

## September 11, 2021 – Weekly Review

It was a rotten holiday-shortened week price-wise for gold and silver, starting from the first trading day and continuing through late Friday trading, as gold ended \$40 (2.2%) lower and silver finished the week down by a full dollar (4%). Silver's relative underperformance pushed the silver/gold price ratio out by nearly a point and a half to 75.2 to 1.

If there was anything in the real world of physical metals developments to account for the sharp selloffs in gold and silver, then I missed them. As always, the only plausible, if not possible explanation for the price downdraft was paper positioning on the COMEX. Yes, it gets old having to say this (and I'm sure hear it), but just like hurricane season in the Caribbean and North Atlantic Ocean peaks around Labor Day, prices are set on the COMEX (by commercial instigation).

In the case of gold, the commercials, obviously, decided that last week's close above all the key moving averages needed to be nipped in the bud. In silver, which touched, but did not penetrate only one of its key moving averages (the 50-day ma), the commercials didn't allow even a one-day closing penetration – I believe because the set up in silver is so critical that the commercials could not allow for the same decisive upward penetrations that occurred in gold.

There were quite a few interesting developments this shortened trading week and I'll try to cover them all in the usual format.

The turnover or physical movement of metal either brought into or removed from the COMEX-approved silver warehouses amounted to just under 5.3 million oz this week, certainly at the upper end of the average weekly movement over the past decade when adjusting for the shortened work week. Total inventories fell by 0.6 million oz (one full truckload) to 361.5 million oz. Not coincidentally, holdings in the JPMorgan COMEX silver warehouse fell by 0.6 million oz to 185 million oz.

Total gold holdings in the COMEX warehouses fell another 0.1 million oz to 34.1 million oz, with the holdings in the JPM warehouse going the other way by increasing by 50,000 oz to 12.58 million oz. Deliveries against the COMEX September COMEX silver and gold contracts continues to be a near non-event.

There was a slight increase in total gold ETF holdings this week and a slightly larger redemption in SLV, on the order of 4 million oz, although there were some smaller inflows into other silver ETFs. It's quite possible the redemptions in SLV were the result of plain vanilla investor liquidations in the face of the punk price action, but the net additions in other silver ETFs would argue the redemptions in SLV were more along the lines of conversions of shares to metal by large holders. Adding to the conversion explanation was the new short report on securities issued yesterday.

Instead of my long (and wrong) expectation of an eventual sharp decline in the short position on SLV, the short position surged to new multi-year highs, up 6 million shares to just over 38 million shares (ounces), or 6.4% of total shares (591 million) outstanding. There was a time, many years ago, when the short position on SLV was even larger as a percentage of shares outstanding, but it is no exaggeration to claim the current short position should be alarming, particularly to the sponsor, BlackRock, as well as market regulators.

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<https://www.wsj.com/market-data/quotes/etf/SLV>

As of Feb 15, after the prospectus changes in SLV which both warned of potential future availability of sufficient silver for the trust and as a warning to the short sellers in SLV, the short position on SLV was 14.4 million shares. Today, with the short position two and half times higher, it can be concluded that the warning to short sellers was not abided by. Therefore, it is natural to ask why the warning was disregarded. The most plausible explanation would appear to be that the increase in the short position on SLV was unavoidable due to a lack of available physical silver to deposit into the trust as required by the prospectus.

Long time readers know I have raised the issue of the short position in SLV, virtually alone, with both the former sponsor of the trust, Barclays Global Investors and with BlackRock, the current sponsor, over the years. But I had nothing to do (at least knowingly) with the prospectus change in early February warning short sellers that was strictly BlackRock. Of course, I couldn't help but feel encouraged that BlackRock finally came around to warning the short sellers, presumably for both what affect it had on prices and how the short position created phantom shares on which no management fee was collected.

Therefore, to see the short position climb as much as it has, in the face of the warning in the prospectus, is no small matter. I would estimate that the short position is at least 30 million shares (ounces) higher than would be considered reasonable and exists because the purchase of 30 million ounces of physical silver, at this time and in current conditions, would have a material upward impact on price something the short sellers are keen to avoid.

I wouldn't think I would need to warn BlackRock that their warning was being ignored, but I likely will in due course. In the interim, I must point out the price impact the excessively large short position has had and will likely have. Just as the shorting of millions of shares (ounces) has had a negative impact on silver and SLV prices to this point, the opposite is also true, namely, a large short position can easily come under attack and short-covering can propel prices higher than otherwise.

Ironically, when silver prices surged into Feb 1, for a short while SLV was featured along with other heavily-shorter meme stocks, like GameStop and AMC, even though the short position in SLV wasn't anywhere near as large as the other meme stocks. The real short position in silver was the concentrated short position on the COMEX, but that was and is hard for many to see. What's so ironic is that seven months later, the short positions on GameStop and AMC have shrunk, while the short position on SLV has more than doubled making SLV (and silver) much more of a meme candidate for being over-shorter than it was back in February.

