

## October 14, 2023 – Weekly Review

Another sharp Friday rally propelled gold and silver prices to sharp gains, with gold ending higher by \$100 (5.4%) and with silver finishing \$1.20 (5.5%) higher for the week. As a result of the nearly identical percentage gains, the silver/gold price ratio remained unchanged at 85 to 1. While it is rare for silver not to outperform gold on a relative basis on such sharp overall gains, I read nothing into this week's performance to suggest silver will not catch greater relative upside fire ahead.

As for what accounted for the sharp price rallies in gold and silver on Friday, it certainly didn't appear to be a general panic in the markets as a whole, as none of the other metals moved much, nor did equity or debt markets and the dollar was about unchanged. Crude oil was sharply higher, due to its crossing below and above its 50-day moving average, as the managed money traders continued to get whipsawed, so gold and silver appeared somewhat alone in Friday trading.

The only plausible explanation for the surge in gold and silver prices yesterday were massive positioning changes in COMEX futures – still the prime, if not sole, price driver. And last night's release of the new Commitments of Traders (COT) report put an exclamation point to futures contract positioning changes driving prices. Much to my (delighted) surprise, the new COT report indicated another significant improvement, particularly in gold, in positioning, where I would have been happy with some minor deterioration considering how bullish the COMEX market structure set up was going into this report.

As time has elapsed, it is no surprise how more observers and commentators than ever have picked up on the powerful influence of positioning changes on gold and silver prices and there was near-instant universal agreement on the bullish implications of yesterday's report – as there should have been. The only thing that still bugs me is the general absence of recognition as to how the recent quite dramatic positioning changes came about.

Most observers are quick to agree that the recent heavy selling by the managed money traders, particularly in gold, is flat-out bullish and that these traders were foolish to sell so aggressively at such low prices. But few are quick to question how the heavy managed money selling actually came about. It seems so obvious that I want to scream that it was the commercials (mostly banks) which rigged prices lower (through spoofing and other dirty tricks), knowing the managed money traders would take the bait and sell on the lower prices. This illegal practice has been going on for 40 years on the COMEX and you'll forgive my impatience at those incapable (or unwilling) of seeing the obvious.

However, the good news, as it appears to me, is that the highly deliberate actions of the commercials to induce Pavlovian-like response from the managed money traders is coming to a close. Aside from the all-important deepening physical silver shortage, the recent levels of managed money selling in both gold and silver have reached extremes nearly guaranteeing sharp upside price action – which became obvious on Friday.

In fact, when I first glanced at yesterday's new COT report, the first thought that popped into my head, seeing just how bullish was the new report, was that how the heck gold and silver prices didn't surge until Friday and not on Wednesday and Thursday. Of course, I do admit to expecting an imminent price surge, particularly in silver, on every single day of late. I'll get into the details of

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the new COT report after running through the usual weekly format.

The turnover or physical movement of metal either brought into or removed from the COMEX-approved silver warehouses fell to one of the lowest weekly levels in years, as only 1.7 million oz were moved and as total COMEX holdings fell by 0.7 million oz to 272.9 million oz. No change in the JPMorgan warehouse which stood at 136.2 million oz. While it may be tempting to conflate the super-low weekly turnover (less than half the weekly average of the past 12+ years) with the surge in price, that's quite a stretch at this point – particularly considering the overwhelming influence of COT positioning on price. Since there is no way that I know of to predict future warehouse movements, I'll consider this week to be an aberration, unless evidence arises to the contrary.

Total COMEX gold warehouse holdings fell again, this week by a rather sharp 0.45 million oz to 20.3 million oz, another multi-year low. A decline of 275,000 oz in the JPM COMEX warehouse to 7.38 million oz accounted for much of the overall decline.

In gold and silver ETF flows, close to another 200,000 oz were removed from the world's gold ETFs, but yesterday's sharp price gains in gold should result in more gold being deposited, particularly should the price gains continue. I would note particularly heavy trading volume in GLD yesterday, strongly suggestive of future metal inflows. Less than 2 million oz came out of the silver ETFs for the week, not surprising considering the prior week's sharp inflows. As was the case in gold, yesterday's sharp price gains and increased trading volume would suggest metal inflows ahead for the silver ETFs (assuming that such metal is available for deposit).

