

## March 11, 2023 – Weekly Review

Gold and silver prices parted ways this week, as gold ended higher by \$12 (0.6%), while silver ended lower by 75 cents (3.5%). Gold finished at four-week price highs, while silver ended at five-month price lows and down in seven of the last eight weeks.

As a result of silver's continued relative underperformance, the silver/gold price ratio widened out by 4 full points to 91 to 1. This is the most undervalued silver has been relative to gold since October, which was followed by a 15-point tightening in the ratio into December – only to widen out by those same 15 points through this week. Considering the extreme tightness in wholesale physical conditions in silver, the recent blowout in the silver/gold price ratio makes absolutely no sense (from a free market supply/demand perspective) and, whenever it turns, it should turn quickly.

Quickly is a word uppermost in my mind, as I try to fully comprehend the sudden collapse of Silicon Valley Bank (SIVB), the nation's 16<sup>th</sup> largest bank and the second-largest bank failure in US history. Earlier in the week, SIVB stock traded around \$280 (and was over \$700 just over a year ago), before, essentially, going worthless yesterday. It was the speed of the decline that was so unnerving and I plan to come back to this later – with a special comparison to (what else?) silver.

To say this was a tumultuous week in the financial markets would be an understatement and gold and silver certainly participated in the turmoil, starting the week with a sharp selloff, before stabilizing later in the week. Not only was gold much stronger at week's end than was silver (and before that), I can't help but notice something I don't recall seeing before. The price disparity between gold and silver has been so pronounced that gold is now at or above all three of its key moving averages (the 50-day, 100-day and 200-day ma's), while silver is still decisively below all its key moving averages.

As readers should know, I am not personally motivated by moving averages and other technical signals, but neither am I dismissive that controlling such price signals is what allows the COMEX commercials to dictate what the managed money traders do or don't do. In turn, it is this paper positioning that determines price (up until the moment the physical markets take over). As you also know, starting in February (5 weeks ago) gold and silver suffered a deliberate price smash rigged by the COMEX commercials, designed to induce as much managed money and other speculative selling as possible – so that the commercials could buy as many of those contracts sold as possible.

The intentional selloff was much more extreme in silver than in gold, as can be seen in the relative steepness of the price decline in silver compared to gold (and as is most often the case). Silver prices were rigged below all three of its key moving averages, while gold was more resilient, only penetrating its 50-day moving average. Now that gold prices have snapped back, threatening to upwardly penetrate the one moving average it fell below, I believe the price tide has shifted to the upside for both metals, as I'll get into more when discussing the latest COT reports.

Of course, I may be premature in sensing the price lows have been seen (as I have been previously), but even then, that wouldn't change the coming inevitable price turn higher, just its timing. More than ever, no doubt suggested by the quickness by which SIVB collapsed, when (not if) the turn higher comes in silver, it will be so sudden and extreme so as to make whether you were already in or not the

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most critical factor and not how low the price may have gone before the liftoff.

The turnover or physical movement of metal either brought into or removed from the COMEX-approved silver warehouses remained high as just over 6 million oz were moved and as total COMEX holdings fell by 1.7 million oz to 285.3 million oz, yet another four-year low. Holdings in the JPMorgan COMEX silver warehouse fell by 0.6 million oz to 147 million oz. I would note that despite a slightly lower weekly turnover rate this year compared to the past two years, this week's 6 million oz movement is the equivalent of more than 300 million oz annually and one doesn't have to be a mathematical savant to conclude that's more than a 100% annual turnover rate – a rate unheard of in any other commodity – just silver, due to unrelenting demand. That sure explains why prices have fallen more than 15% in a month – not.

COMEX gold warehouse holdings fell by 0.1 million oz to 21.5 million oz, while holdings in the JPM gold warehouse were unchanged at 7.82 million oz.

Nothing special to report in COMEX gold and silver deliveries and there were some slight redemptions in the gold and silver ETFs, but nothing of particular consequence.

The new short position on SLV indicated a very slight decline of a half-million shares or so, as of Feb 28, to just under 36.3 million shares (33 million oz). At just under 7% of total shares outstanding, the short position on SLV is still way too large, making it both fraudulent and manipulative. But, at the same time it is down from 60 million shares and 12% of total shares outstanding back in August, when I first started complaining to the SEC (and later BlackRock). Besides, I still believe the actual short position is closer to 15 million shares, as a result of a "short against the box" circumstance I've written about previously.

