May 28, 2022 – Weekly Review

After an epic four-week price beat down of $200 in gold and over $5 in silver, both metals clawed back slight gains for a second week; with gold ending the week $6 (0.3%) higher and silver finishing up by 37 cents (1.7%). As a result of silverâ??s relative outperformance, the silver/gold price ratio tightened in by another full point to 83.7 to 1 for a second week, after widening out by nearly 10 full points in the prior four-week beat down. Everything I look at tells me the price ratio should tighten dramatically ahead, as silver prices get uncorked to the upside.

â??Everythingâ?• includes a wide variety of verifiable factors involving conditions in the physical world of silver (both wholesale and retail) and the all-important market structure on the COMEX, where the positioning of paper futures contracts is now so remarkably bullish as to defy description. Six weeks ago, this same positioning stood out as the only possible reason for a price swoon in silver and gold and now that the possibility has been realized, the tables have now shifted completely to where a significant price rally seems nearly guaranteed.

The only real question is if the coming rally will be a retrace of the deliberate price beat down or something much more significant. I continue to maintain that the crux of that question lies in whether the 4 big commercial shorts in COMEX silver do what they have always done on every significant silver price rally over the past 40 years, namely, add aggressively to short positions on the coming rally for the purpose of capping prices and snuffing out the rally. While this question will, undoubtedly, be known to all in the not-too-distant future, at this juncture all we can do is prepare and position for a rally of undetermined proportions â?? about the best possible circumstance for a silver or gold investor.

The turnover or physical movement of metal either brought into or removed from the COMEX-approved silver warehouses â??cooled offâ?• for a second week, as â??onlyâ?• 4.8 million oz were moved this past week (with 4 million oz of that over the last two days). Despite the sharp reduction in the weekly movement, 4.8 million oz is close the weekly average movement of the past 11 years, in which some 2.5 to 3 billion oz of silver has been physically moved in and out from a handful of warehouses in the NYC metropolitan area â?? something hard to conceive, particularly since this incredible physical movement has occurred only in silver and not in any other commodity. Â Total COMEX silver holdings declined by 1.4 million oz to 336.4 million oz and holdings in the JPMorgan COMEX warehouse fell a sharper 1.8 million oz to 174 million oz.

Garnering more attention (as usual), was bigger category changes (which donâ??t involve physical movement) of close to 4.5 million oz being transferred (on paper) from the registered category to the eligible category yesterday, with nearly 3.4 million oz of the transfer in the JPM warehouse. Customers of JPMorgan were net stoppers of around 7.5 million oz in the recent May delivery process and the most plausible explanation for yesterdayâ??s large paper category transfer was to lower the cost of storage before monthâ??s end by the JPM customers which took delivery. This does suggest the metal is intended on being held on a longer-term basis.

Total holdings in the COMEX gold warehouses slipped a bit to 35.5 million oz, with holdings in the JPM gold warehouse also down slightly to 14.45 million oz.

Deliveries on the traditionally-large COMEX gold delivery month of June were just over 4000 contracts

(400,000 oz) on first delivery day, with approximately 18,000 contracts remaining open in the June contract. Customers of JPMorgan were net stoppers of more than 1300 contracts and no activity (yet) in JPMâ??s house account â?? always good news in my opinion. Customers of JPM were net issuers of around 800 silver contracts, leaving little remaining open interest in the non-traditional June delivery month, but no activity in JPMâ??s house account.

https://www.cmegroup.com/delivery_reports/MetalsIssuesAndStopsYTDReport.pdf

Given the recent price strength in gold, the slight inflows into the worldâ??s gold ETFs, mainly GLD, made sense, but the near-5 million oz outflows from the big silver ETF, SLV, made little sense considering the strength in silver prices, as well as the low trading volume. The most plausible explanation for the redemptions in SLV are conversions of shares for metal, which is bullish and points to physical silver tightness on a wholesale basis.

I havenâ??t mentioned it in quite some time, but the US Mint has continued to refuse to produce enough of the worldâ??s most popular silver coin, the American Silver Eagle, in the quantities required by law, largely accounting for the highest premiums ever for these coins. I remember my old friend and silver mentor, Izzy Friedman, predicting many years ago how the US Mint would stop producing Silver Eagles due to a shortage of silver, sending premiums on these coins to unprecedented premiums. I confess to thinking at the time that Izzy was way off base, but Iâ??ll be darned if he didnâ??t nail that prediction. I just wish he was here to hear him tell me how he was right.