This week, the combined holdings in the COMEX warehouses and in SLV, slipped by 2.5 million oz to 722.1 million oz, following last week's 12.5 million oz inflow. While still down by 28 million oz from the combined holdings of 750 million oz at the start of this year, that's less than a 4% decline, following what had been a two-year 350 million oz or 32% decline in the combined silver holdings. Again, my contention is that there is a bedrock level, not far from current levels, beyond which these holdings can't decline – due to investor ownership. Whenever that bedrock level is reached, prices must then react sharply higher.

Turning to yesterday's surprisingly bullish COT report, what made it so surprising is that gold and silver prices were lower over the first two days of the reporting week, only to reverse and close higher over the remaining three days and ending the reporting week higher by \$30 in gold and by 50 cents in silver. This implies that at the price bottom of Thursday, Oct 5, the managed money traders were even more net short than they ended the reporting week on Tuesday, Oct 10. How the collusive COMEX commercials induced the managed money traders to sell as many contracts as they did sell over the past three reporting weeks, particularly in gold, was nothing short of a manipulative masterpiece.

In COMEX gold futures, the commercials reduced their total net short position by 21,600 contracts to 90,400 contracts. This is the lowest (most bullish) net short position in more than a year, even lower than the March 7 price low this year that led to a \$250 gold price rally. Back on Nov 1, 2022, a similarly-low total current commercial short position led to a \$350 gold price rally.

By commercial categories in gold, the 4 largest commercial shorts reduced their total net short position by 6700 contracts to 120,037 contracts (12 million oz), the lowest and most bullish reading in nearly a year and lower by 16,000 contracts from the lows of the March 7 price bottom. Once again, the numbers get garbled by the presence of a large managed money trader in gold, which has increased

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its short position to at least 22,000 contracts (up from last week's 15,000 to 20,000 contract range). While the presence of a big managed money trader (same as in silver) garbles the numbers, it also remains bullish beyond measure.

The posted and readily-calculated big 8 gold short position fell to 188,131 contracts, but adjusting for the presence of a big managed money trader holding 22,000 contracts short, the true commercial-only component drops to 166,000 contracts and makes the gold raptors (the smaller commercials) net long by about 75,500 contracts. Please don't let these calculations fool you, as they make the situation even more bullish.

On the managed money side of gold, these traders were net sellers of 19,206 contracts, consisting of the sale and liquidation of 6566 longs and the new sale of 12,640 short contracts. If anything, my conclusion that a big managed money trader may be holding 22,000 contracts short may be low, as the number of managed money traders holding short positions remained unchanged for the past three reporting weeks (at 56 traders), strongly indicating an increase in holdings per trader, rather than an increase in the number of traders going short.

The resultant managed money net short position increased to 26,767 contracts (93,934 longs versus 120,701 shorts), a level not seen in nearly a year and before that not seen in 4 years. Considering how fully-loaded the commercials were able to pack the managed money traders onto the short side, there should be little surprise as to how powerful the resultant short-covering rally was yesterday.

Over the past three reporting weeks, the collusive COMEX commercials were able to hoodwink and trick the managed money traders into selling more than 74,000 net gold contracts and transforming a net managed money long position of 47,390 contracts into a net short position of 26,767 contracts on what was a \$130 decline of the gold price over little more than 9 trading days. Over the past 6 trading days, the price of gold has soared by \$110, no doubt driven by frantic managed money short covering and new buying.

It is difficult at this point to determine the net losses on the part of the managed money traders duped into selling out longs and establishing shorts in gold (and silver) over the past few weeks and now trying to cover shorts and add longs, but a conservative estimate would be in the hundreds of millions of dollars collectively. And as I've pointing out repeatedly over the years, never have the managed money traders profited collectively when becoming heavily short -- so chalk up another loss in a record that can't be broken (because the commercials would never sell to the managed money traders at the lower prices required to give the managed money traders a realized profit).

