

## March 29, 2023 – Not Just in Silver and Gold

I am still convinced that futures contract positioning has been the main price driver for silver and gold for decades, and further convinced that the price effect of such positioning is not limited to these two precious metals. Today, I'd like to comment briefly on two very important commodities where futures contract positioning has reached remarkable extremes. One is the most important commodity in the world, crude oil, while the other is the most important industrial metal, copper. While there are a number of futures exchanges where these commodities are traded, I'll be referencing the NYMEX physical crude oil market and the COMEX copper market.

Over the past year or so, crude oil (until very recently) has declined in price by nearly 50%, from \$120 last June, to as low as \$65 a barrel. Copper's price path has been different – falling from a high of nearly \$5 a pound a year ago to as low as near \$3 and trading recently around the \$4 mark. Despite the rather disparate price patterns, there is one thing both crude oil and copper have in common, namely, record or near-record low managed money long positions.

In NYMEX crude oil futures, the net managed money long position is at a two-year low, while the gross managed money long position is close to a ten-year low. In COMEX copper futures, the gross managed money long position was about equal to the lows of several years ago. According to my interpretation of the managed money traders generally getting hoodwinked by the commercial traders (although not by the banks in copper or crude oil), both crude oil and copper prices are low because the managed money traders are so light on the long side and bound to rise as the managed money traders return to the long side on higher prices.

One additional factor in NYMEX crude oil futures is that as low as the managed money gross and net long positions may be, even this is understated as there has been a trend underway for years by the managed money traders to employ spread trading in their positioning of crude oil futures (explaining the great spread volatility in crude oil), which doesn't appear in gold, silver or copper. In other words, the managed money traders in crude oil use bearish spreads (short the nearby months, long the more deferred months) when they are bearish (like now). This enhances their directional bet, but is not at all reflected in net and gross positioning. In other words, in crude oil, the managed money bet is actually more bearish than the net or gross managed money figures indicate.

Again, when the managed money traders get real bearish, like now in crude oil and copper, prices are much more likely to rally significantly, than fall significantly. The other point I would make is that this speculative positioning has nothing to do with actual supply/demand fundamentals, which is supposed to be the prime driver of price.

Returning to the price prospects for gold and silver, we've already seen the results of higher prices as the managed money traders turned buyers after being tricked into heavy selling for the five reporting weeks into March 7. As I reported on Saturday, just about all the managed money selling and commercial buying in gold as of March 7 had been reversed on the two-week rally into March 21, with the expectations that even more of the same will be seen in this Friday's COT report as of the close of business yesterday.

I would still classify the COMEX market structure in gold as neutral, despite the very recent heavy

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managed money buying and commercial selling, since the bulk of the managed money buying was short covering and the bulk of the commercial selling was long liquidation on the part of the smaller gold commercials (the raptors). Therefore, I'll be paying close attention to this mix in Friday's report. I'm certainly hesitant to label the COMEX gold market structure as bearish given longer term positioning patterns and what's going on in macro-terms.

In terms of the COMEX market structure in silver, it's still different than in gold, in that the amount of managed money buying and commercial selling on the two-week rally to March 21 has been much less than in gold. And while I do expect deterioration (managed money buying and commercial selling) in Friday's report, I anticipate relatively less in silver than in gold. I've been particularly impressed by the lack of aggressive new shorting by the 4 and 8 largest commercial silver shorts and am hopeful that might carry over into this week's report.

Not to sound too much like a technical trader, I can't help noting the appearance of a price pattern in silver that used to be one of Izzy's favorites – the "V" bottom formation. This is a chart pattern that develops when a clear down price channel is followed by an up-price channel in the form of a "V". That's kind of what we've seen in silver on the five-week down move and the three-week up channel. I'm not typically given to chart configurations and cycle observations, certainly not as much as Izzy was, mainly because I was convinced the ongoing manipulation superseded all such chart patterns.

