

## March 30, 2024 – Weekly Review

In late-Thursday trading, gold prices surged higher for the week by \$72 (3.1%), setting yet another all-time closing high, while silver eked out a gain of only 26 cents (1%) and still remains 50% lower than its former price highs of 44 and 13 years ago. As a result of gold's sharp relative outperformance, the silver/gold price ratio expanded by nearly two full points to just under 90 to 1. It's hard to imagine how much worse silver's absolute and relative price performance might be if it wasn't in the first pronounced physical shortage in a history that dates back thousands of years.

Of course, the only explanation for how a world commodity, like silver, would not be rising sharply in the face of actual demand outpacing current supply, is that something must be messing with the price component of the law of supply and demand. That "something" is none other than paper positioning on the COMEX, which dominates and sets silver prices in total disregard to the actual law of supply and demand. I know you get as tired of hearing this, almost as much as I get tired of saying it, but were it not for the COMEX's death-grip on prices (and the regulators failure to enforce commodity law), there would be no discussion of silver prices being manipulated, as prices would reflect real world supply and demand fundamentals.

Imagine, if you would, a world in which the COMEX did not exist. Remember, the COMEX is purely a closed and private betting game between a handful of large paper traders, who control upwards of 90% of trading and positioning. The public is almost exclusively excluded in the COMEX positioning, as verified weekly in the COT reports. I understand no one (to my knowledge) ever utters this basic fact, but that doesn't diminish its truthfulness. So, what would a world in which the COMEX didn't exist look like? Stated differently, how would silver prices be determined without the dominance of a few large paper traders in a private betting game, in which there was no real public participation (or legitimate hedging)?

The simple answer is that without the COMEX, prices would be arranged between real producers and consumers and investors. Without COMEX price setting, there could be no silver price manipulation. Yes, it would be different system but without the mostly speculative large paper traders, today's blatant manipulation would not likely exist. I'm not holding my breath for any type of rebuttal from the CFTC or the CME Group, because I know these cowards can't respond, so we have no choice but to await the certain termination due the law of supply and demand and the physical shortage.

There was yet another interesting Commitments of Traders (COT) report published yesterday in silver, which, along with gold, reinforced my "drop first, then pop or pop with no drop" recent premise, the details of which I'll dig into momentarily, after running through the usual weekly format on this holiday-shortened work week.

The turnover or physical movement of metal either brought into or removed from the COMEX-approved silver warehouses came to 4.1 million oz (or 5 million oz when adjusted for the 4-day week), indicating absolutely no let up in the unprecedented physical turnover over the past 13 years (but don't tell anyone). Total COMEX silver inventories rose by a sharp 3.4 million oz to 287.7 million oz, the highest level in more than a year. No change in the holdings in the JPMorgan warehouse, stuck at 129.8 million oz for 7 weeks (not adjusting for the double-counting of 103 million oz).

How can it be that total COMEX silver inventories are at, essentially, the same level as a year ago in the face of a documented physical shortage and amid cries of “drain the COMEX”? While it is true that COMEX inventories are down from 400 million oz at the start of 2021, 3 years ago, it is also true that the rate of decline has, for now, come to a halt.

As for why this is so, I can only come up with the same explanation I gave a year ago (and still believe) that there is a rock-bottom level of inventories owned by those not willing to part with their silver holdings and that explains the leveling off in the decline in COMEX warehouse holdings (also largely true in SLV and other silver ETFs). If, as and when these conditions change in the future, I will adjust to those changes, but I see no reason to adjust my thinking at this point.

COMEX gold warehouse holdings remained unchanged (thanks to rounding), at 17.7 million oz, clinging to multi-year lows, as did the holdings in the JPM warehouse, at 6.65 million oz.

There were big deliveries on the COMEX April gold contract, but JPMorgan wasn't a big net issuer, and that's always my prime concern. I would note that the sharp runup in gold prices at week's end came as the big deliveries were made, so there might be a connection and, as they say, we may soon find out.

