

November 29, 2023 – Assessing the Rallies So Far

From the price lows of early October, gold prices have risen by around \$220 (12%) and silver by \$4 (19%), with gold definitely leading the way until recently, but with \$3 of the silver rally occurring over the past couple of weeks. To this point, the price rallies in gold and silver appear tied to positioning changes in COMEX futures between the managed money traders and the commercials (mostly banks).

From the October lows, the managed money traders in gold have purchased more than 100,000 net contracts (10 million oz), while in silver, the managed money traders bought around 15,000 contracts (75 million oz), in both cases split between new buying and short covering. On a historical comparison basis, the buying in gold was more pronounced than in silver (as of the latest COT report).

Of course, going into the October price lows, there was pronounced net managed money selling in gold, where in a two-week period, these traders sold around 70,000 contracts on a commercial-orchestrated selloff of \$120. The selloff in silver to the October lows was around \$3, on around 10,000 net contracts of managed money selling. At the time, I attributed the lack of greater managed money selling in silver as being due the already quite-bullish market structure that existed in silver relative to gold.

Since I am of the firm opinion that the COMEX commercials induce (or even force) the managed money traders into buying or selling by generating price signals above and below key moving averages, both the sharp selloff into early October and the subsequent greater rallies were in keeping with my theme that this is price manipulation on full display. Certainly, at the October price lows, the market structures in both gold and silver were extremely bullish, as was represented on these pages. OK, now what?

While it's possible for much greater managed money net buying to come in gold, which would continue to drive prices higher, it's also true that we're closer to the highs in managed money net long positions of the past couple of years (although there is still room for as many as another 100,000 contracts of managed money buying if we go back longer than that). In silver, there is potentially more relative managed money buying possible than in gold, but should new managed money buying be the sole reason for higher gold and silver prices to come, history also suggests such rallies end badly with the collusive COMEX commercials rigging prices sharply lower and forcing an avalanche of managed money selling.

However, other forces at play suggest to me that the current gold and silver price rallies, largely driven by managed money buying on the COMEX to this point, could turn out quite differently this time around. What's different are the remarkable developments on the physical side of both metals, where in silver the signs indicate a deepening physical shortage and in gold, such pronounced physical demand so as to suggest in both metals that physical demand might finally over-power the artificial paper pricing regime of the COMEX which, in the case of silver has suppressed prices for 40 years. (It's hard to make the same suppression case in gold, since prices are quite close to all-time highs, whereas silver is still half its price highs of 43 and 12 years ago).

While the growing physical demands in silver and gold are somewhat different, in that silver's growing physical demand has been driven by its non-investment industrial component, and gold's

physical demand has largely been driven by official and investment demand from the East, the two metals do share a unique potential physical demand that could easily come into play. Here, I speak of great potential physical demand from ETF (Exchange Traded Fund) buying.

For sure, paper positioning on the COMEX has driven gold and silver prices, but the COMEX is mostly a private betting game between the managed money traders and the commercials that has attained price dominance due to tradition and the passage of time, but "private" also means a rather limited number of participants. The vast majority of investors, large and small, don't deal in COMEX gold and silver futures and that is unlikely to change. Compared to the many tens of millions of investors worldwide, not more than 100 or 200 large traders (or a lot less) control the private COMEX betting game and that has been true for decades. In fact, when you step back and think about it, it's absolutely absurd so few paper traders dictate gold and silver prices most of the time. To add insult to injury, there is so little legitimate hedging involved on the COMEX "both the managed money traders and the commercials are speculating, destroying any argument that COMEX silver trading, in particular, is anywhere near legitimate.

On the other hand, the vast majority or nearly all of the world's tens of millions of investors have stock brokerage accounts, with immediate access to buying any stock they care to buy. Whereas it's almost impossible that many will rush out to open commodity futures accounts to buy or sell COMEX gold or silver futures contracts, virtually all of the world's investors already have the ability to buy gold and silver ETFs, of which GLD is the largest in gold and SLV is the largest ETF in silver. My point is simply that tens of millions of investors already have the ability to buy gold and silver ETFs on a moment's notice.