Still, I must admit that the "V" chart bottom formation always did appeal to me because, in my mind, it depicted visually what I felt was most important to price, namely, commercial and managed money positioning. In other words, the down channel involved the commercials hoodwinking the managed money traders into selling, while the up price channel portrayed the opposite. Even more important was something Izzy and I always agreed upon, which was that the big move up in silver would come immediately after the commercials had tricked the managed money traders into selling as much as they were capable of selling.

The five-week down price channel thru March 7 had all the appearances of a maximum collusive commercial effort to trick the managed money traders into selling as many silver contracts (both long liquidation and new short selling) as possible. After all, the commercials rigged silver prices below all three key moving averages (compared to only one in gold). And the commercials did so in the face of the tightest physical silver market in history – a true manipulative accomplishment.

Again, not to jinx it, but the now three-week silver price rally appears to be living up to what it would take for the current developing "V" chart pattern to be the precursor to the big one in silver. I say this primarily because, to this point, the silver rally looks labored and unconvincing. Sure, we've rallied as much as \$3.50 or so from the price lows into March 7, but still haven't made it back to the price levels of late January or year-end; while gold has rallied way above its prices back then. Importantly, it is the somewhat lackluster and low-volume price performance in silver on the developing rally that has discouraged the managed money traders from buying much more aggressively, so I'm not complaining, since it sets up for a much larger price move to come.

A number of subscribers sent me an article claiming that JPMorgan held a short position in gold derivatives larger than all its assets, or more than \$3 trillion, the equivalent of more than 1.5 billion oz of gold. It's not my custom to argue with what others may claim, but in this case, I claim that JPM is holding at least 30 million oz of physical gold (and one billion oz of physical silver) and as far as I can

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tell, JPMorgan doesn't have much of net short derivatives position in gold or silver – certainly not an amount coming close to its total assets of \$3 trillion.

While one might argue whether this is just a difference in opinions, I would point out something else. Since the claim is on the gold derivatives holdings of JPMorgan and further that those derivatives holdings are short, it necessarily follows that some other entities must be long the derivatives positions that JPM is supposedly short. After all, there must be an equal dollar amount of longs for any derivatives short position. So, this raises the question of who could possibly be long the \$3 trillion of gold derivatives held short by JPMorgan. Or, put differently, how would it be possible to hide such a long position?

The only conceivable counterparties to JPM's alleged \$3 trillion gold derivatives short position would be other banks or hedge funds. Therefore, one needs to ask, first, what is the likelihood of other banks getting so massively long gold derivatives to JPM's short position. Considering JPMorgan's history and track record, it seems to me that JPM would more likely be on the long side of gold – as I allege it is in silver with Bank of America short in OTC dealings. What banks could possibly snooker JPM into such a large short position? As far as hedge funds getting massively long to JPM's short in OTC dealings, wouldn't there be some obvious evidence of such a large hedge fund long position?

On the COMEX, the largest listed precious metals exchange in the world, while the managed money (hedge fund) traders were aggressive buyers over the past two or three reporting weeks, that was more in terms of short covering and their net long gold position rose to 8 million oz or less than \$16 billion, as of March 21 – not even a rounding error compared to the alleged \$3 trillion position thrown out. If there's some clearly visible long to JPM's alleged \$3 trillion gold short derivatives position, maybe someone might clue me in on who it might be, because it isn't at all clear to me.

Finally, I mentioned on Saturday that as a result of the new short position on SLV indicating a sharp increase, that I would be complaining to the Securities & Exchange Commission and BlackRock come Monday. I'm not sure if I've ever published any of my previous complaints, but thought it appropriate to do so now. I did receive an immediate and customary acknowledgement from the S.E.C. for my email to Chairman Gensler, but no such acknowledgement from either the CEO or President of BlackRock, who I copied on my email.

