March 18, 2023 – Weekly Review

Gold and silver prices surged higher this week, in one of the sharpest advances in memory, as gold gained $121 (6.5%), while silver added $2.15 (10.4%). Although gold clearly led the way higher, silverâ??s relative cheapness resulted in a greater percentage gain. Thus, the silver/gold price ratio tightened in by more than three points to 87.6 to 1, from last weekâ??s multi-month relative undervaluation extreme of silver compared to gold. (I should note that $20 of goldâ??s weekly gain and 30 cents of silverâ??s gain came in very late day trading). Another week of gain like gold just had last week, would put gold prices at all-time highs.

Clearly, gold has come out of the gate faster than silver on what looks to be only the start of genuine price run for both and who is leading at the first furlong is not the way horse races are decided. There appears to be plenty of turf to cover, so hold on to all tickets. Besides, there are good reasons why gold took off first, as Iâ??ve tried to cover of late in explaining how gold was much more resilient than silver on the orchestrated five-week price drop from the end of January to the COT report March 7.

The price of gold did drop more than $150 over those five reporting weeks, but the collusive COMEX commercials were only able to rig prices below one of goldâ??s three moving averages (the 50-day ma), while in silver the commercials were able to rig prices down by more than $4 and below all of silverâ??s key moving averages (the 50, 100 and 200-day maâ??s).

Last week, gold closed right on its 50-day moving average and this weekâ??s decisive upward penetration fueled the rally, as the managed money traders bought heavily (both adding new longs and buying back short positions). Silver appears to be a week behind, as yesterday it managed to close above all its key moving averages in late trading. In essence, silver achieved a â??golden crossâ?• (no pun intended) over the past five trading days, as it went from under to over on all its three key moving averages â?? not something particularly common.

While there is no question in my mind how moving average penetrations are the prime method the commercials deploy to induce managed money positioning on the COMEX and that this is the prime price-setting mechanism; this weekâ??s dramatic developments in the world of banking clearly played a major role in the strong gold and silver price rally. Out of, quite literally, nowhere, overall confidence in the financial system has been challenged, if not shattered. Trust or confidence is built up over extended periods of time, but can be destroyed in a relative instant. And, once shattered, trust does not quickly return.

On Wednesday, I talked about the suddenness of the collapse of Silicon Valley Bank and there has been no let up in the pace of negative banking surprises. Even worse, perhaps, is the sudden realization that all banks, particularly the vital regional banks, face a hostile operation environment ahead, what with asset impairments and higher costs of deposits, promising to crimp future loan demand and explaining the beating that bank stocks have taken.

I always suspected that there might be some â??cover-storyâ?• to explain a price explosion, especially in silver, that was different from the true underlying cause of the COMEX silver manipulation coming to an end â?? but the loss of confidence in banks may be more than that. Â At my core, Iâ??m a basic supply/demand commodity guy, with a special emphasis on the COMEX price manipulation and all the

other reasons people buy gold and silver â?? such as for insurance purposes â?? have always been secondary considerations to me or â??icing-on-the cakeâ?•.

Needless to say, a rush to buy precious metals out of fear for the financial system can greatly exacerbate actual supply and demand, particularly in silver, making the â??icingâ?• front and center. Such fears, when super-imposed upon a COMEX market structure and existing supply/demand situation that had me convinced of a coming price explosion in a short time, creates the potential for a price run hard to describe in calm and rational terms.

The turnover or physical movement of metal either brought into or removed from the COMEX-approved silver warehouses fell to the lowest weekly level in more than a year, as just under 2.8 million oz were moved â?? about half the weekly rate of the last two years. Obviously, in addition to being unpredictable, there wouldnâ??t appear to much of a correlation to price â?? unless a case can be made for a lack of turnover being extremely bullish for price, based upon this weekâ??s happenings. Total COMEX silver warehouse holdings fell by 1.6 million oz to 283.7 million oz â?? another four-year low. Holdings in the JPMorgan COMEX warehouse fell a very slight 0.1 million oz to 146.9 million oz.

