

May 22, 2021 – Weekly Review

Gold rose this week by an impressive \$39 (2.1%), but a sharp Friday selloff in silver limited its weekly gain to 15 cents (0.5%). For gold, it was the highest weekly close since early January and left the metal of kings down less than \$20 from yearend levels and up more than \$200 from the lows of March. While silver underperformed on a relative basis this week, its weekly close was the highest in nine months.

As a result of gold's relative outperformance this week, the silver/gold price ratio widened out by a full point to 68 to 1, still stuck in the five-point trading range (65 to 1 and 70 to 1) that has prevailed since early February. I find it remarkable how the price ratio could remain so steady for months after registering its greatest change in a history that goes back 5000 years in the preceding year. The only possible explanation for such remarkable price behavior is, of course, some type of artificial pricing mechanism, as the fundamentals in gold or silver could not possibly change so radically and then remain comatose without widespread notice. Yes, I'm referring to the crooked and manipulative paper pricing structure on the COMEX.

There were a number of significant developments on the physical side of silver this week, as well as pleasantly-surprising developments in this week's COT reports for silver and gold. While all factors seem to point to sharply higher prices ahead, we must still be prepared for the type of sharp, sudden selloffs seen this week in silver as the 4 big shorts try to cope with a situation I believe they would rather not be in. Cornered animals and all that stuff.

The turnover and movement of physical metal either brought into or removed from the COMEX-approved silver warehouses moderated somewhat this week as a still-elevated 7.3 million oz were moved. This week, the universally-ignored physical movement was overshadowed by the very steep decline in total COMEX silver inventories of 5 million oz, which reduced those holdings to 353.6 million oz – down more than 45 million oz from January and the lowest total since last August. Holdings in the JPMorgan COMEX silver warehouse fell 0.6 million oz to 187.5 million oz.

The recent decline in COMEX silver warehouse totals is garnering greater attention, as it should, since the reduction is the sharpest and deepest in years. Likewise, there is an uncanny matchup in the reduction of the COMEX inventories (45 million oz) and the increase in the holdings of the Sprott silver ETF, PSLV (50+ million oz), along with the logistical connection mentioned on these pages (the one-day trucking distance between the COMEX warehouses and the Canadian depository for PSLV).

Not detracting in any way from the increasingly obvious COMEX warehouse/PSLV connection, there was actually even a bigger physical silver development – the physical holdings in the largest silver ETF, SLV, increased by 9 million oz this week. As a reminder, the physical silver holdings in SLV surged by 110 million oz over three days into Feb 2 and then a similar amount was redeemed from the trust over the next couple of months.

While many characterize this large deposit/redemption in SLV in a variety of ways, my interpretation has been, fairly consistently, that the large three-day deposit was only made possible by a lease of metal of that amount and the subsequent redemptions were the result of conversions from shares to metal by the large buyers who originally bought the shares in early February. – This is in keeping with my take that last year's 300 million oz deposit into SLV and other silver ETFs was the result of

lease at that time (with Bank of America the apparent lessee).

I know full-well that SLV is held in contempt by many for a variety of reasons, but I (still) don't share those reasons. I'm not suggesting anyone buy or hold SLV (although I still do) and I couldn't possibly guarantee it will perform as I imagine it will — just as I couldn't guarantee the performance of any other silver investment product. But at the same time, SLV is the oldest and largest silver ETF, by far, with 575 million oz or close to half the total amount of silver held in all silver ETFs. It is also the most liquid silver ETF by a wide margin and as and when strong institutional and other investment demand kick in, SLV will be at the forefront, as it has been for the past 15 years since its introduction. There is no excuse for any silver analyst not to follow developments in SLV closely.

My point in bringing this up is that the combination of sharp COMEX silver warehouse declines, coupled with the sharp increases in silver holdings in SLV and all other silver ETFs is a strong signal to me that we are hitting the physical silver wall that I wrote about a few weeks ago. Plus, it is also my strong sense that we have exhausted the supply of silver that can be leased and provide the physical metal to satisfy ETF-like investment demand should that demand (continue to) materialize. Higher prices would seem certain to trip off that demand and that also makes it imperative for the big COMEX shorts to prevent those higher prices.

