoken. Count me as still unsure about the whole matter.

This week's Commitments of Traders (COT) report indicated the 4 big COMEX silver shorts didn't, as hoped, increase their concentrated short position, thus keeping alive, at least for now, my premise they are doing so after being persuaded by the CFTC. However, sharp increases in the total open interest of COMEX silver futures since the Tuesday cutoff threaten to blow my premise out of the water. Let me run through the usual weekly format before getting to that.

The turnover or physical movement of metal either brought in to or removed from the COMEX-approved silver warehouses, remained above the weekly average of the past decade, as 7.5 million oz were moved and total inventories rose by 1.4 million oz to 356.1 million oz. No rant today, but the 7.5 million oz movement is head and shoulders above the movement in any other commodity and that makes it special and notable. Despite some turnover in the JPMorgan COMEX warehouse, total silver inventories there remained unchanged at 186.9 million oz.

Total inventories in the COMEX gold warehouses increased by 0.1 million oz to 34.8 million oz. No change in the JPMorgan COMEX gold warehouses, still stuck at 12.46 million oz.

Deliveries in the June contracts for COMEX gold and silver continue to wind down and as heavy as the total gold deliveries are this (traditional delivery) month in longer historical terms, at around 22,000 contracts (2.2 million oz), on a more recent basis (the past year or so), gold deliveries are lighter this month. I'm still relieved that JPMorgan hasn't issued any more gold deliveries in its own house account after its first two days of delivering nearly 6200 contracts.

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

It was a mixed week for physical metal flows into the world's gold and silver ETFs, with consistent deposits into the PSLV, thanks to continued retail demand most likely attributable to the reddit#wallstreetsilver movement. Still, over the past 4 running weeks (how the data is compiled by goldchartsrus.com) more than twice as much silver has come into SLV compared to PSLV.

The new short report for securities indicated that the short position on SLV grew by nearly 2 million shares to 26.5 million shares (ounces) as of May 28. While still moderate in percentage of total outstanding share terms (4.3%), it is about the largest short position recently, particularly considering total commercial short positioning on the COMEX didn't increase over the same period. The level of the short position in SLV is nowhere near high enough to take it up with BlackRock, but I would imagine it is not going unnoticed by the trust's sponsor. As a reminder, one of the (mostly) overlooked changes to the prospectus in early February was a warning to short sellers of SLV to watch their P&Ls and Q&As about adding new shorts. Plus, I get the feeling the new shorting results from not enough physical silver being available are always bullish.

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

Turning to yesterday's COT report, there were no big positioning changes, although there were reductions in the headline total commercial net short positions in both gold and silver (despite the managed money traders also being net buyers in silver). As a reminder, gold and silver prices were modestly lower over the reporting week, so reductions in the commercial headline number weren't out of place.

In COMEX gold futures, the commercials reduced their total net short position by 3400 contracts to 244,800 contracts. In a bit of a surprise, the 4 largest shorts increased their concentrated short position by just over 2200 contracts to 140,671 contracts (14.1 million oz), following 4 straight weeks of reductions. The 5 thru 8 largest shorts also added nearly 900 new shorts and the big 8 gold short position grew to 214,942 contracts (21.5 million oz). This week, the gold raptors (the smaller commercials away from the big 8) did all the buying, in covering 6500 short contracts (they now hold 29,900 gold shorts).

While this week's commercial category mix in gold came in differently from what had been the case in recent weeks, the numbers weren't stark. It did add to my suspicions that yesterday's weakness in gold was intended to weigh on silver.

On the managed money side of gold, these traders did sell just over 2300 net contracts, consisting of the sale and liquidation of 2233 long contracts and the new sale of 76 short contracts. I'd consider the commercial net short and managed money net long position to be neutral to bullish, with more room for higher, rather than lower prices, but still structured to allow for downside price probes.

The other large reporting gold traders were net sellers of 2000 contracts this week and have been pronounced net sellers this year, both as gold prices fell at the start of the New Year and continuing as sellers as prices then rose. As it turns out, this category of traders are now net long 102,000 gold contracts, the lowest level in more than a year. At the start of this year, these traders were net long around 170,000 gold contracts. Rather than make something up, let me admit to not being sure what this means. I also admit to believing when these traders were big net long that was bullish and that didn't pan out, so maybe them being much less net long might be good.

In COMEX silver futures the commercials reduced their total net short position by 1400 contracts to 70,100 contracts. This is the lowest total commercial net short position in a month, but 70,000 contracts can't be considered a historically bullish number. What I did find encouraging, however, was continued relatively aggressive buying by the 4 big shorts, which bought back 1779 short contracts

this reporting week, in reducing their still obscenely large concentrated short position to 56,561 contracts (282.8 million oz). The 5 thru 8 largest shorts bought back less than 100 contracts and the big 8 short position now sits at 76,524 contracts (382.6 million oz). The smaller raptors sold off 500 longs and now hold 6400 contracts net long.

