September 10, 2022 – Weekly Review

Following three straight weeks of rather significant losses, gold and silver prices turned higher over the past week, with gold ending $6 (0.3%) higher and with a more substantial 91 cents (5.1%) up in silver. The strong relative outperformance in silver resulted in a tightening of the silver/gold price ratio of nearly 4.5 points to 92.1 to 1. This, of course, is still nose-bleed levels of extreme undervaluation of silver relative to gold, just that the flow of blood has moderated slightly. If silver doesnâ??t continue to outperform from here on out, I will be beyond shocked.

While there were many notable developments this week, the absolute standout development was a Commitments of Traders (COT) report so bullish in silver (as well as in gold and platinum and with copper not far behind) that leaves me dumbfounded. And the more I think about it, the COMEX/NYMEX market structures in these metals â?? but particularly in silver â?? is so bullish that I will be surprised if we donâ??t explode higher in price momentarily. Let me run through the usual weekly format before returning to the dramatic positioning changes in COMEX silver and gold.

The turnover or physical movement of metal either brought into or removed from the COMEX-approved silver warehouses â??cooled-offâ?• a bit, as 5 million oz were moved â?? not bad for a four-day work week. Total COMEX silver holdings fell again, this week by 2 million oz to 324 million oz, another two-year low. Holdings in the JPMorgan COMEX silver warehouse fell by 1.4 million oz to 167.9 million oz. There were continued declines in the registered category, as it appears the large deliveries on the first day of delivery are being switched into the eligible category, where storage charges are less than for registered and highly suggestive of increased long-term holding.

The large first day deliveries in September silver by Bank of America of nearly 5200 contracts (26 million oz), as well as the 2700 contracts (13.5 million oz) stopped by Citibank, both for each bankâ??s house account were reflected in this weekâ??s COT report, partially explaining the rather dramatic positioning changes. Delivery issues automatically close out existing short futures positions and stops close out long futures positions and this, no doubt, accounted for some of the dramatic changes in the COT report this week.

There continued to be some outflows from the gold ETFs this week, mainly in GLD, but 1.5 million oz were added to SLV this week, breaking a pattern of strong redemptions recently. The 2.2 million oz redemption in the Deutsche Bank silver ETF yesterday looks to be a one-off for now. It certainly looks to me that the pronounced outflows from the gold and silver ETFs have now ended â?? and Iâ??m still convinced they were not driven by plain-vanilla investor liquidation.

Speaking of SLV, weâ??ll get the new short report late Monday for the short position held as of August 31. While Iâ??ve learned (the hard way), not to handicap the short report, I will be amazed if we donâ??t see a reduction â?? seeing that silver and SLV prices declined sharply (by $2) over the two-week reporting period. Should there not be a reduction in the short report, or even an increase, then the only conclusion is that physical silver market conditions are even tighter than imagined.

Recent reports that interest rates have increased sharply for those seeking to borrow shares of SLV for shorting purposes fit very much with my contention that increases in the short position of SLV and the sharp decline in total shares outstanding (due to redemptions) were starting to clash.

As Iâ??ll discuss momentarily regarding the new COT report, Iâ??ve been looking for signs of managed money short covering and have yet to detect any, as strong managed money short covering is pretty easy to see in terms of increased trading volume, open interest changes and strong upside pops in price, as the salami gets sliced to the upside and so far, I donâ??t see that on the COMEX. In terms of SLV, I found it quite interesting that yesterdayâ??s trading volume in SLV, which usually tracks closely with COMEX volume, was the lowest daily volume in more than a year. So, if there isnâ??t a reduction in the short position in SLV on Monday evening, we may be set for some upside short-covering fireworks ahead.

One last thought on SLV, which continues to attract mostly negative sentiment in many sectors. The great meme stock phenomenon circa early 2021 still exists to a certain degree or at least, the propensity for extreme stock enthusiasm still exits on a retail basis – as indicated in Robin Hood counting 22 million customers, many of which are quite young and given to extreme speculation. One often overlooked aspect of the great retail speculation was the propensity to buy options on favored stocks. I canâ??t help but think that call option buying on SLV is something due to truly explode in the not-too-distant future.

Turning to yesterdayâ??s COT report, while I had some concerns that there might have been some managed money short covering as a result of the early price jump Tuesday morning on decent volume, that was not apparent in the actual report. As I indicated on Wednesday, the old reliable formula suggested additional managed money selling in both silver and gold, on the lower prices of the reporting week, but that I would have been happy with close to an unchanged reading in silver â?? given its extremely bullish market structure going into this report.

Instead, we got what I would call a shockingly bullish report on silver and, as it turned out, the more or less expected bullish report on gold was a lot more bullish when the details under the hood were studied. I hope I donâ??t get too deep into the weeds on this, but let me wade in.