After last week's big deposits into GLD, the big gold ETF, we reverted to withdrawals this week of some 200,000 oz and other withdrawals in a variety of other gold ETFs, despite higher prices, completely counterintuitive, but partially explained by the recent sharp increase in the short position in GLD. There was, however, nearly a 2 million oz deposit in SLV, along with deposits in other silver ETFs.

The combined total silver holdings in the COMEX warehouses and in SLV, rose to 711.8 million oz, up 6.5 million oz on the week (not accounting for the 103 million oz of double-counting). Thus, my premise of total silver holdings reaching rock-bottom appears to be holding, as described earlier and continuing to be explained by the unprecedented turnover. After all, if we have hit rock-bottom in publicly-held silver inventories, the turnover explains how silver demand in a time of physical shortage is being met.

The new quarterly derivatives report from the Office of the Comptroller of the Currency was just released and indicated nothing of consequence as far as I could tell. There was some overall increase in total OTC precious metal holdings, as would be expected due the increase in gold and silver prices, as of Dec 31, and in fact, there was a slight decline in overall holdings when adjusted for the price increases over the quarter. It still appears to me that Bank of America is massively short silver, along with gold.

<https://www.occ.gov/publications-and-resources/publications/quarterly-report-on-bank-trading-and-derivatives-activities/index-quarterly-report-on-bank-trading-and-derivatives-activities.html>

Turning to yesterday's new COT report, while I refrained from actual predictions, on the managed money side of things, we did get the improvement (managed money selling) in silver, but not the deterioration expected in gold. On the commercial side of things, there was a slight increase in the total short positions in both markets. The highlights of the report was the hoped-for continued lack of big 4 and 8 selling in silver, along with an unexpected development in silver.

In COMEX gold futures, the commercials increased their total net short position by 800 contracts to 218,300 contracts, still close to the highest (most bearish levels of the past year. Unfortunately, there was continued shorting from the 4 and 8 largest shorts, with the big 4 adding another 5700 contracts to a short position of 158,144 contracts (15.8 million oz) as of Tuesday. The big 5 thru 8 chipped in with another 3700 new shorts, as the big 8 short position rose to 227,143 contracts (22.7 million oz). The raptors (the smaller commercials apart from the big 8) surprisingly turned buyers, in adding 8500 contracts to a net long position amounting to 8800 contracts.

Of the 60,000 net contract increase in the total commercial short position since Feb 27 (4 reporting weeks ago), the big 4 have accounted for more than 43,000 contracts of the total commercial selling, with the big 5 thru 8 adding 4000 new shorts and the raptors selling 13,000 longs — not the selling mix I would wish for.

On the managed money side of gold, these traders sold 7101 net contracts, consisting of the sale and liquidation of 9582 longs and the buyback and liquidation of 2481 short contracts. — The resulting managed money net long position fell to 135,795 contracts (163,006 longs versus 27,211 shorts), a slight improvement. Explaining the difference between what the commercials sold and the managed money traders bought was net buying of roughly 8000 contracts by the other large reporting traders and smaller non-reporting traders, mostly in the form of short covering.

In COMEX silver futures, the commercials increased their net short position by 1100 contracts to 65,100 contracts. Always good news to — me was that the big 4 only increased their short position by less than 300 contracts to 43,769 contracts (219 million oz). The big 5 thru 8 shorts actually bought back 100 contracts and the big 8 short position grew to 64,612 contracts. The raptors are now net short by a somewhat undetermined amount. From Feb 27, on an increase in total commercial selling of more than 32,000 contracts, the big 4 only accounted for less than 1500 net contracts, with the big 8 accounting for around 2800 contracts — something I find highly encouraging, given my long-term attention to the big concentrated short position in silver.

I should add that despite my encouragement that the big 4 and 8 short position in COMEX silver — futures hasn't grown much of late, it is still the largest concentrated short position of any commodity in terms of real-world production or consumption and very little, if any of the short position is legitimate hedging as opposed to outright speculation — which makes the short position manipulative on its face.