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

Turning to the Commitments of Traders (COT) report, there were two reports published this week, as the CFTC catches up on previously-delayed reports, due to the cyber-related incident at a third party provider on Jan 31. This week reports for the weeks ending Feb 14 and Feb 21 were published. I would imagine that next week, we'll get reports covering Feb 28 and March 7, which should bring us close to being caught up – at least as far as coming close to the price lows in gold and silver (unless new lows lie ahead).

Since this week's reports are still out of date, let me speak in broader terms than typically. Where things stood as of this past Tuesday, March 7, is, obviously, most important, as is any change in the pattern as a result of yesterday's sharp and high volume rally in gold. The two reports this week also allow me to recalibrate guesstimates of where we might stand as of this past Tuesday, which I wrote about in the mid-week article.

In COMEX gold futures, as of Feb 21, the total commercial short position stood at 129,400 contracts, up fractionally for the reporting week, but down by 23,600 contracts from Feb 7. I was surprised at how much the commercial short position fell in the prior week (as of Feb 14) and how it didn't decline at all in the week of Feb 21. On Wednesday, I had estimated that as of March 7, the total commercial net short position in gold would be down by 20,000 contracts and as of Feb 21, we already exceeded my estimates. Not to worry, the more commercial buying, the better.

As of Feb 21, the 4 big commercial shorts held 134,823 short contracts (13.5 million oz), while the big 8 short position was 201,609 contracts (20.2 million oz), with both the big 4 and big 5 thru 8 traders buying a couple of thousand contracts from two weeks prior. This means the raptors (the smaller commercials apart from the big 8) were the standout buyers over the two weeks of a combined 19,400 contracts, pushing their net long position up to 72,200 contracts on Feb 21. This is the largest raptor net long position since Dec 6.

As of Feb 21, the managed money traders sold 22,870 net gold contracts over the two reporting weeks, fairly evenly divided between long liquidation and new short selling and nearly equaling the total commercial buying. The resultant net managed money short position on Feb 21 came to 36,706 contracts (104,710 longs and 68,004 shorts), the lowest (most bullish) position since mid-December.

In COMEX silver futures (as of Feb 21), the commercials had reduced their net short position to 23,100 contracts, down 6600 contracts from two weeks prior. The standout feature of the commercial buying over this time was the buying by the 4 big shorts who bought more than 3500 short contracts back over the two reporting weeks and leaving them with 36,676 contracts net short (183 million oz).

This is the lowest posted big 4 short position since late 2014. There was a time, back at the price lows of last fall that I had calculated the commercial-only component of the big 4 short position to be even less (due to managed money shorting), but on a straight mathematically-calculated basis, this is the lowest big 4 short position in eight years. I don't think I have to remind anyone just how important I hold the concentrated short position of the 4 largest commercial silver shorts to be in terms of the ongoing COMEX silver manipulation.

Two years ago, on Feb 2, 2021, the top of the "silver squeeze movement", the big 4 net short position reached 65,262 contracts (326 million oz), prompting me to write (thru my congressman) to the CFTC. Last year, at the top of the silver price of \$27 on March 8, the big 4 short position was 54,187 contracts. Therefore, on Feb 21, the short position of the 4 largest commercial shorts is substantially lower (and likely lower still through March 7) - setting up, yet again, the drama of will they or won't they increase aggressively this concentrated short position on the next silver rally? I'm not going to jinx it by opining what they will do - but, essentially, it's the whole ball of wax.

Finishing up on the COT report for silver on Feb 21, the big 5 thru 8 largest shorts bought nearly 800 net shorts over the two reporting weeks and the big 8 were short 56,501 contracts (283 million oz) - also the lowest in many years. The raptor net long position grew by 2300 contracts over the past two reporting weeks to 33,400 contracts.

On the managed money side of silver thru Feb 21, these traders, much to my surprise, only sold 734 net contracts over the two weeks and, get this, actually bought back 1436 short contracts (they also liquidated 2170 long contracts). The net managed money long position did fall to 5083 contracts (32,856 longs versus 27,773 shorts), the lowest since November - but a far cry from what I was expecting, particularly the lack of increase on the short side. On Wednesday, I was guessing there would be a gross short position of as many as 45,000 contracts as of March 7.