There were quite a few revelations in yesterday's Commitments of Traders (COT) report. As far as my expectations, I was half-right (or half-wrong) in anticipating that the surge in prices last Friday and the positioning changes that portended were neutralized in Tuesday's sharp price declines. That proved to be the case in gold (and then some), but definitely was not the case in silver. Moreover, my allegation that there was an error in the COT report in silver last week was not confirmed, but was replaced by other unexplained behavior in that report (which I'll get into).

In COMEX gold futures, the commercials reduced their total net short position by 4700 contracts to 235,800 contracts, meaning that the obvious managed money buying and commercial selling that

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occurred on Friday's decisive upward penetration and close over all three of gold's key moving averages was more than neutralized. By commercial category, the big 4 bought back 2100 short contracts and hold 152,538 contracts (15.3 million oz) as of Tuesday. The big 5 thru 8 went the other way in adding 3000 new shorts to a big 8 short position now amounting to 236,663 contracts (23.7 million oz). The smaller raptors were the biggest buyers of all, in buying 5600 contracts and flipping to a net long position of 900 contracts.

The managed money traders were even bigger sellers (than the commercials were buyers), as these traders sold a hefty 14,082 net gold contracts, consisting of the sale and liquidation of 7511 long contracts, as well as the new sale of 6571 short contracts. The other large reporting traders and the smaller non-reporting traders were big net buyers of 3571 and 5807 net gold contracts, respectively, to even things out.

On Thursday, I made public a highly condensed version of Wednesday's article about the large gold whale that has emerged in the gold market. The article appears to have attracted fairly wide readership, but not any questioning or challenge to my conclusions.

<https://goldseek.com/article/gold-whale-surfaces>

Yesterday's COT report indicated that the large long position remained, essentially, intact, as the concentrated long position of the 4 largest traders in gold contracted by less than 600 contracts, after growing by 38,600 contracts since Aug 3. Further, this week's reduction in the managed money gross long position, coupled with an increase in the gross long position in the other large reporting category, confirms the gold whale is in the latter category.

Perhaps it's a question of the news not yet sinking in, but it seems to me that the revelation of the large gold long is significant. Of course, I have no way of anticipating how the position may change in the future or if it will change materially from this point. All I can do is monitor the public data. But the position does amount to 7.5% of the entire gross total open interest in COMEX gold futures, the largest precious metals derivatives exchange in the world and significantly more than that in total net open interest categories. It is the largest non-commercial gold position in memory (of course, JPMorgan, back in the day - in 2013 - held much larger net short and long positions in COMEX gold futures - upwards of 75,000 and 85,000 contracts).

But it does bother me when public data doesn't get put into proper perspective. A case in point is the recent commentary about the \$50 million gold position taken by the high-tech data company Palantir. I understand that Palantir's gold purchase was for physical metal, not futures, but COMEX futures positioning is the main price driver (for better or worse). The fact is that the 38,000 COMEX contracts recently purchased by a big trader on the COMEX (3.8 million oz) is more than 130 times larger than the 28,500 oz (285 contracts) purchased by Palantir. Which purchase do you think is more significant?

Turning to the silver COT report, the commercials increased their total net short position by 5300 contracts to 43,300 contracts. By commercial categories, the 4 big shorts increased their concentrated short position by 1700 contracts to 46,628 contracts (233 million oz), the highest it has been since July 27. The 5 thru 8 next largest traders bought back 300 short contracts and the big 8 hold 63,608 contracts short (318 million oz). The raptors (the smaller commercials) sold off 3900 longs and now hold 20,300 contracts.

Last week, I opined that there was some sort of error in the previous week's report and yesterday's report indicated otherwise. However, I'm still troubled by last week's report for something I haven't mentioned, namely, that there was relatively little managed money net buying last week (1649 net contracts), yet there was significant big 4 new short selling (4500 contracts) combined with hefty raptor buying (2700 contracts). This was a combination of big 4 shorting and raptor buying I don't recall previously witnessing. It may have occurred previously, but most typically, the big 4 and the raptors move in unison – either both buying or selling – aligned against managed money buying or selling.

Therefore, while I accept the data as reported (what choice do I have?), it still looks – hinky – to me. But in accepting the data as correct, a much bigger question arises, namely, where did the big 4 get off in adding 4500 new shorts last week and more than 7200 new shorts over the last three reporting weeks? Let's face it, silver did rally off the lows of Aug 9, by more than \$2, but my key determinant of whether the big 4 would add to short positions envisioned whether they would short on a rally above all the key moving averages and into a rally to the \$27 – \$28 price range – not barely above \$24 and not penetrating any of the moving averages.