As far as me concluding that the US Mint is intentionally withholding production so as not to add any fuel to the developing physical silver shortage, look no further than the strong production and sales of silver coins at competing world mints. The Canadian Royal Mint is producing Silver Maple Leaf coins at close to four times the level of Silver Eagles from the US Mint, when the US Mint was almost always a bigger producer than the Royal Mint previously.

Turning to yesterdayâ??s new Commitments of Traders (COT) report, the results were largely expected in gold, to a little bit better than expected in silver. Since gold prices had rallied back above the 200-day moving average for 4 of the 5 trading days in the reporting week ended Tuesday, it was expected that there would be managed money buying and commercial selling. It was iffier in silver because while prices had rallied, there was no upward penetration of any of silverâ??s key moving averages. In hindsight, this was borne out in the actual reported results.

In COMEX gold futures, the commercials increased their total net short position by 5100 contracts to 211,900 contracts (although the managed money traders bought more than three times as many gold contracts). As a result, the total commercial net short position in gold is still wildly bullish and there was even better news regarding the changes by commercial categories. Also as expected, much (more than 17,000 contracts) of the more than 25,000 contract drop in gold total open interest was due to spread liquidation and not real positioning changes.

The 4 biggest commercial shorts bought back more than 2100 short contracts and held as of Tuesday, 147,897 contracts short (14,8 million oz), the lowest level since Feb 8. The next 5 thru 8 largest commercial shorts bought back 400 shorts and the big 8 short position fell to 236,424 contracts (23.6 million oz), also the lowest level since Feb 8, as gold was starting the process of rallying $250. Therefore, the smaller commercials apart from the big 8 (the raptors) were the sole commercial sellers this week, as they sold 7600 contracts, in reducing their net long position to 24,500 contracts. While the circumstance is much more critical in silver than in gold, itâ??s always bullish for price when the big shorts are as little net short as possible.

On the buy side of gold, it was all managed money buying as these traders bought 17,697 net contracts, consisting of the new purchase of 5602 long contracts and the buyback and covering of 12,095 short contracts. This made sense in historical terms as whenever a key moving average is penetrated to the upside, the first contracts to be bought are existing managed money short contracts.

Explaining the difference between what the commercials sold and the managed money traders bought was unusually heavy selling by the other large reporting traders of more than 9200 net gold contracts and 3400 net contracts of selling by the smaller non-reporting traders. Despite the heavy selling by the other large reporting traders, the concentrated long position of the 4 largest traders increased by 1000 contracts, suggesting the big gold long is still holding 15,000 long contracts.

In COMEX silver futures, the commercials bought 1500 net contracts, reducing their total commercial net short position to 23,300 contracts, yet another multi-year low and bullish to the extreme. Because of the presence of a managed money trader in both the big 4 and big 5 thru 8 short categories, it â??messes upâ?• my usual computation of the concentrated commercial short position, but aside from that, it is a rare and quite bullish phenomenon whenever managed money traders are in the concentrated short categories.

Normally, since the 4 and 8 biggest shorts are purely commercial traders close to 99% of the time, the computation of what the smaller commercials (the raptors) hold is simply a matter of subtracting the total commercial net short position (the headline number) from whatever the big 8 concentrated short position may be. But on those rare occasions (like now) when a managed money trader or two holds a large enough short position to gain entry into the big 4 and big 8 short categories, the simple computations donâ??t apply.

While the normal computations no longer apply, thatâ??s a far cry from suggesting these occurrences arenâ??t even more bullish overall for the simple reason that any excessive managed money short position is guaranteed buying of the best kind and why I refer to excessive managed money short positions as rocket fuel. I canâ??t tell you when the moving averages will be penetrated to the upside in silver, but I can tell you that whenever that occurs (and it must occur at some point), the managed money shorts will be among the most aggressive buyers â?? as was seen with the managed money shorts in gold over the just-published reporting week.

So, whenever a large managed money short position is established in COMEX silver (or gold or any other commodity) thatâ??s about the most bullish development possible. I wonâ??t argue that getting such a large managed money short position established is not akin to the Apacheâ??s staking you to the ground to be eaten by fire ants, as it takes the pain of lower prices to get the managed money traders to get heavily short. Â But once the managed money short position is fully-established, itâ??s not long before the sky parts and the pain of lower prices is replaced with the joy of higher prices. Yes, Iâ??m suggesting weâ??re done or mostly done with the pain part.

