

October 2, 2021 – Weekly Review

I wish you would step back

from that ledge, my friend.

• Third Eye Blind

<https://www.youtube.com/watch?v=gRYZijLZR-Q>

A strong rally starting on Thursday pushed gold and silver prices up for the week and, hopefully, caused anyone about to jump into the river of despair to remain onshore. Gold ended \$11 (0.6%) higher and silver was up by 15 cents (0.7%) for the week, after silver hit price lows not seen in more than a year on Wednesday. The silver/gold price ratio remained unchanged at 78.1 to 1, but still near the most undervalued silver has been relative to gold in a year – which like too many things today, is completely nuts.

Because price itself has the greatest psychological impact on collective investor sentiment, it's only natural for gold and silver investors to feel down in the dumps nowadays. And it's certainly hard to be optimistic when account balances melt by the day. All that said, by definition, extreme collective optimism is most usually associated with major price tops and extreme pessimism with important price bottoms. Certainly, the actual data behind silver are a mirror-image of current negative sentiment. What data?

Well, for starters, it seems that just about every commodity and important manufacturing component is suddenly in short supply, threatening supply and assembly lines worldwide. Yet, the one commodity, silver, that stands unique from all others in that it has a dual demand profile – industrial and investment – also stands out as being virtually alone in being in great abundance (according to its price). This despite no convincing evidence of great oversupply in silver. Due to its unique dual demand profile, silver should have been the first to blast off in price; instead, it's the last. The idea that silver is just about the only commodity not in short supply/high demand is preposterous on its face, yet the price convinces us otherwise.

So, let's jump to the issue at hand, namely, why is the silver price so darned low? You undoubtedly know that the answer (or what I'm going to say) is that paper positioning on the COMEX is solely responsible for silver's current low price. But therein lies the rub – when you analyze objectively the actual COMEX positioning responsible for the current low price, you quickly realize that such positioning, while fully explaining the low price, is also screaming that silver prices are on the edge of an explosive up move. How is this possible?

It's possible because the current low price fully reflects the result of COMEX paper positioning to date, while future silver (and gold) prices are dependent on future positioning changes. Actually, – possible – is far from the right word because over the past 40 years, every single time that COMEX paper positioning is roughly configured the way it is current, a significant rally has always resulted, despite widespread collective feelings of despair before those rallies commenced.

In fact, this is the beauty of analysis based upon the market structure on the COMEX (as defined by

data in the COT reports) it forces you to become bullish when the price tells you to feel bearish and vice versa. Simply put, when the commercials have done just about everything possible to get others (the managed money traders) to sell (so that the commercials can buy), silver prices are set to rise. Conversely, as and after prices have risen and everything feels good, it's time to be on guard, especially if the commercials have become heavily short.

Just about everyone knows it's best to buy low and sell high, but most everyone is also human and subject to emotional feelings. It's only human to feel fearful and depressed when prices are down, and excited when prices are high, even when we know the rule is to buy low and sell high. I'm convinced that silver (and gold) prices are determined by commercial positioning on the COMEX and that this positioning runs completely counter to our collective sentiment. Therefore, it's no accident that collective investor sentiment is currently punk and generally fearful in silver and gold, while the actual market structure is about as bullish as I've seen it. This is a time to jump into silver and gold, not jump out. I'll dig into this in greater detail in a moment, including the new COT report, after running through the weekly format.

The turnover or physical movement of metal either brought into or removed from the COMEX-approved silver warehouse slipped a bit this week as 3.8 million oz were moved and total inventories dropped by a slim 0.2 million oz to 360.3 million oz. Holdings in the JPMorgan COMEX silver warehouse were unchanged at 183.7 million oz. COMEX gold inventories were unchanged at 34.1 million oz and holdings in the JPM COMEX gold warehouse were down slightly at 12.62 million oz.

There were very large deliveries in the swing October COMEX gold delivery month as more than 11,500 total contracts (1.15 million oz) were issued. JPMorgan issued and stopped about half of the total for customers and also stopped (took) more than 1100 gold contracts in its own house account (always a constructive sign to me). Customers of JPM issued most of the 1500+ contracts of silver delivered, with no activity in JPM's own house account recorded.

https://www.cmegroup.com/delivery_reports/MetalsIssuesAndStopsYTDReport.pdf

There have been very large deliveries over the past year and a half in COMEX gold contracts, but I can't get a handle on what, if any, price impact those deliveries have had, so I won't pretend otherwise. Same goes for the extraordinarily large inflow of physical gold into the COMEX warehouses a year or so ago, when total inventories grew from 8.5 million oz to 35 million in a few months. The difference between COMEX gold and silver warehouse holdings, is that despite the sharp increase in COMEX gold warehouse holdings, the gold holdings represent maybe 1% of total world gold bullion inventories (3 billion oz), while the COMEX silver holdings (360 million oz) represent 18% of total world silver bullion inventories (2 billion oz).

