

May 29, 2021 – Weekly Review

Gold and silver prices recovered from another sharp early Friday selloff to finish at weekly and multi-month highs. Gold ended \$24 (1.3%) higher, while silver ended the week 41 cents (1.5%) higher. The basically even relative performance left the silver/gold price ratio hovering around 68 to 1, still stuck within the five-point trading range of the ratio of the past five months or so.

For gold, it was the highest weekly close since November and silver closed at its highest weekly close since early August. Gold has now erased its \$225 drop since the yearend, while silver is up \$1.50 from its yearend close. Jumping to the financial performance of the 8 big shorts in COMEX gold and silver, the price gains this week added nearly \$700 million to a total loss now amounting to just under \$13.8 billion, just shy of the \$14 billion yearend mark to market loss, the worst quarterly loss in history and up sharply from the \$8.3 billion loss at the quarter end of March 31.

Alert readers may question why the total loss is not greater than the yearend loss of \$14 billion since gold and silver prices are now higher than at yearend. The answer is that the 8 big shorts were able to whittle down their concentrated short position in gold from yearend (into March 31 by more than 75,000 contracts), so their total losses are somewhat less than otherwise. But what's even more remarkable to me is that even with the reduced concentrated short position in gold (not so much in silver), the total losses are right back to spitting distance of the worst quarterly showing since I began monitoring this metric in June 2019.

I'm also taken aback, after reducing their open loss from yearend by 40% to \$8.3 billion on March 31, by how quickly the loss has increased over the past two months. More and more, I get the feeling the big shorts are trapped, particularly in silver. And superimposed over this great loss is the remarkably profitable performance of the former biggest short, JPMorgan. At the price lows of 14 months ago, when JPMorgan completely eliminated its COMEX silver and gold short positions, the bank and its affiliates were dead even on their massive physical holdings while the 8 big shorts were also dead even on their short position losses at that time. Today, JPM is ahead by more than \$30 billion, while the 8 big shorts are near \$14 billion in the hole. And I'm leaving out the \$3 billion Bank of America is out from leasing 300 million oz of silver back a year ago. I think there is a long way to go, but has there ever been a bigger double cross to this point?

The turnover or physical movement of metal either brought into or removed from the COMEX-approved silver warehouses "cooled off" from recent frantic levels to a more "normal" 4.6 million oz this week, about the average weekly movement of the past ten years. Of course, the average physical weekly movement in the COMEX silver warehouses is still so much greater than in any other commodity as to be freakish yet it continues to go unnoticed. Go figure.

This week, the total amount of silver in the COMEX warehouses fell by 0.5 million oz to 353.1 million oz, another new 10-month low and down more than 46 million oz from the all-time peak in January. Holdings in the JPMorgan COMEX silver warehouse fell by 1.1 million oz to 186.4 million oz. There was some minor movement in the COMEX gold warehouses, but total holdings remained unchanged at 34.6 million oz and ditto for JPM's holdings at 12.46 million oz.

There were, however, some big category changes in both silver and gold in the COMEX warehouses.

It's important to note that category changes from eligible to registered or vice versa do not involve actual movement or turnover and I don't include such category changes in my movement remarks. Such category changes also don't necessarily involve changes in ownership, although they could if immediately followed by delivery.

In silver, the category changes were mostly from registered to eligible and the most plausible explanation would involve a change to reduce storage charges for metal intended to be held on a long-term basis, especially when the changes are made near month end, as was the case this time. Typically, when silver is moved from registered to eligible over the past few years, my assumption is that JPMorgan owns that silver.

In gold, it was the opposite, transfers from eligible to registered, with a notable transfer involving a one-day category change of nearly 900,000 oz (9000 contracts) being switched in the JPMorgan COMEX warehouse. Typically, when metal is moved from eligible to registered it is for the purpose of making delivery, particularly if the category change takes place just before a major delivery date, as was the case this time.

