

October 8, 2022 – Weekly Review

Price weakness starting on Wednesday and climaxing yesterday, was not enough to erase the week's strong start and both gold and silver finished the week higher with gold up by \$30 (1.8%) and silver up a sharper \$1.13 (5.9%). As a result of silver's relative outperformance, the silver/gold price ratio tightened in by three and a half points to 84.4 to 1, the strongest silver has been relative to gold in five months (with a lot more relative strength to come from everything I see).

Of course, the sloppy price action at week's end detracted from what has been a rather sharp turn higher, with gold rallying more than \$100 and silver by more than \$3 from the price lows established a week earlier. Coupled with what looked like a disappointing Commitments of Traders (COT) report yesterday (I'm not so sure), the late price weakness conjures images of the old wash, rinse, repeat of the COMEX price manipulation that has plagued silver for 40 years. Again, I'm not so sure my bear trap and in play premises are a thing of the past.

There's a lot to cover today, perhaps too much, which might make for longer reading than usual, but I believe there are things needed to be said. I'll try to stick to the usual format, but it may seem a bit disjointed at times.

The turnover or physical movement of metal either brought into or removed from the COMEX-approved silver warehouses truly exploded this week as nearly 14.6 million oz were moved, matching an equally explosive week of four months ago as one of the largest weekly movements in history. On an annualized basis, this week's movement came to 760 million oz or an incredible 90% of total mine production on an annual basis. As remarkable as this verified physical turnover may be, I doubt you'll see it referenced anywhere else.

Instead, you're likely to read breathless stories of shrinking COMEX silver inventories, particularly of the registered variety. Please don't misunderstand me – I'm not diminishing the importance of shrinking COMEX inventories for reasons I believe I have explained in the past. But things need to be put into proper perspective and I still believe it is the physical movement that matters most.

This week, total COMEX silver warehouse inventories did fall by 1.4 million oz to 312.6 million oz (the lowest in two years) – paced by a slightly bigger drop in the holdings in the JPMorgan silver warehouse of 1.5 million oz to 161.4 million oz. But, oh the humanity, how is it possible that a physical movement of ten times the actual total reduction can continue to go unnoticed and under-reported? By the way, there wasn't much overall change in the COMEX gold warehouses, unchanged at 26.3 million oz and ditto for the JPM gold warehouse, down ever so slightly to 10.75 million oz.

As regular readers know, I have featured the unprecedented physical COMEX silver warehouse turnover weekly since it began in April 2011 – which is now so consistent and firmly entrenched that failure to report on it is downright negligent.

All told, more than 3 billion oz of silver have been physically moved in and out from the COMEX warehouses over this time or more than the 2 billion oz said to exist in world bullion inventories (in 1000 oz bar form). This is not paper-shuffling of registered to eligible or vice versa — this is the putting on and off trucks, going in or out from the COMEX warehouses physical movement. Yet, it remains so under-reported as to be shocking.

Let me jump to something that has recently occurred to me that has been developing in full view without proper commentary — the developing highly-counterintuitive physical flows in some of the world's key silver ETFs. This week, for instance, on a rather strong price performance for silver, a rather large amount of metal, more than 12 million oz, was redeemed from a number of silver ETFs (SIVR, mostly, but also SLV).

In the — sometimes, you're too close to the forest to see the trees — department, I'd like to discuss something that has become increasingly obvious, yet I've never dealt with it head on. For a number of years, but increasingly of late, there have been highly-counterintuitive flows of metal into and out from SLV, the big silver ETF, as well as others, such as SIVR, including the Deutsch Bank silver ETF and SVR. There have been no counterintuitive metal flows to speak of in other silver ETFs, such as PSLV and ZKB, the Swiss silver ETF, or for that matter from Bullion Vault and other public storage programs, which are technically not ETFs (but are included for the purpose of measuring total world recorded metal holdings).

Please understand that this has absolutely nothing to do with the merits of whether any silver ETFs are an appropriate investment or not, which always seems to be what is discussed most. (I have disclosed an ownership interest in both SLV and PSLV and that hasn't changed). The discussion today concerns the implications of the holdings in the silver ETFs and public storage programs, as well as the holdings in the COMEX warehouses.

After all, since the combined physical silver holdings in the silver ETFs, public storage programs and in the COMEX warehouses come to 1.4 billion oz, or 70% of the total of 2 billion oz that exist in the world in 1000 oz bar form — no legitimate analysis would be possible that excludes these holdings. And remember, any comparison to gold holdings isn't really practical, as total gold ETF and COMEX warehouse holdings come to only 135 million oz or less than 5% of the 3 billion oz of gold bullion in the world (excluding another 3 billion oz in jewelry form). I'm not saying that total gold ETF and warehouse holdings are meaningless, but shouldn't be compared to total silver ETF and warehouse holdings as if they were.

