October 1, 2022 – Weekly Review

After knifing down to new lows early Wednesday (2.5-year new lows in gold), gold and silver prices rallied to end higher for the week â?? with gold ending up by $20 (1.2%) and with silver ending the week 20 cents (1.1%) higher. As a result of the nearly flat relative performance, the silver/gold price ratio was, essentially, unchanged at 87.8 to 1.

Yesterday also marked the end of the third quarter and, aside from the US dollar index, itâ??s hard to find a commodity or financial market that finished higher. While silver and gold were also lower for the third quarter; silver by $1.30 (6.4%) and gold by $133 (7.4%), the silver/gold price ratio tightened in by a point. Why I find this interesting is that it now appears that gold has now â??caught upâ?• with silver in terms of the one thing that matters most in determining the price â?? COMEX futures market positioning, according to yesterdayâ??s new Commitments of Traders (COT) report. In other words, in market structure terms, both metals now look explosive to the upside.

Although I discontinued weekly calculations of how the 8 big COMEX commercial shorts were faring financially, the end of this quarter appears to have resulted in their lowest quarterly loss since I originally began tracking their losses in June 2019. Iâ??d peg the losses to be less than $5 billion â?? the lowest since March 31, 2021 and down from peak losses of $16 billion. More importantly, the commercial-only concentrated short positions in both COMEX silver and gold now appear to be fully-covered in practical terms â?? meaning there doesnâ??t appear to be any capacity for further commercial short-covering. The Bear Trap appears to be set â??

https://silverseek.com/article/bear-trap-it-finally-set

Iâ??ll get into the details of the new COT report in a bit, but canâ??t help but remarking that we now appear to be at an extreme inflection point in terms of gold and silver and other major world stock and bond markets and itâ??s almost a bit unnerving (in a good way) to see gold and silver so favorably positioned on the COMEX at this particular junction of near-maximum stress in world financial markets. While my bullishness for silver and gold is rooted in the fundamentals of physical supply and demand and COMEX positioning, one canâ??t hold either without becoming mindful at times of their inherent qualities as safe haven refuges â?? although that has been missing to this point.

This weekâ??s reports of extreme stress in the UK financial system due to distress selling by pension funds due to margin calls on derivatives contracts tied to interest rates is a case in point. Years of ultra-low (even negative at times) interest rates caused pension funds and other investors to â??reachâ?• for returns by deploying risky derivatives contracts. Now that interest rates have risen sharply, a day of reckoning appears to be at hand. When I think back on the financial crises and market panics over the past few decades, starting with the stock market crash in 1987, to the crisis caused by Long Term Capital Management in 1998 and the Great Financial Crisis of 2008-2009 involving Bear Stearns, Lehman Bros and AIG, a common-denominator involves the inability to meet margin calls from derivatives.

Thatâ??s because derivatives contracts involve extreme leverage and whenever sudden trouble appears (as it always does at some point), the side losing faces inordinately large losses because so much leverage was used. Itâ??s no coincidence that the 4 and 8 largest shorts in COMEX silver and gold faced extreme stress and losses from mid-2019 to recently, but now they appear to have escaped, mostly intact, but the problem in COMEX gold and silver has always been the extreme leverage that futures contracts involve â?? although now, at least, it is no longer the commercials at risk.

A little over a year ago, my son refinanced his mortgage at a bit less than 3% for a 30-year mortgage â?? just like the many millions of homeowners who took advantage of the ultra-low rates that prevailed for a couple of years, if not longer. While my son and the millions of homeowners that did lock in the low rates are sitting pretty and glad they did so, the flip side is that those that granted the mortgages are that much worse off for having done so. A bond or mortgage granted at 3% for 30 years, gets marked down drastically in value when interest rates suddenly double or more (ask the pension plans in the UK).

Moreover, a good portion of the long-term mortgages granted at 3% were undoubtedly securitized by Wall Street â?? meaning many of tens and hundreds of billions of dollars (and more) involved (you-know-what) â?? derivatives. The problem with derivatives contracts is that there must be both a long and a short and when big moves suddenly occur, those on the correct side make more money than can be imagined, while those on the wrong side suffer the same in losses â?? often to the point of being unable to meet the sudden margin calls. In such a circumstance, it is the inability of the losers to fund margin calls that creates the crisis.

