March 15, 2023 – Instant Education

Perhaps itâ??s the expected reaction to the news of a few large banks suddenly going under to galvanize attention and, effectively, the forced and widespread education as to the circumstances behind the implosion of Silicon Valley Bank and other banks over the past week. It would be much easier to count those who havenâ??t written or spoken about the sudden bank problems than those who have (including yours truly).

At this point, you would have had to have been living in a cave not to be now aware of duration mismatches between bank assets and deposits and the ease and rapidity of bank runs in our age of electronic banking. So widespread was the bank coverage of the past week, that clicking the remote to the local news brought no respite from the intense coverage. No doubt, this was big news, including a presidential appearance at 9 AM Monday to assure that all depositors, large and small, would be protected. Had such emergency measures not been enacted; I shudder to think of the consequences of a full-on modern-day bank run.

But as the dust (perhaps) settles and with many millions and tens of millions of individuals now suddenly more knowledgeable about the inner-workings of modern banking, a different (although familiar) set of feelings engulfs me as I try to fully contemplate what just occurred. Specifically, among all the many millions now aware of the recent bank developments (including me), I find myself increasingly outraged by the extreme malfeasance of those officials and regulators whose responsibility it was to safeguard against and prevent such occurrences. The banks which failed were publicly-traded companies whose finances were widely available and supposedly under the jurisdiction of a wide variety of state and federal agencies expressly designed to spot and prevent the very circumstances we are witnessing.

Everyone, from the Federal Reserve and the US Treasury Department and the alphabet soup of sub-agencies that suck in taxpayer dollars to do the job they are getting paid for, failed miserably at their appointment mission. Worse, the collective regulatory failure was largely self-created by the Fedâ??s aggressive interest rate reversal from way-too-accommodative for more than a decade to the sharpest rate of increase ever over the past year. Â Not one, of all the agencies monitoring the banks, had the awareness to see Silicon Valley Bank had failed to hedge its monumental interest rate risk? What do these regulators and bank examiners do all day?

This is no way exonerates the bank officials involved for creating the ill-conceived structure that I wrote about on Saturday, but it is particularly infuriating that, once again, to see that supposedly dedicated public service officials so badly drop the ball. The tens of millions who have learned of the circumstances of the failure of SIVB and other banks werenâ??t tasked with knowing these details before the failures â?? the regulators were so tasked. Sure, those running the banks should be subjected to the strictest measures of financial claw-backs and criminal penalties where appropriate, but it is galling to see regulatory officials escape punishment.

As far as the structural connection I made between SIVB and silver in Saturdayâ??s review, the question comes to mind as to whether when silver â??goesâ?• there will be a similar widespread instant education as to what was behind the silver price explosion. Will the masses come to learn that 40 years of price manipulation on the COMEX had to eventually result in such a mismatch between actual

physical supply and demand and in a price explosion of the ages? Or will some alternative explanation replace the real reason?Â Up front, I donâ??t know the answer to that question and I am particularly interested in learning which it will be.

A big difference, of course, between the regulatory failure in the banking crisis and the regulatory failure in not rooting out and terminating the COMEX silver manipulation is one of longevity. One could argue that the banking regulators should have reacted sooner to the sharp rise in interest rates over the past year or so which created the severe markdown in long-dated securities on the banksâ?? books. But no such timing defense would appear possible for the CFTC or the Justice Department in not reacting sooner to a manipulation that has existed for 40 years. Again, it will be interesting to see how all this unfolds.

Turning to other matters, I was more than pleasantly surprised to see that another delayed Commitments of Traders (COT) report was published yesterday, this time for the reporting week ended February 28. This raises the possibility that the delayed report for March 7 might be published today or tomorrow and on Friday, we might get completely caught up and the COT report as of the close of business yesterday, March 14, might be published. At a minimum, we will have the report for March 7 this week. This particular report is important, because it should mark the peak amount of managed money selling and commercial buying in COMEX gold and silver, just prior to the turning of the tide in prices I wrote about on Saturday.

Before I dig into the COT report of February 28 published yesterday, I would like to commend the CFTC for sticking to its promised schedule of getting caught up on the delayed reports after the cyber-incident on January 31. I would have much preferred the Commission adopting my suggested format of publishing the newer data first, but admitted at the time that by this time (mid-March) we would likely be caught up, so it wasnâ??t a super-critical matter. I am glad I took the high road and offered a constructive suggestion at a time when every assorted conspiracy whack-job out there seemed to be proclaiming a deeper and darker intent in delaying the COT reports. The Commission gets an â??A+â?• for keeping to its promised publishing schedule, but still an â??F-â?? for its handling of the 40-year COMEX silver manipulation.

