

## May 1, 2021 – Weekly Review/The Twilight Zone

In apparent disregard for the direction of other commodities, gold and silver prices finished slightly lower for the week, with gold down \$8 (0.5%) and silver ending lower by 6 cents (0.2%). The slight relative outperformance by silver caused the silver/gold price ratio to tighten slightly to 68.1 to 1 and still stick in a multi-month five-point trading range.

As I get into after running through the usual weekly reporting, gold and silver prices have assumed the very strange roll of islands of price tranquility in a commodity price sea of extraordinary turbulence – something beyond weird and almost inexplicable. Of course, there is a simple and sole explanation, which I also dig into.

The turnover or physical movement of metal either brought into or removed from the COMEX-approved silver warehouses remained extremely torrid as 9.3 million oz were physically moved this week, an annualized rate equal to more than 60% of annual world mine production – unique among all commodities. Total COMEX silver warehouse inventories fell again, this week by 2.1 million oz to 361.3 million oz, another 7-month low.

COMEX silver inventories are now down 38 million oz since the all-time highs recorded in January, the largest decline in the shortest time in many years. Holdings in the JPMorgan COMEX silver warehouse fell 1.2 million oz to 187.3 million oz, and are now down nearly 10 million oz from the record high in February. I'm still of the opinion that much or most of the decline in the COMEX silver inventories is related to the inflows in the Sprott silver ETF, PSLV, with user demands contributing.

And while I have intoned for a decade that the actual turnover was more important than the level of inventories, the recent decline in COMEX silver inventories persuades me otherwise. This recent dramatic reduction in COMEX silver inventories, continuing right into a traditional delivery month convinces me that the unprecedented turnover has now been joined by actual reductions in a bullish conclusion very much related to the hitting of the physical wall, as discussed on Wednesday.

Total COMEX gold warehouse inventories fell by a further 0.2 million oz to 34.8 million oz, yet another 10-month low, but still more than 25 million oz more than the levels of more than a year earlier. Gold holdings in the JPMorgan COMEX warehouses remained unchanged at 12.63 million oz.

On the surface, the widely anticipated first notice of delivery day for the May COMEX silver contract proved less dramatic than many would have anticipated, as after two days of delivery, just under 6000 contracts (30 million oz) have been delivered in total and it would appear around 2000 contracts remain open in May. Of course, deliveries will continue throughout the month and new delivery demands can and will likely surface. Standout features so far include Bank of America as the largest stopper (1722 contracts) in its house account and JPMorgan as both the largest issuer and stopper when its client and house accounts are combined. No special surprise there.

[https://www.cmegroup.com/delivery\\_reports/MetalsIssuesAndStopsYTDReport.pdf](https://www.cmegroup.com/delivery_reports/MetalsIssuesAndStopsYTDReport.pdf)

As always, I am most interested in what JPMorgan does in its house account. This month (so far), it has issued 644 contracts (3.3 million oz). While not a particularly large amount, I noticed that this delivery coincided with a near same day new deposit and switch from the eligible to registered

category of close to the same amount as delivered by JPM. My sense is that JPMorgan was waiting until the very last minute to gauge exactly how much silver it had to deliver from its house account to keep the delivery process running smoothly. I firmly believe that's how these boys roll.

Moreover, I have taken to considering approaching traditional silver delivery months on the COMEX in the same way I imagine the Maginot Line – the fortification that France built prior to WW II designed to protect it from German attack, but which Germany went around, not through. It's easy to imagine a delivery default going into or early in a traditional COMEX silver delivery month, but because so many anticipate this occurring, those on the short side or with much to lose in a delivery default (like JPM) will move heaven and earth to prevent such an obvious default. I am convinced a physical silver crunch is coming and that crunch will have to involve the COMEX at some point – just not a straight up default on first delivery day. Like the Maginot Line, it's just too obvious.

Metal still continues to be deposited into PSLV, undoubtedly a result of retail buying and judging from the enthusiasm still coming from the Reddit crowd, I would expect this to continue and I find it very constructive. Silver has come out of the SLV, but I don't find that particularly concerning as it still doesn't appear to be plain vanilla investor liquidation, but mostly the result of conversions of shares to metal by large investors and user demands. Interestingly, the other big silver ETFs are at near-record levels of silver holdings – unlike the situation in gold where steady liquidations have occurred across all gold ETFs – although I believe that process to be complete or near complete.

Turning to yesterday's Commitments of Traders (COT) report, the headline total commercial net short position came in close to expectations in silver, but better than expected in gold. As a reminder, silver prices were up over the reporting week, closing each day above all its key moving averages, with gold mostly flat but remaining above its 50-day moving average. There were the typical surprises in the category changes, lately a standard feature.