No doubt there is logic in interpreting declines in total silver holdings as resulting in higher prices. I would still note that COMEX silver warehouse holdings are now down a bit less than 11 million oz from the previous low-water mark of last November, a definite slowing of the monthly rate of reduction from the rate of the past two years, still suggesting to me that this is bottom-of-the-barrel type activity.

Total COMEX gold holdings fell a slight 0.1 million oz to 21.4 million oz, another multi-year low. Holdings in the JPM COMEX gold warehouse fell about half the total decline to 7.76 million oz.

In ETF flows, there were about half a million oz added to the gold ETFs, mostly GLD, in line with the higher gold prices and burst of trading volume. This is as it should be, namely, higher prices generated by managed money buying on the COMEX leading to gold ETF buying and deposits of physical metal â?? a sort of virtuous circle for still-higher prices. However, that was not the case in SLV, as close to 19 million oz came out from the trust, in which the word â??counterintuitiveâ?• is insufficient to describe the activity. By my reckoning, some 10 million oz should have been added, making the redemptions all the stranger.

A deposit of one million oz into the PSLV for the first time in months confirmed a pick-up in confirmed net investment buying, as did the sudden surge in silver retail buying, where lackluster sales and shrinking premiums of not more than a week ago, suddenly turned to growing premiums and delayed delivery times. I donâ??t think I recall a quicker turn in retail silver circumstances than over the past week. With such obvious sudden demand for silver, the sizable redemptions in SLV appear all the odder. I canâ??t help but think the sudden redemptions might be related to the equally surprising inflows of 25 million oz a couple of months back.

It also makes me question whether my sense that the odd deposit was related to a â??short againstthe boxâ?• circumstance and Iâ??ll be paying close attention to the next short report this coming FridayIn the interim, it seems the most likely explanation for the redemption was a conversion of shares for physical â?? either by a large investor to free the way for buying more shares and staying under share ownership reporting requirements or by an industrial user assuring itself of adequate supplies. The redemption does not appear at all related to plain vanilla investor liquidation in light of everything going on and confirms extreme physical tightness â?? as does the price action.

We (or at least the CFTC) were on a roll this week, Commitments of Traders (COT) report-wise, until yesterday, when the report due then was postponed at the last moment. Had that report been published as scheduled, we would have been caught up completely (thru last Tuesday, March 14). As it turns out, the report published on Thursday, for positions held as of March 7, provided a wealth of information. So, while I would have preferred the report as of March 14 to have been published yesterday, weâ??ll get that report in due course and deal with it then.

I guess Iâ??m looking at this as the glass half-full rather than as half-empty. The reason being that the COT report for March 7 gives us a clear picture for what the COMEX market structure was at close to the dead-low of silver and gold prices. For sure, the report for March 14 will show a significant reversal of positions to reflect the upward price reversal. Please remember, the reason itâ??s not that difficult to predict changes in the COT report is because the positioning has already occurred. Perhaps one can be off in terms of numbers of contracts, but rarely will you see big commercial selling and managed money buying on significant price declines or vice-versa â?? like in never.

Therefore, the expectation for significant commercial buying and managed money selling for March 7, was strong, particularly in silver, where prices fell to multi-month lows (gold not so much). If anything, Iâ??m kicking myself a bit for chickening out of a prediction I made several weeks ago that the managed money traders may have gone short as many as 45,000 silver contracts into March 7. Then, as the next two delayed COT reports were published showing no new managed money shorting, I backed away from my original prediction.

As it turned out, the managed money traders added Â aggressively to short position as of Feb 28 and March 7 and did, in fact, hit the 45,000 gross contracts short level in Thursdayâ??s Â report (buck up, old boy). Let me review the COT report for March 7, before zooming out in order to put the five reporting weeks from Jan 31 to March 7 in a broader perspective.

