September 18, 2021 – Weekly Review

A two-day deliberate price smash drove gold lower for the week by $36 (2%) and silver by a much steeper $1.45 (6.1%). The much sharper relative under-performance in silver caused the silver/gold price ratio to widen out by more than 3 full points to 78.5 to 1, the most undervalued silver has been relative to gold since last November. For gold, it was the lowest weekly close in price in six months; for silver, it was the lowest weekly close in more than a year, back to last July.

As always, the absolute price weakness in both gold and silver, as well as the relative price weakness in silver had nothing to do with real world supply/demand fundamentals or with any notable actual physical switching from gold to silver, as reports from the retail front indicate pronounced buying in silver. That leaves the only explanation for the two-day price slaughter as deliberate and intentional positioning in COMEX futures contracts â?? also as is always the case. The most appropriate analogy I can use is that the commercial traders executed a good number of the hostages being held captive.

While we have to wait until next Fridayâ??s Commitments of Traders (COT) report to garner the precise details of how many commercial contracts were bought and how many non-commercial contracts were sold Thursday and yesterday, the amounts should be substantial. Please think about that for a moment â?? there has never been an occasion in modern history (going back 40 years) where a significant price decline in gold and silver hasnâ??t featured commercial buying and non-commercial selling in COMEX futures positioning. The only question is by how much?

This incontrovertible fact should be all that anyone needs to establish the existence of a price manipulation, yet the manipulation continues in full view. After all, what legitimate answer is possible to explain how the biggest commercial shorts in COMEX silver (and gold) never cover short positions on rising prices, only falling prices? The only good news is that there are a limited number of hostages (non-commercial sellers) to execute before they are all gone and prices move higher. Â After the mass-execution of the past two days, the commercials appear quite close to complete exhaustion of remaining non-commercial sellers. Of course, this can only be known for sure after the fact.

I wish there was some way the market structure on the COMEX could be put into full extreme bullish mode without the deliberate and intentional slaughter of price required to allow the commercials to buy as many contracts from the non-commercials as possible. I also wish we had regulators (the CFTC and Justice Dept) and self-regulators (the CME Group, Inc) who would have stepped up to the plate and put an end to the commercialsâ?? obvious rigging of prices on the COMEX long ago. Finally, I wish for world peace, the elimination of poverty and an end to the current pandemic. The good news is that the market structure on the COMEX is much closer to extreme and maximum bullishness than my other wishes.

The turnover or physical movement of metal either brought into or removed from the COMEX-approved silver warehouses cooled dramatically this week as less than 2.4 million oz were moved, the lowest weekly turnover since January. Total COMEX silver inventories fell by 1.2 million oz to 360.3 million oz. Perhaps not coincidentally, silver holdings in the JPMorgan COMEX warehouse fell by 1.1 million oz to 183.9 million oz. Iâ??d like to believe the sharp slowdown in COMEX silver warehouse turnover means weâ??re close to the point of physical exhaustion of available wholesale quantities of silver, but one week is far from sufficient for any such conclusions.

There was some movement in COMEX gold warehouses this week, but by weekâ??s end the totals were unchanged at 34.1 million oz. Ditto for the holdings in the JPMorgan gold warehouse, unchanged at 12.58 million oz.

Deliveries in the non-traditional delivery month of September for gold are higher than normal and deliveries in the same traditional delivery month for COMEX silver lower than usual and I still have no clue as to what they mean for price, as everything is overshadowed by futures contract positioning.

Gold ETF holdings were steady to a bit higher this week, while holdings in the silver ETFs were slightly lower. The main focus of attention at this point is the fate of deposits/withdrawals in the big silver ETF, SLV, as a result of the extraordinarily high trading volume on Thursday and Friday, of a combined 97 million shares, the most in six months. Since the surge in trading volume occurred on a sharp price smash, one would expect large withdrawals/redemptions.

Iâ??ve noticed a pattern of a one-day delay in the reporting of physical metal deposits/withdrawals in SLV, but yesterdayâ??s report of holdings in SLV (which should have reflected Thursdayâ??s larger volume) indicated no change in the silver holdings in the Trust, where a large withdrawal would be expected. Weâ??ll know more over the next few days, but if there arenâ??t large withdrawals reported, my next best guess is that the short sellers in SLV may have used the selloff to (finally) close out some if the large short position on SLV.

