September 17, 2022 – Weekly Review

In a stunning divergence, gold prices plunged to two-year lows, ending the week lower by $44 (2.5%), while silver closed higher by 84 cents (4.5%) â?? following the previous weekâ??s outsized 91 cent gain. Iâ??m hard-pressed to recall the last time such a stark price-divergence occurred. As anyone tuned into gold and silver price action, silver generally over or underperforms gold, but almost always in the same price direction. Not this week.

As a result of silverâ??s extreme relative outperformance this week, the silver/gold price ratio tightened in by a full six points to just under 86 to 1, on top of the previous weekâ??s four and a half point tightening. For someone (me) who finds the recently tightened price ratio to still represent an obscene undervaluation of silver to gold, I canâ??t say Iâ??m surprised at silverâ??s sudden relative outperformance to gold â?? as I am by how cheap silver got to this point.

Ironically, the poor price action in gold, as is most always the case, had a â??silver liningâ?• (I always wanted to use that term), in that once I stepped back and looked at its cause, I could see it was quite bullish. In fact, as the decline in gold deepened late this week, I could see it was solely intended as what looked to me to be the collusive COMEX commercialsâ?? last stab at getting maximum managed money short selling. The good news (if you survived the price pain) was that it looked to be highly successful.

Let me be clear, as convinced as I am of silverâ??s coming price explosion and extreme relative outperformance to gold ahead, what occurred this week in gold was extremely bullish in that at least through yesterday, the managed money traders were put as short as they have been in gold, both on a gross and net basis, in more than 3 years. Now, if we rally hard in gold this Monday and Tuesday, next weekâ??s COT report may not support what I just said, but a sharp rally would be the result of this weekâ??s hoodwinking of the managed money traders onto the short side of gold by the collusive commercials.

As it turned out, yesterdayâ??s COT report for gold was better than I anticipated in the amount of managed money selling as of the Tuesday cutoff and that was before the gold price was blasted lower following the cutoff. Finally, I believe the deliberate commercial price rig lower in gold had the effect of preventing silver from truly exploding in price. Should gold surge higher as I expect, no such price restraints should apply to silver as was seen this week. Iâ??ll continue with this line of thought when I discuss yesterdayâ??s COT report in a bit.

The turnover or physical movement of metal either brought into or removed from the COMEX-approved silver warehouses picked up to just over 7.8 million oz this week, exceeding the weekly average and continuing a trend that has now existed for 11.5 years, remaining mostly overlooked despite its unprecedented nature â?? which I attribute to overall physical tightness. Total COMEX holdings fell sharply again, this week by 4.1 million oz to 319.9 million oz, another fresh two-year low. Silver holdings in the JPMorgan COMEX warehouse fell another 2 million oz to 165.9 million oz.

Gold holdings in the COMEX warehouse system continued to fall this week by 0.3 million oz to 27.1 million oz, also fresh two-year lows, with holdings in the JPMorgan COMEX warehouse lower by 0.1 million oz to 11.27 million oz.

Holdings in the worldâ??s gold ETFs continued to fall, following the lower gold prices set on the COMEX, but holdings in the worldâ??s silver ETFs, surged higher, mostly as a result of last nightâ??s large deposit of 8.1 million oz into SLV, the largest silver ETF. The deposit was certainly counterintuitive, in that trading volumes in SLV were only average for the week, following the price surge and increase in trading volume on Monday. The two most plausible explanations for the large deposit were an off-exchange large purchase or as a deposit (finally) against the massive short position in SLV, although it missed the cut off by a day for the next short report, due September 26.

Iâ??m happy to see that more attention is being paid to the massive short position in SLV, after many years of neglect. I recognize the short position in SLV has been a signature issue of mine for almost the entire 16-year existence of the trust and was wondering when others would notice it. However, I am a bit disappointed that almost all of the new attention revolves around the increasing interest rate to borrow shares to sell short and not the real underlying issues.

For sure, the rising cost to borrow shares to sell short is indicative of the growing tightness or clash between the increasing short position and the decreasing amount of total shares outstanding over the past months. Â But in some ways the focus on the interest rate to borrow alone is akin to discussing by every fraction of a degree on a thermometer on a particularly hot day â?? and not to what may be some bigger causes as to why itâ??s so hot in the first place.

So far (unless Iâ??ve missed it), there has been no discussion on how a short sale on SLV evades the promise laid out in the prospectus of one ounce of metal being deposited for each share issued (minus the cumulative management fee since inception). Compared to the price-suppressive effect of short selling in SLV, the increase in the cost to borrow shares to short is close to a non-event. Kind of like the widespread and new attention to the COT report continuing to miss how deliberate the positioning changes are, due to commercial collusion.