In COMEX gold futures, as of March 7, the commercials reduced their total net short position by 8600 contracts to 118,900 contracts, even lower than I had predicted a couple of weeks ago. This is the lowest (most bullish) net short position since November 8. All three categories of commercials were buyers, with the big 4 buying more than 1200 short contracts back and reducing their concentrated short position to 136,625 contracts (13.7 million oz). The next 5 thru 8 big shorts bought back around 1900 shorts and the big 8 short position fell to 202,646 contracts (20.3 million oz). The raptors (the smaller commercials apart from the big 8) were, once again, the biggest buyers, as they added 5400 contracts to a net long position amounting to 83,700 contracts since mid-November. Looking ahead, it would appear that the raptors were the biggest sellers on the gold price rally that occurred after March 7.

On the managed money side of gold as of March 7, these traders sold 12,176 net contracts, consisting

of (the somewhat surprising) purchase of 4,014 longs and the sale of 16,190 new short contracts. The resultant managed money net long position fell to 14,399 contracts (103,439 longs versus 89,040 shorts), the lowest and most bullish position since November. In light of the subsequent strong rally in gold, obviously, the managed money net position was bullish enough to account for the rally.

In COMEX silver futures as of March 7, the commercials reduced their net short position, by 7500 contracts to 5600 contracts, almost 10,000 contracts lower than what I estimated a couple of weeks ago. The 4 big shorts reduced their concentrated short position by more than 2500 contracts to 31,876 contracts (159 million oz), yet another new low-water mark going all the way back to 2012. The next 5 thru 8 largest traders stood pat (although there might be a managed money short in that category) and the big 8 short position fell to 51,129 contracts (256 million oz), also the lowest going back many years. The raptors (the smaller commercials added at least 5000 new longs to a net long position amounting to 45,500 contracts as of March 7. As was the case in gold, it would appear the raptors were the principle commercial sellers on the recent rally.

On the managed money side of silver, these traders outdid themselves, in selling 10,142 net contracts, consisting of the sale and liquidation of 2543 long contracts and new sale of 7571 short contracts. The resultant net managed money short position grew to 17,402 contracts (27,811 longs versus 45,213 shorts), the largest (and most bullish) net short position since September. Clearly, it was this very large managedÂ money net short position that served as the trigger for the recent silver rally.

Over the past two reporting weeks into March 7, the managedÂ money silver traders were net sellers of more than 22,000 contracts (110 million oz) including the new short sale of 17,440 contracts. Letâ??s be realistic â?? how could the sudden sale of the equivalent of 110 million oz not crush the silver price and where and why is the CFTC not addressing this? One absolutely remarkable statistic is that the new short sale of 17,440 managed money sales over the past two reporting weeks involved an increase in the number of such traders from 26 traders on Feb 21, to 45 on March 7, an increase of 19 traders. What this means is that it was many traders initiating new short positions on the silver price smash and not likely a big single trader or two. My conclusion is that it points to the virtual slavery held by some technical traders to price action, which makes these traders like putty in the hands of the collusive commercials.

On the five-week orchestrated price smash of $150 in gold and $4 in silver into March 7, the collusive COMEX commercials were able to induce 70,048 net contracts (7 million oz) of managed money selling in gold and 41,189 net contracts (206 million oz) of managed money selling in silver. The commercials, in turn, were the primary buyers of the contracts sold by the managed money traders â?? thatâ??s the game. 7 million oz of gold is an impressive amount for purely speculative traders to have sold and obviously had a profound influence on the price of gold â?? being the prime reason for the $150 price selloff.

But 206 million oz of managed money selling of silver is in an entirely different class â?? representing an astounding 25% of total annual world silver mine production (versus 6% or so in gold). Please think this through â?? how could a five-week orchestrated dumping of the equivalent of 25% of the world annual production of any commodity fail to crush the price of that commodity? The wonder is that silver prices didnâ??t get crushed even more.