Granted, there are still two reporting weeks to go, and I'm sure more managed money shorting has occurred over those two weeks, but not to the extent I was expecting on Wednesday. Again, this about re-calibrating as additional data are made available. So, what's with the managed money traders

not adding aggressively to silver short positions? Have they finally wised-up and realized they have been played for fools by the COMEX commercials for decades? Perhaps that's the case, perhaps not. But it's certainly not bad news if the manged money traders did finally wise up.

That's because if the managed money traders are not about to plunge heavily onto the short side of silver, then that greatly limits the commercials seeking to buy as many contracts as possible. The commercials, particularly the 4 big shorts, would stand willing and able to buy as many contracts as the managed money traders could be tricked into selling short, but the commercials are dependent on the managed money traders to sell so that the commercials can buy. If there are no antelope, the lions go hungry.

In light of the absence of managed money shorting in silver over the two delayed reporting weeks just published, it's even more remarkable just how many short contracts the big 4 bought back. Yes, I admit to being obsessed over these specific details, but that's not an apology - just an admission.

Turning back to the sudden failure of Silicon Valley Bank, I can't help but make a connection to silver. For one thing, SIVB had been in existence for 40 years and was no fly-by-night operation, having weathered both the Dot Com bust of 2000, as well as the Great Financial Crisis of 2008. Coincidentally, the COMEX silver manipulation has lasted as long as did SIVB, but it's a lot more than duration alone. And don't worry, I'm not about to start spouting off like some kind of banking expert and have no clue as to what comes next in the SIVB saga.

But it does seem to me that SIVB had a structural problem that unique circumstances suddenly laid bare. Of course, it had a tremendous amount of credit-worthy assets (US Treasuries) which were deeply undervalued thanks to the run up in interest rates (like many other banks) and a developing depletion of deposits. But had it (or its investment advisors) not so badly bungled its recapitalization (securing needed funds before announcing the losses it took by selling underwater bonds), it would not have failed so suddenly - at least not last week.

My point is that the structure of its balance sheet made SIVB vulnerable to last week's sudden implosion - like a final piece of straw breaking the proverbial camel's back. Many tens of billions of dollars of shareholder capital being vaporized in a literal moment is not something I've ever witnessed in this manner (It happened in FTX, but that was a scam and fraud). The connection between SIVB and silver is that silver also has a unique structure that will, most likely, get unraveled at a pace similar to the pace at which SIVB just got unraveled.

Of course, the unraveling of the silver structure will not involve a price plunge to zero - quite the opposite. That's because the structure in silver has not unduly elevated the price (as was the case in shares of SIVB) and, in fact, kept it depressed for four decades. The structure in silver I speak about is the very same COMEX market structure that I dwell on continuously and the same concentrated short position that is the key to the silver price manipulation. Whereas SIVB was an accident waiting to happen to the downside, silver is the mirror-image opposite - an accident waiting to happen to the upside.

What did-in SIVB was the realization its balance sheet couldn't support it doing what it was doing and depositors and shareholders acting in the only manner possible as the issues came in full view. In silver, what will force the issue is something even more powerful, namely, the developing physical shortage. Nothing is more powerful than the law of supply and demand and finally, after 40 years, the

affect of the COMEX price suppression has come to so crimp supply and stimulate demand that it's only a matter of time before the manipulative paper market structure gets suddenly blown away by physical realities.

That's why I can't help but be on the edge of my seat about the declining concentrated short position of the 4 largest commercial shorts. I'm trying to avoid jinxing it by declaring these traders won't add aggressively to short positions on the next rally but that's what will determine whether silver pulls a reverse-SIVB. Of course, the manipulative short selling and price-capping should have ended long ago and there is no conceivable legitimate reason why the 4 big silver shorts should short again but we'll only know in the fullness of time if they do or not.

But just like hesitating in selling shares of SIVB proved to be quite costly to those who did hesitate those who wait for signs of silver to bottom before full commitment may find that to be quite costly as well. Take away aggressive big 4 shorting and silver should melt up and most likely, with as much suddenness as occurred in SIVB to the downside.

Ted Butler

March 11, 2023

Silver – \$20.60 (200-day ma – \$20.96, 50-day ma – \$22.63, 100-day ma – \$22.06)

Gold – \$1872 (200-day ma – \$1783, 50-day ma – \$1874, 100-day ma – \$1807)

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