Due to the continued malaise in prices, physical holdings in the world gold ETFs continued to slip, down by 0.56 million oz for the week. But it was a completely different story in silver, as world silver ETFs saw resounding net deposits of more than 12 million oz, with more than 8 million oz deposited into the Deutsche Bank silver ETF and more than 4 million oz into SLV. The deposits this week were the largest since the epic deposits in early February, when more than 110 million oz came into SLV in a matter of days before being quickly redeemed (and the shares being converted into actual metal).

The most obvious difference between then and now, of course, is that silver was priced at what would turn out to be the highs for the year (\$30), whereas this time, silver is at the lows for the year (\$22).

Likewise, the short position in SLV was at 14.4 million shares back then, whereas it has recently been as high as 38 million shares (although I do expect a sharp reduction in the next short report of Oct 11). What else can be said about the highly unusual physical deposits this week into the world's silver ETFs on what were, essentially, lower prices?

There was absolutely extraordinary high trading volume in SLV, both on Wednesday when prices plunged to fresh yearly lows and on Thursday, when prices rebounded. In fact, Thursday's volume was even greater than Wednesday's volume (contrary to what occurred on the COMEX) and the combined two-day volume in SLV was the greatest since early Feb. Considering everything, one thing I can conclude was that the trading volume in SLV did not appear to be typical retail trading, particularly on the buy side. This leads me to the conclusion that a big buyer has emerged in SLV (or I should say, has reemerged).

Another thing is that the selling on Wednesday didn't result in a next day withdrawal as might be expected and instead late Thursday a big 8.5 million oz deposit was recorded (earlier in the week, there had been a 4.5 million oz withdrawal in SLV). Usually, I have observed a one-day delay in metal deposits and withdrawals in SLV, but that pattern appears to have been disrupted this week. Perhaps the big deposit of 8.5 million oz on Thursday indicated there is no longer a delay in the posting of deposits and withdrawals in SLV or there are other explanations such as the big deposit intended to reduce the short position on the last day of the reporting period or that much more physical silver is now owed to the trust and will be reported eventually (or reflected in the short position).

In any event, this much physical silver coming into SLV and other silver ETFs does make one sit up and take notice because, as most suspect, demand for physical silver will ultimately strongly impact the price COMEX paper positioning notwithstanding.

Turning to yesterday's Commitments of Traders (COT) report, there was no general surprise that there was a much bigger improvement in gold (actually, there was no improvement at all in silver), given that gold prices were much weaker than silver prices over the reporting week. Gold prices fell as much as more than \$50 in the reporting week, while silver prices were, proportionately, down much less, closing down only ten cents or so on the reporting week.

In COMEX gold futures, the commercials reduced their total net short position by a hefty 22,500 contracts to 190,200 contracts. This is the lowest (most bullish) commercial net short position since June 2019, when gold was first moving up through \$1300 on its way to \$2050 a year or so later. Here we are, still more than \$450 higher and the COMEX commercials have whittled down their short position to levels that existed back then a criminal, but nonetheless magnificent achievement.

By commercial categories, the 4 big shorts bought back nearly 9000 short contracts, reducing the big 4 gold short position to 140,876 contracts (14.1 million oz). The next 5 thru 8 big shorts bought back 800 shorts and the big 8 short position is now 218,923 contracts (21.9 million oz). The raptors (the smaller commercials) bought 12,700 new longs, increasing their net long position to 28,700 contracts.

On the sell side of gold, it was largely a managed money affair as these traders sold 15,983 net contracts, comprised of the sale and liquidation of 854 longs and the new sale of 15,129 short contracts. The key and most bullish aspect to this week's COT report was the addition of so many new managed money short positions. As the main counterparty to the commercials, the managed money traders are now near the least net and gross long and most gross short since 2019, all

extremely bullish readings.

Rounding out the non-commercial selling, the other large reporting traders were net sellers of more than 3200 gold contracts, as were the smaller non-reporting traders. The concentrated long position of the 4 largest gold longs, home to the new big gold whale, did sell down a bit more than 1200 contracts, meaning the new big gold long stood largely pat although I would call his (or her) long position closer to 35,000 contracts (3.5 million oz), from the 40,000-contract figure used earlier.

At yesterday's close, the gold whale (which no one, to my knowledge, has acknowledged) is sitting pretty to my mind, largely unchanged financially from what I estimate to be his average cost (\$1770 or so) and much more importantly, beyond any possible regulatory criticism for artificially influencing gold prices to be higher than called for. Unlike the Hunt Bros. in silver of yesteryear, no one can claim the new big gold whale artificially goosed prices higher, since prices are and have been lower since the purchase. I may be premature, but the gold whale appears to have played his hand flawlessly to this point.

Finally and importantly, the existence of a 35,000 contract net long position by one trader in the other large trader reporting category means that the 190,200 contract commercial net short position is, in effect, lower by the 35,000 contracts held by the commercials already quite bullish.

In COMEX silver, the commercials increased their total net short position by a scant 600 contracts to 28,600 contracts, still an extraordinarily low (and bullish) amount. The inclusion of a managed money trader into the ranks of the 4 biggest COMEX silver shorts continues to distort the calculations of my typical commercial category breakdown, so let me summarize the true commercial-component of the 4 big shorts as close to 35,000 contracts among the lowest in many years.