The big surprise in silver came on the managed money side of things. While I expected somewhat of an improvement (managed money selling), I did not expect the managed money selling to include 7570 contracts of new managed money shorting. Along with 387 contracts of managed money buying, the net selling by the managed money traders amounted to 7183 contracts. The resulting net managed money long position fell to 29,939 contracts (53,871 longs versus 23,932 shorts), still high and overall bearish, just less so than last week.

From the large increase in managed money new shorting and the decline in the number of traders in that category (as well as overall price action) it's easy to conclude that the big managed money short — we've referred to over the past year or so is back on the short side to the tune of 7500 contracts or more. Clearly, this trader is not of the typical technical fund type that dominates the managed money category, nor of the value-driven longs amounting to 30,000 contracts on the long side. No, this big

managed money short is an opportunistic trader seeking to capitalize and participate in the commercial regular harvesting of the technically-oriented managed money traders, by selling (shorting) high and buying back those shorts on lower prices. Largely, this big managed money trader has succeeded in past shorting forays, so I suppose it is not surprising he has emerged again, given the run up in silver prices and market structure deterioration. Let me finish up on the silver COT report, before returning with my opinion on what this means.

Explaining how the commercial and the managed money traders could both be sellers in silver, was the buying by the other large reporting traders and the smaller non-reporting traders of some 8000 net silver contracts. What makes this buying even more interesting is that up until this reporting week, both these sets of traders were featured sellers in recent prior reporting weeks. This raises the question if both sets of traders succumbed to the lure of higher prices at precisely the wrong time or if their timing is good.

Turning back to the entry of the big managed money trader on the short side, I don't find it disturbing at all. For one thing, I'd much rather see this trader as adding a large quantity of new shorts as opposed to a commercial trader doing the same thing. That's because I don't sense this trader is a card-carrying member of the crooked and collusive commercial clique. And even if I'm wrong, the fact that the big 4 and 8 haven't added a large number of shorts is still a big plus, in my eyes. And as I've described at previous times when this big managed money trader had emerged on the short side, at some point he or she has to buy back the short position, as actual delivery is out of the question. The only question is whether this short position gets bought back at lower prices and in which a profit is booked, or if the short position is bought back higher, in which a loss will result. But there's more to it than that.

Regardless of whether the big managed money short position is bought back at a profit or loss, it must be bought back at some point. Accordingly, when the short position is bought back, it will serve as a price-supporting influence on a selloff, somewhat softening any price smash to the downside. However, if the big managed money short has guessed wrong and silver prices turn higher and the big short has to buy back on higher prices, then that buying promises to have a much more powerful force on the upside than the price-supporting influence it would have on a selloff. That's because of the current market structure, in which if we do move higher in price and the big 4 and 8 refrain from shorting aggressively, then it's hard to imagine where the selling would come from to cap and contain silver prices and the big managed money short may not find the liquidity it expects in covering the big short position. It's obvious that this big short is not paying attention to the actual physical conditions in silver, and is only looking at past price outcomes when the market structure turns bearish. It remains to be seen if we get the same outcome always seen or if a different outcome occurs on this go-around.

Therefore, this latest COT report does nothing but confirm my latest take of "drop first, then pop or pop with no drop". The combination of the continued lack of shorting from the 4 and 8 big silver shorts, now joined by the re-emergence of a big managed money traders on the short side just enhances my latest analysis. I wish I could tell you which it will be, but I can't. But I'm nearly certain it will be one or the other. And based upon the surge in gold prices last week and into the late close on Thursday, it appears to me it will be sooner, rather than later.

Happy Easter to all

Ted Butler

March 30, 2024y

Silver – \$25.10 (200-day ma – \$23.53, 50-day ma – \$23.55, 100-day ma – \$23.72)

Gold – \$2254 (200-day ma – \$2000, 50-day ma – \$2089, 100-day ma – \$2068)

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