

September 3, 2022 – Weekly Review

Gold and silver prices sold off for a third straight week, with gold ending \$28 (1.6%) lower and with silver finishing down a much steeper 90 cents (4.8%). For gold, it was the second lowest weekly close for the year and put the price down \$108 (6%) for the year-to-date, while for silver it was the lowest close in more than two years and put its price down \$5.50 (24%) year-to-date.

As a result of silver's continued severe relative underperformance, the silver/gold price ratio widened out by a further 3 full points to 96.5 to 1. This is the cheapest silver has been relative to gold in more than two years, as the price ratio was retreating from its all-time extreme undervaluation to gold of 125 to 1 in March 2020. As a reminder, all-time in this case covers the past 5000 years or from where recorded civilization began.

Last week, I commented how the current relative undervaluation of silver to gold was the price measurement most out of whack in the world. This week it is even further out of whack, making silver so incredibly undervalued that it's hard to come up with the proper words to describe just how cheap silver is, not only compared to gold, but to any possible alternative asset or investment I can think of. But let me give it the old college try.

What makes silver so cheap to the point of absurdity is that its actual physical supply and demand fundamentals are at their most bullish in all the decades I have studied the metal – at precisely the same time it is at its cheapest in price terms. How can this be? How is it possible for an asset about as universally-known to all men and women as any other asset or material in existence to be priced so cheaply, at precisely the same time its physical availability has never been tighter and its unique dual-use as a vital industrial commodity and basic investment asset has never been stronger? And all this at a time when the world has never been more connected in terms of communication and accumulated knowledge.

While the answer to how silver can be so cheap at exactly the same time it should be at its most expensive is actually quite simple on its face – in actuality, the answer is also complicated enough (or hard to believe) that it precludes universal acceptance. The only answer possible to explain the conundrum in silver between where it's priced and where it should be priced is that its price is wrong – as in artificially contrived or manipulated. While the answer itself is simple, start talking about concentrated short positions on the COMEX, or short positions in SLV, or short positions held by Bank of America in the OTC derivatives market and most people's eyes glaze over – starting with what's a short position and how can you sell something you don't own?

So, it comes down to this – if you can't grasp that silver's price has been artificially suppressed for decades, in the manner I've explained, then you can't possibly believe that there is anything wrong with the price or that it is destined to suddenly erupt higher. In that case, I can't imagine why anyone would buy silver.

On the other hand, if you do become convinced that silver has been suppressed in price, along the lines of what I've described, then you are more or less compelled to buy and hold it, knowing that a liftoff in price can come at any time. And if you really get into the weeds on this, closely studying the verifiable facts and data – heaven forbid, along the lines that I have – then you will become

convinced that the price liftoff could come at any moment, where a doubling of the price in a month or so for starters is realistic â?? no scratch that, the price liftoff **should** come at any moment.

Yesterdayâ??s new Commitments of Traders (COT) report adds, as expected, even more bullish fuel to the coming silver price fire and I'll get into the details, along with attendant comments after I run through the weekly review format, with appropriate color commentary along the way.

The turnover or physical movement of metal either brought into or removed from the COMEX-approved silver warehouses remained strong as 7.1 million oz were moved this week and total inventories fell again, this week by a hefty 3.8 million oz to 326 million oz, another new two-year low. Holdings in the JPMorgan COMEX warehouse slipped by 1.1 million oz to 169.3 million oz.

Much attention continues to be focused on the even-sharper decline in the registered category and thatâ??s appropriate for reasons having to do with any switches from the registered category to the eligible category implying stronger long-term ownership given eligible being less costly to store.

But I do remain, as I have for more than 11 years, somewhat perplexed how the frantic physical turnover of silver in the COMEX warehouses hardly garners a mention. More to the point, both the highly-unique and unprecedented silver inventory turnover, as well as the more recent shrinkage in total holdings are quite bullish on their face, so trumpeting either without some explanation for why prices have slid to multi-year lows seems to leave something missing. Whatâ??s missing is the constant explanation that something must account for the disparity between bullish fact and bearish price and the only possible explanation is price manipulation.

I'm still pondering Bank of Americaâ??s huge delivery of some 26 million oz of silver (5199 contracts) from its house account on first notice day this week, as it represents a delivery issuance of almost all of the net contracts it had stopped or accumulated since January. As you know, I believe BofA is short close to one billion oz of silver in OTC derivatives, with the new OCC quarterly report due to be published later this month, so it made sense for it to be stopping or taking in COMEX silver deliveries against its OTC short position. But for BofA to turn around and issue and give up all the silver it accumulated this year in COMEX deliveries, is more than a bit perplexing. Obviously, BofA had to be short the near-5200 contracts it issued and this delivery closes out that COMEX short position, but I'm still troubled by why BofA would be short on both the OTC market and short on the COMEX, as clearly, you don't hedge a large short position with another short position â?? unless for nefarious (aka manipulative) reasons.