Therefore, the question is what, if anything, might set off massive collective investor buying of gold and silver ETFs? The only answer that comes to mind is a sufficient enough price rise. I believe it is beyond dispute that collective investor buying demand occurs on higher prices (and collective investor selling occurs on lower prices). It matters not what the asset or security may be, as this is more a case of collective investor behavior and human nature than anything else. In addition, since there is so little current ownership of gold and silver in the general investment community, it's impossible for there to be great general investor selling in gold and silver "only buying.

More specifically, how much of a price rise in gold or silver will it take to ignite pronounced ETF buying? My guess is new price highs in gold, which are not that far off and further, I believe there has already been enough of a gold price rise to date for there to have been a notable pickup in buying in GLD, based upon trading volume statistics this week. The price rise necessary in silver to set off big ETF buying is less clear, mainly because we are still so far below previous all-time price highs. But I would imagine a pickup in silver ETF buying as and when we take out multi-year highs, now only a couple of dollars above current prices and even more buying as and when we take out the decade-old \$30 price resistance level.

I know this is old stuff for subscribers, but what makes prospective collective investor buying in the gold and silver ETFs so special is the mechanics of how these ETFs work. While it is true that collective investor buying in any stock or investment asset has an immediate effect on further accentuating a price rise, what creates a very special additional price force in gold and silver ETFs is the requirement that net new investment demand be accompanied by the equivalent physical metal being deposited into the trust to match the net investment demand. Very few ETFs have this requirement, with the only

others being in platinum, palladium and uranium (which I believe lays behind the rise in uranium prices to 15-year highs).

The ironic thing is that I'm convinced very few of the prospective buyers of gold and silver ETFs are aware of (or even care) that additional physical metal must be deposited on collective new buying of the shares. Investors buy when they think they will make a profit and very few show much concern for the specific mechanics under the hood. Regardless, there is a potent additional price force to net new investment buying in the gold and silver ETFs, beyond the obvious upward price pressure exerted by new buying of these shares – in that physical metal must be rounded up and deposited as well, creating a separate upward price force not found in the many tens of thousands of other securities.

Particularly in times of existing physical tightness, like now, any additional physical metal buying demands – can have a pronounced impact on price, as compared to times when general physical conditions are not so tight. While the majority of potential gold and silver ETF investors which may be unaware or unconcerned about the additional pressure significant ETF – buying – might cause in the physical gold and silver markets, you can be certain this distinction is not lost on the collusive COMEX commercials which are more than well-aware of the impact of new ETF buying. These crooks know what massive ETF buying can do to price and therefore, they have every incentive to prevent or delay such buying the only way they can, namely, by capping price rallies. – It's a heck of a lot easier to keep prices from rising than in scrambling to dig up physical gold and silver to satisfy ETF delivery requirements.

Therefore, it's in the COMEX commercials' best interest to cap and contain the current gold and silver rallies, lest they get out of hand. And I can't shake the thought that based upon the trading volume and price rise so far this week, that a good amount of gold is – owed – to GLD and last night's big redemption in SLV (more than 4 million oz) was counterintuitive to the max, with the most plausible explanations being metal needed more urgently elsewhere or a large shareholder converting shares to physical metal for future share ownership reporting requirements.

On the other hand, we could be at the point, particularly in silver, where the law of actual supply and demand has been so distorted for so long (40 years) that paper shenanigans on the COMEX are insufficient to stem the tide of the required price explosion. We should find out soon which it will be, but in the event the commercials succeed in generating a selloff, the matter will only be postponed, not eliminated. It's easy for me to say as I'm not selling in any event.