This week, the managed money shorts bought back and covered 3005 short contracts (managed money longs sold off 791 longs), reducing the gross short position of the managed money traders to 43,918 contracts still the largest gross short position since 2019 save for the prior reporting week. At first, I was somewhat disappointed that the managed money short position didn't increase in silver (as it did in gold), but upon further reflection, this week's reduction is strongly suggestive as a sign the short position is unlikely to grow as large as it was in early 2019 when it came close to 89,000 contracts.

All along, I have identified the key variable for how low silver prices may go as the willingness of the managed money traders to add more and more new short positions. Heaven forbid, were the managed money traders to add enough new short positions to come close to what they held at the peak in 2019, there was no question silver prices would have to move sharply lower by dollars more to the downside.

No doubt, in that circumstance, once the managed money traders were done selling, they would end up collectively losing money on the position when they went to buyback and cover and silver would be the best buy in the world by that time. But the stress and consternation that would involve would be monumental for silver investors and with world supply lines as fragile as they are, I'm not sure the amount of whiskey necessary to weather that event would be sufficient.

The good news seems to be that this week's short covering likely indicates that the managed money traders who are short silver are as nervous as a long-tailed cat in a room full of rocking chairs

â?? as well they should be â?? and are not likely to add the tens of thousands of new short contracts they held in the past. The moving averages in silver are still so much higher than current prices so as not to serve as a legitimate closeout point for new shorts placed from a money management perspective. Who wants to risk \$3 per silver contract (\$15,000) in order to make what to the downside â?? a few dollars at most? And profits to the managed money shorts could only occur if the commercials do the about face of the ages and sell to the managed money traders at lower prices than the commercials originally bought at. The likelihood of that is about the same as me starting to wear womenâ??s clothing (plus sizes at that, of course).

I do think the managed money traders in both silver and gold plowed heavily onto the short side on Wednesdayâ??s price plunge, based upon the sharp increase in total open interest on that day. But the sharp rally on Thursday most likely saw a covering of all added shorts, strongly suggesting the new managed money shorts hold zero at strong convictions. I canâ??t rule out further downside price probes in which the commercials try to induce additional managed money shorting, but I do not expect such probes.

In fact, Iâ??m much more inclined to (still) believe we are at the most significant turning point in silver market history. What these darned COMEX commercial crooks have achieved this year is nothing short of monumental. In the face of the tightest physical market conditions I have ever observed in silver, the COMEX commercial crooks have bought back more shorts than in many years â?? and on sharply lower prices to boot.

Here, I must channel my dear departed friend and silver mentor, Izzy Friedman, who cautioned me many years ago that in order to fully-grasp a criminal operation, one must force himself to think like a criminal. I do believe that many have missed the nuts and bolts of the silver manipulation because most people are not inherently criminal. To this day, whenever silver or gold prices plunge, endless stories appear how the bullion banks sold short heavily, driving prices lower. The commercials never sell heavily on sharply lower prices â?? they induce the brain-dead managed money traders to sell, so that the commercials can buy heavily. All this is borne out in every COT report ever published on sharp declines in price, yet the stories are always the same.

What matters most (as always) is what the commercials will do when, not if, the managed money shorts move to completely cover shorts and add new longs. It has been months (since early June) that the managed money traders have been motivated to hold minimum short contracts and maximum long contracts because thatâ??s the last time silver and gold prices have been decisively above all the key moving averages. But it is a mathematical certainty that silver and gold prices will be above all the key moving averages at some undetermined point in the future and how the big commercials react at that point will determine the how fast and high prices move. I believe the big commercials wonâ??t add shorts aggressively and, as a result, prices will explode, particularly for silver.

In other developments, my email list to regulators and others involved in the silver manipulation keeps getting shortened. Over the past month or so, two commissioners will have departed (when Commissioner Berkovitz departs in two weeks), and about a month ago my emails (of these articles) were rejected that were sent to the top regulatory official at the CME Group (although emailed articles still go through to the CMEâ??s CEO). On Wednesday, the CFTC announced that its director of the Market Oversight Division had suddenly resigned and departed (that day). Obviously, I canâ??t know the circumstances of the directorâ??s departure, but it was one of the two Divisions that the

Commission wrote to me that it had shared my concerns about the concentrated short position in silver.

https://www.cftc.gov/PressRoom/PressReleases/8439-21?utm_source=govdelivery

Also strange is that with three vacancies on the Commission's five-member structure that no new nominations have been forthcoming from the Biden administration. I don't ever recall a prior time when there has been such a lag in nominating and getting new commissioners approved. I don't have the foggiest idea of why there is such a delay, but it's strange nevertheless.

The sharp snap back in prices on Thursday (the end of the third quarter, brought the combine losses to the 8 big shorts up from the \$7.2 billion of Wednesday back to \$8.1 billion on Thursday's quarter end. As of yesterday's close for the week, the total loss grew by nearly \$300 million to \$8.3 billion.

Ted Butler

October 2, 2021

Silver – \$22.55 (200 day ma – \$25.77, 50 day ma – \$23.78, 100 day ma – \$25.35)

Gold – \$1761 (200 day ma – \$1804, 50 day ma – \$1786, 100 day ma – \$1811)

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