

## October 7, 2023 – Weekly Review

A fairly sharp Friday rally enabled gold and silver to recoup about half of the steep losses earlier in the week, but both metals still ended sharply lower for a second week; with gold ending \$20 (1.1%) lower and with silver off a sharper 70 cents (3.1%). As a result of silver's relative underperformance, the silver/gold price ratio widened out by nearly two full points to 85 to 1, with silver still dirt cheap to gold (and just about everything else in the world).

The sharp two-week selloff in gold (as much as \$120) and in silver (\$3) at the lows, put both back to the seven-month price lows seen back in March, from which significant rallies developed of more than \$250 in gold and \$6 in silver. Even more significant from my perspective is that COMEX futures positioning in both metals is remarkably similar in many important ways to the positioning that existed at the March lows.

I won't beat around the bush. As I wrote on Wednesday, the two-week smack down in price, being deliberate and intentional beyond question on the part of the commercials to induce maximum managed money selling, was highly successful and represents to me the last such price smash for some good time to come. I suppose I should allow for the possibility of further probes to slight new lows (considering the treachery and corruption of the COMEX commercials) to be prudent – but I believe more strongly that the lows are behind us.

In addition to the Friday price rally, the new Commitments of Traders (COT) report featured the type of positioning change I was hoping for in gold and, after a brief moment of doubt in perusing the silver report, had the same bullish conclusion. Let's face it – the only reason we sold off so sharply over the past two weeks, with a market structure not at all bearish in gold or silver, was because the commercials put the finishing touches in creating market structures almost bullish beyond words. I'll dig into the new COT reports momentarily, after reviewing the physical side of the equation.

The turnover or physical movement of metal either brought into or removed from the COMEX-approved silver warehouses, cooled off to just over 3.9 million oz this week, the slowest weekly movement since April, but still amounting to 200 million oz when annualized and so head and shoulders above the physical turnover of any other commodity that any attempt as comparison is laughable.

This week, nearly all the movement was of the "in" variety, as total COMEX silver holdings increased by 3.3 million oz to 273.6 million oz, holding relatively stable over the past six months, but with continued phenomenal physical turnover. Holdings in the JPMorgan COMEX silver warehouse were unchanged at 136.2 million oz (but that likely includes 103 million oz held for SLV, the big silver ETF), making the true net holdings in that warehouse only a fraction of the posted amount.

COMEX gold warehouse holdings slipped by 150,000 oz to 20.75 million oz, setting fresh three-year lows, while the holdings in the JPM warehouses remained unchanged at 7.66 million oz.

There continues to be quite active gold deliveries (9200) in the October COMEX delivery months (silver, not so much), with new issues and stops created daily, but for the life of me, I have no idea what the deliveries mean in regard to price, so I won't pretend otherwise. JPM has been a net issuer for customers of around 1500 contracts and a net stopper in its house account of 800 some-odd contracts and that combination doesn't alarm me - so I suppose all's well.

There continued to be heavy outflows or redemptions in the gold ETFs, including GLD, of around 500,000 oz this week, in reaction to the continued lower gold prices, but that should change if prices soon turn higher, as I suspect. However, it was a vastly different story in the silver ETFs, particularly in SLV, the largest silver ETF, which saw an inflow of metal on the order of 9 million oz. Last night, there was a 2.3 million oz withdrawal from the silver ETF, SSLV, but that redemption looks suspicious in that it represented more than 20% of its total holdings.

Of greater interest was the sharp snap-back in the combined holdings of SLV and the COMEX warehouse holdings, which increased by 12.6 million oz this week, to 724.6 million oz, following the prior week's 10 million oz reduction. Over the past three weeks, the combined holdings in the world's two largest stockpiles of silver have fluctuated by 30 million oz (although not all the movement in SLV involves the physical movement that the COMEX turnover involves.

Even more significant is that this week's surge in combined deposits came on continued sharply lower prices. I can't help but feel this confirms my contention that there is a bedrock limit as to how far the combined holdings in SLV and the COMEX warehouses can fall, given that the vast majority of the silver is owned by investors (who don't appear to be aggressive sellers). Should silver prices turn impressively higher from here (as I believe), that should lead to silver ETF buying and the requirement for what could be large physical metal purchases and deposits, according to the prospectus.