The turnover or physical movement of metal either brought into or removed from the COMEX-approved silver warehouses came to 5.5 million oz this week, slightly above the weekly average of the past 11+ years. Total COMEX silver holdings fell again, this week by 2.6 million oz to 314 million oz, another new multi-year low. Holdings in the JPMorgan COMEX warehouse fell by 1.2 million oz to 162.9 million oz.

Holdings in the COMEX gold warehouses also fell again, this week by 0.5 million oz to 26.3 million oz and also a multi-year low. Likewise, holdings in the JPMorgan COMEX gold warehouse fell to 10.77 million oz, down by close to 0.4 million oz, representing the bulk to the total decline.

The question is not whether the declining levels of silver and gold in the COMEX warehouses are more bullish than bearish to price, particularly when combined with almost every other physical development in the precious metalâ??s world, which suggest physical tightness. The question is why have prices fallen in the face of such near-universal bullish inputs? If thereâ??s another answer away from the obvious, namely, deliberate COMEX commercial positioning of futures contracts, then I donâ??t know what that alternative answer might be.

There were very large deliveries in the COMEX October gold contract of more than 20,000 contracts in the first two days of delivery, but I am hard-pressed to uncover the essence and meanings of the deliveries, other than they involved commercials on either side. Even here, if the deliveries were more bullish than bearish â?? in keeping with just about every other physical input â?? then why are prices so low? Same answer as thousands of times before â?? futures positioning.

Gold keeps departing the worldâ??s gold ETFs, in apparent response to the lower prices. Silver ETF holdings also declined sharply this week, but once again, not particularly in SLV, but in SIVR and other silver ETFs. And the â??chunkinessâ?• of the silver ETF redemptions doesnâ??t point to plain-vanilla investor liquidation, but rather strategic deployment of physical silver to where it is needed most. That hardly sounds bearish to me. Likewise, the sudden plethora of reports from the retail front of lean inventories sure donâ??t sound bearish.

Turning to yesterdayâ??s COT report, we came in mostly neutral in silver and with an improvement (managed money selling and commercials buying) in gold. I had expected an improvement in each, with no numbers offered, with the caveat that we may have reached maximum managed money shorting â?? which I think was borne out in silver. The gold numbers werenâ??t a blow-out (like last weekâ??s report), but did appear to represent the final touches of an epic commercial rig job.

In COMEX gold futures, the commercials bought and reduced their total net short position by 13,300 contracts to 62,100 contracts, another new multi-year bullish low. From the price top of March 8, as gold prices fell more than $450, the total commercial net short position fell by 245,000 contracts (24.5 million oz). What makes this amount so significant is that it towers above any known positioning in gold in any other venue, even on a cumulative basis. In other words, more gold equivalent changes hands on the COMEX than anywhere else in this time. To those who would doubt the influence of COMEX positioning on price, I would ask that they explain why else gold prices declined.

Even more significantly and has been the case on the most recent deliberate gold price smash, the biggest commercial buyers were the former big concentrated shorts. On a combined basis (managed money plus commercial), the posted big 4 short position fell this week by 7000 contracts to 87,756 contracts (8.8 million oz) and the posted big 8 combined short position fell by 10,500 contracts to 147,174 contracts (14.7 million oz) â?? both multi-year lows. But the commercial-only component of these positions fell even more, as the commercial-only big 4 position fell to around 45,000 contracts (4.5 million oz), while the big 8 commercial-only component fell to 105,000 contracts (10.5 million oz).

For all intents, these are the lowest commercial-only concentrated short positions in history and itâ??s hard for me to imagine, in view of price action, how these positions could be further decreased. Having succeeded beyond imagination in covering a concentrated short position they were stuck in for years, I just canâ??t see how or why the former big commercial shorts would add to new short positions on a gold rally about to unfold. But as I think you know â?? thatâ??s the multi-billion-dollar question.

The managed money traders sold 6399 net gold contracts, consisting of the sale and liquidation of 4373 longs and the new sale of 2026 short contracts. Thus, the managed money net short position increased to 43,099 contracts (74,171 longs versus 117,265 shorts), the largest and most bullish position in nearly 4 years. Separately, the gross managed money long position is now at a decade-low (or since the disaggregated records have been kept) and reflective of extremely low long positioning (which is bullish on its face). Itâ??s hard to imagine the managed money traders getting to such anÂ extreme position without a giant assist from the commercials.