This reporting week, the 4 big silver shorts increased their total net short position by more than 1100 contracts to 51,113 contracts (255.6 million oz) and the big 5 thru 8 shorts increased their shorts by a further 1900 contracts, pushing the big 8 short position to 73,082 contracts (365 million oz). But a perusal of the COT report shows that the only short category increasing shorts was the managed money short category.

I would estimate that a managed money short in the big 4 category holds around 8000 contracts short and another managed money short holds around 3000 contracts short in the big 5 thru 8 category. If Iâ??m close, this means that the â??trueâ?• commercial short position is close to 43,000 contracts for the big 4 and 62,000 contracts for big 8, with the commercial raptors long position close to 40,000 net contracts â?? their largest long position in quite some time.Â Of course, this makes the question of whether the big commercial shorts add on the next silver rally all the more critical.

The managed money traders added 1922 new shorts this week and other managed money traders added 736 new longs, suggesting for another week that the long side of the managed money tradersâ?? category is not subject to big long liquidation from here. And the managed money traders are now net short, always a rare and bullish indication.

While I havenâ??t discussed it recently, this weekâ??s increase in managed money shorting on higher silver prices is a reflection of a frequently discussed topic of the past, namely, the pattern of new managed money shorts being established on slightly rising prices as long as the rising prices donâ??t penetrate any key moving averages (as they did in gold). It would seem clear that is what occurred this week in silver.

Another quite bullish development involves the silver raptors. As recently as a couple of weeks ago, as silver prices were still falling quite precipitously, I started to worry that perhaps these traders had rushed too quickly and aggressively onto the long side that, as a result, some of the silver raptors may have bitten off a bit more than they could handle and set themselves up for some liquidation on lower prices due to the large losses that were accruing.

I do remember discussing how the raptor long position was established at an average price of around $23 and at the extreme price lows, the roughly 40,000 net contract (200 million oz) raptor long position, came to be close to $450 million in the hole, requiring significant additional margin deposits and the threat of some forced liquidation by a number of silver raptors. However, now that silver prices have recovered, the collective silver raptor long position is now in the hole for less than $200 million, having recovered by more than $250 million from where it was two weeks ago.

I canâ??t help but think that recovering from what was the largest silver raptor open loss in history has only made the silver raptors that much stronger. Iâ??m still assuming that the raptors will sell fairly aggressively as silver prices approach and then exceed $23, to take profits as they usually do, but the fact that they didnâ??t appear to flinch and abandon any long positions when silver prices dropped more than $2 below their average cost of accumulation, might suggest the raptors are looking for higher silver prices than usual this go-around.

Another thought I canâ??t quite shake is the remarkable juxtaposition that has developed between the big 4 and big 8 commercial shorts and the near-record silver raptor long positions. I have been highlighting how the raptors appeared to be running rings around the big silver shorts, but it has recently occurred to me that it may go deeper than that. On the higher silver prices destined to occur, the raptors are in position to record their largest profit ever, while the big shorts are still staring down the gun barrel of big losses, particularly if they resort to adding new shorts on higher prices again. This tends to up the ante on my speculation that the big silver shorts might not add to shorts on the coming silver rally and makes me question how quickly the raptors might take profits.

We have no choice but to blot out the recent pain of lower silver and gold prices, particularly when considering the remarkably-bullish market structure set up those lower prices have created. If Iâ??m going to contend that COMEX futures contract positioning is the most important, if not sole driver of silver and gold prices, then I must be consistent whether the positioning set up portends lower or higher prices. At this point, all the positioning indicators are screamingly bullish and thatâ??s all that really matters. Somebody is zooming someone else on the COMEX and if it isnâ??t the commercials (now predominantly the raptors) zooming the managed money traders, then Iâ??ve read things wrong â?? which will be obvious if the silver raptors end up with losses and the managed money shorts end up with profits.

The 8 big gold and silver shorts added close to $300 million to a total loss amounting to nearly $8.2 billion as of yesterdayâ??s close.

Despite the profound collective sadness facing the US as a result of the tragedies in Texas and elsewhere, hereâ??s a sincere tip of the hat to those who gave the ultimate sacrifice in defense of our country.

Ted Butler

May 28, 2022

Silver – $22.12Â Â Â (200 day ma – $23.59, 50 day ma – $23.65, 100 day ma – $23.81)

Gold – $1851Â Â Â Â Â Â (200 day ma – $1840, 50 day ma – $1902, 100 day ma – $1887)

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