November 15, 2023 – An Answer Long-Overdue

One of the key data points in silver is the level and change in recorded bullion inventories, primarily in the COMEX warehouses and the silver ETFs. Particularly over the past few years, any number of daily commentaries have sprung up, slicing and dicing the inventory data, with special emphasis on the COMEX warehouse data, as total inventories there have fallen from roughly 400 million oz (the all-time high) at the start of 2021, to 266 million oz today, a decline of a third and supportive of a physical shortage.

For my part, I have monitored COMEX silver warehouse data for close to 40 years and starting about 12.5 years ago began reporting on a highly-unusual development that had just begun â?? a sudden and now persistent frantic turnover or movement of physical metal into and out from the COMEX silver warehouses of massive proportions. Starting around the same time that JPMorgan opened its COMEX metal warehouses, in April 2011, the unprecedented physical turnover has continued, with an average annual turnover Â of more than 250 million oz, meaning that over the past 12.5 years, more than 3 billion oz have been physically shuffled in and out from the COMEX warehouses â?? not something coming close to occurring in any other commodity.

For all the close attention placed on the recorded silver inventories in the COMEX warehouses and the silver ETFs, one particular question remains open and unanswered. There appears to be a potential overlap or possible double-counting of a significant chunk of silver (103 million oz) in the two largest stockpiles of recorded silver bullion inventories in the world, the COMEX warehouses and the holdings in SLV, the largest silver ETF. Iâ??ve mentioned this in the past and tried to make some inquiries along the way, but never received a definitive answer. So, this week, I decided to secure a definitive answer.

The issue revolves around the 103 million oz listed as being held for the I-Shares silver trust (SLV) by the trustâ??s custodian, JPMorgan, in New York and the 134 million oz held in the JPMorgan COMEX warehouse. This creates the unanswered question of whether the 103 million oz held on behalf of SLV is also a big part of the 134 million oz held in the JPMÂ COMEX warehouse or if the 103 million oz is separate and distinct from the 134 million oz in JPMâ??s COMEX warehouse? This is a rather simple question that could be of significance.

Let me be as clear as I can be –Â I donâ??t know which it is, separate stockpiles of silver or a form of double-counting. I do know the question has been created because there are different regulatory regimes overseeing the reporting of the inventories in SLV and of the COMEX warehouse inventories, so Iâ??m not suggesting anything underhanded. Under the firm belief that it is better to light a candle than to curse the darkness, on Monday, I wrote to the two regulatory bodies having jurisdiction over the inventories in SLV and in the COMEX warehouses to get the question answered. Here is that letter â??

Dear Chairs Gensler and Behnam,

I respectfully petition you to settle an issue that straddles your jurisdictions. The issue concerns the accurate public reporting of recorded silver bullion inventories held in the worldâ??s largest silver ETF, SLV, of which BlackRock, Inc. is the sponsor and in the COMEX-approved silver warehouse inventories, of which the CME Group, Inc. is responsible.

The issue centers on the holdings in the JPMorgan COMEX silver warehouse, which currently amount to just over 134 million oz (of the 266 million oz total COMEX holdings) and the 103 million oz reported by BlackRock (of the total 441 million oz in the trust) as being held on behalf of SLV in New York by JPMorgan (which happens to be the official custodian of the physical metal held by SLV).

The issue revolves around whether the 103 million ounces held on behalf of SLV by JPMorgan in New York is part of the 134 million oz reported by the CME Group as being held in the JPM COMEX warehouse or if these are two separate silver holdings. Since the quantities involved are quite large, it makes a difference to silver investors whether these are two distinct holdings or if this is, effectively, a matter of double-counting. Iâ??m sure you would agree that transparency is the best policy and that investors would be better served if the situation was made clear.

It is because this issue involves different jurisdictions, with the S.E.C. responsible for accurate reporting on SLV and the C.F.T.C. responsible for the accurate reporting of CME Group COMEX warehouse data, that I write to you both. In order to streamline what should be a rather simple resolution process, I am copying this message to the CEOs of BlackRock, the CME Group and JPMorgan, all of which Iâ??m certain would be interested in setting the record straight.

On a separate note, I would like to thank Chairman Gensler for any assistance rendered as a result of my petitions last year about the excessive short position in SLV, as recent data indicate the short position fell from 60 million shares back in August 2022 to 16.5 million shares in the most recent short interest report, as of Oct 31, 2023, a reduction of 72%.

Sincerely,

Ted Butler

I also know that the answer can be uncovered within a few minutes and a few phone calls, so this is not some heavy-duty investigation, involving a drain on S.E.C. or CFTC resources. Iâ??ve also enlisted the aid of my local congressman, so an answer is just about guaranteed. Again, Iâ??m not suggesting any type of deliberate under-handed activity here, just an issue that fell through regulatory jurisdictional cracks that needs to be clarified.

I do feel that the market consensus considers that the 103 million oz in SLV in New York and the 134 million oz held in the JPM COMEX warehouse are two separate stockpiles and in my weekly tally of the combined holdings in SLV and the COMEX warehouses, I certainly have treated them as separate stockpiles. So, if the regulators report that these are two separate stockpiles, that is largely in the current market thinking and should have little price impact.