And yes, a significant percentage of the world's 3 billion oz of gold bullion is held by central banks and other government entities and also, yes, I suppose those official entities could buy more or sell some of the gold they own (akin, perhaps, to recent sales of crude oil from the Strategic Petroleum Reserve). My point is that there is some chance that governments could sell gold (not a prediction), but zero chance they could sell silver (since they don't own any). That's been a big difference between gold and silver for some time.

Also, there have been recent reports of big declines in silver holdings in the LBMA (London Bullion Merchants Association). It's important to remember that the figures I provided above include all recorded silver holdings in the world and the LBMA is a subset of this. However, the notion that hundreds of millions of ounces of silver have suddenly disappeared into thin air is nonsense — the

silver may have been moved around, but it didn't cease to exist. There was time, a very long time ago, as a matter of fact, from 1940 to the early 2000's when there was less silver in the world each year due to an ongoing deficit consumption pattern in which more silver was consumed (industrially) each year than was produced — but that is not the case now.

Back to the point of this piece. Just as has been the case for COMEX silver warehouse inventories for the past 11.5 years, in which physical turnover simply exploded out of nowhere — that same unprecedented phenomenon has, apparently, come to SLV and a few other silver ETFs. In addition to conversions, in which large shareholders of SLV and other ETFs, simply convert shares for physical metal for the purpose of creating anonymity of ownership, the persistence of highly-counterintuitive metal flows compared to price changes makes it obvious that the COMEX warehouse turnover phenomenon has come to SLV and other silver ETFs.

In other words, the exact same reason behind the unprecedented physical turnover of silver in the COMEX warehouses for nearly 12 years, has now come to SLV and other silver ETFs. What is that reason? While I'm open to suggestions (and always have been), the only reason I can come up with is because physical silver is in such high demand that it requires a rate of physical turnover that is commensurate with that demand.

Further, it's only natural that the unprecedented physical turnover witnessed on the COMEX for more than a decade would find its way to SLV. After all, these are the two largest stockpiles of physical silver in the world and if there is a worldwide physical shortage developing (according to just about every possible indicator) that accounts for the tremendous COMEX warehouse turnover, it's not possible that turnover wouldn't come to SLV. Moreover, the structural — plumbing — and liquidity provided in SLV more than allow for pronounced physical turnover. Compared to PSLV and the Swiss ETF, ZKB, the SLV is much more suited for physical turnover. After all, Ottawa is not a traditional physical silver distribution point (like NY or London).

All silver ETFs have a conversion of shares to metal provision and it's this conversion provision that gives every physical silver ETF legitimacy — just like the physical delivery provision on a COMEX futures contract gives legitimacy to the COMEX (which the collusive commercial crooks undermine with their manipulative trading ways).

For example, I heard someone recently explain that the SLV and other silver ETFs are simply derivatives. That's horse poop. A derivatives contract requires a paper buyer and a paper seller, whether that contract is a listed futures contract on the COMEX or an OTC derivatives contract. While the short position in SLV is currently way too high (a signature issue of mine for more than a decade), a physical silver ETF is not a derivatives contract — they are securities promising to have metal backing according to provisions in the prospectus. ETFs that deal exclusively in leveraged instruments and derivatives contracts on the long or short side are completely different issues. SLV and other physical silver ETFs are not derivatives contracts regulated by the CFTC, they are securities regulated by the SEC or other appropriate securities regulators.

My point is that just like the unprecedented physical turnover of 1000 oz bars has been occurring non-stop for more than a decade in the COMEX warehouses (despite universal non-reporting), that same physical turnover has now come to SLV and other silver ETFs (how could it not?). — And if there is a reason for why the unprecedented and growing physical turnover is occurring — aside from the obvious explanation of growing and nearly out of control physical demand — I'm at a loss to

uncover an alternative explanation.

Turning to yesterday's COT report, the expected deterioration (managed money buying and commercial selling) in silver was less than predicted, while the deterioration gold was way worse than expected. However, the single most (apparent) negative feature was that the commercial selling in both was almost exclusively of the big former concentrated commercial short variety — precisely what I didn't want to see. After mulling it over since, I'm not so sure it's all bad, as I'll try to explain after running through the numbers.

In COMEX gold futures, the commercials increased their total net short position by a hefty 34,400 contracts to 96,500 contracts. This is the worst reading in three weeks, but the fact that the total commercial short position is under 100,000 contracts and prior to the last three weeks is still the lowest and most bullish reading in years, must be kept in mind. This is far from a bearish set up. However, I was taken aback by the fact that most of the selling was by the former big commercial shorts.

