

## November 4, 2023 – Weekly Review

Another Friday rally helped gold trim its weekly loss to \$17 (0.8%), which was still the second highest weekly close in three months, while the Friday rally actually put silver up on the week by 10 cents (0.4%) – although it sure didn't feel like silver would end the week higher while I was on the road. The surprising relative strength in silver trimmed about a point off the silver/gold price ratio, to just under 86 to 1, which still represents a stunning undervaluation of silver compared to gold.

In fact, there was something different in silver's price action yesterday, along with the elevated trading volumes, that raised my "Spidey" senses. Of course, I may be reading something into this that's simply not there, but silver's price action over the past few weeks has been strange, particularly when measured against developments in the physical market and futures positioning on the COMEX – especially when compared to gold, when it comes to COMEX positioning. Yesterday's new Commitments of Traders (COT) report emphasized this point.

For the third reporting week running, there was another notable increase in commercial selling and managed money buying in gold (although not as steep as the two previous reporting weeks), along with an actual decrease in commercial selling in silver, including an increase in managed money selling. Over the past three reporting weeks, the managed money traders have purchased more than 100,000 net gold contracts on what has driven a \$200 rally, while over that same time, the managed money traders in silver have purchased less than 10,000 net contracts.

While it's true that silver had risen in price by as much as \$3 over this time, it was a ragged and weak-looking rally compared to gold's rally. The key difference between the price rallies in gold and silver over the past three reporting weeks, was that gold blasted through all its key moving averages early on and has spent the last three trading weeks above all those moving averages, while silver has yet to close decisively above all its key moving averages for even a day. Once again, moving average penetrations are not anything that particularly motivate me, but, clearly, that cannot be said of the managed money technical funds, which apparently live and die by them.

Circling back to my Spidey-sense in silver's price action yesterday, it just felt like the commercials were up to no good (what's new?), but this time it involved positioning that may portend favorably for higher silver prices. I suppose I could be imagining stealth commercial buying, but when I look at what has transpired this week in the physical silver market, I can't help but feel things are reaching a point of no return. I'll get into the new COT report shortly, but let me run through the usual weekly format first, which generally deals with physical market developments.

The turnover or physical movement of metal either brought into or removed from the COMEX-approved silver warehouses turned in an average weekly movement this week, compared to the past 12.5 years, as 4.95 million oz were moved. Of course, what is "average" in silver would be the subject of intense notice should it occur in any other commodity, simply because the physical inventory turnover in silver is head and shoulders above the movement anywhere else – but let's keep this to ourselves.

This week, total COMEX silver inventories fell by 2.7 million oz, to 267.3 million oz, taking out the

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previous low back in June and setting a new 5-year low. No change in the JPMorgan COMEX silver warehouse this week, which remained at 134.4 million oz. While total COMEX silver inventories are roughly now the same as they were in early-2018, I would estimate that since that time, more than 1.5 billion oz have been physically-moved into and out from these warehouses, an annual inventory turnover rate of well-over 100%. It's hard to imagine a higher commodity inventory turnover rate or the intense demand that drove it.

There was a slight increase in the total COMEX gold warehouse inventories to 19.9 million oz, as well as an even slighter increase in the JPM COMEX gold warehouse to 7.35 million oz.

There were (finally) some decent inflows into the world's gold ETFs, of upwards of 750,000 oz, following a period of overall strong gold price performance, exactly the way it normally flows, namely, with gold prices set higher by COMEX positioning, which translates into net investor buying in gold ETFs and the requirement to deposit physical metal to match the new share creation. However, what has been the normal process in gold has not been the case in silver.

Silver prices have not seemed anywhere near as strong as in gold, but they have still been higher over the past few weeks and there has been no indication of net investor selling, which would have suggested net redemptions in silver ETF holdings. Yet that is precisely what has occurred. More than 7 million oz have come out of the world's silver ETFs this week, not limited to SLV, the largest. We've even witnessed large redemptions in the PSLV, where some 300,000 oz were still due to be purchased, based upon money flows. I have to confess to being somewhat disappointed that there has been no explanation from PSLV about the redemption of more than 1.3 million oz this week, as my sense was that management of PSLV were sensitive to investor concerns.