Unfortunately, next Fridayâ??s scheduled release of new short data on securities wonâ??t include any short covering this past Thursday and Friday, due to the reportâ??s cutoff on Wednesday, the 15th. And no, I donâ??t know what to expect in next Fridayâ??s stock short report (after being consistently wrong in previous guesses). However, itâ??s hard not to conclude mostly bullish conclusions from all these developments or lack thereof.

Turning to yesterdayâ??s COT report, the first point of order is to note how the selloff on Thursday and Friday, coming after the Tuesday cutoff, makes yesterdayâ??s report somewhat obsolete, as I would imagine the market structure looks markedly different (and better) than what is indicated in yesterdayâ??s report. Iâ??ll get into what the market structure looks like as of yesterday, but let me first run through how things looked as of the close Tuesday.

I wasnâ??t expecting much significant change in yesterdayâ??s report and had guessed some limited managed money selling and commercial buying in both gold and silver and was correct on three of the four expectations (missing on the expected managed money selling in gold).

In COMEX gold futures, the commercials reduced their total net short position by a very slight 1600 contracts to 234,300 contracts. By commercial category, the 4 big shorts actually increased their concentrated short position by 1400 contracts to 153,932 contracts (153.9 million oz). The big 5 thru 8 bought just over 100 short contracts and the big 8 hold 237,987 contracts (23.8 million oz) net short. The raptors (the smaller commercials) were the big buyers in adding 2800 long contracts to a net long position of 3700 contracts as of Tuesday.

The managed money traders were also net buyers of 3627 gold contracts, fairly evenly divided between adding 1793 new longs and the buyback and covering of 1834 short contracts. Explaining how the commercials and managed money traders could both be net buyers, was the net selling of more than 5000 contracts by the other large reporting traders and the smaller non-reporting traders. The 4 largest long gold traders, home to the new gold whale, sold off a slight 1100 contracts, indicating to me that the big long stood pat. Next weekâ??s COT report, will be much more important for gauging what the gold whale may be up to.

In COMEX silver futures, the commercials reduced their total net short position by 3100 contracts to 40,200 contracts. By commercial category, the 4 big shorts added a bit more than 300 new shorts and now hold 46,940 contracts net short (235 million oz). The next 5 thru 8 big shorts bought back 200 shorts and the big 8 now hold 63,524 short contracts (317.6 million oz). The raptors (the smaller commercials) bought 3000 new longs, increasing their net long position to 23,300 contracts.

The managed money traders in silver sold 3690 net contracts, comprised of the sale and liquidation of 808 long contracts and the new short sale of 2882 contracts. The other large reporting traders in silver bought more than 1800 net contracts, while the smaller non-reporting traders sold more than 1200 net silver contracts. I mention this because as a result of this positioning, the other large reporting traders (as of Tuesday) now hold their largest net long position (12,600 contracts) since the Feb 2 top and the smaller non reporting traders hold their lowest net long position (13,500 contracts) since last December.

Based upon this weekâ??s positioning changes, I quickly concluded that a managed money trader had re-entered the fold of the 5 thru 8 largest silver short sellers, but upon closer examination, Iâ??m thinking a big managed money short may have made it into the fold of the big 4 short sellers. The fact that the commercials were buyers in most subcategories and the only reporting traders to increase short positions this week were the managed money shorts, combined with the fact that the big 4 short position increased by 300 contracts, would appear to be explained by a managed money trader being among the 4 largest silver shorts, say to the tune of 8000 or so contracts.

If accurate, it would suggest that the true commercial concentrated short position of the 4 largest shorts is closer to 39,000 contracts or so, and thatâ??s before the near-certain significant commercial buying since the Tuesday cut-off. It adds another dimension to the importance of next weekâ??s COT report. The possible inclusion of a managed money trader into the ranks of the big 4 may also be connected to the reporting â??errorâ?• I suspected a few weeks back.

In other COT report observations, there was a sharp increase in the managed money short position in NYMEX platinum futures and that short position is now the largest it has been in two years. Clearly, the sharp drop in platinum prices this year is largely the result of managed money shorting. I am also amazed by the number of managed money traders (60) on the short side of late in platinum, nearly double the number of similar traders (31) in silver and more than double the number in gold (27).

Turning to the all-important question of how the COMEX market structure looks in gold and silver as a result of the deliberate price blast to the downside over the past two trading days, I would say back to how the structures looked after the price blast lower into Aug 9. Â Of course, there are still two trading days to go before the reporting week closes on Tuesday, so please keep that in mind.

