
October 21, 2023 – Weekly Review

Gold and silver prices rose for a second week, with gold finishing \$48 (2.5%) higher and with silver ending 60 cents (2.6%) higher. The nearly even relative performance left the silver/gold price ratio close to unchanged at just under 85 to 1, even though it sure seemed like gold has vastly outperformed silver.

Over the past two weeks, gold has surged by \$148 (8%), while silver has tacked on \$1.80 (8.3%), also leaving the price ratio largely unchanged, although it sure felt like gold was leaving silver in the dust. Of course, despite the relatively even percentage performance, I can't recall such previous strong gold performance not being accompanied by much greater silver performance than has occurred. And that's just the start of the highly-counterintuitive developments occurring over the past couple of weeks – all of which I can't stop contemplating.

About the only "normal" or expected development about what appears to me to be one of the largest two-week gold price rallies in memory is that the rally was driven by managed money buying on the COMEX (accompanied by commercial selling). The level of managed money buying, as indicated in yesterday's new Commitments of Traders (COT) report was even larger than I had estimated.

In fact, the amount of managed money buying in the reporting week ended Tuesday was the largest since the week of March 14, when gold rose by \$100. Therefore, no reasonable person would argue that the positioning between the managed money traders and the commercials on the COMEX was not the prime, if not sole price driver in gold and silver (and other commodities).

And it certainly can't be claimed that the sharp rally in gold wasn't fully-expected on these pages and elsewhere, given the unusually large amount of managed money selling that preceded the rally over the three reporting weeks into the recent price bottom, as the managed money traders sold 74,000 net gold contracts over that time. The fact that the managed money traders have now (thru yesterday) bought that number of contracts or more is icing on the cake that proclaims that COMEX positioning determines prices. It can't possibly get any clearer.

Despite the remarkable clarity of COMEX paper positioning determining prices, I am much more taken aback by the developments away from COMEX positioning, which have been counter-intuitive to the max (aside from silver price "underperformance"). Here, I'm talking about what appears to be a complete disconnect in what has been the "normal" pattern of gold and silver price performance and ETF and COMEX warehouse metal flows. Let me run through the usual weekly format and explain what I'm talking about along the way.

The turnover or physical movement of metal either brought into or removed from the COMEX-approved silver warehouses snapped back from last week's unusually low turnover (1.7 million oz) to a more normal 5.4 million oz, about the weekly average over the past 12.5 years. Total COMEX silver holdings fell by 1.2 million oz to 271.7 million oz. Holdings in the JPMorgan COMEX warehouse fell a sharp 1.8 million oz to 134.4 million oz, a fresh multi-year low. (Of course, subtracting the 103 million oz held on behalf of the SLV, makes the JPM total holdings look quite insignificant).

Total COMEX gold holdings fell a sharp 0.5 million oz, to 19.8 million oz, breaking below the 20 million

oz level for the first time in three years. Holdings in the JPM COMEX gold warehouse fell slightly to 7.35 million oz, but enough to also result in multi-year lows.

Usually, at this point, I quickly skip over deliveries in the October COMEX contract, claiming I'm not sure what the unusual large number of gold deliveries actually means, but not this time. Not only has there been a pattern of heavy gold deliveries for months, there has been a persistency in new gold contracts being established and delivered upon in the current delivery month after first delivery day (not so much in silver). While normally there hasn't been much to uncover by the names of the clearing member firms (banks) alone, it now appears clear that the number of new gold contracts being established after first delivery day in the current delivery month and delivered upon has represent a slow drain on COMEX gold warehouse holdings.

It has been different in silver, in that while total COMEX silver inventories are down by nearly 30 million oz year-to-date, over the past six months or so, COMEX inventories have been more flat than down, with the standout feature of COMEX silver inventories being the incredibly large turnover, something not present in gold or any other commodity. In gold, it's not the physical turnover that stands out, but the persistent adding of new contracts in the current delivery month and the drain on inventories. It's as if COMEX silver inventories have reached rock-bottom, while COMEX gold inventories have had the capacity for withdrawals. This is part of the counterintuitive thought process bouncing around in my mind.

