March 16, 2024 – Weekly Review

For a second-week running, silver outperformed gold, with silver prices rising by 84 cents (3.4%), while gold prices fell by $24 (1.1%). Then again, while silver prices rose to four-month highs, gold closed at its second-highest weekly close in history. The silver/gold price ratio did tighten in by nearly four full points to just over 85 to 1 â?? an undervaluation for silver we will look back on and marvel at some future day.

The big story this week continued to be the contest in the COMEX paper markets and whatâ??s transpiring in the physical silver and gold markets. Physical conditions in gold and particularly silver, appear white-hot bullish, while paper-positioning on the COMEX indicate continued commercial selling (against managed money buying), which is the only plausible explanation for why prices havenâ??t risen much more sharply. However, there were some encouraging signs in yesterdayâ??s new Commitments of Traders (COT) report concerning the 4 biggest shorts in silver.

On the physical front, new silver import data from India indicated more than 70 million oz were imported into that country in February,Â a number so large so as to raise questions about why silver didnâ??t rally more. Consider this, if an amount of any commodity (except gold) equal to a full monthâ??s world production were imported into one single country in one month, effectively, depriving the rest of the world to that production, a reasonable person would conclude that would cause an explosive price reaction in that commodity. Yet, silver far from exploded in February â?? I would submit because of the COMEX price manipulation. (The reason I would exempt gold from this example is because of its large existing stocks).

The turnover or physical movement of metal either brought into or removed from the COMEX-approved silver warehouses amounted to just over 4.7 million oz, close to its weekly average of the past 13 years. Total inventories rose by a slight 0.2 million oz to 285.4 million oz, another slight new yearly high. No change in the JPMorgan COMEX warehouse, stuck at 129.8 million oz. Â Of course, thereâ??s the matter of the double-counting of 103 million oz which, effectively, reduces the totals in the JPM warehouse and in the COMEX totals â?? but whatâ??s a hundred million oz here or there?

Total COMEX gold warehouse inventories slipped by 0.1 million oz to 17.9 million oz, another new multi-year low. Holdings in the JPM COMEX gold warehouse increased by 0.15 million oz to 6.92 million oz.

Speaking of JPMorgan, it announced this week the formal agreement to a $350 million settlement with the regulators, announced earlier for trade reporting violations. The violations were self-reported by JPM and no market harm was alleged. It has been suggested that this settlement would violate JPMâ??s recently expired deferred criminal prosecution agreement, but itâ??s hard for me to see how JPMâ??s highly-paid attorneys would agree to this settlement should that possibility exist. To my mind, my allegations to the DOJ about JPM violating the terms of its DPA for allowing the double-counting of silver inventories under its control and the dumping of silver to suppress prices are much clearer violations to its DPA, and certainly not self-reported by JPM, but it is up the DOJ to decide.

Ongoing deliveries in the COMEX March contract continue, a bit stronger in gold than in silver(opposite tradition), but Iâ??m still not sure what it all means.

The flows of metal in the worldâ??s gold ETFs finally have shown signs of the inflows one would have expected given the rise in gold prices of late. Last nightâ??s near-500,000 oz deposit into GLD would appear long-overdue. However, the highly counter-intuitive outflows from SLV continue, with metal holdings continuing to drop, this week by nearly-3 million oz. The total combined holdings in the COMEX warehouses and in SLV, fell to 700.8 million oz, down by 2.7 million oz, to just about the lowest level of the year, but still overshadowed by the relentless physical turnover. Again, one should lop-off 103 million oz from the total to adjust for the double-counting.

Turning to yesterdayâ??s COT report, my initial reaction when first looking at the headline number of the total commercial net short position was one of bullish surprise Â in gold because I thought it would be much larger than reported and somewhat of disappointment in silver because the number was as large as feared. Remember, gold prices advanced by as much as $60 over the reporting week, touching over $2200 for the first time, while total open interest rose sharply, by nearly 45,000 contracts. Silver rallied as much as 90 cents to more recent price highs, on a much more modest 3500-contract increase in total open interest. As always, the details under the hood were most interesting.

In COMEX gold futures, the commercials increased their total net short position by 11,500 contracts to 218,300 contracts. This is the largest (least bullish) level since year end, but considering the extent of the price rise in gold, does not yet seem excessive. By commercial category, the 4 big shorts did most of the selling in adding 13,500 contracts of new shorts to a net short position amounting to 145,528 contracts (14.6 million oz) as of Tuesday. The next 5 thru 8 largest gold shorts bought back 3800 shorts and the big 8 short position rose to 211,583 contracts (21.2 million oz). The raptors (the smaller commercials apart from the big 8) added 1800 shorts to a net short position amounting to 6700 contracts.

While I am always quite sensitive to how the big 4 behave (particularly in silver), I am still mindful of just how low their short position in gold was two weeks ago, so at this point, I am not particularly over-concerned about the increase in the big 4 short position over the past two reporting weeks. Of course, it goes without saying that should we selloff in gold or silver, it will be due to commercial price rigging, but Iâ??m telling you something you donâ??t already know.