In COMEX gold futures, the commercials reduced their total net short position by 6000 contracts to 207,200 contracts, thereby remaining close to the quite bullish readings of the past two months. By commercial categories, the 4 largest shorts accounted for the bulk of the buying, as these traders bought back 3700 shorts in reducing their concentrated short position to 149,564 contracts (15 million oz). The next 5 thru 8 largest traders bought back 300 shorts and the big 8 short position fell to 210,621 contracts (21.1 million oz). Again, these short positions are miles away from the concentrated short positions in silver, both in terms of annual production and total world inventories.

On the sell side of gold, it was a mixed bag. The managed money traders sold 5773 net contracts, nearly matching the net commercial buying and consisting of new longs in the amount of 301 contracts and new short sales of 6074 contracts. Had the other large reporting traders and the smaller non-reporting traders did little, it would have looked like a typical (whatever that is) report with the managed money traders squaring up against the commercials. But this week there was big net selling by the other large reporting traders of 5106 contracts (mostly long liquidation), but big net buying of 4863 contracts (mostly new longs) by the smaller non-reporting traders. As a reminder, the category changes are impossible to handicap in advance (at least by me).

The bottom line in gold is that the market structure is still extremely bullish, particularly when considering the likely improvement on the price weakness since Tuesday.

In COMEX silver futures, the commercials increased their total net short position by 2600 contracts to

63,800 contracts. Not only is this the largest total commercial net short position since Feb 23, the 4 largest shorts now hold their largest concentrated short position since that date as these 4 big market crooks did the bulk of the new short selling this reporting week. The 4 big shorts added 2200 new shorts and now hold 57,433 contracts net short or 287 million oz.

The 5 thru 8 next largest shorts added 100 new short contracts and the big 8 silver short position now amounts to 75,714 contracts or 378.6 million oz – close to 50% of world mine production and close to 100% of what I would estimate is the total amount of silver in the world that is not in the world's silver ETFs and the COMEX warehouses. By comparison, the short position of the 8 largest COMEX gold shorts (21.1 million oz) is only a fraction of one-percent of the 3 billion oz of world gold bullion inventories minus the 150 million oz tied up on the COMEX and in gold ETFs.

The raptors sold off near 400 longs and are now 11,900 contracts long. I still don't sense JPMorgan as playing much in the COMEX paper trade, either in silver or gold – I believe to put as much distance between itself and the prior decade in which it dominated the paper trade.

On the one hand, the increased shorting (3300 contracts or 16.5 million oz) by the 4 big shorts over the past two reporting weeks comes as a disappointment as it increases the odds of a selloff and in the sense I had some faint hopes that the CFTC had finally wised up and told the big shorts to cool it. But that seems to be by the boards now. I still believe the raptors in silver (the smaller commercials) had been peeling off and selling longs in prior weeks while the big shorts stood pat, but the new data suggest the raptors ran out of longs they were willing to sell and the big 4 had no choice but to step in and add new shorts to keep silver prices capped.

That the big 4 would add so many new shorts at precisely the same time the CFTC is fiddling and delaying in answering my letter of March 5 on this matter seems remarkable to me. As a reminder, all this shorting data is sourced from the CFTC, strongly suggesting the Commission doesn't understand its own data.

The managed money traders did buy in the expected amount of 2569 net contracts (2790 new longs and 221 new shorts), nearly matching the commercial net selling contract for contract. But just as occurred in gold, the other large reporting traders sold and the smaller non-reporting traders bought in nearly equivalent amounts of near 1500 net contracts.

I would imagine the managed money traders sold and the commercials bought since the cutoff, but not which commercials bought (big 4 or raptors).

## The Twilight Zone

While many financial developments in the world seem quite strange to me of late, a new observation has me feeling as if I truly entered the Twilight Zone, the TV series that ran from 1959 to 1964, created and hosted by Rod Serling, in which the characters find themselves in disturbing and unusual

situations. I guess I have been so preoccupied with the strange events going on in silver that I wasn't paying close attention to many other commodities. Therefore, it came as a bit of a shock when I scanned the commodities board (after all, my professional upbringing had been as a commodities broker).

I hadn't really noticed that corn, the largest and most important grain, was trading for current delivery at over \$7 a bushel (only a dollar from all-time highs) or that soybeans were trading over \$15 a bushel for current delivery, also only a bit less than all-time highs. I did know that copper was at \$4.50 per pound, close to its highest price in history and that palladium had just reached its highest price ever at \$3000 per ounce and that other PGMs had hit all time highs. I also knew that lumber prices are at all-time highs and that there was pronounced backwardation in many of these commodities, signifying shortage to this long-ago spread trader.