The 4 largest gold shorts increased their combined (commercial plus managed money) short position by only 7100 contracts to 94,843 net contracts (9.5 million oz), while the combined big 8 short position expanded by 11,500 contracts to 158,655 contracts (15.9 million oz). But the commercial-only component of the big 4 short position increased by 28,000 contracts to 73,000 contracts, while the commercial-only big 8 short position rose to 133,000 contracts. Still, aside from the last three reporting weeks, this remains the lowest (most bullish) commercial-only concentrated short position in years. I'd peg the gold raptor (the smaller commercials) net long position to be around 36,000 contracts, down 6 or 7000 contracts on the week. Let me continue to run through the numbers and save commentary until afterwards.

The managed money traders bought a surprisingly large 36,219 net gold contracts, more than fully matching the commercial selling and consisting of the purchase of 8635 new longs and buyback and covering of 27,584 short contracts. The managed money net position was sharply reduced from the prior week's 4-year record large net short position to a still-bullish, but sharply-reduced net short position of 6875 contracts (82,806 longs versus 89,681 shorts). Net selling of nearly 2000 contracts by the smaller non-reporting traders accounted for the difference between what the commercials sold and the managed money traders bought. I had no real expectations for what the other large reporting traders might do, but was a bit surprised they did absolutely nothing, considering their active positioning (mostly net selling) of late.

In COMEX silver futures, the commercials increased their total net short position by 10,800 contracts, to 17,600 contracts. This the largest commercial net short position since June 28, but is still very much a rather low commercial net short position for silver on an historical basis. The rub, of course, is that the commercial selling was almost exclusively of the same variety of new shorting by the former big concentrated commercial shorts that took place in gold — about the last thing I was expecting or hoping for.

On a combined (commercial plus managed money) basis, the big 4 short position grew by 2100 contracts to 45,074 contracts (225 million oz), while the combined big 8 short position fell by around 1500 contracts to 63,467 contracts (317 million oz). However, the big story was that 90% of the total commercial selling was of the variety of new short selling by the former big concentrated commercial shorts. I'd peg the commercial-only component of the big 4 short position to be 35,000 contracts, up 9000 contracts for the reporting week, while the commercial only component of the big 8 short position

looks to be 52,000 contracts.

The silver raptor net long position looks to be around 34,000 contracts, down a thousand or so contracts. For what it's worth, I feel there was improvement in the market structures of both gold and silver since the Tuesday cutoff – mostly in the form of short covering by the same big commercial shorts which were practically the only sellers this reporting week.

The managed money traders bought 13,424 net silver contracts, consisting of the purchase of 3456 new longs and the buyback and covering of 10,274 short contracts. I was relieved that my predictions of more than 20,000 net contracts of managed money buying weren't achieved. The resultant net managed money position switched from net short to 5637 contracts net long (37,885 longs versus 32,248 shorts), but can hardly be called bearish. Unlike what occurred in gold, the other large reporting traders were substantial net sellers in silver (5780 contracts – mostly new shorts), while the smaller non-reporting traders were net buyers to the tune of 2800 contracts. Now for some color commentary.

First and foremost, there should be no argument that gold and silver prices spiked higher over the reporting week (gold by more than \$100 and silver by nearly \$3), due to pronounced managed money buying – same as it ever was. As hard as it may be to believe, there are still some that would disagree that COMEX futures positioning is the main, if not sole driver of price – mostly for reasons I find to be nonsensical. I wouldn't disagree that this might and will change someday, just not this day. Big up moves always involve managed money buying and big down moves always involve big managed money selling. Arguing otherwise is like howling at the moon.

Therefore, the standout feature of this COT report was not the lack of managed money buying because that kicked in as it always has. Rather, the surprises that stood out, starting with the lack of raptor long liquidation and that most, if not all, of the substantial commercial selling was of the short-selling variety by the former big concentrated shorts – which pressed right up to the lower level of what I would define as aggressive short selling (10,000 contracts in silver). Less of a surprise, but still noteworthy was the still-large gross short position of the managed money traders in silver of 32,000 contracts, considering this is now in a net loss position (after being ahead by as much as \$700 million).

Since the sharp increase in new short selling by the former big concentrated commercial shorts goes right to and against what I have represented as the absolute key to the decades-old manipulation of silver on the COMEX, there's no way I would or could brush it off or ignore it. It's still the key. Then what the heck happened and why did the former big commercial shorts just add so many new shorts on the first pop in price and what the heck happened to my expectations of heavy raptor long liquidation first, and only then to be up to the big commercials as to whether they would add or not add to the short side?