I also get the feeling that the short position on SLV could drop sharply due to recent metal deposits and the buyback of shorted shares, but I am wary of making firm predictions on the short report, given the ability of the short sellers to resort to the old trick of shorting against the box, which delayed my prediction of more than a 25 million share reduction in the short position on SLV earlier this year. For what it's worth, I believe the real short position in SLV, last reported at 29 million shares, is most likely less than 10 million shares currently, but there's no way of telling if that number will be reported any time soon.

Turning to yesterday's COT report, there was no surprise in the gold numbers, except perhaps pleasantly, since the numbers were even better than I hoped for, but my heart sank a bit when first viewing the silver report on two counts - a much smaller reduction in the total commercial net short position than expected and a completely unexpected increase in the concentrated short positions of the 4 and 8 largest shorts. Fortunately, both negative concerns were quickly explained away, as I'll get into.

In COMEX gold futures, the commercials reduced their total net short position by 22,900 contracts to 112,000 contracts. This is the lowest (most bullish) reading of the year, back to last November, after gold traded down to the low \$1600's and before embarking on a rally of more than \$300. The total commercial net short position is now lower than it was back in March, before a \$250 rally. It's hard for me to see how there won't be a similar (or stronger) gold price rally on this go-around.

By commercial categories in gold, the 4 big shorts bought back 10,000 short contracts (actually 10,005 contracts to be exact) and held a short position of 126,780 contracts (12.7 million oz) as of Tuesday – the lowest big 4 short position of the year – back to last December. The next 5 thru 8 largest shorts bought back around 1600 short contracts and the big 8 short position fell to 197,933 contracts, also the lowest since last year, but unfortunately, here’s where it gets a bit confusing – but in a good way.

I didn’t mention it last week (except privately), but I had a suspicion that a managed money trader may have entered into the ranks of the big 5 thru 8 gold shorts and this week that looks certain. I’d peg the size of the big managed money short as anywhere from 15,000 to 20,000 contracts. Therefore, the true commercial-only net short component of the big 8 position is no more than 183,000 contracts (using a 15,000-contract managed money short position) and maybe even less. Using 183,000 contracts as the true commercial-only component, the raptors would be net long by 71,000 contracts. It doesn’t mean the raptors were net sellers this week – just that I didn’t take a managed money trader being in the big 5 thru 8 seriously enough last week. For all intents, while I’m sure this is all confusing, it is also remarkably bullish.

On the managed money side of gold, these traders sold a very hefty net 30,999 contracts (let’s call it 31,000 contracts), consisting of the sale and liquidation of 14,168 longs and the new sale of 16,831 short contracts. The resultant managed money net position swung to a net short position of 7561 contracts (100,500 longs versus 108,061 shorts), the first time the managed money traders have been net short this calendar year and bullish almost beyond belief. It’s quite rare that the managed money traders have been net short in gold and it is axiomatic that a rally must follow at some point.

Explaining the difference between what the commercials bought and the managed money traders sold was the buying of 6400 net contracts by the other large reporting traders and 1700 contracts of net buying by the smaller non-reporting traders. As of yesterday’s close, I don’t detect any deterioration in the extremely bullish gold market structure since the Tuesday cutoff, but that could change in trading this Monday and Tuesday. All in all, this is a white-hot bullish market structure in gold.

In COMEX silver futures, the commercials reduced their total net short position by – only – 2700 contracts, to 30,400 contracts and as indicated earlier, somewhat disappointing initially (although net managed money selling of 7500 contracts was more in line with expectations). If the relatively small amount of commercial buying was somewhat disappointing, the calculations indicating that the concentrated short position of the 4 largest shorts increased by more than 2000 contracts to 38,635 contracts was a back-breaker. The next 5 thru 8 shorts added 100 more shorts and the big 8 short position rose to 53,233 contracts.

I am focused on whether the 4 big commercial shorts in silver would add aggressively to short positions on the next rally or not – it was never a question if they would add on lower prices, as the new COT report indicated. It didn’t take that long for my disappointment to dissipate, when it became obvious it wasn’t commercial shorting that was responsible for the hike in the concentrated short position, but managed money shorting instead. After all, the managed money category was the only short category capable of shorting enough contracts to explain the increase in big 4 shorting. Further, it now appears clear that there had to be a managed money short trader in the big 5 thru 8 category last week, that I didn’t pick up on.