Price wise, gold has fared better than silver and maybe the managed money traders are not quite less net long as they were back then, but I think a large factor tempering goldâ??s selloff relative to silver has been the emergence of the gold whale. What makes next weekâ??s COT report intriguing is that it will be the first report featuring a decisive selloff since the big long was established starting last month.

I have detected no comparable big long in COMEX silver futures, but it is more than possible that a big whale (other than JPM) exists in physical silver after the last year and a half. I am most anxious to see how many more short contracts were put on by the managed money traders in silver. I would anticipate (unless there is a very sharp price rally on Monday and Tuesday) that the managed money traders now hold as many silver shorts (or more) as they did at the recent peak of close to 38,500 contracts on Aug 17, or 4000 more than they held this reporting week.

Of course, silver must be expected to move lower still in price as and if more managed money traders plow onto the short side, even though these traders have never collectively profited from large short positions in the past. Iâ??m more inclined to think we have reached or are close to reaching the maximum number of managed money shorts in silver, but my thinking has no bearing on what these traders do. This is about as defective a price discovery process as can be imagined, namely, dependent on how many more new managed money shorts the commercials can hoodwink into being sold determining how low the silver price may go, but it is what it is and we are all hostage to it.

Whatever the maximum number of managed money silver shorts may be (and we may be there already), it sets up the critical question of whether the big commercial shorts will go the mat on the next rally and add the 20,000 or more new shorts necessary to cap the coming rally. Until this weekâ??s report, I was leaning towards the big commercial shorts as having added 7000 new shorts on the silver rally which failed to penetrate any of the moving averages as a temporary postponement to the underlying question of will they or wonâ??t they sell on the next rally?

But now I have some doubts as to whether the recent big 4 shorting was all commercial and not by a managed money interloper. There is no doubt that the silver raptors have bought on the price smash over the past two days, so the possibility exists, once again, that the big commercial shorts have an opportunity to buy from the raptors on a sharp upturn in price â?? which will come at some point.

The way silver and gold (and other commodity) prices are determined is sick. Why should a private betting game between no more than 20 or so large paper traders on the COMEX be how prices are set for the many tens of thousands of silver and gold investors, as well as the real producers and consumers of metals throughout the world, not part of the COMEX closed game? The very few setting prices for the many stands against every principal of free markets â?? yet that is the way it is.

Mostly lost in the daily gaming of prices on the COMEX is that a completely separate world exists in which real silver is produced and consumed, bought and sold by tens of thousands (or more) market participants consciously choosing to have nothing to do with the trading games on the COMEX, but nevertheless having to accept COMEX prices. This is first and foremost, a regulatory failure of the highest degree, but also a circumstance that canâ??t last indefinitely. The public awakening, long delayed, is occurring and the simple fact that the phony lowering of silver prices via the COMEX seems to result in greater demand is simply not sustainable.

So, while the commercial trickery of the managed money traders results in lower silver prices, that trickery is very short term in nature and only results in greater demand for actual silver. The law of supply and demand has not been permanently altered and lower prices can not be expected to increase real supply or reduce real demand. Admittedly, thatâ??s hard to visualize when we are in the throes of a highly engineered COMEX rig job lower, but the true law of supply and demand will not be cast aside for long by continued crooked paper games on the COMEX.

I know it may sound as false bravado or the rantings of a mad man, but as a result of the artificial takedown in silver (and gold) prices, the set up for an explosion is greatly augmented â?? precisely because of the takedown. Whenever the managed money traders are done being snookered onto the short side, the price landscape will be radically configured for much higher prices. The added managed money shorts â?? all completely open derivative positions â?? have only one way of being closed out, by offsetting purchase, as the only other possible offset â?? actual delivery â?? is not possible for managed money traders. Further, history demonstrates that managed money short covering is conducted at a pace even faster than how the shorts were established.

The price smash in gold and silver this week benefited the 8 big COMEX gold and silver shorts to the tune of $1.3 billion (for the second straight week), reducing their total losses to $8.1 billion, the lowest since March 31, 2020.

Ted Butler

September 18, 2021

Silver – $22.35Â Â Â (200 day ma – $25.87, 50 day ma – $24.46, 100 day ma – $25.79)

Gold – $1754Â Â Â Â Â Â (200 day ma – $1809, 50 day ma – $1797, 100 day ma – $1815)

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