Turning to yesterdayâ??s Commitments of Traders (COT) report, at first, I was somewhat disappointed to see the amount of managed money short covering in silver that I feared on Wednesday (10,000 to 15,000 contracts), but further readings of the details under the hood, relieved my initial trepidations. You may remember that I detected no managed money silver short covering until Mondayâ??s high-volume price surge of a dollar or so, which penetrated the 50-day moving average. I had no such trepidations in gold, due to the relatively rotten price action in gold, and the gold report turned out much better than I would have expected.

In COMEX gold futures, the commercials reduced their total net short position by 3100 contracts to 110,900 contracts. While the reduction was modest, it was nevertheless impressive in that it came quite close to the 108,400-contract low-water bullish mark of July 26 and before that for more than three years. Plus, there were significant commercial category developments and the counterparty managed money selling was much greater than the total commercial buying.

One thing that appeared to be missing in gold that existed in silver since the important, but temporary price bottoms around July 26, was that the concentrated commercial-only short positions remained low and quite bullish in silver, but not so much in gold. Back on July 26, the big 4 commercial-only short component in each reached record lows â?? 27,000 contracts in silver and 73,000 contracts in gold. Since that time, while silverâ??s commercial-only big 4 short position only grew by around 2000 contracts or so, before declining to 18,000 contracts last week; the same commercial only short position in gold rose by more than 40,000 contracts into Aug 16, before declining to around 76,000 contracts in yesterdayâ??s report.

What Iâ??m saying is that the much bigger increase in the big 4 commercial-only short position in gold into Aug 16, weighed much more heavily on gold prices than what occurred in silver, in that silver was in better position to snap back following its eventual price low of $17.30, than was gold. But with this weekâ??s reduction of the commercial-only big 4 short position in gold to 76,000 contracts (and even more in trading since the Tuesday cutoff), gold is now back on the launch pad, along with silver. Iâ??d estimate that as a minimum, the big 4 commercial-only component of the concentrated short position in gold to be down to 65,000 contracts or so.

For those who follow the numbers, the big 4 combined (commercial and managed money) short position in gold was 100,154 contracts (10 million oz) this week down about 1000 contracts, but the commercial-only component was the aforementioned 76,000 contracts. The big 8 combined short position was 165,995 contracts (16.6 million oz), while the commercial only component was 136,000 contracts. This would make the gold raptor net long position still around 25,000 contracts.

While the commercials were only net gold buyers to the tune of 3100 contracts, the manged money traders were net sellers of 11,375 contracts, consisting of the sale and liquidation of 5542 longs and the new sale of 5833 short contracts. This put the managed money net short position at 18,337 net contracts (80,300 longs versus 98,637 shorts), not that far from the most bullish reading of 19,093 contracts on July 26.

Before yesterdayâ??s report was published, I was hoping we might get back to the July 26 level in next weekâ??s report, following the deliberate gold price carnage this week. Now, there is no question that as of yesterday, the managed money net short position is likely 10,000 contracts larger than was reported yesterday and only sharp rallies on Monday and Tuesday appear likely to change that. Explaining the difference between what the commercials bought in gold and what the managed money traders sold was net buying of more than 8000 contracts by the other large reporting traders (mostly short covering) and the smaller non-reporting traders.

In COMEX silver futures, the commercials sold and increased their net short position by 7600 contracts and reversed what had been a net long position back to a net short position of 2600 contracts. Still, this is a remarkably bullish commercial short position â?? one of the lowest on record. Because there was so much more managed money net buying (16,458 net contracts) than there was commercial selling, Iâ??m a little unsure of my commercial-only component calculations.

But since there were only 3743 contracts of commercial short selling (and 3863 contracts of commercial long liquidation), Iâ??d peg the commercial-only component of the big 4 short position â?? which was 43,099 contracts on a combined basis â?? to now be around 23,000 contracts (I think I was too low at 18,000 contracts last week). The posted big 8 combined short position was 65,325 contracts and the commercial-only component was 40,000 contracts.

While the commercials sold around 7600 net contracts of silver, the net buying by the managed money traders came to more than double that amount, as these traders bought 16,458 net silver contracts, consisting of the purchase of 4495 longs and the buyback and covering of 11,963 short contracts. At first, I gasped but the short covering was within the range I feared and despite the increase in longs, the net managed money position was still net short at 8285 contracts (38,352 longs versus 46,637 shorts) and any managed money net short position must be considered bullish â?? just not as bullish as the prior weekâ??s 24,743 contract net short position.