In COMEX gold futures, the commercials bought and reduced their total net short position by 15,600 contracts to 114,100 contracts. This is the lowest (most bullish) level since July 26, and except for that week and the week before, is the lowest and most bullish reading in more than 3 years. But wait â?? thereâ??s a lot more. In terms of the various categories, while there was a drop of close to 6000 contracts in the big 4 short category, to 101,102 net contracts that carried over to a big 8 position of 167,727 contracts, there now appears to be a managed money trader in both the big 4 and another in the big 5 thru 8 short category.

Best I can determine, there is a managed money trader in the big 4 category holding around 20,000 contracts short and another in the big 5 thru 8 category with another 7,000 contracts short. What this means is that the recent and somewhat discouraging increase in the commercial-only component ofthe big 4 of some 40,000 contracts since July 26, has been whittled down dramatically. On July 26, I pegged the commercial-only big 4 short gold position to be around 73,000 contracts â?? the lowest ever or thereabouts and wildly bullish. It grew to 113,000 contracts on Aug 16, but now appears to be no more than 81,000 contracts and back to super-bullish readings.

Iâ??d also peg the commercial-only component of the big 8 gold short position to be no more than 140,000 contracts versus a fully-combined (commercial plus managed money) position of 167,727 contracts. That would leave the raptor net long position around 26,000 contracts or roughly where it has been all along. What this all means is that the biggest commercial shorts in gold have pulled out all the stops in buying back as many shorts as possible and for someone (me) who obsesses over the concentrated short positions as being the absolute key is not only extremely bullish, but also unexpected.

On the sell side of gold, it was all a managed money affair, as these traders sold 18,750 net contracts, consisting of the sale and liquidation of 5919 longs and the new short sale of 12,831 contracts. The resultant managed money net position switched back to a net short position of 6962 contracts (85,842 longs versus 92,804 shorts). Any net short managed money position is strongly bullish, as is this one. Except for the net short position of around 18,000 contracts back on July 26, this weekâ??s managed money short position is the largest in more than three years. The most remarkable thing of all is how the commercials arranged this, which Iâ??ll get into shortly.

In COMEX silver futures, much to my delight, the commercials bought and increased their net long position by 4800 contracts to 5100 contracts. Any commercial net long position in silver is, of course, as rare as henâ??s teeth and until last week and this week, you would have to go back more than three years to uncover the last time the commercials were net long in silver. But as remarkable (and bullish) it is that the commercials were big net buyers, even more remarkable is the buying by commercial categories.

As was the case in gold, the outstanding buyers in silver were the big (former) commercial shorts, something that astounded me. Of course, there were the heavy deliveries by Bank of America, which automatically reduced its short position by more than 5000 contracts. But, in addition to that, was the heavy new short selling by the managed money traders. As a result of the managed money new shorting, the big 4 short position actually increased by a slight amount (150 contracts), to 43,703 contracts, but the commercial-only component of the big 4 dropped to an incredibly low 18,000 contracts, down a full 6000 contracts from last weekâ??s 24,000 contracts. The big 8 combined short position came in at 67,490 contracts, down just over 300 contracts for the week, but the commercial-only component was down to 32,000 contracts â?? by far, the lowest ever (as was the big 4 commercial-only component).

As a result of there now being only 32,000 net contracts held by the biggest commercial shorts, the resultant raptor (smaller commercials) net long position came to 37,000 contracts. At first, I was subtracting the total net commercial position, 5100 contracts, from the 32,000-contract big 8 commercial short position, from habit â?? until it dawned on me, I had to add the 5100 contracts to the 32,000-contract commercial-only component since the total net commercial position was a net long position and not the net short position it most usually was.

This would put the silver raptor net long position at 37,000 contracts and meaning that, once again, the vast majority of commercial buying was by the former big commercial shorts. Thereâ??s no question the positioning changes this week and over the past weeks and months were astounding. The only question was how the heck did the commercials pull this off? â?? which Iâ??ll get into shortly.

On the sell side of silver, the managed money traders sold 3712 net silver contracts, but that included the purchase of 2718 new longs and the almost unbelievable sale of 6430 new short contracts. The resultant net managed money short position came to 24,743 contracts (33,857 longs versus 58,600 shorts). This is the largest (most bullish) managed money net (and gross) short position in more than three and a half years.

There are not any observers or commentators who have locked onto the study of the COT report â?? literally more each passing day â?? that donâ??t recognize just how bullish the managed money short position, as well as the commercial net long position is for prices ahead. It has even gotten to the point where a few who used to make fun of me for my slavish study of the COTs are now among the loudest in proclaiming how bullish is the report currently. Funny how things change.

