

October 24, 2020 – Weekly Review

Following a mid-week failed rally, gold and silver prices finished mixed for the week, with gold down a dollar and silver up by 40 cents (1.6%). As a result of silver's relative outperformance, the silver/gold price ratio tightened in by nearly 1.5 points to just over 77 to 1.

If a precious metals observer had been on an extended safari or adrift on an ice flow for the year 2020 to date and the very first data point he or she was given was the current level of the silver/gold price ratio, I would imagine the first reaction would be something along the lines of "Oh, I see that silver finally picked up a bit relative to gold and got back to the levels of three or four years ago."

Such an observer would surely be dumbfounded to then learn that on its price journey to a slight improvement of where it stood relative to gold over the last several years, silver first plunged to its greatest undervaluation compared to gold in recorded history before establishing its current level of slight relative improvement. Perhaps most astounding of all to such an out of touch observer was that if he stepped off the ice flow at the point of maximum silver undervaluation in mid-March, would be the number of commentaries proclaiming the extreme undervaluation of silver to gold was understandable or justified.

Sticking with our hypothetical out of touch traveler premise, he or she would be no doubt astounded by the goings on in general, including the world wide pandemic, as well as the economic and financial markets reaction, including government fiscal and monetary efforts to counteract the effects of the pandemic and the political repercussions. Oh, and we are about to experience the most divisive election in US history. Without a doubt, this has been the most tumultuous year in my lifetime and if it hasn't been for you, then I'd bet you were on an ice flow.

The point is that trying to describe the week's slight change in gold and silver prices in such a year as this is akin to focusing on the weather smack dab in the eye of hurricane. You just know the backside of the storm will soon be on you and that the calm will change radically. This is one of those weeks.

The turnover or physical movement of metal either brought into or removed from the COMEX-approved silver warehouses was slightly above last week's level, but still down substantially from the levels of the prior three months. This week just over 5 million oz were moved (about the average weekly movement of the past 9.5 years), an annualized rate of 250 million oz. For a change, total COMEX silver inventories fell by 1.4 million oz to 380.9 million oz from last week's record totals, the first "real" decline in a few months. This despite an increase in the JPMorgan COMEX silver warehouse of 0.6 million oz to 189.6 million oz, a record.

Since May, COMEX silver warehouse inventories have increased by around 70 million oz or by 20%, after remaining flat for a year or longer. Over roughly the same time, there has been an even bigger build of around 330 million oz in the physical holdings of the world's silver ETFs, led by SLV. In total, some 400 million oz have come into the visible and recorded inventory of the world's supply of silver in 1000 oz bar form, the industry standard and the form of silver most important to price.

Since silver prices are substantially higher from where they were at the outset of massive inflow, a reasonable person would conclude that the sharp increase in physical silver deposits was driven by

strong demand, as opposed to unwanted surplus silver being dumped on the market. And while I maintain that it is silver in the form of 1000 oz bars that matters most to price, the massive inflow of such silver has also been accompanied by a persistent period of large premiums on retail forms of silver, indicating conclusively that retail investors are big net buyers of silver, ruling out any thought of retail dishoarding.

Turning to COMEX gold warehouse developments, this week total gold inventories fell a slight 0.1 million oz to 37.7 million oz from last week's record holdings. No change in the JPMorgan COMEX gold warehouses, still at 13.657 million oz. Thus, the pattern of the COMEX gold warehouses I have been describing of late still appears to be in place, namely, that following a 400% increase in total COMEX gold warehouse holdings (from 8.5 million oz to nearly 38 million oz) for 3 or 4 months starting in March, the growth of gold inflows ceased from July forward.

So, while COMEX gold warehouse inventories grew by nearly 400% (29 million oz) from March to July, the growth in COMEX silver warehouse inventories, while large in terms of ounces (70 million) was much smaller in percentage terms (less than 20%). I still believe the 29 million oz of gold that came into the COMEX warehouses is directly related to the short position of the 8 largest gold shorts, since there is such a close correlation in the size of each. If this is the case and the same motivation lies behind the 70 million oz increase in COMEX silver inventories, then we should expect much more in the way of future COMEX silver warehouse inventory growth, as 70 million oz equates to 14,000 contracts, leaving a potential 300 million oz yet to be deposited to equal what occurred in gold (if that can be arranged).