Interestingly, the managed money traders were also net buyers of 1705 net silver contracts, but the mix was unusual — the sale and liquidation of 1970 long contracts and the buyback and short covering of 3675 short contracts. Explaining where the non-commercial selling came from was the new short selling of 3788 contracts by the smaller non-reporting traders. This number looked a little — fishy — to me but wouldn't affect the concentrated short position in any event.

Obviously, with this week's conspicuous big 4 short covering, my (way out) premise that these traders have been given the word by the CFTC to sin no more and to knock it off with the aggressive and manipulative short selling is still alive. In fact, this is the lowest big 4 short position since April 27 — the date I arbitrarily assigned as when the Commission finally decided that it could no longer answer or ignore allegations that concentrated short selling was manipulating the price (coinciding with the date of its letter to me of May 3).

However, my premise now looks threatened by the sharp increase in COMEX silver total open interest since the Tuesday cutoff. Close to 14,000 contracts have been added to total silver open interest and there are only two ways to explain that increase. The most popular explanation is that there was significant speculative buying and just as significant commercial short selling. We won't know for sure until next Friday's COT report, but should that be the case, my premise of the 4 big shorts getting and heeding the word of the CFTC goes right out the window and onto the dustbin of failed observations.

But there is an alternative explanation for the surge in total open interest, namely, new spread creation. If it turns out that most, if not all of the increase in total open interest was the result of spread creation, then my premise would still be alive. Supporting the spread explanation is that we are now into the heavy rollover period for July silver (mostly into the September contract) and at times like this, spreading and switching liquidity increases, enabling those looking to play the differentials between the months the opportunity to establish new spreads in size.

It's not written in stone, but there is a tendency at times for new spreads to be created until around the 15th of the month before first delivery day (now) and for those spreads to be liquidated into first delivery day, as spread and switch liquidity remains high until then. Other factors supporting this new spread creation premise include relatively low trading volume once switch activity is subtracted and the fact that silver prices have been relatively capped and contained and not suggestive of aggressive speculative buying (eliminating the need for aggressive commercial short selling). Regardless of which explanation accounts for the surge in total open interest, we get to read — em and weep (or otherwise) with the next COT report.

Moving on to other matters, among my mandatory daily reads is Barry Ritholtz's (The Big Picture) offerings. So, I was more than pleasantly surprised to see him make on Thursday just about the same point I made about the law of supply and demand in Wednesday's article. We were discussing two different markets, him the labor market, while I discussed the silver market — but, hey, markets are markets

<https://ritholtz.com/2021/06/table-stakes/>

What piqued my interest was Barry's restating of the law of supply and demand to include price – exactly the same point I was making about silver. I'm tempted to add that great minds think alike, but I'm not seeking to elevate myself. Rather, I'm just trying to remake the point that supply and demand alone doesn't tell the whole story if price is excluded (or distorted). Any discussion of demand exceeding supply in silver, as is currently the case, that doesn't include why the price doesn't reflect that is not a real discussion. And yes, it also proves that COMEX paper positioning has captured the price discovery process from real world considerations – which is manipulation in its purest form.

In other developments, it seems Dan Berkovitz, a Commissioner at the CFTC, made some waves (again) in a speech this week, when he made reference to "DeFi" – Decentralized Finance. Until a week or so ago, I had no idea what DeFi was at all, until I read a story in the Wall Street Journal. It seems there are many firms offering to finance Bitcoin and crypto-currencies and what nearly blew me away was that the total amounts financed approached \$100 billion or so. (Although the totals appear to have taken a \$25 billion haircut after Berkovitz's remarks). Perhaps Berkovitz read the same article in the WSJ and became alarmed by it because he quickly concluded that it was a vast derivatives market completely unregulated by the CFTC.

<https://www.cftc.gov/PressRoom/SpeechesTestimony/opaberkovitz7>

Thus, Commissioner Berkovitz has upheld his tradition of speaking out on the important issues of our time – all except one, the COMEX silver manipulation. So, while Berkovitz is to be commended for his often-solitary outspokenness, the regulatory issues in silver are at least as important and most likely more important than the issues he has publicly addressed.

In the interest of full-disclosure, let it be known that I believe Berkovitz is one of the few "good guys" in government service – right up there with and in the same mold as Gary Gensler (although I can imagine both cringing at my endorsement). Furthermore, I think he is spot on to take a dim view of DeFi and by extension, crypto-currencies in general. I've been mostly an agnostic on Bitcoin and the crypto tokens so widely traded, but more and more I question their contribution to society.

Yes, I know cryptos are great if you're making money and rotten if you lose on them, but away from being perhaps the perfect speculation, I see more harm than good to society by their existence. Their only real purpose, away from speculation, seems to be ransomware or money laundering. I believe that if the tens of thousands of motorists left high and dry by the recent hacking attack on the Colonial Pipeline knew the attack would have been impossible were it not for the ability to extract a ransom via Bitcoin, they'd be marching on Washington to demand the outlawing of Bitcoin and the others.