Immediately following the big JPM category change, the bank delivered (issued) nearly 6200 gold contracts (620,000 oz) from its house account, plus another more than 2600 contracts on behalf of customers on the first two days of the June delivery. Other customers of JPMorgan took (stopped) delivery of more than 3700 gold contracts. For the first two delivery days on the big COMEX June gold, a total of more than 16,000 contracts have been issued and stopped and with roughly 6000 contracts remaining open in the June contract, it looks like total deliveries for the entire month won't surpass the 30,000+ total deliveries of the last few major delivery months, although that can't be known for sure at this point.

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

The problem with trying to decipher the COMEX delivery statistics is that while much detail is given in the data, even more is unknown, making accurate conclusions difficult. For me, it is relatively simple - just focus on JPMorgan, the unquestioned kingpin of all-things gold and silver. This month, it appears that JPMorgan had to provide enough physical gold to keep prices from exploding into month end. With that accomplished, prices are free to surge anew since that would now most benefit JPM (given its massive physical holdings) and remove it from suspicion it intended to goose prices. It's my KISS principle - keep it simple, stupid.

There continues to be net inflows of physical gold and silver into the world's ETFs, as would be expected with the turn up in prices. I received a request from a long-term subscriber this week to more fully comment on the flows of silver into the Sprott silver ETF, PSLV, in light of the remarkable reddit/#wallstreetbets movement, which is reported to now number more than 90,000 participants from basically nothing in January.

From observing what has occurred with stocks that such groups have favored, only a fool would doubt their potential impact on silver and related investment vehicles. There is no question in my mind that the current severe shortage in retail forms of silver can be laid at the feet of the reddit crowd. Likewise, I would credit them with the surge in the holdings in PSLV, since it appears to be the silver ETF most favored in these circles.

As I've commented recently, I believe much of the more than 50 million silver oz that have flowed into PSLV since the beginning of February have mostly come from a drawdown in the COMEX silver warehouses, given the logistical realities. But at the same time, there has been growth in most other silver ETFs, although not to the extent of the growth in PSLV. That is, growth in all but one – the SLV, the biggest silver ETF.

As it turns out, SLV seems to be reviled by the reddit crowd for a variety of reasons I don't particularly agree with. Those reasons, I believe, include a general distrust of "suits" or establishment types (although I'm quite certain PSLV is also run by suits). In the case of SLV, the suits are high-profile, including BlackRock, the largest money manager in the world, with the dreaded JPMorgan as custodian. While I recognize the revulsion that exists for SLV, I don't agree with it for a number of reasons.

I think having BlackRock as the sponsor is a good thing, since the holdings of SLV constitute perhaps a quarter of one percent (0.25%) of BlackRock's total assets under management of \$9 trillion (that's with a "T") and there is no way BlackRock is going to risk its reputation over SLV. As for JPMorgan, it is also the custodian of SIVR and the Deutsche Bank silver ETFs and both have seen silver holdings surge to record highs. And if you'll recall, SIVR (the Aberdeen Trust) even had some disparaging remarks about the reddit crowd in its prospectus changes of early February.

I would stipulate that perhaps 5 or 10 million oz of silver may have been liquidated from SLV and switched to PSLV, but not more and by this time any such switches are behind us. The decline in COMEX silver warehouse inventories so closely mirrors the increase in PSLV holdings so as to make supposed liquidations from the SLV into PSLV as severe overkill. I'm still of the firm opinion that the bulk of the 100 million oz that came into SLV over the three days into early February and that were subsequently redeemed was the result of conversions by large holders of shares to direct metal ownership which eliminated ownership reporting requirements.

The fact is that SLV is the most liquid silver ETF with 5 to 10 times the trading volume of PSLV or any other silver ETF and in any big money (institutional) move to silver, the SLV will be the first choice. I am particularly encouraged that there has been a recent large inflow of physical silver into SLV and would expect that to continue. To be clear, I favor all the silver ETFs, certainly including PSLV, but also including SLV. Besides, I get a penny commission for every share of SLV bought – I wish.

