October 28, 2023 – Weekly Review

Another sharp Friday rally (this one after the approximate 1:30 PM EST close of the day session on the COMEX) vaulted gold prices higher for the week by $23 (1.2%) and to five-month closing highs. The late-Friday rally in silver was only able to reduce its weekly loss to 28 cents (also 1.2%). As a result of goldâ??s much greater relative strength, the silver/gold price ratio widened out by two full points to nearly 87 to 1. Â The wonder (and opportunity) is not how expensive gold is compared to silver, but in how cheap silver has become.

The late rally on Friday left gold less than $50 below its all-time price highs of the past few years, while silver still languishes more than 50% below its all-time price highs of yesteryear â?? this in the face of undeniable evidence of a deepening physical shortage in silver (also recently apparent in gold). Again, the question is not why is gold so strong, with silver so weak; but whatâ??s the explanation for the unusual departure in the price paths of two closely-aligned and very long-term price partners?

The answer is obvious, namely, developments in the main (and nearly sole) price driver â?? COMEX futures positioning, as confirmed in yesterdayâ??s new Commitments of Traders (COT) report. What has caused gold prices to soar by nearly $200 over the past 15 trading days, far outpacing what was close to a sub-$3 ragged rally in silver, was much greater net managed money buying in gold than in silver (along with accompanying commercial selling).

Over the past two reporting weeks (as of Tuesday), the managed money traders in COMEX gold futures bought just over 82,500 net contracts of gold (the equivalent of 8.25 million oz), among the largest two-week amounts ever. In silver, by contrast â??onlyâ?• just under 12,000 net contracts (60 million oz) were purchased by the managed money traders, which did cause silver prices to rise by close to $2.50, but not near as much historically as a $200 rally in gold would suggest.

The sudden purchase of more than 8 million equivalent oz of gold in two reporting weeks by the managed money traders on the COMEX Â was, clearly, the prime price driver, as nothing close to that amount of gold exchanged ownership on any other world venue â?? or even close to that amount. The managed money traders bought so much gold equivalent because gold prices went up and through all the key moving averages â?? these guys are only concerned with price and not world developments. They didnâ??t buy anywhere near as much equivalent amounts in silver because prices didnâ??t upwardly penetrate silverâ??s key moving averages â?? again, no more or less.

In fact, I was shocked and taken aback by how close I came in my predictions for yesterdayâ??s COT report on gold, where I ventured that the managed money and commercial trades would replicate the previous weekâ??s performance of close to a 40,000-net contract positioning change and that turned out to come within one-percent or so within the margin of error in both the managed money and commercial positioning changes. In silver, the results were closer to my hoped-for expectations. No, I wasnâ??t trying to thread the needle, just offer ballpark estimates and, once again, test myself to see if I came close to predicting and understanding what makes prices tick on the COMEX. (Try to remember this the next time I strike out badly).

Iâ??ll get into the details of yesterdayâ??s COT report a bit later, but let me summarize the results over the past two reporting weeks in connection with the price performance in gold and silver to date and looking ahead. Gold soared as much as it did and silver not so much, due to the much-greater relative managed money buying (and commercial selling) in gold compared to silver. Period. The gold rally was fully-expected based on the extraordinary managed money positioning changes on the sharp price decline to about $1820 earlier this month.

As a result of the near-vertical $200 price rally since the low, weâ??ve used up most of the expected managed money â??rocket fuelâ?• and now the COMEX gold market structure is neutral and no longer super-bullish. That does not mean gold must decline in price, just that it will take additional managed money and other buying to propel prices higher from here, which is not hard to imagine, all things considered. While we have used up a large portion of managed money rocket fuel, thereâ??s simply no way of knowing if there are other stages of gold price booster rockets to kick in. I suspect there are additional upside surprises to come in gold, everything considered, but am not particularly surprised by what has transpired to date.

Itâ??s different in silver. While weâ??re up by $2.50 or so from the early lows of the month, it feels like the weakest and most-ragged silver rally in ages â?? largely, I believe, due to the much stronger rally in gold. But whereas gold has largely used up its built-in reserve of managed money rocket fuel, the same is not true in silver. The managed money traders in each respond to price, not news, and all the key gold moving averages have been penetrated to the upside, while that has yet to occur in silver. That is the basic explanation for why gold has done so much better than silver to this point, namely, the managed money traders have fully-responded to the upside moving average penetrations in gold, but not in silver (because there hasnâ??t been as decisive upside penetrations in silver).