What's so shocking about the increase in the big 4 short position over the past 3 reporting weeks, particularly the increase in the prior reporting week is that it is out of character for the big 4 to short so aggressively so quickly and makes questionable any of my previous observations that the CFTC had spoken to the big 4 about reducing their concentrated short position – which had been in play for months. It's hard not to conclude that, in the end, the CFTC had suddenly rolled over if it had ever intended to rein in the big silver shorts.

Such a sharp departure was the recent large increase in big 4 silver shorting from my understanding of the situation, that I can't help but think it played a major role in the decision by Commissioner Dan Berkovitz in announcing his resignation this week (effective Oct 15), leaving the five-member commission, down by three members. I don't ever recall the Commission being this light on members eight months into a new administration.

<https://www.cftc.gov/PressRoom/SpeechesTestimony/berkovitzstatement090921>

It's no secret that I have long admired Berkovitz, back to his days as General Counsel under Gary Gensler and before that on the Senate Permanent Investigation Committee and the same goes for Gensler, currently chairman of the SEC. I'm well-aware that many don't share my admiration for these men, to which I can only reply I don't base my opinions on what others may say. I've agreed with virtually everything Berkovitz (and Gensler) have said and done, save one – their handling of the silver manipulation – or more correctly, non-handling.

Maybe I'm letting both off the hook too easily, but I think there were larger issues overruling either

man's attempt to fashion position limits, which would have succeeded in ending the silver manipulation if enacted. In fact, I don't think the issue of position limits would have even arisen back in 2009 were it not for Berkovitz and Gensler. That the issue failed was not due to their lack of trying.

I can't help but think that the recent sharp increase in the concentrated short position of the 4 largest traders in silver and the Commission's refusal to deal with it is what led to Berkovitz's somewhat sudden resignation. Since I'm obviously speculating about something I have no direct knowledge of, let me further speculate that someday fairly soon, it wouldn't shock me to see that Berkovitz ends up in a senior advisor position in Gensler's SEC - something that I feel strongly that would be good for the country.

Combined with the surprising increase in the short position on SLV, the concurrent large increase in the concentrated short position in COMEX silver futures has obvious bearish connotations for price, if (a very big if!) willing non-commercial sellers can be uncovered to accommodate the commercial short covering intended on lower prices. The only real candidates I see for non-commercial selling is for the managed money traders on the short side, the same as I've been postulating for months.

Speaking of the silver managed money traders, they were the standout buyers this week, as they bought 5503 net contracts, nearly matching the commercial selling, and consisting of the purchase of only 398 new longs and the buyback and covering of 5105 short contracts. I can't help but notice that the 7000 contracts added by the 4 big shorts over the past three reporting weeks closely matches up with the buying back of nearly as many short contracts by the managed money traders over that same time. In other words, the managed money traders adding significant numbers of new shorts is about the only way I can see the commercials (both the big 4 and the raptors) being able to buy great numbers of contracts.

And while we can't know at this point if the managed money traders will add a significant number of new shorts, we can be fairly certain that if they do, they will Lilley be forced to buyback those added shorts on rallies and with losses, just like the 7000 short contracts they just bought back. Few ever went broke betting against repeated dumb moves by others and the managed money traders pressing the short side of silver would be included in my definition of dumb moves. Unfortunately, if the managed money traders do accommodate the wily commercials yet again, get ready for lower prices - although that won't likely last for long.

Finally, the large short covering in the managed money category would seem to have removed a managed money trader from the big 5 thru 8 short ranks in silver and the big 8 shorts would appear to be all commercials yet again.

It is at time like this, when it is virtually impossible to uncover legitimate reasons explaining how gold and particularly silver could move lower in the face of nothing but obvious factors pointing to much higher prices that it must be recognized that there may be illegitimate forces at work. Those illegitimate forces are centered squarely on the 4 big shorts in COMEX silver, as has been the case for decades.

The sharp decline in gold and silver prices this week relieved the 8 big shorts of about \$1.3 billion of total losses now amounting to \$9.4 billion.

Exactly twenty years ago, the US and the world experienced a truly terrible day, a day of unimagined tragedy and loss, but also an occasion of profound heroism and remembrance. - Sadly, the nation and

much of the world have become more bitterly divided along political lines than in my lifetime and I can only hope that is reversed in the not-too-distant future, not so much for myself, but for my children and grandchildren. About the only thing that more seem to agree on today than 20 years ago, is that silver (and gold) prices have been manipulated on the COMEX.

Ted Butler

September 11, 2021

Silver – \$23.80 (200 day ma – \$25.87, 50 day ma – \$24.74, 100 day ma – \$25.94)

Gold – \$1790 (200 day ma – \$1809, 50 day ma – \$1798, 100 day ma – \$1816)

**Date Created**

2021/09/11