While there was some turnover or movement in the COMEX gold warehouses (although nothing like silver's movement), on a rounding basis, total gold holdings rose 0.1 million oz to 34.6 million oz. The holdings in the JPMorgan COMEX gold warehouses were unchanged at 12.46 million oz. There was continued growth in the physical holdings in the world's gold ETFs, including the largest, GLD, following the increases in the price of gold set on the COMEX — the same way it has worked for many years. Still nothing of special note to mention in COMEX silver or gold deliveries.

Turning to yesterday's Commitments of Traders (COT) report, although there was some deterioration on the higher prices over the reporting week, it was nowhere near the levels expected or feared. It's always a welcome relief to be wrong in such cases, as strange as that may sound. Likewise, my biggest fear, aggressive new short selling by the 4 largest shorts in silver, was also held in check.

In COMEX gold futures, the commercials increased their total net short position by 5800 contracts to 232,900 contracts, a far cry from the near 22,000 contract increase in total open interest (and there's never a guarantee that net positioning can't be greater than changes in total open interest). All things considered gold's market structure remains decidedly bullish.

While it is true that the total commercial net short position in gold is now larger than it has been in two and a half months and is up by 31,000 contracts over the past two reporting weeks — at the same time, gold did climb by a hundred dollars and upwardly penetrated the remaining two of its three key moving averages. Had you told me this would occur two weeks ago, I would have imagined much more commercial selling than occurred through Tuesday.

By commercial categories in gold, the 4 big shorts actually bought back 160 contracts or so, with the 5 thru 8 largest traders adding 4400 new shorts, increasing the big 8 short position to 220,654 contracts (22 million oz). The smaller commercials (the raptors) added 1500 new shorts. If anything, JPMorgan was a buyer, although I'm more inclined to think it is standing clear so as not to appear to violate the terms of its deferred criminal prosecution agreement with the Justice Department and risk

jeopardizing its great current and future profits on its physical gold and silver holdings.

An interesting twist was that the Producer/Merchant category was a net buyer of more than 5600 gold contracts, while the swap dealer category was a net seller of more than 11,400 gold contracts. I bring this up as a way of emphasizing that there is little to no mining company shorting on the COMEX, despite widespread belief to the contrary. All the commercial shorting is speculative selling in drag.

The managed money traders did buy much more than the commercials sold, in buying 10,375 net gold contracts, consisting of the new purchase of 10,481 long contracts and the new sale of 106 short contracts. The other large reporting traders were net sellers of 3741 gold contracts. With gold prices now firmly above all its key moving averages, the current level of managed money net longs does not appear particularly large and with plenty of room for new buying.

In COMEX silver futures, the commercials increased their total net short position by a rather scant 1100 contracts to 74,400 contracts. Yes, this is the largest (most bearish) commercial short position since Jan 5 — even larger than the position of Feb 2 (the price spike) — and the explanation for recent and any future sharp price selloffs. But at the same time, I am struck by the apparent reluctance of the 4 largest shorts to add aggressively to their obvious manipulative concentrated short position.

This week, the 4 big shorts did increase their concentrated short position by less than 600 contracts to 59,748 contracts (298.7 million oz). In no way am I suggesting that this short position is not the be-all and end-all of the silver price suppression, but I'm still quite sensitive to the fact that the big 4's concentrated short position is 5500 contracts less than it was at the price peak of Feb 2, despite the total commercial short position now being larger than it was then.

Yes, I fully stipulate that I may be reading too much into CFTC's response of three weeks ago, in which it implied it was considering the concentrated short position much differently than it had in the past. Then again, it has gotten to be a cold day in hell waiting for anyone to come up with a legitimate explanation for why silver has the largest concentrated short position of any commodity or why the big shorts have never bought back and covered short positions on higher prices.

Certainly, the Commission had ample time and every opportunity to explain these things and failed to do so — just like everyone else. Maybe, just maybe, the big shorts have been given the word — time will tell. If the big shorts do add aggressively to new silver shorts, the only course will be to petition those elected officials with direct jurisdiction over the agency, but not enough new shorting has occurred yet.

Getting back to the silver COT report, the 5 thru 8 largest shorts added close to 700 new shorts and the 8 largest shorts now hold a short position of 79,362 contracts (396.8 million oz). The silver raptors added 200 new long contracts. Blending the Silver Institute's estimate of 2020 world annual silver mine production of 784 million oz, with CPM's estimate of 729 million oz, to get an average number of 757 million oz, that means that the 8 largest shorts on the COMEX hold more than 52% of the world's mine production — and not one of the shorts is a miner, just a commercial/speculator parading around in some make-believe feathered hedger costume. — It gives real drag queens a bad name.