Not to throw you a curve-ball here, but Iâ??m not sure we will see the same type of typical managed money buying ahead in silver that weâ??ve just seen in gold and have also seen in silver over the years, as and when silver prices penetrate all its key moving averages decisively. Maybe Iâ??m overthinking things, but Iâ??ve had a sneaking suspicion that we are about to see something quite surprising and unprecedented in silver, in that while weâ??ll see an explosive price move higher, it may not be accompanied by the type of managed money buying and commercial selling of the past or like weâ??ve just seen in gold.

Iâ??m sure Iâ??ve mentioned it in the recent past, but my suspicion concerns an ultimate final insult issued by the COMEX commercials to their managed money counterparties in which the commercialsÂ donâ??t allow the managed money traders to get fully-aboard the long side in COMEX silver futures by refusing to provide the requisite number of new sales and short sales that would enable the managed money traders to get completely onboard a bullish silver train. Yes, this is very much related to the key manipulative issue Iâ??ve raised incessantly over the years and decades, the question of whether the 4 and 8 big commercial shorts on the COMEX will add aggressively to short positions on the next silver rally. In fact, itâ??s one and the same. Iâ??ll get into the details later.

The turnover or physical movement of metal either brought into or removed from the COMEX-approved silver warehouses was slightly below the weekly average of the past 12.5 years, as 4 million oz were moved this week, as total COMEX silver inventories fell by 1.7 million oz to 270 million oz. No change in the JPMorgan COMEX silver warehouse, which remained at 134.4 million oz.

Holdings in the COMEX gold warehouse system remained unchanged at 19.85 million oz, as did the holdings in the JPM COMEX gold warehouse, at 7.35 million oz.

Holdings in the worldâ??s gold ETFs finally showed some stability in keeping with the firmer gold prices, as there were net inflows of around 250,000 oz for the week. Holdings in the worldâ??s silver ETFs were also mostly stable after last weekâ??s sharp declines. After falling sharply last week by 8.5 million oz to 713.6 million oz, Â the combined holdings in the COMEX silver warehouses and in SLV, the big silver ETF, stabilized and ended a fraction higher this week, at 713.7 million oz.

On Wednesday, I mentioned the curious case of the second largest silver ETF, PSLV, which received a dollar inflow of $15 million (due to collective net investment demand) a week and a half earlier, not having purchased any physical silver to that point, meaning some 650,000 oz were â??owedâ?• to the trust. Sure enough, later Wednesday evening, it was reported that 100,000 oz were deposited into the trust, followed by an additional 200,000 oz deposited as of Thursday evening. No additional deposits were reported last night, so it would appear the PSLV is due another 350,000 oz or so.

While the amounts of silver in question are certainly not substantial in normal times, these are hardly normal times in silver. The most plausible explanation for the delay in the PSLV fully-depositing all the silver represented by the total amount of net investment buying is due to an inability of the trustâ??s suppliers to complete physical delivery. Iâ??m sure that PSLV actually bought the silver when the $15 million inflow occurred, but is not allowed to show it as received, until it is physically received. After all, it canâ??t list the new bars by serial numbers and specific weights until the 1000 oz bars are received. It is precisely because the amounts are relatively tiny that makes this such a big deal.

Turning to yesterdayâ??s new COT report, as previously-mentioned, Iâ??m taken aback, both by the accuracy of my predictions for this report and what it may portend for silver. In addition, there were some real surprises in the details under the hood.

In COMEX gold futures, the commercials increased their total net short position by 37,900 contracts to 165,900 contracts (versus a 37,600 contract increase in the previous week). While this is the largest commercial net short position in more than two months, on a longer-term basis, it is more neutral than outright bearish.

The good news is that the big 4 â??onlyâ?• added 10,200 new shorts, to 138,116 contracts (13.8 million oz), while the big 5 thru 8 actually bought back around 2300 shorts, increasing the big 8 short position to 204,856 contracts (20.5 million oz). The raptors (the smaller commercials apart for the big 8) were the big sellers in gold, having sold off close to 30,000 longs and leaving them with 39,000 net longs. Over the past two reporting weeks and in the face of more than 75,000 contracts of total commercial selling, big 4 new short selling came to around 18,000 contracts, while raptor long liquidation amounted for the bulk of the commercial selling.

On the managed money side of gold, these traders bought 40,645 net contracts, consisting of the purchase of 17,748 new longs and the buyback and liquidation of 22,897 shorts. The resultant managed money net long position of 55,748 contracts (122,456 longs versus 66,708 shorts) has grown substantially over the past two reporting weeks and this is what has driven gold prices sharply higher. Thereâ??s no way to make such a bullish gold price omelet, without cracking quite a few eggs (in the form of the managed money buying of 82,500 contracts over the past two reporting weeks).