Best I can tell, the only plausible explanation for the large outflows in the silver ETFs this week was because the metal was more urgently needed elsewhere and existing large shareholders chose to convert shares to physical silver to accomplish getting the needed silver to the desired locations. Of course, that explanation is bullish beyond description, as it is the epitome of physical shortage, which in a normal world would result in surging prices with a "normal" world not subject to a COMEX manipulation.

In fact, the combined holdings in the two largest silver stockpiles, that of the COMEX warehouses and the holdings in SLV, fell by nearly 5 million oz this week to 707.9 million oz, now far below my 750 million oz and then 730 million oz "bottom of barrel" levels of earlier this year. While I am still surprised about how low these combined inventories have fallen, I am more shocked about the lack of surging prices in the face of about the clearest indication of physical shortage there can be.

Likewise, I am amazed at the number of new commentaries predicting price explosions and moonshots in silver without the slightest mention of the now-obvious COMEX price manipulation. The only reason why silver will explode in price is because it has been manipulated so low and for so long that it can't help but explode at some point. Not to see that this has been going-on for 40 years is unforgivable for anyone espousing a price explosion.

Turning to yesterday's new COT report, based upon price action over the reporting week ended Tuesday, the results in gold weren't particularly surprising, seeing as gold prices continued strong, making new highs and remaining well above all key moving averages. Silver, in contrast, struggled price-wise, not closing above its 100 or 200-day moving averages, so its slight positioning

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improvement was welcomed.

In COMEX gold futures, the commercials increased their total net short position by 16,800 contracts to 182,700 contracts, the largest such position in three months. While much less than the two previous reporting weeks, the three-week increase in the total commercial short position came to more than 92,000 contract (9.2 million oz). Then again, this was a three-week period which featured one of the sharpest gold price rallies (\$200) on record and we can only speculate how much greater the rally could have been without 92,000 contracts of commercial selling.

By commercial category this week, the big 4 added around 7500 new shorts to a short position amounting to 145,597 contracts (14.6 million oz). The next 5 thru 8 largest commercial shorts continued to shy away from the short side and bought back around 700 short contracts, pushing the big 8 short position to 211,735 contracts. The raptors (the smaller commercials apart from the big commercial shorts) sold off 10,000 longs, leaving them with 29,000 net longs.

The managed money traders were net buyers of 19,092 gold contracts, consisting of the purchase of 17,655 new longs, as well as the buyback and covering of 1437 short contracts. The resultant managed money net long position grew to 74,840 contracts (140,111 longs versus 65,271 shorts), the largest such position in three months. Having increased by more than 100,000 contracts over the past three weeks, the managed money net long position has come a long way and cannot possibly be considered bullish, although on longer historical terms is not yet flat out bearish.

In COMEX silver futures, the commercials reduced their net short position by 1400 contracts to 33,100 contracts, still at a quite bullish level (particularly when compared to gold). Unfortunately, it appears that a managed money trader has reentered the big 5 thru 8 category, so my calculations are once again a bit fuzzy in terms of the commercial categories. But fuzzy is definitely not bad in this case.

The 4 biggest commercial shorts did increase their net short position by a bit over 550 contracts to 39,989 contracts, never a good sign, but also not particularly bad, in that since Oct 10, the short position is only 1300 contracts higher (compared to the 25,500 contract increase in the big 4 gold short position). Based upon the net reduction in the silver commercial short position, it became obvious a managed money trader holding around 3000 contracts short is back in the big 5 thru 8 short category, meaning the raptors are net long 17,700 contracts.