Much more counterintuitive have been the flows of physical metal into and out from the gold and silver ETFs. Until last night's very heavy 440,000 oz deposit in the big gold ETF, GLD, I have been gob-smacked by the even-heavier withdrawals over a period of sharply rising gold prices. Usually, when gold and silver prices rise sharply and there is heavy trading volume in the ETFs, almost always there are heavy deposits, or inflows of physical gold and silver. Again, up until last night's deposit in GLD, there have been heavy withdrawals of almost double last night's deposit, despite strong gold price gains over the past week or so.

The conclusion that investors were liquidating on sharply higher prices doesn't make any sense, so the most logical and plausible conclusion is that whoever the new ETF buyers were, they appeared to be most interested in securing physical gold and silver and were converting the newly purchased shares into physical metal immediately upon purchase. Normally, those buying shares of GLD or SLV or other gold and silver ETFs, are interested in establishing a position for the purpose of expected price gains. But the sharp redemptions on sharply rising prices and heavy volume suggest something else, namely, the desire to own and remove physical metal from the ETFs, not something I've ever seen and counterintuitive to the Nth degree.

Maybe I'm imagining things, but it seems to me there has been a rush to secure physical gold and silver via the big ETFs and the COMEX warehouses. If I'm correct, this is wildly bullish. In silver, it has been nothing but outflows, where it should have been inflows. The combined holdings in the COMEX silver warehouses and in SLV, the two largest recorded silver stockpiles on earth, fell this week by 8.5 million oz to 713.5 million oz the lowest level in many years. That the combined holdings are down by 11 million oz over a two-week period in which silver rallied sharply (by \$1.80) is so counterintuitive so as to defy description.

Here's the rub it does make sense that if there was an unusual rush to secure physical silver and gold that the rush would be centered on the largest stockpiles on earth, which in the case of both silver

and gold are the biggest ETFs and the COMEX warehouses (apart from official holdings in gold). Therefore, it does seem most plausible that might be what is occurring. I know I've often stated in the past that there can't be a shortage in gold since it is not industrially consumed (as is silver), but the recent flow of data suggests there can be a period of physical tightness in gold that sure looks, swims and quacks like a physical shortage, joining silver which is in a shortage. Such a physical shortage would trump paper manipulations in the end.

Turning to yesterday's COT report, while the amount of managed money buying, particularly in gold, was larger than I expected, not by orders of magnitude or anything close to that. It's not like anyone came closer, as I'm unaware of any other published predictions. And since the managed money buying was mostly in the form of short covering, which is always the "rocket fuel" type of buying that gets set off and burns off first, it is also the most expected type of buying.

The real wonder is still how the heck did the collusive COMEX commercials trick the managed money traders to get as heavily short in gold as they did over the three prior reporting weeks and not the actual covering of those shorts this week. After all, gold prices jumped as much as \$70 over the reporting week, penetrating the 50-day moving average and banging up against the 200-day ma and every newly-added short over the previous three reporting weeks turned into an instant loss for the managed money traders thus preserving perhaps one of the most enduring trading records ever of never realizing a collective profit when getting heavily short in gold or silver.

In COMEX gold futures, the commercials increased their total net short position by 37,600 contracts to 128,000 contracts (I had estimated 25,000 to 30,000 contracts). You'll forgive me, but the only dealer category in gold I can substantiate this week was that of the big 4, which increased their net short position by 7900 contracts to 127,918 contracts (12.8 million oz). The big 8 short position is now 196,932 contracts (19.7 million oz), but the change for the week is complicated because there wouldn't appear to be any managed money trader in the 5 thru 8 category, where there was around a 22,000 managed money short position in the previous reporting week. With the big 8 short position back to all-commercial, the raptor (smaller commercial) net long position would be 68,900 contracts. Next week's commercial category changes will be easy to calculate.

On the managed money side of gold, these traders bought 41,870 net contracts, consisting of the purchase of 10,774 new longs and the buyback and covering of 31,096 short contracts. The resultant managed money net position swung from net short to net long to the tune of 15,103 contracts (104,708 longs versus 89,605 shorts). Even though the managed money net long position continued to grow in trading since the Tuesday cutoff, despite the continued increase, the position is far from outright bearish.

