September 2, 2023 – Weekly Review

Gold prices managed to add to gains for a second week, with the yellow metal closing higher by $23 (1.2%), while late week selling resulted in silver closing 5 cents (0.2%) lower for the week. While the silver/gold price ratio should have widened out a bit to reflect goldâ??s relative strength, the switch to December from September in silver resulted in the ratio remaining unchanged at 80 to 1.

IÂ couldnâ??t help but notice that gold prices (as recently suggested) acted as a supporting influence for silver, as a result of recent improvements in market structure positioning terms on the COMEX, after acting as a drag until recently. And despite the fully-expected deterioration in both gold and silver market structures in yesterdayâ??s new COT report, I continue to expect goldâ??s still-bullish market structure to be price-supportive of silver ahead.

Speaking of the new Commitments of Traders (COT) report, I found yesterdayâ??s report on silver to be perhaps the most significant positioning report ever, as Iâ??ll dig into later. So significant, that it took me nearly an hour to fully-grasp its message â?? mainly because it came so close to how I was hoping it would read, and as discussed on Wednesday. Let me run through the usual weekly format, which as I described last week, has come to cover the deepening physical shortage in silver on a wholesale basis, before dissecting the new COT report, which deals with how silver prices are determined.

The turnover or physical movement of metal either brought into or removed from the COMEX-approved silver warehouses amounted to 5.7 million oz this week, close to 300 million oz on an annualized basis and only slightly above the average weekly turnover over the past 12 and a half years. Iâ??ve passed the point of wondering why this critical and highly-unique to silver of all commodities movement is ignored by just about everyone, as it is a key factor in highlighting the deepening physical shortage; but there are lots of things I wonder how other folks cannot see that appear so obvious to me. Who knows, maybe itâ??s me in the lack of vision department?

Total COMEX silver warehouse holdings rose by 2.1 million oz to 278.3 million oz and the holdings in the JPMorgan warehouse fell by 0.6 million oz (one truckload) to 138.7 million oz. In COMEX gold warehouse developments, total holdings fell by 0.2 million oz to 21.4 million oz, quite close to the multi-year lows of 21.3 million oz in March of this year.Â The holdings in the JPM gold warehouse fell a bit more than the total decline to 7.83 million oz.

Of course, the big news of the past week was the transfer (not physical movement) of 14.2 million oz (2840 contracts) of silver from the eligible category to the registered category in the JPM warehouse in anticipation for delivery on the September contract. While it appeared to be obvious that JPMorgan was preparing to make delivery, there was a question of whether it would be for its house account or customers. As it turned out, the bulk of the deliveries were in JPMâ??s house account, but the overall deliveries were quite underwhelming.

Over the first three days of deliveries on the September COMEX contract, only 2283 contracts (11.4 million oz) have been issued in total, with JPMorgan issuing 997 contracts from its house account and another 323 contracts issued by its customers, a total of 1320 contracts or 6.6 million oz. At the same time, other customers of JPM have stopped (taken) delivery of 1043 contracts, meaning that

JPMorgan, along with its customers, were only net issuers of 277 silver contracts or less than 1.5 million oz â?? about a tenth of the 14.2 million oz transferred from eligible to registered.

https://www.cmegroup.com/delivery_reports/MetalsIssuesAndStopsYTDReport.pdf

And with only 200 or so contracts remaining open in the September contract (after Tuesdayâ??s announced deliveries), the September contract is shaping up to be among the slowest traditional delivery months in years, although it is always possible for new contracts for delivery in September to be made until the end of the month. However, at this point, it appears highly unlikely for the delivery quantities breathlessly talked about up until a few days ago to come close to the quantities actually delivered. Despite recent COMEX silver deliveries generally being less than seen historically, a whole cottage industry has seemed to develop that puts all COMEX warehouse and delivery statistics (except, strangely, for the physical turnover stats) under a microscope and by those with no professional experience in futures deliveries.Â Iâ??m not saying the warehouse and delivery statistics are trivial, just that undue drama when discussing them appears to be the order of the day.