The bottom line on all this is that a managed money trader holding at least 6500 contracts short (and maybe more) is in the big 4 short category. I don't think it's the same big managed money trader previously short, because the former big short went short on higher, not lower prices, making me believe the current big short is a technical fund. The important point is that it matters little whether it's the same or a different managed money trader now short as the net result and outcome will be the same, namely, this trader will most likely buy back on higher prices (and certainly is not capable of making physical delivery to close out the short position).

It is also bullish beyond words, in that it changes the overall calculations dramatically. If at least 6500 contracts are held short by a managed money trader in the big 4 category (as appears quite conservative to me), it means that the true commercial-only component of the big 4 and big 8 short positions must be reduced by that same 6500 contracts and bringing both the true commercial-only big 4 and 8 short positions to be among the very lowest ever.

It also reduces the commercial raptor net long position to little more than 16,500 contracts, meaning there would be a remarkably small number of long contracts the raptors could sell on a price rally and making the question of whether the 4 and 8 big commercial shorts add aggressively to shorts on the next rally more critical than it has ever been.

Finishing up on the silver COT report, the managed money traders sold 7517 net silver contracts, consisting of the sale and liquidation of 3298 longs and the new sale of 4219 short contracts. As was the case in gold, the managed money position in silver slipped into a net short position of 2250 contracts (29,421 longs versus 31,671 shorts), about as strongly bullish as it gets. There just doesn't appear to be much further managed money long liquidation possible and it's only a matter of time before the shorts look to cover on higher prices.

As mentioned on Wednesday, the amount of net managed money short selling would likely be constrained by certain risk factors that the managed money traders typically consider, as well as the fact that the managed money traders have never collectively profited on a realized basis whenever getting heavily short (like now). Explaining the near 5000-contract difference between what the commercials bought and the managed money traders sold, was combined net buying by the other large reporting and smaller non-reporting traders of close to that amount.

Over the past two reporting weeks and on the \$100+ price smash in gold, the commercials were successful in hoodwinking the managed money traders into selling nearly 55,000 net contracts, a truly remarkable manipulative achievement. The market structure in gold prior to the deliberate price smash wasn't at all bearish, but at this point has become extremely bullish. The only reason the \$3 price smash in silver didn't result in as startling a change as occurred in gold was because silver was already extremely bullishly structured prior to the two-week price smash. Even though my interest is on silver, I can assure you that I am greatly encouraged by the now-super bullish market structure and set up in gold, since these two birds of a feather typically fly in the same direction.

The bottom line on my initial viewing of the silver COT report and resultant market structure was one of momentary doubt and confusion that quickly morphed into a position of extreme bullishness I hadn't expected as in terms of the much lower true commercial-only component of the big 4 and 8 short positions than I expected going into yesterday's report.

Of course, it may turn out that my disappointment has only been delayed and not eliminated completely, depending on what the former 4 and 8 big shorts do or don't do in the future. Yes, I will be disappointed if these big commercials resort to shorting aggressively on the next silver rally, but it's not up to me whether they do so. But I am still convinced it is now in their best interests not to add aggressively on the next rally, in light of the deepening physical shortage and just how remarkably successful they have been in reducing their concentrated short position to the low level that now exists. I've always believed that the big shorts would let silver fly when it was most advantageous to them like it is now.

I recognize from reader feedback that there is a general expectation that the past will prove to be prologue and the same repetitive pattern of commercial shorting on higher prices will occur in silver again. Considering that this same scam has persisted for what is now 40 years and despite the scam being originally uncovered by me, there is no way I can guarantee that it won't happen again. However, let there be no doubt whatsoever that if the big 4 and 8 commercial silver shorts refrain from adding aggressively to short positions on the next silver rally, then I can see no way that silver doesn't explode.

Ted Butler

October 7, 2023

Silver – \$21.70 (200-day ma – \$23.54, 50-day ma – \$23.31, 100-day ma – \$23.56)

Gold – \$1845 (200-day ma – \$1937, 50-day ma – \$1935, 100-day ma – \$1946)

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