But, as Iâ??ve mentioned recently, two very important things are still missing in almost all the bullish COT commentary. One, any reference to the extremely low concentrated short position of the former big COMEX commercial shorts and, two, any plausible explanation for how the managed money traders got to be so heavily short and how the former big commercial shorts got to be so light on the short side. Make no mistake â?? these are the money issues that matter most.

The answer to both questions is the same, namely, the positioning changes didnâ??t occur by accident or any free market phenomenon. The managed money shorts didnâ??t put on their epic large and concentrated short position in silver by accident. By most rational accounts, silver is the cheapest commodity in the world and it defies logic to assume a few managed money traders found their way to a record large short position by happenstance. Nor did the big commercials who lived heavily on the short side for decades, suddenly find themselves to be the least short in silver in history by accident. Things like this donâ??t happen by chance or serendipity.

So, unless you believe in Mary Poppins or the Wizard of Oz, your thoughts should turn to how the heck did the crooked COMEX commercials pull off the scam of the decades, first in manipulating silver prices to be as low as possible for 40 years, only to turn around and (almost) completely eliminate their dominating short position at the lowest inflation adjusted prices in history? The short answer is that the crooked COMEX commercials did so by snookering and hoodwinking the managed money traders for decades and, particularly, of late by inducing a few big managed money traders into selling short record amounts of silver contracts.

I know this is the exact same thing I have contended for decades, never once varying from this script â?? but I must admit that the extent of the recent snookering of the managed money traders by the collusive COMEX commercials is almost beyond anything I would have expected. Not only have the commercials succeeded in the long-term manipulation of silver prices for 40 years, they have now put in play the perfect escape from that long-term manipulation. By succeeding in getting the managed money traders to short absolutely unimaginable quantities of silver, the commercials are in position to execute the final piece of the puzzle â?? by doing nothing, as in not shorting on the next rally. And the way that this was accomplished was a near work of art. Not the Picasso that Izzy Friedman talked about, but a masterpiece worthy of Rembrandt or Michelangelo â?? even down to the most recent daily price action.

As surprised as I was at the sharp increase in new managed money silver shorting in the current COT report, I have been even more surprised by the apparent lack of short covering by these traders to the snap back in prices the last few days. As the new COT report shows, there was new managed money shorting on the silver price weakness below $18, down to the $17.30 low in the last reporting week. But even more astounding is that there doesnâ??t yet appear to be much short covering on what has been as much as a rally of $1.50 from the lows. I attribute this to a number of things.

One, the managed money traders did get whipsawed on the pop in silver and gold prices at the end of July, as they rushed to cover more than 16,000 contracts of silver shorts and more than 40,000 contracts of gold shorts â?? only to have to reestablish those short positions on much lower prices than what they covered at. These whipsaws created a sense of not wanting to get whipsawed again and made the managed money shorts leery of covering too quickly again and explains why there has been no short-covering yet.

Two, the price action this week has been weird in the sense weâ??ve seen price jumps overnight or very early in the trading day, followed by a steady fall off in prices as the day wore on (with yesterday being a bit different in silver, but the highs were established very early in the day). The effect of this â??pop and fizzleâ?• daily price pattern has been particularly trying and demoralizing to silver and gold investors generally, but has had a different affect on the managed money shorts. Had the initial daily price pops been sustained and prices had continued to move higher from there, Iâ??m sure that would have set off managed money short covering â?? in the usual salami-slicing manner. But because the price highs were established early and then faded, the managed money shorts felt no pressure to cover. Since the positioning between the commercials and the managed money traders is what determines price, the main intent of the â??pop and fizzleâ?• daily price pattern was to keep the managed money short position intact (until we go boom to the upside).

Finally, as Iâ??ve mentioned often in the past (but not recently), the managed money traders are customers of the commercials in that everyone needs to have a broker in which to transact futures trades and that includes the managed money traders. As such, the commercials are the prime brokers to the managed money traders and know intimately the managed money tradersâ?? business. Wherever possible, Iâ??m sure the brokers to the managed money traders help nudge them in the direction most beneficial to the brokers. Yes, this is somewhat incestuous and prone to self-dealing, but it is what it is. In this case, Iâ??m sure whatever efforts the brokers could make to get the managed money traders maximum short and keep them short were made.

For all these reasons and more, Iâ??ve been expecting a genuine liftoff and explosion in silver prices to get uncorked at any moment. After this latest COT report and price action this week, I feel that way even more. Itâ??s gotten to the point where Iâ??m going to be surprised if we donâ??t explode upward in the very near term and by price amounts few fully comprehend.

Ted Butler

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Silver – $18.76Â Â Â Â (200 day ma – $22.26, 50 day ma – $19.20, 100 day ma – $20.67)

Gold – $1728Â Â Â Â Â Â Â (200 day ma – $1835, 50 day ma – $1754, 100 day ma – $1806)

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