Explaining, once again, the difference between what the commercials bought (13,300 contracts) and the managed money traders sold (6399 contracts), was the selling by the other large reporting traders of 7242 net gold contracts, consisting of the sale and liquidation of 3030 longs and the new sale of 4212 short contracts. This raises the question of just what is behind the sudden recent spate of selling by the other large reporting traders. Some might say the selling is in response to the gold price swoon, but that seems rather circular to me.

Instead, I would advance the argument I made recently about the commercials who serve as price brokers to the manage money trades, also serving as prime brokers to the other large reporting traders. Not to beat around the bush, I believe the commercials deployed the same dirty tricks and influence they had on the managed money traders in persuading them to sell, on the other large reporting traders as well. Â Considering the stakes for the commercials had they not drastically reduced their concentrated short position in gold, could anyone doubt that the commercials would have resorted to any means possible to get every large non-commercial (managed money and other large reporting trader alike) to sell – like whispering in their ears how gold is about to tank? The expression, â??by any means necessaryâ?•, comes to mind.

In COMEX silver futures, the commercials increased their net short position by 1200 contracts, to 6900 contracts. Not only is this still an extremely low and bullish commercial net short position, the deterioration appears to have come from raptor long liquidation and not new short selling (by the big former commercial shorts). The posted combined (commercial plus managed money) concentrated short position fell by a thousand contracts to 42,957 contracts (215 million oz), while the big 8 combined short position fell by 1400 contracts to 65,016 contracts (325 million oz). I would peg the commercial-only component of the big 4 to be 26,000 contracts and the big 8 commercial-only component to be 42,000 contracts, unchanged for the week.

Sometime back (I canâ??t remember exactly when), I believe I commented to the effect that if the commercial concentrated short position of the big 4 fell to 30,000 contracts or less, that I would no longer be able to allege that these traders were still manipulating the price of silver. Well, here we are (and have been), so what do I say now? I would say now that should the former big commercial shorts not dramatically increase their concentrated short position on the next rally, then they no longer manipulate silver prices (for the first time in 40 years). Then again, thatâ??s been my basic message for months.

On the managed money side of silver, these traders were net sellers of just 72 contracts, consisting of the sale and liquidation of 2165 longs, as well as the buyback and covering of 2093 short contracts. Thus, the net managed money short position of 8093 contracts (34,429 longs versus 42,522 shorts) is still quite large and bullish. I hated to see 2000 (gross) managed money shorts bought back this week, but it does tend to confirm these traders will run quickly and may have reached their risk-adjusted limits of short selling. You may remember that last week, the managed money traders bought a scant 264 net silver contracts, which also involved 2000 contracts of gross short covering.

Still, with more than 42,500 contracts gross short as of Tuesday (likely down to 40,000 contracts after yesterdayâ??s trading), the managed money traders are still heavily short and quite lean on the long side – a rather bullish configuration. My own take is that the catch-up by gold to reach its now-wildly bullish market structure more than offsets any of the deterioration in silver market structure. Taken on a combined basis, both COMEX silver and gold are now positioned for an upside moonshot.

Most remarkable has been the recent relative improvement in gold market structure, particularly as concerns the former big commercial shorts. As mentioned above, the total commercial net short position in gold fell by 245,000 contracts from March 8 thru this past Tuesday. Even more remarkable, however, is that the commercial-only component of the big 4 accounted for 143,000 contracts of that total commercial short reduction, with the next 5 thru 8 commercial shorts increasing the concentrated short covering by 174,000 contracts.

Now that we are at historic low levels of commercial short positions in both COMEX gold and silver, particularly of the concentrated variety, in a financial world seemingly more imbalanced and fraught with risk each passing day â?? what are the odds that the big commercials havenâ??t positioned themselves for a gold and silver rocket price ride? I admit to becoming wildly bullish over the past few months and while that was a bit premature in hindsight, the resultant improvement in market structure, particularly in gold, only makes me that much more bullish today.

Ted Butler

October 1, 2022

Silver – $19.03Â Â (200 day ma – $22.00, 50 day ma – $19.24, 100 day ma – $20.04)

Gold – $1671Â Â Â Â Â (200 day ma – $1827, 50 day ma – $1737, 100 day ma – $1772)

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