However, if it comes out that the 103 million oz is part of the 134 million oz held in the JPM COMEX warehouse, I could imagine a bullish reaction to what was inadvertent double-counting. And in the really way-out realm of speculation, based upon the timeline of me sending the message mid-morning on Monday, compared to the liftoff in silver prices yesterday morning, my darn Spidey senses are all tingling. Of course, when I receive a response to my question, Iâ??ll publish, as always, that response. Lastly, Iâ??m kind of surprised no one else has sought clarity on this issue before now (including myself).

Turning to other developments, I didnâ??t bother to Â publish special comments on Mondayâ??s holiday-delayed Commitments of Traders (COT) report because it largely conformed to my expectations of no significant overall positioning changes. In fact, the combined net changes in gold and silver were the lowest weekly changes in many months.

However, there were some surprises, including a deterioration (managed money buying and commercial selling) in gold, where I was expecting a slightly improved market structure (which we did get in silver). Another surprise was the sale and liquidation of more than 2500 contracts from the gross managed money long position in silver, where I thought we were already at rock-bottom levels. This is quite bullish on its face.

The total commercial net short position in gold increased by 3400 contracts to 186,700 contracts, another multi-month high (and contrary to my expectations). All the selling came in the form of new shorting by the 4 largest shorts, which added 7457 new shorts to a concentrated short position amounting to 153,054 contracts (15.3 million oz). If this had occurred in silver, Iâ??d be horrified, as big 4 selling is much more critical in silver than in gold. Despite some buying by the big 5 thru 8, the big 8 short position rose to 217,956 contracts (21.8 million oz). The raptors (the smaller commercials apart from the big 8) added 2900 new longs to a net long position amounting to 31,900 contracts as of last Tuesday, Nov 7.

The managed money traders bought 3395 net gold contracts (nearly matching the net commercial selling on a contract for contract basis), consisting of 498 new longs and the short-covering of 2897 contracts. The resultant managed money net long position grew to 78,235 contracts (140,609 longs versus 62,374 shorts). Like the commercial net short position, the managed money net long position is no better than neutral.

In COMEX silver futures, the commercials reduced their total net short position by 2400 contracts to 30,700 contracts, about in line with expectations. The 4 biggest shorts (unlike their counterparts in gold) reduced their total short position by a slight 140 contracts to 39,846 contracts. Since the COT report of OCT 10 (the low in the commercial short positions in both silver and gold), the concentrated short position of the 4 largest shorts in gold has increased by 33,000 contracts, but by only 1100 contracts in silver. The big 5 thru 8 short position in silver fell by around 50 contracts and I sense a managed money short still resides there to the tune of 3500 contracts or so, making the raptor net long position close to 19,500 contracts.

The managed money traders sold 4285 net silver contracts, more than expected Â (he said happily) and consisting of the sale and liquidation of 2562 longs, as well as the new short sale of 1723 contracts. The net managed money long position fell to just 350 contracts (25,457 longs versus 25,107 shorts), remarkably bullish. As previously mentioned, this is another new 10-year low for gross managed money longs and a sign that these longs have simply given up on silver moving higher â?? which in the perverse logic of the markets is remarkably bullish.

I have trouble imagining this as mere coincidence and detect the influence of the commercials (many of which serve as prime brokers to the managed money traders). I sense some unspecified influence on the part of some commercials to â??persuadeâ?• their managed money clients not to be long silver, although I canâ??t possibly prove that. I know that I have mentioned that I wouldnâ??t be surprised whenever silver does explode in price, that the managed money traders would have great difficulty in establishing a significantly large long position and the current extremely low gross managed money long position is very much in keeping with that.

Summing up the current market structures in COMEX gold and silver futures, it would appear, in market structure terms, silver should be outperforming gold. That would appear to be under-pinned by evidence of a deepening physical shortage in silver.

As far as what this Fridayâ??s new COT will look like after yesterdayâ??s close to the reporting week, Iâ??m not sure. Had you asked me Monday night, Iâ??d have ventured an improvement (managed money selling and commercial buying) based upon mostly weak prices over the reporting week thru Monday, but yesterdayâ??s strong advance, particularly in silver, alters things. I also have my suspicions that yesterdayâ??s sharp rally in silver in light of a CPI report that wouldnâ??t be expected to set off such a rally, may have something to do with the email I sent to the S.E.C. and CFTC on Monday â?? but that may be just way-out speculation on my part.

What I donâ??t believe is way-out speculation is that silver will suddenly explode, apparently out of nowhere someday soon, based upon its four decades of price suppression on the COMEX and what will set it off may be considered something not overly significant. In other words, the set up for a silver price explosion is firmly in place, particularly in the face of the deepening physical shortage and quite bullish market structure. It shouldnâ??t take much to ignite the coming price explosion.

(Iâ??m sending this out earlier than usual, mainly because earlier, I hit the wrong darn key and inadvertently erased what was largely a completed article. I just couldnâ??t take the chance of pulling such a bone-headed and fat-fingered move twice on one article. Saturdayâ??s weekly review will also be published earlier than usual, as Iâ??m scheduled to attend a memorial service for recently departed in-law).

Ted Butler

November 15, 2023

Silver – $23.50Â Â Â (200-day ma – $23.39, 50-day ma – $22.83, 100-day ma – $23.34)

Gold – $1965Â Â Â Â Â Â (200-day ma – $1948, 50-day ma – $1939, 100-day ma – $1945)

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