In other developments, I read where a judge in the U.K., essentially, threw out the case against the LME for cancelling contracts in the great nickel debacle of a couple of years back, siding with the exchange that it had the right to undo contracts. I suppose appeals will be in order, but at this point the LME looks to have prevailed. It does appear that the exchange has prevailed, but I wouldn't translate that to similar circumstances occurring someday in COMEX silver, for the simple reason that silver is a primary investment asset, whereas nickel is not. Plus, there is no ETF that buys physical nickel, whereas there are quite a few in silver.

<https://www.reuters.com/legal/transactional/lme-wins-lawsuit-brought-by-financial-firms-over-cancelled-nickel-trades-2023-11-29/>

Late Monday, the new short report on securities was published and indicated that the short position on SLV rose very modestly, by 400,000 shares to 16.9 million shares (15.5 million oz), as of Nov 15.

While I still believe the actual short position on SLV may be substantially lower than reported (due to shorting against the box), I was relieved the short position remained more than 70% below the levels that prevailed in August 2022, for selfish reasons.

<https://www.wsj.com/market-data/quotes/etf/SLV>

As you may recall, I wrote to the chairman of the S.E.C., Gary Gensler, on four separate occasions, culminating with the August 2022 peak of 60 million shares in the short position on SLV, complaining that not only was the short position excessive and manipulative to the price, but also represented fraud in that the shorted shares deprived shareholders of the full metal backing required by the prospectus.

More recently, in the email I sent to Chair Gensler and the Chair of the CFTC, about possible double-counting of SLV and COMEX warehouse inventories a little over two weeks ago (no answer yet), I closed the email with thanks to Gensler for any assistance he may have rendered in seeing that the short position on SLV was radically reduced from where it was in Aug 2022. The very slight increase in the short position of SLV in the new report was personally relieving to me – much more than a sharp increase would have been in light of my compliment.

Of course, I can also report that in addition to the sharp decline in the SLV short position of 70% since my last petition in August 2022, neither the S.E.C. nor BlackRock (the trust's sponsor), nor anyone else, has refuted or attempted to rebut my contention that shorted SLV shares mean those shares don't have the metal backing mandated by the prospectus.

Finally, as far as what positioning changes may be reported in Friday's new COT report, as of yesterday's close to the reporting week, I'm not sure. As was the case for last week's COT report, arguing for significant managed money buying and commercial selling was the gold price rise of more than \$40 and the \$1.20 jump in silver prices; with still rather subdued trading volumes (once roll-over transactions were subtracted), as well as with changes in total open interest (down nearly 3000 contracts in gold and up 5000 contracts in silver) muddying the waters a bit. I'm pretty sure there was managed money buying and commercial selling, but since I'm more concerned with the actual details of what the commercials did by category, I'd rather wait for the report for analytical purposes, rather than speculate beforehand.

However, it is clear that we are at a critical point in gold and silver, both in COMEX positioning and in terms of physical market developments – perhaps the most critical in quite some time. It's not hard to envision prices getting uncorked to the upside, due to physical ETF buying (as well as leveraged call option buying in silver) on not that much of a further price rise. It's also not hard to imagine the commercials making a stand here, which may succeed in blunting further price gains in the short term, but will likely fail beyond the short term.

One quick note – with tomorrow's first notice day of delivery on the COMEX December contracts and with almost all of December's open interest already rolled over to the March contract in silver and February in gold, prices have or will jump by more than 35 cents in silver and \$20 in gold, giving an unexpected jolt to metal observers unaware of the effect of the switch. Prices didn't actually suddenly jump by those amounts, it's just a reflection of high short term interest rates on the monthly spread differentials. I'm sticking with December prices for today's price closes, but will be shifting to March in silver and Feb in gold come the weekly review.

Ted Butler

November 29, 2023

Silver – \$25.10 (200-day ma – \$23.45, 50-day ma – \$22.97, 100-day ma – \$23.44)

Gold – \$2047 (200-day ma – \$1953, 50-day ma – \$1949, 100-day ma – \$1951)

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