Turning to yesterday's Commitments of Traders (COT) report, the results were largely as anticipated on Wednesday, namely, deterioration in gold, but little to no deterioration in silver, perhaps even a slight improvement. You'll recall that gold price action was much stronger than for silver during the reporting week. And while the amount of commercial selling was more than I expected in gold, there was some unexpected constructive news in the commercial category changes.

In COMEX gold futures, the commercials increased their total net short position by 18,000 contracts to 250,900 contracts (I expected 10,000 or so). This is the largest (most bearish) commercial short position since February. But the standout feature of the gold report was that the 4 largest shorts actually bought back just over 6000 short contracts and reduced their concentrated short position to 145,397 contracts (14.5 million oz). The 5 thru 8 largest shorts added 1600 new shorts and the big 8 short position fell to 216,310 contracts (21.6 million oz).

The reduction in the big 4 and resultant big 8 gold short position was achieved due to aggressive new shorting by the smaller commercials (the raptors) which added 22,400 new shorts to a raptor short position amounting to 34,600 contracts. It's quite rare to see the big 4 and the big 5 thru 8 move in different directions and particularly rare to see the raptors react as differently as they did this week. As to why, my basic conclusion is that the 4 biggest shorts were not interested in adding aggressively to new short positions and went out of their way not to. In light of everything I've been writing about, it's hard for me not to interpret this as extremely bullish.

On the buy side of gold (apart from the big 4 short-covering), the managed money traders did most of the buying, as these traders bought 15,265 net contracts, but even that had a constructive side, as they added only 2086 new longs and bought back 13,179 short contracts. I consider this more bullish than if the mix were reversed because the managed money traders are now less exposed to long liquidation on lower prices. The other large reporting traders, in essence, didn't do much on a net basis and the smaller non-reporting traders added around 2200 net longs.

The net managed money long position in gold is about 50,000 contracts higher than it was when gold was \$150 lower, but still at least 100,000 contracts (and closer to 150,000 contracts) shy of what it was in early 2020, so there still appears to be much more price room to the upside than the downside. Plus, when looking at the macroeconomic factors swirling around, it's harder to envision sharply lower gold prices versus sharply higher prices. And it would seem the 4 largest shorts would agree, at least for this reporting week.

In COMEX silver futures, the commercials reduced their total net short position by 2100 contracts to 72,300 contracts. About the only (sort of) disappointing thing was that the 4 largest shorts didn't buyback and cover any of their short position and, in fact, added around 100 contracts to a concentrated short position now amounting to 59,855 contracts (299.3 million oz). The 5 thru 8 next largest traders added another 100 contracts and the big 8 short position is now 79,565 contracts (397.8 million oz). The smaller commercials (the raptors) did all the commercial buying with 2300 silver contracts bought. I'd continue to peg JPMorgan as flat in both gold and silver futures.

To avoid confusion, it's important to remember that the raptors in gold are net short, along with the big 4 and big 8. In silver, it is almost always the case that the big 4 and big 8 represent the entire commercial net short position, with the smaller raptors nearly always net long by varying amounts. Rarely do the raptors get net short in silver and when they do it has been for minimal amounts over the past several years. Not only does this make the concentrated short position in silver more concentrated (and manipulative), it strongly suggests that the 8 commercials which are short are isolated - not the case in gold.

What this means, at least for this reporting week, is that while the big 4 in gold were able to buy against aggressive raptor shorting on increasing gold prices, in silver, the raptors were so aggressive on the buy side that it precluded the 4 big shorts from buying back any short positions on a down price week. Thus, it feels to me that the 4 big shorts in silver are trapped, in that the raptors intend to buy on lower prices. I suppose a very sharp price decline might witness both big 4 and raptor buying in silver, but it's hard to see the big fuel for a sharp decline because the managed money traders are not particularly lopsided on the buy side. Of course, the 4 big silver shorts are free to buy on the upside, but that will cause prices to really zoom.

This week, the managed money traders sold 1345 net silver contracts, consisting of the sale and liquidation of 1056 longs and the new sale of 289 short contracts. The other large reporting traders were net buyers of 846 silver contracts, while the smaller non-reporting traders were sellers of 1588 net contracts. As was the case in gold, there is more room for higher prices and managed money buying in silver than the opposite. And as far as silver's fundamentals and macroeconomic factors, it's hard to see how they could get more bullish.