One oddity of the silver COT report was that the other large reporting traders sold more than 8000 net contracts, including selling 2836 longs, but even more odd was the new short sale of 5478 contracts, which just about doubled their gross short position. Odder still was that the number of traders on the short side of the other large reporting traders in silver doubled to 28. At first, I thought it was a reporting error and perhaps thatâ??s the case and the managed money buying wasnâ??t as heavy as reported (due to a category reporting error), but these other large reporting traders did greatly increase their short positions as silver ran up in July 2020 and perhaps, they were reacting to the sharp jump in silver prices on Monday.

Still, the 46,637 gross short contracts held by the managed money traders, plus the 11,376 contracts held short by the other large reporting traders, leaves more than sufficient fuel for the upside explosion I see. Thatâ??s 58,000 contracts (290 million oz) held short by speculative reporting traders â?? after significant short covering by the managed money traders. In addition to being comforted that the commercials were nowhere near as aggressive on the sell side, when it comes to who is more likely to get squeezed to the upside, it would have to be traders classified as speculative, and not commercial. In fact, the managed money and other large reporting tradersâ?? short position looks quite large at this point from a risk control perspective.

On Wednesday, I laid out some profit/loss parameters for the managed money shorts and despite their large short covering this week, my numbers hardly changed. Due to the managed money shorts covering positions on Monday around the $19.50 price level, the estimates I put out are largely the same. The managed money shorts were ahead more than $600 million on the 45,000 short contracts they added over the past 5 months when silver prices got down to $17.30 two weeks ago (including the whipsaw they had on 16,000 contracts). The subsequent rally to $19.50 took away $450 million of those open profits, leaving them ahead by $150 million.

True, the managed money traders are 12,000 contracts less short and still hold 33,000 added short contracts, but since they bought back at $19.50, the remaining open profit is still $150 million on the 33,000 short contracts still open and the flip to a net loss occurs at around $20.30 or so. Any price above that will put the remaining managed money short position into a loss. Iâ??ve never seen the managed money traders able to collectively extract a profit from the short side of silver (or gold) on a realized (closed out) basis, even after holding such positions at big open (unrealized) profits.

If they do so this time, it will be the first time ever and all things considered, it doesnâ??t look even possible to me â?? unless things have suddenly changed so drastically that someone flipped a switch and the managed money traders now control the commercials and not the other way around as it has been for 40 years. I canâ??t imagine things having changed that drastically and thatâ??s why I find the recent selling and short selling by the managed money traders in gold to be so bullish â?? not just for gold, but for silver as well.

For a short recent time, the only thing missing in gold compared to silver was that the commercial-only component of the concentrated short position had grown much more than the equivalent position in silver â?? that as well as the managed money short position in gold not being as large as in silver. Goldâ??s commercial-only concentrated short position grew by 40,000 contracts whereas silverâ??s only grew by a couple of thousands of contracts. But now with more recent positioning, gold and silver are more fully aligned in both regards, low commercial-only components of their concentrated short positions and large managed money short positions.

I know I make a big deal about the commercial concentrated short positions in COMEX silver and gold, but I only do that because this has been shown to be the most important issue over the time (35 years) I have studied these markets closely. The manipulation will only end when the big commercial shorts stop adding aggressively to short positions on higher prices, something that has yet to occur. The only question is whether the cessation of commercial concentrated shorting occurs willfully (by choice) when the commercials are least short (like now) or whether they are forced to stop shorting by market force (Izzyâ??s full pants down).

One thing I have come to agree with my dear departed friend and silver mentorâ??s take is that the manipulationâ??s end will not come about due to active and open regulatory intervention. That doesnâ??t mean Iâ??ll stop pushing the regulators (the CFTC, CME Group, the SEC, the OCC or the Justice Department) to do their jobs when it becomes apparent that they are failing to do so, just that any open action by any of them is impossible because that would be an admission of them failing to do so much earlier. For example, how could the CFTC possibly move to attack the silver manipulation now and escape criticism, after doing nothing for decades? Same with the others.

Maybe the big former commercial shorts turn around and start to short aggressively on higher prices yet again and nothing changes. But 40 years is an awfully long time to suppress silver prices and conditions in the physical market seem to be fully-reflecting the decades-old suppression in just about every way that matters. Coupled with the success of the commercials to whittle down their short positions to the lowest levels ever in concentration terms, seems like a set up for no new aggressive shorting on higher prices. If not now, when?

Ted Butler

September 17, 2022

Silver – $19.60Â Â (200 day ma – $22.16, 50 day ma – $19.21, 100 day ma – $20.41)

Gold – $1684Â Â Â Â Â (200 day ma – $1833, 50 day ma – $1747, 100 day ma – $1794)

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