As I have suggested in the past, I doubt that a delivery mismatch or threatened default will initiate on the COMEX. I do believe, at some point, that there very well may be a silver delivery crunch on the COMEX, just that the process wonâ??t start on the COMEX. The example I have used in the past is that a COMEX silver delivery crunch or threatened default is much like the Maginot Line constructed by France to fend off a German invasion prior to World War II. Germany did eventually invade, but simply went around or flew over the Maginot Line. My point is that just like the Maginot Line, the expected delivery default being initiated on the COMEX is way too obvious and exchange officials and insiders, along with the regulators would move heaven and earth to prevent such a delivery default.

Besides, there is growing evidence of a physical â??runâ?• on silver is already underway and that run is not on the COMEX, but in the silver ETFs, led by SLV, the largest, but also in other silver ETFs, possibly including the PSLV, if last nightâ??s big withdrawal of 1.7 million oz is correct. You may remember a number of months back, there was an unusually large withdrawal from the PSLV, which was negated the next day, but reinstated the day after that. Therefore, weâ??ll have to give it a few days to see if last nightâ??s withdrawal was real or not.

In the interim, there can be no doubt that silver is leaving the SLV and other silver ETFs, apart from PSLV. In the prior week, more than 6 million oz came out of SLV, with this weekâ??s withdrawals topping 7 million oz in SLV alone, plus more in other silver ETFs. At a time of a fairly strong price rally, it is highly-counterintuitive for any silver to be leaving, as strong prices usually lead to deposits. In fact, my bottom of the barrel, bedrock level of 750 million oz in combined total holdings in SLV and COMEX warehouse inventories at the start of the year is now down to 716 million oz, with all of the recent decline being from SLV and not from the COMEX warehouses.

I still maintain there is some level beyond which the combined inventories wonâ??t fall (due to investment holdings) and strongly believe we are quite close to that true bedrock level. In the meantime, I believe the sharp redemptions from the silver ETFs are nothing less than a physical run on silver â?? with attention on the COMEX akin to the confidence misplaced by France in its Maginot Line.

Switching from signs of the deepening physical shortage, which has nothing to do (to this point), with the price of silver, to the one thing that determines silver prices â?? paper futures contract positioning on the COMEX â?? the new COT report was a sight to behold. On Wednesday, I predicted that there would be significant deterioration (managed money buying and commercial selling) in both silver and gold and put numbers to my expectations, something that no one else, to my knowledge, does or has ever done. As Iâ??ve explained in the past, I do so mainly to test myself as a measure to determine if Iâ??m in tune with whatâ??s responsible for price movement.

My predictions were for managed money buying and commercial selling in silver to be on the order of 10,000 to 15,000 contracts and for 20,000 to 25,000 contracts of such positioning in gold. Remember, silver gained $1.40 over the reporting week, with gold jumping by $40. As it turned out, the silver commercials sold around 12,000 contracts and the silver managed money traders bought a hair over 15,000 contracts. In gold, the commercials sold 20,000 contracts, while the managedÂ money traders bought a hair over 30,000 contracts. In all due humility, I donâ??t think it was humanly possible to come closer in my estimates. Iâ??ll try to explain why this is important in a moment, after running through each report.

In COMEX gold futures, the commercials increased their total net short position by 19,600 contracts, to 140,600 contracts. By commercial categories, the big 4 added around 7300 contracts to a short position amounting to 135,056 contracts (13.5 million oz), as of Tuesday. Because there is still a managed money trader in the big 5 thru 8 category, holding 12,000 contracts short (down from 20,000 contracts last week), the posted big 8 short position of 202,362 contracts must be reduced to around 190,000 contracts to reflect the commercial-only component and which means the commercials in the big 5 thru 8 category added close to 10,000 new shorts. The raptors sold off a little over 2000 longs and held a net long position of just under 50,000 contracts.

On the managed money side of gold, these traders bought 30,124 net contracts, consisting of the purchase of 15,524 new longs and the buyback and covering of 14,600 short contracts. As a reminder, it was the purchase of these 30,000 contracts (3 million oz) that caused gold to jump $40 over the reporting week and nothing else â?? not the Fed, not the dollar, and not Ethiopia joining the BRICS (Ethiopia?). The resultant managed money net long position of 39,242 contracts (120,609 longs versus 81,367 shorts) is still quite low (and bullish) in historical terms.