Along the lines of silver's fundamentals, I had to laugh a bit about the US Mint's announcement that the worldwide shortage of silver was what was preventing it from producing and selling as many silver coins as are being demanded and as is required by law. The Mint certainly didn't have any problem providing JPMorgan with as many Silver Eagles as it demanded (over 100 million) from 2011 to 2016, but can't now meet public demand. My strong sense is that the Mint is intentionally not producing silver coins so as not to exacerbate a pinch on silver supplies. Where's Alexander Hamilton when he's really needed?

If you don't mind, I'd like to switch gears and talk about something different in this case, copper. As you may know, the price of copper has soared over the past 14 months, as have silver and gold and other commodities. At the price lows of March 2020, copper prices were near the \$2 (per pound) mark, the lowest level in years, only to soar to more than \$4.80, before a more recent selloff to under \$4.50. I had commented on copper often in the past, in noting the strong price influence of the managed money traders, quite similar to the same influence of these traders in gold and silver.

True enough, at the price lows of \$2 per pound into March 2020, the managed money traders were net short more than 50,000 COMEX contracts (which was why prices were so low). Massive net buying of 150,000 contracts then drove prices to just over \$3 into late 2020 when the managed money traders were close to 100,000 contracts net long.

Interestingly, the managed money traders then began to liquidate their massive net long position as copper prices climbed higher towards \$4.80 and on the recent selloff in copper prices, the managed money traders continued to sell and as of the COT report for this past Tuesday, the net managed money long position in COMEX copper futures had fallen to 33,000 contracts, the lowest it had been since July 2020 when copper was under \$3.

A number of conclusions include that the run up in copper prices from over \$3 to \$4.80 was not due to continued managed money buying, but something else. The most logical something else was that strong physical demand overcame managed money paper selling, as has occurred in the past in other markets, most notably in palladium (and as I expect will come to silver).

And in light of that very bullish copper report I featured recently, the sharp snapback in copper prices since the Tuesday cutoff of a reporting week which included extremely aggressive managed money selling, strongly suggests to me that the selloff in copper prices is over or largely so. If it is physical demand that is driving copper prices, moreover, the price gains ahead could be quite substantial as was the case in palladium and will be the case in silver.

Markets driven by physical demand exceeding supply in a world commodity can last far longer and carry much further in price than popularly perceived. It appears to me that copper, along with silver, are likely candidates for that profile. Silver, of course, has that extra-special kicker lacking in copper and all

other industrial commodities in that it is also a prime investment asset.

I can't help but believe that we are on the cusp of a major move higher in silver and gold, given all the above. Everyone is entitled to their own beliefs and mine include that the CFTC has finally come to terms with the obvious silver (and gold) manipulation driven by the concentrated short position of the 4 largest COMEX traders.

It has now been 4 weeks since the Commission's response to my letter of March 5 and over that time the price of silver has risen by a full two dollars and the price of gold has climbed by more than \$130 yet the concentrated short position of the 4 largest silver traders has only increased by 2400 contracts and has been reduced by more than 4000 contracts in gold. This despite the fact that the total commercial net short position has increased by 8500 contracts in silver and by 43,700 contracts in gold (from April 27). Typically, the 4 big shorts are the largest contributors on the type of price moves we've witnessed over the past month.

While I'm hopeful this trend remains in force, if instead we revert to a situation where the 4 big shorts add aggressively to short positions, I will initiate an effort with elected officials with direct oversight over Commission matters. If the 4 big shorts don't add to their concentrated short positions, it's hard to see what would prevent prices from rising strongly.

Ted Butler

May 29, 2021

Silver – \$28.06 (200 day ma – \$25.83, 50 day ma – \$26.36, 100 day ma – \$26.38)

Gold – \$1906 (200 day ma – \$1848, 50 day ma – \$1790, 100 day ma – \$1797)

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