In COMEX silver futures, the commercials increased their total net short position by 2900 contracts to 34,600 contracts (quite a bit less than the previous weekâ??s 5400 contract increase and as hoped for). Certainly not based upon this weekâ??s report alone, but Iâ??m more convinced than otherwise that not only is there no longer a big managed money trader in the big 4 or 8 category, that trader may not have existed for a few weeks. While itâ??s still possible and would be incredibly bullish if there still was such a managed money trader, it really doesnâ??t make much difference at this point.

The big 4 short position did increase by a bit more than 200 contracts to 39,426 contracts, but almost unbelievably, the big 5 thru 8 short position fell again, this week by 800 contracts, which put the big 8 short position lower to 52,444 contracts. The big 5 thru 8 short position fell to 13,018 contracts, another new record low. (I didnâ??t mention it, but the big 5 thru 8 short position in gold is also quite low, although not to the extreme of this position in silver). If we are back to a pure commercial big 8 short position in silver, the raptor net long position would amount to 17,800 contracts (due to the elimination of the the big managed money trader).

I canâ??t help but believe that the reluctance of the big 4 to add aggressively to short positions in silver, combined with the actual reduction in the big 5 thru 8 short position to record lows, might be an indication that both groups are not interested in shorting heavily on any decisive upward penetration of the key moving averages in silver, but I may just be guilty of confirmation bias and wishful thinking. But should these big 8 shorts not add aggressively to shorts on higher silver prices, I fail to see how the managed money traders can build up a big long position or how silver prices wonâ??t explode.

On the managed money side of things in silver, these traders were net buyers to the tune of 3918 contracts, consisting of the sale and liquidation of 1410 long contracts and the buyback and liquidation of 5328 short contracts. This weekâ??s net buying by the managed money traders was less than half of what they bought in the prior week and exceeded my hoped-for expectations. Particularly surprising and encouraging was the liquidation of long contracts, as well as the low level of total gross longs in the managed money category. The resultant net managed money long position came to 7244 contracts (29,617 longs versus 22,373 shorts) as of Tuesday and likely even less as of yesterdayâ??s close (not the case in gold).

After a very weak-feeling but nonetheless a rally of $2.50 or so over the past couple of weeks in silver, I am very much taken aback by the very low level of managed money gross longs in silver (29,617 contracts) and it lines up perfectly with my hunch that these traders may be denied the opportunity to load up big on the long side should the big 4 and 8 not add aggressively to short positions on a silver price rally from here. Should that occur, these managed money technical fund traders would likely not be able to get long silver in a meaningful way, since to my understanding, they are largely CTAâ??s (registered Commodity Trading Advisors) and restricted to buying and selling futures contracts and not other investment vehicles (like ETFs).

So, if the big commercial shorts do refrain from adding aggressively to COMEX silver futures contracts, not only should that result in an explosive silver rally, it would also prevent the managed money technical funds from fully developing a significant long position in COMEX silver futures contracts and preclude any long participation in a major silver upside price move, which could easily be the biggest double cross of all-time. Talk about missing getting aboard the departing silver train.

Perhaps this is all wishful thinking on my part, but at the same time, none of this is really any different than what I have held for years. That we have a highly manipulated and suppressed silver price for 40 years, due to commercial collusion on the COMEX and that has finally resulted in an obvious physical shortage requiring sharply higher prices is nothing new. Nor is my constant refrain that the key to the manipulation has been the ability and willingness of the very largest COMEX commercial shorts to add as many new short contracts as required to cap and contain all silver price rallies.

Now, it would appear that not only may this be an opportune time at hand for the biggest shorts to refrain from adding aggressively to silver shorts (and not step into a buzzsaw on the upside), by not adding to shorts, the big COMEX commercials would also deny the managed money technical funds from getting onboard the silver train as it leaves the station. At least, thatâ??s the way it appears to me.

On a housekeeping note, I am preparing to depart to Florida early next week (weather permitting), so there wonâ??t be a mid-week article published next week and the next report will be next weekâ??s review and donâ??t be alarmed if that report is delayed until Sunday.

This year, of course, in addition to the sad feelings always created when I drive by the Sandy Hook exit in Connecticut and the memories of the innocent children slaughtered there years ago, Iâ??ll also be carrying new thoughts of the terrible tragedy in Lewiston, only 30 miles away.

Ted Butler

October 28, 2023

Silver – $23.22Â Â (200-day ma – $23.46, 50-day ma – $23.14, 100-day ma – $23.43)

Gold – $2016Â Â Â Â Â (200-day ma – $1945, 50-day ma – $1932, 100-day ma – $1943)

Date Created
2023/10/28