In thinking it over, it now appears the big commercials had to add shorts to cap and contain prices on this recent price pop, because, obviously, the raptors, particularly in silver, did not feel they had high enough prices in which to sell. While the managed money shorts are now clearly in a loss position on all the new shorts they added over the past few months, those losses don't equate to equivalent raptor net long profits. That's because the price decline since March wasn't solely at the hands of the raptors and those that remain long (some have fallen out with losses) need higher prices, say over \$22 in silver to consider selling.

One thing that I've always observed about the raptors is that when they are net long and looking to

sell out at profits, they are not interested in capping prices, but rather to force the managed money traders to reach up, resulting in higher prices. The fact that the silver raptors in particular sold so little on this \$3 price pop proves that they were only interested in selling at higher prices that haven't been witnessed to date. This is what made it mandatory for the big former commercial shorts to be so aggressive on the short side – they had no choice, otherwise silver (and gold) would have spiked much higher than they did.

But wait – I can almost hear you saying – so what's new? Isn't this always the way it has been? No, it's not – usually, the big commercial shorts wait until the raptor long liquidation is over before price-capping new shorts are added to contain the price. The usual order of selling was very much turned on its head this past reporting week. While the reason the big shorts had to sell so aggressively and so soon in the price move may never be known, their actions are clearly discernible, thanks to the COT report. This is very much a break in the usual pattern over the decades.

It also puts the big commercial shorts at much greater risk than typically. Not only have they begun to short very early, they have done so at much lower prices than typically. Most dangerous of all to the big commercial shorts is that they are adding new shorts at a time of historic physical tightness that already be considered a shortage. Perhaps they can rig prices lower by themselves from here or perhaps the last few days are all they can arrange, but one thing is clear – this developing physical shortage in silver and developing tightness in gold wouldn't appear to be going away anytime soon should prices move lower. That's not how the law of supply and demand works and no one is exempt from this law indefinitely.

So, on balance and thinking things over, the move by the former big shorts to add to shorts positions so aggressively and so early appears to be a sign of desperation and not one of continued dominance. As I have remarked previously, who the heck shorts aggressively at low prices in the face of a physical shortage? The answer, at this point, appears to be someone desperate to contain prices. A clearer case of manipulation has rarely been presented to the regulators. The only difference between analyzing the public version of the COT report and what the CFTC gets to see is that it also knows the identity of the big commercials adding new shorts. I suppose it's too much expecting the CFTC to question what the heck these new big shorts are up to – aside from no good.

Back on Aug 24, in an article titled "Between a Rock and a Hard Place" (in the archives), I discussed the remarkable statements made by the oil minister from Saudi Arabia about his distress over the artificial pricing of oil due to paper positioning on the NYMEX and other derivatives exchanges. It was the very first time I had seen such clear parallels of artificial pricing due to paper trading away from COMEX silver. I recall concluding that the difference between silver and crude oil was that OPEC was in position to do something about the artificial price suppression and unless I'm mistaken, the recent agreement to cut OPEC production is directly related to the oil minister's words back then and as such, no one should be surprised.

Of course, I recognize the effect of the releases from the Strategic Petroleum Reserve over the past several months and would further note these were "wet" barrels, whereas the NYMEX and other derivatives positioning were of the "paper or electronic" barrels variety. But the releases from the SPR are, necessarily, temporary as opposed to a permanent solution to any imbalance in energy supply and demand. And now that the price momentum on the downside in crude oil since June appears to have been broken with the decisive upward penetrating of the 50-day moving average

yesterday, it should be expected that in addition to the OPEC production cut, paper positioning appears poised to add to upside price pressure.

As an energy consumer, I certainly don't welcome higher prices, but at the same time I welcome even less the distortion of the law of supply and demand brought about by the artificial prices created by manipulative paper positioning in all markets, particularly COMEX silver and gold. I know there is widespread talk of political dirty dealings behind the move by OPEC to cut production, but take a moment to re-read the excerpts quoted by the oil minister in my Aug 24 article and decide for yourself if he wasn't crystal clear about what was to come.

The real lesson here for silver or crude oil or any commodity is that sooner or later, any artificial price system that distorts the workings of the actual law of supply and demand will and must fail. That the artificial price scheme of COMEX paper positioning in silver has existed for four decades doesn't mean it is any less artificial and illegitimate or that when it does end (and I think soon) that the price reaction won't be that much more violent.

Ted Butler

October 8, 2022

Silver – \$20.16 (200 day ma – \$21.96, 50 day ma – \$19.42, 100 day ma – \$20.01)

Gold – \$1701 (200 day ma – \$1825, 50 day ma – \$1735, 100 day ma – \$1767)

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