What made the overall rather subdued increase in the commercial net short position seem that way was the quite large increase in managed money buying of some 31,320 net contracts, consisting of the purchase of 28,888 new longs and the buyback of 2432 short contracts. The resultant managed money net long position increased to 141,083 contracts (173,994 longs versus 32,911 shorts), the highest (most bearish) level in two years.

Explaining how there could be such a large increase in the managed money net long position and so modest an increase in the commercial net short position was the large amount of net selling by the other large reporting traders of 21,011 contracts. On a strictly subjective basis, Iâ??d much rather see heavy selling by these non-commercial traders than by the commercials themselves. One other anomaly in this weekâ??s report was the rather limited increase in phony spread positioning of around 5000 contracts or so, where I expected much more. But a quick check of the producer/merchant commercial category â?? where spreads arenâ??t separated â?? revealed spread creation of close to

18,000 contracts or a total of 23,000 contracts of phony spread creation.

In COMEX silver futures, the commercials increased their total net short position by 10,100 contracts to 55,100 contracts. This the largest (most bearish) commercial short position in nearly two years and as such is hardly the cause for bullish high-fives and of the spiking of the ball in the end zone. Â The only mitigating factor was that the 4 big shorts bought back 2100 short contracts into the rather heavy commercial selling. The next 5 thru 8 largest shorts did add 1200 new shorts, but the big 8 short position fell by 900 contracts to 61,427 contracts â?? which, considering the heavy total commercial selling (mostly raptor long liquidation), is quite extraordinary. It is also at the core of my contention that big 4 shorting on every silver rally over the past 40 years is the key to the COMEX price manipulation.

Now, two reporting weeks is hardly a sufficient-enough passage of time to declare that the 4 biggest commercial shorts have abandoned new shorting to cap and contain this silver rally, but considering the stark fact of the deepening physical silver shortage, there has never been a more logical or compelling time for the big 4 (or anyone else) to give up on the idea of shorting silver.

I can no longer see how a managed money trader is in the big 8 category and may, in fact, have abandoned the short side in the previous reporting week. That means the silver raptors are holding a net long position of just over 6000 contracts, among their lowest long positions in years (and most-likely less since the Tuesday cutoff). While Iâ??m not surprised at the raptorsâ?? long liquidation â?? since this group has to be the most-profitable trading group of all â?? they seem to operate on a sell-first to make a profit mentality and try to buy back cheaper later premise that has served them well over the years. The raptors have rarely demonstrated a strong willingness to get big net short against managed money longs and I suspect that unwillingness to get heavily short willÂ continue.

Should that prove to be the case, then it is reasonable to expect very limited addition selling from the raptors on further price advances in silver. This, in turn, makes it more critical â?? should we see the higher silver prices indicated by the deepening physical shortage â?? for the 4 big shorts to add aggressively to short positions in order to cap and contain prices. If these big shorts, always the short sellers of last resort, fail to add aggressively to silver short positions, then itâ??s hard for me to imagine how silver prices donâ??t run explosively higher.

The managed money traders were certainly aggressive buyers in silver, more than matching the commercial selling, as these traders bought 10,982 net contracts, consisting of the purchase of 4965 new longs and the buyback of 6017 short contracts. The resultant managed money net long position grew to 25,794 contracts (45,521 longs versus 19,727 shorts), the largest (most bearish) since July. That was the time of the â??Code Redâ?• when I concluded the silver manipulation was staring to run off the rails. While that didnâ??t happen, itâ??s hard for me to imagine how the conditions in silver havenâ??t involved even more critical developments.

Over the past two reporting weeks, the managed money traders have purchased roughly 30,000 net silver contracts (150 million oz) on a price rally of a bit more than $2.20. Thatâ??s two full months of world silver production and the wonder is how such buying (along with the 70 million oz of buying by India) hadnâ??t resulted in a much larger price gain. The answer is the selling to the managed money traders. The commercials (the raptors) accounted for 23,000 contracts of the managed money buying, with other non-commercials accounting for the remaining 7000 contracts of selling. The big 4 and 8 short position didnâ??t increase over this two weeks. Now, whether the big 4, particularly, continue to refrain from heavy shorting from this point forward, is the key to the silver rally. Itâ??s sort of a â??do or dieâ?• moment.

I would like to tell you that the big 4 wonâ??t aggressively add to short positions (almost as much as I wish for world peace), but thatâ??s out of my control. I canâ??t know if there is one more price drop, before the pop or whether we pop without the drop first. However, Iâ??m fairly certain that if we continue higher from here and the big 4 shorts in silver donâ??t add aggressively to short positions, then the silver rally could get seriously uncorked â?? as it should have long ago.

Ted Butler

March 16, 2024

Silver – $25.38Â Â Â Â (200-day ma – $23.48, 50-day ma – $23.22, 100-day ma – $23.48)

Gold – $2161Â Â Â Â Â Â Â (200-day ma – $1991, 50-day ma – $2062, 100-day ma – $2044)

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