As a reminder, the price action for the reporting week ended Feb 28, featured as much as a $1.40 price decline in silver (down-wardly penetrating the 200-day moving average for the first time in months), as well as a price decline of as much as $30 intra-week for gold and a series of new multi-month price lows (salami-slices), although gold only ended around $10 lower for the reporting week. The price action dictated managed money selling and commercial buying in both metals, but more pronounced in silver than gold. And thatâ??s exactly how it turned out.

As of Feb 28, the commercials bought and reduced their total net short gold position by 1900 contracts to 127,500 contracts (the managed money traders sold much more). This is the lowest (most bullish) commercial net short position since Nov 29 and fully-explains the recent sharp rally. The 4 largest commercial shorts added just over 3000 short contracts to a short position amounting to 137,885 contracts (13.8 million oz), while the next 5 thru 8 largest shorts added around 1100 more shorts, increasing the big 8 short position to 205,761 contracts (20.6 million oz).

The gold raptors (the smaller commercials apart from the big 8) did all the buying in adding 6100 new long contracts to a net long position amounting to 78,300 contracts, their largest net long position since Nov 29. (Looking at the sharp gold rally over the past several days, it would appear the gold raptors

were the largest sellers, taking profits â?? based upon declines in total open interest).

The managed money traders were pretty big sellers in gold, selling 10,131 net contracts, consisting of the sale and liquidation of 5285 longs and the new sale of 4846 short contracts. The net managed money long position declined to 26,575 contracts (99,425 longs versus 72,850 shorts), the lowest (most bullish) position since early December. Explaining the difference between what the commercials bought and the manged money traders sold was net buying by the other large reporting traders of more than 11,500 contracts, mainly in the form of short covering (8100 contracts) â?? which in light of the subsequent gold price rally looks prescient.

In COMEX silver futures, as of Feb 28, the commercials bought and reduced their total net short position by a hefty 9900 contracts to 13,200 contracts, the lowest (and most bullish) such position since November 1. The total commercial net short position in silver (and gold) is now lower than I recently projected at 15,000 net contracts, with one more likely even better COT report for positions as of March 7 yet to be published. Unlike the situation in gold, all three categories of commercials traders in silver bought, with the big 4 shorts buying back another 2200 short contracts and reducing their concentrated net short position to 34,444 contracts (172 million oz), another new posted low going back to late 2014.

The big 5 thru 8 shorts bought back around 700 short contracts and the big 8 short position fell to 53,649 contracts (268 million oz), also more than an 8-year low. The silver raptors were the biggest buyers in adding 7000 new longs to a net long position amounting to 40,400 contracts, the largest since November. As was the case in gold, it would appear that the silver raptors were the big sellers on the sharp jump in the silver price the past few days, based upon declines in total open interest. Iâ??ll get into why all of this might be extremely important in a moment.

Most surprising was the very heavy net selling by the managed money traders, which sold a whopping 12,371 silver contracts, consisting of the sale and liquidation of 2502 longs and the new short sale of 9,869 contracts. As a result of such large selling, the managed money net position in silver switched to net short to the tune of 7288 contracts (30,354 longs versus 37,642 shorts). This is back to the net short levels of managed money positioning back in October, when silver was in $18 to $19 price level.

On Saturday, I opined, based upon the lack of aggressive managed money selling, particularly in adding new short positions, in the two prior reporting weeks, as a possible indication that these traders had finally, after 40 years, wised up and awakened to the fact that they had been fools for all that time. Scratch all that â?? these guys are still as dumb as a bag of dirt. I did expect that these traders would add new silver shorts in the weeks of Feb 28 and March 7, just not to the extent I had originally expected â?? based on the two prior reporting weeks. Sorry to flip-flop, but Iâ??m just reacting to the flow of data and re-calibrating appropriately.

One thing sure held true, namely, my contention that the managed money traders had never andwould never collectively succeed in realizing profits when heavily short. It seems that not only has this remained true, but the give-back of any open profits on the short side of silver (and gold) this time occurred at the quickest pace than I have previously observed. There can be little doubt that the new short sales put on by the managed money traders over the reporting week of Feb 28 and, most likely, over the reporting week ended March 7, have already been bought back at a loss on the rally over the past few days. Bags of dirt should be offended by any comparison with the managed money short sellers.