I've referenced the power of V-bottom reversals in the past, where prices first selloff sharply, only to reverse and make up the losses in a similar number of days over which they declined, and what we have witnessed in both gold and silver were among the most classic V-reversals I've ever witnessed. Now the question is whether the collusive commercials are intending the price liftoff on Friday to be the launchpad to much higher prices (as I suspect is the case).

In COMEX silver futures, the commercials reduced their total net short position by 4100 contracts to 26,200 contracts. This is the lowest (most bullish) net short position since Aug 22 and all things considered, such as the much-steeper reduction in gold, is still plenty bullish. As it turns out, the big managed money trader increased its short position, which while unquestionably bullish, does tend to confuse things.

So, while the big 4 short position increased slightly (by less than a hundred contracts) to 38,726 contracts and the big 8 short position increased by another hundred or so contracts to 53,455 contracts, it was all due to the big managed money short increasing its short position to at least 8500 contracts and that number of contracts must be subtracted to get the true amount of the commercial short positions. By doing so, the commercial-only component of the big 4 and 8 short positions are still near all-time lows and the raptors are now net long by around 18,800 contracts and still only capable of selling little more than 10,000 contracts or so on the developing silver price rally.

The managed money traders in silver sold a total of 2697 contracts, consisting of the purchase of 474 new longs and the new short sale of 3171 contracts. The resulting net managed money short position grew to 4947 contracts (29,895 longs versus 34,842 shorts). While the increase in the net managed money short position in silver is nowhere near as dramatic as the increase in gold, that's only because the set up in silver going into the deliberate selloff of the past three reporting weeks was already super-bullish, whereas in gold it was not. In other words, the past three weeks have seen a dramatic catch-up in gold to the already extremely bullish set up in silver.

The question of the moment is how much deterioration was experienced on yesterday's sharp rally in gold and silver? Considering everything, meaning total trading volume, the slight upward penetrations of the key moving averages in gold (but not silver) and the inclination of managed money shorts to try and limit losses, my best guess would be 25,000 to 30,000 contracts in gold and around 5000 contracts or so in silver. If close to being accurate, that would eliminate the managed money net short position in each, but still leave the managed money net position relatively flat - which in historical terms is extremely bullish, as it would leave perhaps 100,000 contracts of net buying in gold and 30,000 net contracts in silver.

Of course, the real key question on my mind is how accommodative will the biggest commercial shorts be when it comes to new short selling on higher prices, particularly in silver? Much more critical in silver than in gold, the question of whether the 4 and 8 biggest commercial shorts add aggressively to new short positions as and when prices move higher is the only factor that really matters.

While I always lean on the side of saying they won't add to shorts in silver, I cannot know that for sure. What I think I do know for sure is that if the big 4 and 8 don't add aggressively to shorts on higher silver prices, then those higher prices will turn into a price explosion for the simple reason that silver will have lost the price capping mechanism that has existed for the past 40 years. Without that price capping mechanism, I can't see what would prevent silver prices from exploding. As long-time readers know, I have complained about the concentrated short position in COMEX silver futures at the highest regulatory levels for decades, never once retreating from the contention this is the key mechanism by which the price of silver has been suppressed and manipulated in price.

I suppose it's possible that I am missing something, but I doubt that. Having long given up on any legitimate regulatory intervention in the COMEX silver manipulation, it seems instead that we are at the

point of the manipulation's end by forces more powerful than any regulator. That greater force is nothing less than the law of supply and demand and man's strong propensity to self-protection.

The combination of an actual physical silver shortage for the first time in world history due to prices being too low and the desire of those responsible for the suppressed silver price – the big COMEX commercial silver shorts – suggests to me that the time is at hand for the big shorts to finally take their boot heels off the neck of the price for reasons of self-financial preservation, by not adding to shorts from here on out.

If ever there were a time for the big silver shorts to stand back and refuse to add aggressively to short positions, that time would appear to be at hand.

Ted Butler

October 14, 2023

Silver – \$22.90 (200-day ma – \$23.49, 50-day ma – \$23.10, 100-day ma – \$23.47)

Gold – \$1945 (200-day ma – \$1939, 50-day ma – \$1925, 100-day ma – \$1942)

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