Away from the commodities I used to trade regularly, a whole host of industrial commodities from steel to more finished products like semiconductor chips are said to be in shortages not likely to be relieved any time soon. And with the economy rebounding strongly and extra stimulus coming out the yin yang, I'm even hearing plausible-sounding stories suggesting more shortages may be in store, such as for gasoline if the virus-bound population decides to hit the road.

Why it feels to me like I'm in the Twilight Zone, is because the one commodity I follow and am more interested in than any other, silver, is still 50% below either its all-time highs of more than 40 years ago or of ten years ago, even though the evidence is strong that a pronounced physical shortage has been developing. Of course, even if I weren't so interested in silver or had studied it so closely for decades, I would have been perplexed that it, as well as gold, hadn't tracked more closely with the tremendous price surge occurring in so many commodities of late.

Even more perplexing is how, of all commodities, only in silver has a grassroots movement developed and strengthened in which, quite literally, many tens of thousands of participants who hadn't previously focused on silver longer than even a few months ago are now apparently deeply wedded to the idea that it is artificially and deliberately depressed in price. I find this absolutely remarkable mainly because it appears so close to the truth as far as I'm concerned. I mean, what are the odds that this movement could have erupted if there wasn't one scintilla of proof that silver wasn't artificially depressed in price. And almost to a man, even those who still deny a silver manipulation exists, are nonetheless bullish on its price prospects for other reasons unrelated to a price manipulation.

However, what rescues me from thinking I have permanently entered into the ether of the Twilight Zone is the cold reality of the public data, including that published by the CFTC. To my knowledge, no one is leasing and physically dumping the equivalent of hundreds of millions of ounces of silver in any other market not corn or soybeans or copper or lumber or palladium. And, just as importantly, no other commodity has close to the concentrated short position that exists in COMEX silver.

In fact, the concentrated short position of the 4 largest shorts in silver is ten times larger than the equivalent short position in corn, six times the concentrated short position in soybeans or copper, four times the short position in palladium and so much greater than the equivalent short position in lumber that it's impossible to calculate. To my knowledge, there is no short position in semiconductor chips and most other items.

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Only in silver does such a gargantuan and grotesquely large concentrated short position exist and has existed for more than 3 decades. This uniquely large and oppressive short position, along with leasing, exists only in silver. And as just released official data published yesterday indicates, the uniquely large and grotesque concentrated short position of the 4 largest shorts increased over the past two reporting weeks. Is it any wonder that the price of silver has not advanced as the commodities not burdened by an equivalent short position have advanced?

And I would suppose that there can't be much wonder that the federal agency responsible for both the reporting of the concentrated short position and for explaining to elected officials the role that the uniquely large concentrated short position in COMEX silver plays has been inexplicably delayed.

I would remind you that not once, to my knowledge, has the Commission commented in the least on the record or near record prices of late in corn, soybeans, copper, lumber, palladium or any other commodity even though it is the federal commodities overseer. Yet on a stinking \$3 or \$4 move that still left silver close to half its previous long ago price highs (unadjusted for inflation) it saw fit to offer an announcement about its deep concern for the market activity in silver and how it was working (with anyone who would work with it) to get to the bottom of the silver price advance. \$7+ corn, \$15+ beans, \$4.50+ copper, \$1500 lumber and \$3000 palladium? No problem. \$29 silver? Big problem? call out the riot police.

I would also remind you that the very large price increases in corn and soybeans and copper and lumber have direct negative consequences for US and world consumers, something that one would think the Commission should have a passing concern for. On the other hand, a big price advance in silver, aside from aiding silver investors, would have much less of a negative impact on consumers. Such an increase in the price of silver would have a negative impact on the 4 and 8 big shorts and it's hard not to conclude that is the Commission's primary concern.

Therefore, I'm still assuming the delay in the Commission responding to my March 5 letter suggests that it is seeking to dance around the substance of the allegation that the big concentrated short position in COMEX silver is suppressing the price of silver. And while it is delaying, the 4 big shorts are free to increase their manipulative concentrated short position at will according to its own data. Maybe we're all really in the Twilight Zone, after all.

With the lower gold and silver prices for the week, the 8 big shorts enjoyed a measure of financial relief. At yesterday's close, the total loss (from June 2019) of the 8 big shorts fell by \$200 million to \$10.1 billion.

Ted Butler

May 1, 2021

Silver – \$25.98 (200 day ma – \$25.50, 50 day ma – \$25.93, 100 day ma – \$26.00)

Gold – \$1769 (200 day ma – \$1857, 50 day ma – \$1745, 100 day ma – \$1800)

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