Turning back to the role of the 4 big commercial shorts in determining future silver prices, I still maintain this is where the rubber meets the road. The fact that these big shorts hold such a low concentrated short position is potentially the most bullish factor of all â?? if, of course, they donâ??t add aggressively to new short positions on the next (present) silver rally. Time will tell if they do or not, but if thereâ??s ever been an ideal time for the big 4 not to add new shorts, that time is now.

This has been my message for more than 35 years and I am amazed myself about how consistent the message has remained. Not to overly tempt fate, the positioning set up as of Feb 28, even creates the possibility of a â??dreamâ?• scenario that Iâ??ve mentioned from time to time over the decades, namely, the possibility that the 4 big shorts might, in the very early stages of a silver price rally, actually turn buyers and buy (along with the managed money traders) into raptor selling. Seeing as the silver raptors were massively long as of Feb 28, this possibility, at least, exists. As always, future COT reports will deliver the verdict â?? one way or another.

Certainly, in light of current developments in the financial markets, this wouldnâ??t seem to be an ideal time to heavily short silver â?? not in the least because it is still so darn cheap. Particularly with continued pressures from the wholesale physical markets, aggressively shorting silver would seem to take on the appearances of a death wish. In this regard, the sudden emergence of investment demand in gold and silver ETFs just might put the nail in the coffin for gold and silver short sellers.

A case in point is the recent buying in PSLV, which added 900,000 oz over the past two days, after lying in a state of equilibrium for months, in which no physical silver was either added or redeemed. That there have been no big net deposits in SLV, the largest silver ETF, despite a sharp increase in trading volume, strongly suggests to me that 5 million oz or more is now â??owedâ?• to the trust and hasnâ??t been deposited because the physical metal in not available.

For the 4 big silver shorts on the COMEX to plow onto the short side would make absolutely no sense on the rally weâ??ve had so far. Perhaps a case can be made for them shorting on much higher prices, but weâ??ll cross that bridge as and when we get much higher in silver and evidence of big 4 shorting emerges. Weâ??re still below two of the three key moving averages in silver and the 4 big shorts usually come in after prices have broken out and raptor long liquidation is near completion. Certainly, thatâ??s not now.

Yes, it is a bit unnerving that silver has lagged the gains in gold today, perhaps reflecting the surprising weakness in crude oil and copper, as well as the overall increase in price volatility permeating all of the financial markets. In a real sense, we are flying a bit blind and â??in the soupâ?•, making it all the more imperative to rely on the instruments and indicators that have proven most trustworthy over the years and decades. Â For me, the most reliable indicators are the positioning on the COMEX and

developments in the physical world.

Since January 17 and thru Feb 28, the commercials have succeeded in bombing silver prices for more than $4 and in buying 32,000 net contracts (160 million oz), as the managed money traders sold even more. With the new evidence of silver ETF buying, missing for many months, conditions have never been better for a dramatic upside resolution. Yes, day-to-day price volatility has grown (in everything) and no one can precisely pick in advance the actual day that silver moves higher, never to look back â?? but the most reliable indicators and instruments point to that day not being in the distant future, so how much better could it get?

Considering that all the 2 billion ounces of silver that exist in 1000 oz bar form in the world has a current value of only $44 billion in a world where asset classes are measured in the many trillions of dollars, who in their right mind, would short such a microscopic total value? Iâ??m not denying that a handful of banks have, indeed shorted silver derivatives for decades â?? which is why silver is so darned cheap to begin with. But ask yourself this â?? have not very Â recent developments and the instant education weâ??ve all just received â?? made you question whether the banks really know what the heck they are doing?

Iâ??m waiting for some wider question to be asked, namely, why have the banks always been the perma-shorts in precious metals? And, I would imagine, the banks – seeing their overall predicament of late – are asking themselves that same question. Â Banks have gone under or are perceived to be in trouble because they bought US Treasury securities or commercial real estate at the wrong time and price. At the risk of repeating myself, the question is who in their right mind would short silver at this time and price?

Ted Butler

March 15, 2023

Silver – $21.80Â Â (200-day ma – $20.96, 50-day ma -$22.55, 100-day ma – $22.13)

Gold – $1915Â Â Â Â Â (200-day ma – $1784, 50-day ma – $1878, 100-day ma – $1812)

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