On the $75 decline in gold prices over the past 5 weeks, the commercials tricked the managed money traders into selling 115,000 net gold contracts. This reporting week, on a $40 rally, the managed money traders bought back 30,000 contracts or 26% of the contracts they were tricked into selling over the previous 5 weeks, meaning to me that there is much more potential managed money buying to come, although no one can provide a detailed future short-term price road map. But it does suggest to me that gold has much further to go on the upside and should provide a price-supportive influence for silver.

In COMEX silver futures, the commercials increased their total net short position by a hefty 12,000 contracts to 35,800 contracts. The aspect that had me most concerned was what the 4 and 8 big shorts may do and I am relieved and delighted to report that these big traders did not add a single short contract, as the big 4 short position fell by 1400 contracts to 35,773 contracts, while the big 5 thru 8 traders bought back 600 more contracts, making the big short position 52,377 contracts, among the lowest in recent years.

And get this â?? it appears to me that the big managed money short stood pat and held its 7000 contract short position, meaning you can subtract these 7000 contracts from the posted big 4 and big 8 short positions to get the true commercial-only component. I was quite literally on the edge of my chair in awaiting this new COT report for this specific factor and even after I studied the report, it took me some time to conclude the big commercials actually bought back shorts on such a large up price week and with such heavy raptor selling of what turned out to be 14,000 contracts and the raptors now hold little more than 10,000 long contracts or so. My hesitation in accepting the results immediately was from my fear that Â I was guilty of confirmation bias, or in seeing what I wanted to see,

A subscriber asked me before the new COT report was published to handicap what the big 4 and 8 had done, but I refused to do so, mostly out of fear that I might jinx it. I did tell him that I sure hoped the big commercials hadnâ??t added aggressively to shorts, but that was as far as I wanted to go â?? despite my very specific COT contract estimates. Needless to say, Iâ??m still pinching myself at the big 4 and big 8 results this past reporting week.

On the buy side of silver, the managed money traders bought 15,096 net contracts, consisting of the new purchase of 6980 longs as well as the buyback and covering of 8116 short contracts. The resultant managed money net long position increased to 16,479 contracts (43,477 longs versus 26,998 shorts), nowhere near as bullish as it had been two short weeks ago, but this was the buying that drove silver prices close to $3 higher over ten trading days. Where I get off claiming that the big managed money short remains in silver (as well as in gold) is due to the very large number of traders that left the short side over the past two weeks in the manged money short category.

I would also point out that the difference between what the managed money traders bought and the commercials (the raptors) sold was continued selling by the other large reporting traders and the smaller non-reporting traders. The smaller traders went from an unusually large net long position of 17,000 contracts a few weeks ago to an unusually low net long position of just over 8000 contracts this week.

The standout, by far, in this weekâ??s silver COT report was the refusal of the big 4 and big 8 commercial shorts to add new short positions and, in fact, their buyback of short positions on what was a robust silver rally. As I hope you know, the big 4 and 8 adding to short positions on price rallies is the hallmark and main factor in the COMEX silver manipulation of the past 40 years and if these big traders refrain from adding shorts aggressively in the futures, the silver manipulation will exist no longer.Â And with the deepening and obvious physical silver shortage picking up steam every day, there is not the slightest suggestion these big shorts should want to add shorts at a time of the first genuine physical silver shortage in history.

I got real excited back in the $6 silver rally from early March to early May because for the first time in memory (aside from April 2011) the 4 big shorts didnâ??t add shorts (although the big 5 thru 8 did add around 6000 new shorts). Â I was disappointed on the one-week rally of July 18, when silver jumped by $2 and the big 4 and big 8 commercials added 6000 short contracts each; establishing in the process the Code Red situation that I still believe exists.