The managed money traders actually sold 1480 net silver contracts, consisting of the new purchase of 343 long contracts and the new short sale of a rather large and counterintuitive 1823 contracts. To see

so many new managed money shorts is encouraging to me because if there is any doubt about the commercials being legitimately hedged on the short side, no one would advance that the managed money traders shorting silver are doing anything but speculating. As such, I hope they sell a bunch more. The smaller non-reporting traders bought nearly 3000 net silver contracts this week, not particularly bullish, but I would guess many of those contracts were sold since the Tuesday cutoff (met with commercial buying).

Bottom line is that the COMEX market structure is still decidedly bullish in gold, as is the overall balance of non-COMEX factors. In silver, the COMEX market structure is more neutral than anything else, but with all non-COMEX factors exceedingly bullish.

I thought I'd take a moment to dig into the running financial scoreboard of the 8 largest COMEX shorts in gold and silver, which I have calculated for what is going on two years. First, the large rally in gold this week, along with the lesser silver rally, added \$900 million to last Friday's \$12.2 billion loss, bring the total loss to \$13.1 billion. Again, we're getting close to the yearend \$14 billion loss – the largest quarterly loss on record – and further away from the \$8.3 billion loss of March 31, less than two months ago.

What I find interesting is that the concentrated short position of the 8 largest traders in COMEX gold – by far the largest money component in the equation to this point – has fluctuated quite a bit, while that has not been the case in silver. For instance, at yearend (Jan 5), the short position of the 8 largest shorts was, in round numbers, 280,000 contracts (28 million oz). that fell to 200,000 contracts (20 million oz) as of March 31. As of Tuesday, the big 8 gold short position was 220,000 contracts (22 million oz).

Therefore, after buying back 80,000 net contracts into March 31, and adding only 20,000 new shorts into last Tuesday, the 8 big shorts are still staring down the gun barrel of nearly the same total losses as at year end. In silver, the big 8 short position was 81,000 contracts (405 million oz) at yearend, 84,500 contracts on Feb 2, dipping to 70,000 contracts on March 31, before growing to 79,000 contracts as of last Tuesday. There have been much bigger changes in gold than there have been in silver, in terms of the big 8 short position. What can we conclude from this?

My biggest takeaway is that to this point, this is not a game that the big shorts have been able to quit or walk away from. JPMorgan certainly quit and walked away, effectively about a year or so ago, if you can call it walking away with \$30 billion in profits so far, with many more billions to come as gold and silver prices climb on its massive physical holdings. But the remaining 8 big shorts wouldn't appear to hold much in terms of physical gold and silver and walking away easily from their still massive COMEX shorts doesn't appear to be something in the cards.

Thus, more and more, the 8 big COMEX shorts appear stuck – unable to simply quit the concentrated shorting game. As I indicated on Wednesday, who would the big shorts be able to count on as sellers should they decide to buy back their own short positions? The fact that the big shorts are still adding shorts, albeit not to the extent they had been short previously (in gold), shows they are not doing so willingly – they have no choice. For the big shorts to suddenly turn buyers and with no conceivable equivalent willing sellers in sight is the formula for a price explosion. Such a price explosion would only quickly compound the big 8 shorts' already massive losses.

This is the only issue that matters in silver and gold and we all have a front-row seat to the spectacle.

Adding to their already excessive concentrated short positions only extends the manipulation and allows the big shorts to pretend they are in control, even though the losses can't be pretended away. Moving to buy back would only expose the scam quicker and cause the losses to escalate sharply. For the regulators and the exchange, continuing to look away will only look negligent in time, perhaps criminally so.

Some might argue that this has been the case for decades and still the manipulation plodded on. There's a lot of truth in that, save for one new factor – the growing evidence of a physical shortage in silver that, increasingly, can't be easily dismissed. The combination of withdrawals in COMEX silver inventories, increases in ETF, particularly SLV, holdings and the apparent lack of any significant quantities of leasable silver threaten to bring the ongoing scam of the 8 big COMEX shorts to an end. Who amongst us hasn't known all along that physical trumps paper in the end?

Ted Butler

May 22, 2021

Silver – \$27.65 (200 day ma – \$25.82, 50 day ma – \$26.18, 100 day ma – \$26.34)

Gold – \$1882 (200 day ma – \$1851, 50 day ma – \$1773, 100 day ma – \$1795)

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