On the managed money side of silver, these traders were net sellers of 2609 contracts, consisting of the sale and liquidation of 1598 longs and the new short sale of 1011 contracts. The resultant managed money net long position fell to 4635 contracts (28,019 longs versus 23,384 shorts). Rarely has the gross managed money long position been this low over the past ten years and didn't get as low as current readings even during the epic selloff of early 2020, when silver plunged below \$12. I can't help but believe that the commercials (which serve as the prime brokers to the managed money traders) have been actively discouraging the managed money traders from going long.

The most important point here is that gold's superior price performance relative to silver over the past few weeks has been due to the much-greater expenditure of potential managed money buying in gold than in silver. It's not like the managed money buying in gold was unexpected in any way and it was always unknown which metal would run first, although silver does have a history of getting off the blocks quicker just not this time. In other words, the most encouraging aspect to silver's rotten price performance relative to gold these past few weeks is the relative lack of deterioration in the

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COMEX silver market structure as compared to gold.

And when one superimposes the impossible-to-deny clear cut signs of the deepening physical shortage (sharp reductions in inventories in the COMEX warehouses and just about every silver ETF), if one is not mystified by how silver's price hasn't surged, then one hasn't been paying close enough attention to what explains this, namely, the obvious manipulation on the COMEX. But let's put this on fast/forward and see where we're headed. How much more physical silver can be bled from investor holdings when there is no evidence investors are selling on a net basis? How long can the rotten price action in silver continue amid no evidence of legitimate selling or the slightest hint of justification for the current uneconomic low price? It would seem not much longer.

I'm still sensitive to the lack of new shorting by the commercials in the big 5 thru 8 categories in both silver and gold, which suggests these traders are concerned with potential losses on short positions, making them reluctant to add new shorts. It's beyond curious why this category of commercial shorts is holding record low short positions.

That's why I'm sensitive to yesterday's unusual price action and heavy trading volume in COMEX silver futures. Even if the collusive commercials take silver prices lower yet again (not something I'm expecting), the payoff seems pretty skimpy, certainly in terms of how much additional managed money long liquidation can be achieved. I suppose it's possible to induce more managed money shorting on lower prices, but there is no way those going short will exit those new short positions with a collective profit (I think that's the Eleventh Commandment).

For a number of reasons, I can't help but speculate that the commercials may have deliberately induced some managed money shorting yesterday in silver or somehow better positioned themselves for a long-overdue price liftoff. Let's face it – it is beyond obvious that the commercials have worked overtime to keep silver prices from decisively upwardly penetrating all the moving averages in silver, while no such similar effort has been expended in gold. The question is why? I can't help but feel the answer has to do with my longstanding contention that the key to the continued manipulation of silver prices is the willingness of the biggest 4 and 8 commercial shorts to add aggressively to short positions on silver price rallies.

At this point, the 4 big shorts haven't added aggressively to silver shorts and the big 5 thru 8 commercials have been aggressive in avoiding new shorts. Maybe that changes as and when all the key moving averages are penetrated to the upside, which will occur at some unknown point, but perhaps sooner rather than later. However, there can be no denying the signs are strong in the physical market that we are in a physical shortage and that makes the expectation of continued low prices unrealistic, to say the least. The only known free market cure for a physical shortage is higher, not lower prices.

The final question is how we arrive at those required higher silver prices. It's hard, no impossible, for me to see how the move to the shortage-ending higher silver prices being a gradual two steps up, one step back process – not after 40 years of a COMEX price suppression/manipulation. When silver does go, it goes big and fast. I am not at all sure whether the cause of the coming rocket ride of higher silver prices (the termination of the COMEX price manipulation) will ever be widely recognized, even after the price explosion, but that's something we will learn in time and is less important than the coming explosion.

Ted Butler

November 4, 2023

Silver – \$23.32 (200-day ma – \$23.42, 50-day ma – \$23.08, 100-day ma – \$23.38)

Gold – \$1999 (200-day ma – \$1947, 50-day ma – \$1938, 100-day ma – \$1944)

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