Now, on a two-week $3 silver rally which upwardly penetrated all the key moving averages, neither the 4 big nor the 5 thru 8 big shorts added any new shorts â?? so, naturally this stands out to me –Â making it the first time these large traders behaved in such a manner. A manner in which they should be behaving given the deepening physical shortage. If this is not a fake-out and these big former commercial shorts have ended their illegal manipulation of the silver market and we do move higher, the low level of remaining raptor selling capacity will not prevent silver from exploding â?? whereas back in the rally of March/May, the raptors long position of 45,000 contracts at the start of the rally did prove sufficient to contain prices without big 4 shorting.

It occurs to me that I should not gloss over this weekâ??s remarkably accurate estimates of what yesterdayâ??s COT report would indicate. Â I donâ??t give contract estimates every week, but when I do, they are usually on the mark â?? for the simple reason I would not continue to make such estimates if I proved to be wrong consistently. Iâ??m not a particularly proud man, but neither would I continue to embarrass myself if I were consistently wide of the mark.

Iâ??m sure we would all agree that the CFTC, in compiling the COT report does not consider my estimates (I do send them all my articles) in publishing the report in order to come close to my estimates. That would be patently absurd. Therefore, it has to be something else that makes my estimates generally close to the mark. That â??something elseâ?• is nothing less than the intense study of silver and gold in relation to positioning and price movement over decades and is all completely self-taught. Letâ??s face it â?? Iâ??ve been at this for decades and for most of my professional life and if one doesnâ??t become proficient after such time and study, then one is, most likely, in the wrong profession.

Thinking out loud, I would submit that the remarkable accuracy of this weeks and previous estimates suggests more than lucky guesses. Is it possible to generate such accurate estimates without understanding what goes into determining prices? Moreover, does not the pinpoint accuracy of such guesses tend to validate broader premises about other market findings?

Specifically, over the past two reporting weeks, the managed money traders in silver bought a total of more than 23,000 net silver contracts, an amount equal to 115 million oz of silver or 7 weeks of total world silver mine production or 13% of annual mine production. Is there anyone out there that would argue that the sudden purchase of the equivalent of 13% of the world production of any commodity would not result in a sudden sharp jump in the price of that commodity?

But as Iâ??ve explained continually, the managed money traders are speculators with zero interest in actual supply/demand fundamentals and are just trading price increases and decreases and their counterparties, the commercials, also donâ??t give a hoot about actual supply/demand fundamentals and are just interested in zooming the managed money traders. This makes all the trading between the managed money traders and the commercials as illegal in terms of US commodity law â?? since that law holds that excessive speculation should not determine prices at the expense of actual supply and demand. Heck, the COMEX is nothing but speculators setting the price.

As I explained on Wednesday, the net result of 40 years of illegal speculative price determination and suppression on the COMEX has resulted in a physical silver shortage for the first time in history. You can see the evidence of the shortage all around, if you know where to look â?? like in the physical turnover in the COMEX silver warehouses and the bleeding of physical silver from the silver ETFs. At some point in the near future, the physical shortage will become so pronounced that it will overwhelm the sole price determinant until now â?? paper positioning on the COMEX.

The Code Red market emergency that I started writing about in July is very much in full force and about to make its presence felt. Given the heavy managed money speculative buying over the past two weeks and the commercialsâ?? desire (both the raptors and the big 4 and 8) to buy and buy back as many short contracts as possible, along with their cunning and collusive abilities, sharp selloffs canâ??t be ruled out. Since there has been such heavy managed money buying over the past two weeks, the odds have grown that the collusive commercials can rig prices lower in the very short term â?? who is going to stop them â?? the regulators?

At the same time, the prospects of a price explosion are also now better than ever, thanks to the unmistakable deepening physical shortage and the likely continued refusal of the 4 and 8 big shorts to add aggressively to short positions. That silver will explode in price in the not-too-distant future is a sure thing from everything I look at â?? just donâ??t lose positions due to overleverage and margin in the event of crooked commercial price smashes. If you must speculate on a leveraged basis, do it in call options in which you are prepared to lose whatever premium you pay and to do it again if your options expire.

Ted Butler

September 2, 2023

Silver – $24.55Â Â Â Â Â (200-day ma – $23.47, 50-day ma – $23.82, 100-day ma – $24.14)

Gold – $1966Â Â Â Â Â Â Â Â (200-day ma – $1921, 50-day ma – $1951, 100-day ma – $1972)

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