Even Gary Gensler, noted expert on crypto-currencies (he lectured on them at MIT), seems extremely wary of them since he became Chairman of the SEC less than two months ago. Maybe I'm imagining things but he has indicated, at least to me, a genuine concern about the losses the public may take in the end in this venue. The problem is that this market has become so large (around \$1.5 trillion down from \$2+ trillion) that the losses at this point would still be catastrophic for many. I get the feeling that many in charge of securities regulation are ruing the day that they didn't crack down on crypto-currencies sooner, before they amounted to such vast sums.

In putting Berkovitz and Gensler on some type of regulatory pedestal, I recognize that both have failed to address the manipulation in silver based upon the concentrated short position on the COMEX. To be sure, it is impossible that both aren't keenly aware of the problem. So why haven't either of them taken more forceful action against the concentrated short position? Best I can imagine, both know this is a very serious problem that should have been addressed long ago. But, in the same analogy I used many years ago, this is like dismantling an atomic bomb rigged to go off at any moment. The idea is to defuse it with the least amount of collateral damage possible. That would include an attempt at a resolution that involved the least amount of fanfare and publicity as possible. It would definitely not include any admission that the CFTC blew it for the 35 years that I warned it that's something that would never occur.

Bottom line is that I don't see either Berkovitz or Gensler idly standing by while crypto-currencies suck in larger and larger amounts of investor funds, nor do I see either ignoring the continuing manipulation in silver. I don't expect them to openly declare war on cryptos or the silver manipulators, but to work collaboratively to fix what needs to be fixed. As they say, time will tell.

Another oddity is that a new chairman hasn't been nominated to lead the CFTC, even though we are seven months passed the election and nearly five months since the inauguration. I've given up speculating on who the new chairman might be, the current Acting Chairman Behnam, Berkovitz or an outsider, but the current two/two political split is not conducive for getting things done or in keeping with political protocol. Admitting my bias in these matters, the delay in forming a full Commission (with 5 commissioners, up from the current 4) seems related to the silver hot potato issue currently in force first fix the silver mess and then allow the new Commission a fresh start.

The financial results of the 8 big shorts in COMEX gold and silver this week improved, as they made back more than \$250 million on the weakness in gold and I'd peg total losses at \$13.2 billion. Further, I thought it timely to review the results in a longer-term perspective, something I often overlook.

Over the years and decades, the commercials have always succeeded in besting the speculators in COMEX gold and silver. The commercials' ability to sell short as many new contracts as required (without regulatory interference) in order to sop up speculative (mostly managed money technical type) buying gave the commercials a big leg up in the zero-sum COMEX trading game. The commercials, after selling short as many contracts as required to blunt and exhaust speculative buying, would then work towards rigging prices lower to induce the speculative longs to sell.

In establishing big short positions as prices rose, the commercials always had to assume a large amount of open paper losses, but always succeeded in rigging prices lower in the end to do no worse than break even, but more frequently coming out ahead. Many question why the commercials got so heavily short at this point and time, but the answer appears obvious the trading scheme worked so

successfully for so long that it looked like it would go on forever.

There have been times when the commercials had to endure particularly large open losses before being able to turn things around. I recall the price run up in 2016, when gold ran to near \$1400 and silver to \$21 and the 8 big shorts were out close to \$4 billion (\$3.8 billion if my memory still serves me). That was the largest open loss ever (even more than in 2011). Of course, the commercials made it all back into November of 2016 and got out even. One big factor in the commercials's eventual success in 2016 was that JPMorgan was still the big short (although its physical position was large enough to offset its paper losses).

Starting in June of 2019, when I first began closely tracking the performance of the 8 big shorts on this go-around, the pattern has been much different than previous times. Growing to \$3.8 billion at year end 2019 and then to \$14 billion at year end 2020, the 8 big shorts have been consistently under the gun. They (thanks to JPM) very briefly eliminated all losses at the extreme price lows of March 2020, but unlike 2016, the 8 big shorts were unable to buyback their big short position (JPM stepped ahead of them) and had to watch the losses grow to \$14 by year end 2020.

More recently, the big 8 were able to reduce their open loss to \$8.3 billion at the end of the first quarter on March 31, but again were unable to buyback most of their short positions. The big difference was two-fold, the fact that JPMorgan was no longer a big short and that the managed money traders stopped adding aggressively to short positions making the 8 big commercial shorts unable to reduce their short positions.

So now the big shorts hold large short positions that they appear to be stuck with. That's not to say we won't see sharp price declines ahead, as the big shorts try to induce speculative selling on lower prices. But at the same time, there have been important changes in physical markets, particularly in silver. More than ever before have been buying physical silver as an investment and supplies of every commodity appear tight and on the verge of shortage.

This is not a time to be heavily short silver and the only reason the 4 and 8 big shorts are so heavily short is because they were already short before the conditions changed around them and they failed to react. Too bad for them, although the large concentrated short position can result in price volatility and price declines as the big shorts thrash around seeking to trip off speculative selling, before finally throwing in the towel.

Ted Butler

June 12, 2021

Silver – \$28.05 (200 day ma – \$25.87, 50 day ma – \$26.87, 100 day ma – \$26.60)

Gold – \$ 1880 (200 day ma – \$1845, 50 day ma – \$1821, 100 day ma – \$1798)

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