Of course, there have been substantial physical inflows into the various world gold ETFs, led by GLD. All told, some 30 million physical gold oz have been deposited into the world's ETFs since March, nearly matching the separate physical inflow into the COMEX warehouses. Combined, the 60 million gold oz that have come into the light of visible and recorded inventories is the largest such inflow in history and is worth a staggering \$100 billion. Like the inflow of physical silver into the COMEX and world ETFs such amounts of physical gold being deposited on sharply rising prices would indicate pronounced demand as opposed to the dumping of surplus and unwanted metal.

While there is much similarity between the inflows of physical gold and silver into the COMEX warehouses and world ETFs this year, perhaps the most important difference is the dollar amount of each. The 60 million oz of gold deposited comes to roughly \$100 billion (using \$1700 as an average price), compared to the 400 million oz of silver being worth about \$8 billion (using \$20 as an average price). My main takeaway is that this supports the premise that it takes much less relative money flow to drive silver higher than gold, because since the March lows silver is more than 100% higher in price compared to gold's 30% increase on a gold money flow that was 12 times higher. Now, if you're going to ask me why silver is still so darn cheap relative to gold, then the only plausible answer is because of 8 crooked banks which are short on the COMEX.

A subscriber asked me this week about the still-record high number of gold deliveries, now more than 34,000 contracts (3.4 million oz) in the expiring October contract, amid signs of tightness in that contract in the form of narrowing spread differentials. The fact is that the spread differentials in the various COMEX gold contracts have tightened noticeably from the blow out in spreads at the end of March, although they are still wider than would occur if pure demand for COMEX gold contracts was driving the record 190,000+ contracts of gold deliveries (19 million oz) since April. Even more puzzling

to me is in how little the concentrated short position of the 8 largest gold (and silver) shorts has declined in the face of such large physical inflows and subsequent deliveries â?? although I'll save this discussion for another day.

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

Since there's not much to report in terms of silver and gold ETF physical flows this week, I'll turn instead to the COT report released yesterday. Before I do that, however, I should mention that I sense there has already been some significant positioning changes since Tuesday's cutoff for the reporting week I'll review. That's one of the things about the COT report, in that it is a snapshot of the week's positioning changes on the day of the cutoff.

The price and trading action since Tuesday strongly suggests managed money buying and commercial selling on Wednesday's rally, followed by the reverse on Thursday and into yesterday. I'd estimate that the commercials took around \$30 million from the managed money and other speculative traders over those two days â?? not a bad two day haul. Then again, it must be remembered that the weekly mark to market changes to the 8 big shorts are typically many multiples of the short term haul on Wednesday and Thursday. And it does look like Wednesday's deterioration was reversed by yesterday.

Turning to yesterday's report, it did feature the suspected managed money buying and commercial selling I alluded to on Wednesday (but that I was hesitant to bet on) based upon a general price rally over the reporting week and the 10,000 contract increase in total open interest in gold. However, the amount of managed money buying was more than I was expecting in silver, although it was largely of the short covering variety (as opposed to new buying).

In COMEX gold futures, the commercials increased their total net short position by 9500 contracts to 294,100 contracts. Not to sugarcoat it, this is the largest commercial net short position since July 21, although it's still closer to the truth to say there hasn't been a truly remarkable change in the commercial short position since then, when there was significant short covering the next week (July 28) as prices surged higher to the early August peak.

As far as the composition of the commercial selling, it was mostly by the 8 big shorts which increased their concentrated and manipulative short position by nearly 6000 contracts (to 244,339 contracts), accompanied by 3000 contracts of short selling by the smaller gold raptors. I don't sense JPMorgan did much this reporting week, perhaps adding a thousand contracts to short position no more than 2000 contracts (if that) â?? essentially flat and still in the good news category.

The concentrated short position of the 8 largest traders is now the highest it's been since May 19. The price of gold is \$200 higher than it was back then (and after a decline of nearly as much from the August peak), so it's hard to argue that the 8 big shorts are fully in control. The 8 big shorts would have to add many more shorts (20,000 to 30,000 contracts) before meeting my definition of aggressive new shorting and it then becomes a question of what the crooks at JPMorgan do or don't do. Still, I don't get a warm and fuzzy feeling when the concentrated short position increases at all â?? since it is the sole reason that gold prices aren't higher.