The reason silver prices didnâ??t get crushed more is because the whole intent behind the induced managed money technical selling was to allow the commercials to buy as many silver contracts as the

managed money traders could be persuaded to sell. And thatâ??s exactly what happened â?? in spades. That can be seen in the 4 and 8 largest commercial shorts holding their lowest short positions in more than a decade and in the raptors holding a near-record net long position. This didnâ??t materialize out of thin air â?? this is the result of cunning manipulative planning and highly-professional criminal implementation.

The current (March 7) COMEX positioning structure is also bullish for gold and silver, almost beyond words for silver and combined with what was a strongly bullish physical supply and demand situation made a strong price rally a near certainty. And then â?? mother of angels (or devils) â?? the most serious banking crisis in 15 years suddenly bursts on the scene â?? which by itself is capable of causing a price explosion on its own.

This raises two questions â?? one old, the other new and to which weâ??ll get the answer to only the old question in not too long of a time. The new question is about whether the COMEX commercials had any inkling of the sudden banking crisis coming beforehand (after all, the commercials are largely banks) or if the crisis hit by accident just after they had configured themselves perfectly for a rally. I doubt weâ??ll ever know for sure.

The old question concerns what the 4 big commercial shorts will do on the developing silver rally; specifically, will they sell short aggressively to cap and contain a silver rally from getting out of hand, like theyâ??ve done on countless occasions over the past 40 years, or will they stand aside and not fight the rally? Weâ??ll get the answer to this question in future COT reports. Arguing against them adding aggressively on the short side are a myriad of logical factors â?? starting with the big 4 are the best positioned they have been in 12 years to let silver go and that silver has more reasons to go big than ever before –Â but Iâ??m tired of saying they wonâ??t, only to see these crooks turn right around and short again. So, how about we leave it as time will tell?

Some recent thoughts from Ray Dalio, founder and recently retired from investment giant, Bridgewater Associates, struck home. He describes the last 10 to 15 years as largely a period (until recently) that featured asset accumulation that relied upon leverage (borrowed money) that largely worked very well, but that now has been turned upside down by the surge in interest rates over the past year â?? with no quick and easy solution.

https://www.linkedin.com/pulse/what-i-think-silicon-valley-bank-situation-ray-dalio/

Dalio has been favorably inclined towards gold, although he doesnâ??t mention it in this piece. Still, his words have significance for me for gold and, particularly, silver. Â In looking at the past 10 to 15 years, while assets of almost every type have soared, such as stocks, real estate (residential and commercial) and bonds, largely due to leverage, if there one asset that hasnâ??t participated in the general upswing, it is silver â?? which hit its peak 12 years ago and has stunk up the joint â?? performance-wise â?? since.

It also occurred to me that silver (and gold to a large extent) has to be among the least-leveraged assets of all. Yes, there is leverage on the COMEX and Bank of America is sitting on a mountain of leverage with its billion-ounce OTC derivatives short silver position; but looking at the core 2 billion ozof silver in 1000 oz bar form, very little is leveraged. Certainly, among the fairly significant amount of physical silver in retail form, itâ??s hard to imagine hardly any leverage. Coins and small bars are bought for cash-on-the-barrel â?? the antithesis of leverage.

Therefore, in a world in which the really big asset classes are suddenly suspect due to many years of overvaluation and over-leverage, the one asset, silver, which appears the most undervalued also happens to be the least-leveraged –Â and one of the very few assets (gold being another) that has no intrinsic counterparty risk. And onto this setup, a potential bank crisis suddenly appears. I know Iâ??ve said it too many times already, but if all these things werenâ??t true about silver, I never could have made them up.

Ted Butler

March 18, 2023

Silver – $22.75Â Â Â (200-day ma – $20.97, 50-day ma – $22.42, 100-day ma – $22.22)

Gold – $1993Â Â Â Â Â Â (200-day ma – $1785, 50-day ma – $1884, 100-day ma – $1821)

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