Yes, there has been substantial deterioration, both in this report and in next week's report, but that is par for the course, as there was massive managed money buying power built into the gold market structure and we just witnessed (again) the result of built-in buying power, no more, no less. While that portion of the buying power has been expended, it has resulted in one of the sharpest gold rallies in memory just as expected and predicted. What comes next is less certain, but if the recent highly-counterintuitive developments mentioned earlier are not a false mirage, then the price journey could easily continue higher.

In COMEX silver futures, the commercials increased their total net short position by 5400 contracts to 31,600 contracts (much closer to my low-conviction guesstimate of 5000 contracts than I was in

gold). While there was another minor and somewhat disappointing increase in the big 4 short position of less than 500 contracts, to 39,194 contracts, there was an even more surprising reduction of 400 contracts in the big 8 short position to 53,042 contracts (meaning the big 5 thru 8 traders bought 900 shorts back). The net short position of the 5 thru 8 largest shorts fell to 13,848 contracts and lower than I can ever recall.

Most importantly, despite fairly heavy managed money short covering, I sense that there is still a big managed money short in the big 4 short category, holding a reduced short position of around 7000 contracts (down from 8500 contracts last week). If I'm correct, the commercial-only component of the big 8 short position is 46,000 contracts, which makes the raptor net long position 14,400 contracts, down 4400 contracts from the prior week and leaving potential raptor long liquidation way less than 10,000 contracts and making the question of whether the 4 and 8 big shorts add aggressively to short positions more critical than ever.

The managed money traders bought 8273 net silver contracts, consisting of the new purchase of 1132 longs and the buyback and covering of 7141 short contracts. The resultant net managed money position swung to net long to the tune of 3326 contracts (31,027 longs versus 27,701 shorts), still a notably low and bullish historical position. Accounting for the difference between what the commercials sold and the managed money traders bought was net selling of more than 2800 contracts by the other large reporting traders and (mostly) the smaller non-reporting traders.

Explaining why I believe there is a big managed money trader still in the big 4 short position, despite more than 7000 contracts of managed money short covering were a number of things, including a very sharp drop in the number of traders in the managed money short category from 36 to 29 close the lowest number of traders in that category this year, suggesting to me that smaller managed money traders did most of the short covering as opposed to the big short. Also, it was hard to reconcile the big 4 and big 5 thru 8 categories without factoring in a big managed money short holding 7000 contracts short.

One thing that did hold true was that there was more deterioration in the gold market structure than in the silver market structure due to greater managed money buying in gold, as anticipated. Also, the larger increase in big 4 shorting in gold than in silver was (generally) expected and is not as critical in gold as it is in silver. And while I still hold that the most critical factor in silver is whether the 4 and 8 big shorts add aggressively to short positions, I am genuinely taken aback by the highly-counterintuitive physical flows in both silver and now gold over the past few weeks and beyond.

I know I have been insistent about the data pointing to a deepening physical shortage in silver, but, suddenly, signs of physical shortage are appearing in gold, as described earlier. It is well-known that if anything can blow the ongoing COMEX paper manipulation out of the water, it is a physical shortage that can't be contained or paper-overed. The highly-counterintuitive goings-on in the silver and gold ETFs and COMEX warehouse holdings would sure seem to qualify as strong signs of physical shortage.

And if we've ever been in a state of more dangerous world financial and geopolitical conditions than we seem to be embroiled in currently, you'll forgive me if I can't recall exactly when that might have been. I fully-confess to being attracted to silver for reasons in keeping with my commodity experience and manipulation analysis, but one can't help but appreciate the widespread attraction of gold and silver in troubled times. And if these aren't troubled times, I don't want to know what

are such times.

Ted Butler

October 21, 2023

Silver – \$23.50 (200-day ma – \$23.46, 50-day ma – \$23.10, 100-day ma – \$23.46)

Gold – \$1993 (200-day ma – \$1942, 50-day ma – \$1926, 100-day ma – \$1942)

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