On the managed money side of gold, these traders sold 8784 net contracts, nearly matching the net commercial selling, comprised of the purchase of new longs in the amount of 10,939 contracts, and the

new sale of 2155 short contracts. The increase in the managed money net long position doesn't change the fact that it is still quite close to the lowest levels in a year and bullish on its face. Interestingly, the other large reporting traders remained staunchly long, setting new net and gross records in adding slightly more new longs than shorts.

In COMEX silver futures the commercials increased their total net short position by 2500 contracts to 59,500 contracts. As was the case in gold, this was the largest commercial short position since July 21, as well as the largest concentrated short position since that date (as opposed to the concentrated gold short position being the highest since May). The 8 big shorts accounted for around 1400 contracts of the commercial selling, in increasing their concentrated net short position to 73,556 contracts (368 million oz). The raptors sold 1100 longs and JPMorgan may have accounted for most of that, perhaps putting these big crooks slightly short, but still essentially flat, same as in gold.

There was much more managed money buying than commercial selling, as these traders bought 5841 net silver contracts, consisting of the purchase of 1897 new longs, as well as the buyback of 3944 short contracts. Accounting for the 3300 contract difference between commercial selling and managed money buying was 1900 contracts of net selling by the other large reporting traders and 1400 contracts of net selling by the smaller non-reporting traders.

To be frank, while I go through the details of the COT report each week, the market structure in gold and silver hasn't changed much in months as prices have mostly consolidated and congested over this time, as if awaiting the next price act. • is not the right term, of course, because it will be positioning changes in the market structure most likely to set prices. In the interim, all sorts of things are cooking behind the scenes in terms of physical metal developments, as well as on the much larger economic and political scene.

A quick word on Bitcoin, which has recently surged to recent highs amid wider attention and encouraging words from highly respected (at least by me) investor Paul Tudor Jones. I last commented on Bitcoin (I believe) back in November 2017, as it was trading around \$7000 and would quickly surge to \$20,000 by that December, only to eventually fall as low as \$3000 or thereabouts. Now it appears to be on the move again, crossing \$13,000 up from \$6000 at the March lows (strangely paralleling the price move in silver).

Don't worry, I'm not about to pass on the merits (or lack thereof) for Bitcoin, as what I don't know far outweighs the little that I (think) I do know. But one thing that does seem obvious is that Bitcoin seems to be the ideal of what a pure speculation might be, in that everyone involved (that owns it) wants it to go higher, with no real organized opponent to it rising in price. Certainly futures market participation is low, at only a few billion dollars or so of total notional value compared to a total market capitalization of close to \$250 billion.

With such a low total futures market participation, the suggestion that there could be a large concentrated short position in Bitcoin is absurd. So here we have Bitcoin in a strong up move, with a very tiny total derivatives short position that leaves absolutely no room for a large concentrated short position that makes it not hard to see that Bitcoin couldn't possibly be artificially suppressed or manipulated • at least by a concentrated short position, as is the case in silver.

I suppose the obvious question is why not invest in Bitcoin instead of silver? (Not that it has to be one or the other). My answer would be that I would prefer to invest in something that I knew was artificially

suppressed in price, as long as there was a reasonable chance that the suppression might be broken. That, plus the fact that the market cap for silver (in 1000 oz bar form) is a fraction of the market cap for Bitcoin (\$50 billion versus \$250 billion). Plus, if all the Bitcoin in the world somehow disappeared tomorrow (admittedly not likely), the only people affected would be the owners of Bitcoin, whereas if all the silver disappeared, say goodbye to just about everything electrical or electronic.

Please don't take any of this as a knock or endorsement for Bitcoin, as that is not the point, which is simply to point out the manipulative effect of the concentrated short position in silver – nothing more or less.

While I could hardly care less if I ever fly in an airplane again, ironically I come from a family with a disproportionate number of professional commercial pilots, including my son. Therefore, I can't help but think of the description of commercial flying as endless hours of tedium in the air punctuated by minutes of heart thumping emergencies and reaction. That's close to what transpires in silver and gold – long stretches of not much happening in terms of price, punctuated by heart thumping moves up and down. Like day follows night, it would appear we are about due for some such moments in silver = probably in both price directions.

As far as the fortunes of the 8 big shorts, not much change for the week from last Friday, maybe \$100 million worse for them at week's end – \$13.4 billion.

Ted Butler

October 24, 2020

Silver – \$24.70 (200 day ma – \$19.86, 50 day ma – \$25.75)

Gold – \$1904 (200 day ma – \$1765, 50 day ma – \$1931)

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