**Chairman Gensler;**

**This is the sixth (6<sup>th</sup>) time I've complained to the Securities & Exchange Commission about an obvious securities fraud and manipulation since last August that persists to this day. I've yet to receive any response from your agency explaining why the excessive (and likely concentrated) short position in SLV, the I-Shares silver trust sponsored by BlackRock, Inc., is not intentionally manipulating the price of the shares of the trust and fraudulently depriving shareholders of the metal backing promised by the prospectus.**

Data just published<sup>1</sup> indicate that the short position on SLV, as of March 15, increased by more than 11 million shares to 47.5 million shares, the largest short position in three months. In percentage terms, the new short position represents 9.5% of total shares outstanding<sup>2</sup> meaning that nearly one in ten shares outstanding has no metal backing, as promised by the prospectus.

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

The increase and overall excessive level of SLV shares shorted come two years after BlackRock amended the risk factors of the trust's<sup>3</sup> prospectus to warn those who shorted shares of the risks of shorting shares of SLV in the face of growing concerns of a physical silver shortage. At that time, in Feb 2021, the short position in SLV was close to 15 million shares, which has now grown by more than three-fold. Clearly, BlackRock is ignoring its own warning and has failed in its fiduciary responsibilities to protect shareholders of SLV.

There can be little doubt that those shorting shares of SLV, the largest silver ETF in the world, are doing so because the required amount of physical silver is not available to secure and deposit as required by the prospectus. This is fraudulent to existing shareholders and manipulative to the price of the shares.

In light of your recent efforts to bring transparency to the practice of short selling, with particular emphasis on concentrated short selling, the continued lack of action by your agency in unilaterally intervening or in forcing BlackRock to protect shareholders in SLV, is both bewildering and reckless. One would think that the clear regulatory failures surrounding the recent bank crisis would result in more immediate reactions to clear warnings of serious potential problems. I would implore you, yet again, to prompt the S.E.C. to dig into this issue and force BlackRock to uphold its fiduciary responsibilities to shareholders of SLV.

As I think you may be aware, it's been months since I last petitioned the S.E.C. on this matter since the short position in SLV has been gradually reduced since the peak short position of 60 million shares last August. My last complaint was back at the end of November. Somewhat remarkably, it seems to me, that I'm the only one raising this issue, going back a decade or longer. Even more remarkably, neither the S.E.C. nor BlackRock has refuted my allegations that short selling in SLV, given its highly unique profile of promising that a physical ounce of silver backs each share, is a deliberate end run around that promise.

I can't help but picture the regulators receiving such clear warnings before the recent bank failures and doing nothing about such complaints. I don't know if such warnings were received or not on the banks that just went under, but I do know that I issued such warnings about the short position on SLV.

All that said, it still appears to me that the only reason for anyone to short shares of SLV is because the availability of 1000 oz bars is so limited that the short seller(s) had no real choice but to sell short in the aim of delaying the coming price explosion. All things considered, the new shorting is more an act of reckless desperation than anything else<sup>4</sup> kind of like tap-dancing in a minefield, to say nothing about the inherent bullishness contained in a large short position in the face of physical shortage.

The new quarterly derivatives report from the OCC is due before week's end for OTC positions held

as of yearend, but I'm not anticipating anything particularly revealing although I reserve the right to change my mind. The recent change in methodology of re-including gold back into the precious metals category (where it always should have been) was done to camouflage Bank of America's massive silver short position – a truly underhanded and deliberately deceptive action on the part of any government agency about as underhanded and deceptive as the US Mint has been in refusing to produce as many Silver Eagles as demanded and as required by law. Both agencies are divisions of the US Treasury Dept, greatly diminishing my opinion of what was an important and honorable entity going back to the time of Alexander Hamilton.

Ted Butler

March 29, 2023

Silver – \$23.52 (200-day ma – \$21.00, 50-day ma – \$22.31, 100-day ma – \$22.48)

Gold – \$1968 (200-day ma – \$1789, 50-day ma – \$1896, 100-day ma – \$1843)

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