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

There continued to be redemptions in the worldâ??s gold and silver ETFs, principally GLD and SLV, but the pace cooled a bit in SLV this week. Still, more than 110 million oz have come out of the SLV over the past few months and I'm still convinced the vast bulk was not due to plain-vanilla investor liquidation, but because the metal was demanded elsewhere â?? mainly in India. Despite the large redemptions, SLV is still the worldâ??s largest stockpile of silver and it makes sense this would be the prime source to meet great demand. The only question is how can demand for silver (from India and China) be continued to be met in the face of lower prices? Oh wait, we already know the answer to that question is price manipulation.

Turning to yesterdayâ??s COT report, gold and silver prices were stable for the first two days of the

reporting week, but then slid to new lows over the balance of the week ended Tuesday; with gold trading as much as \$40 lower and silver by as much as 75 cents lower by the reporting week's end. Plus, there was the distinct element of salami-slicing, the term of my departed friend and mentor, Izzy Friedman, to describe the continuous new price lows that never fail to prompt the managed money technical funds to short — only the price salami slices weren't particularly thin, but rather thick.

Without putting specific numbers of contracts on it, I did expect significant positioning changes in terms of new managed money shorting and commercial buying and that was largely achieved — which was noteworthy considering how extreme the market structure was going into this reporting week, particularly in silver. Let me run through the details and then try to put everything into perspective.

In COMEX gold futures, the commercials bought and reduced their total net short position by 8400 contracts to 129,700 contracts. Considering that there were only two prior recent weeks in July where the total commercial short position was lower over the last three years, the COMEX market structure in gold must be considered bullish — not as bullish as silver's market structure, but bullish nonetheless.

By commercial categories, the 4 big shorts, now all commercials, bought back around 2000 contracts and hold 106,985 contracts (10.7 million oz) short. The next 5 thru 8 largest shorts bought back an additional 1100 contracts and the big 8 now hold 174,024 contracts (17.4 million oz) short, but I believe there is a managed money short in that category, making the true commercial-only component of the big 8 around is around 154,000 contracts (meaning the managed money short holds around 20,000 contracts short). If my computations are correct, the gold raptors are long around 24,000 contracts, little changed on the week.

On the non-commercial side of gold, the managed money traders sold a net 10,323 contracts, consisting of the sale and liquidation of 4089 longs and the new sale of 6234 short contracts. The managed money net long position is now 11,788 contracts (91,761 longs versus 79,973 shorts), still bullish by historical standards and about equidistant between the most-bullish reading of 19,000 contracts net short on July 26 and the 40,000-contract net long reading on Aug 16. The other large reporting traders' purchase of just over 2000 net contracts accounted for the difference between what the commercials bought and the managed money traders sold.

In COMEX silver futures, the commercials bought 4600 net contracts and flipped their usual net short position into a net long position of 300 contracts, the first such commercial net long position in three and a half years. The big story, however, was under the hood in that nearly all of the commercial buying was by the former big 4 and big 8 commercial shorts. Calculated on a combined basis (commercials plus managed money traders), the big 4 short position increased by more than 800 contracts to 43,556 contracts, as did the combined big 8 short position to 67,831 contracts. But breaking out the managed money traders in those categories (now one in the big 4 and one or two more in the big 5 thru 8) revealed a much different picture.

The commercial-only component of the big 4 short position dropped to 24,000 contracts and the big 8 short commercial-only component dropped to 38,000 contracts — both the lowest ever. In other words, I believe there is a managed money trader holding 20,000 contracts short in the big 4 and two others holding a combined 10,000 contracts short in the big 5 thru 8. Part of my reasoning on this is that the total commercial gross short position of 58,327 contracts is not much larger than the managed money traders' gross short position of 52,170 contracts, making it not much of a stretch that there

could be 3 managed money traders in the big 8 short category.

If correct and by deduction, the raptor net long position remained around 38,000 contracts, roughly unchanged for the week, meaning the big commercial shorts did all the commercial buying. This seems reasonable to me for a number of reasons, as the raptors have suffered mightily on this price collapse and I'm sure some may have dropped out due to the pressure of meeting margin calls and have been replaced by other smaller commercials able to meet the margin calls. The big commercial shorts, of course, have had no margin calls since the price drop has been to their advantage.

Also, in the past, it was usually a case on price rallies that the smaller commercials (the raptors) would sell out long positions first and the big shorts would come in later to add new shorts to cap and contain prices. This recent action on the downside, where the raptors bought first on the price decline (with a few getting caught by buying too soon) and the big commercial shorts buying in the latter stages of the price decline seems in keeping with the raptors moving first and the big commercials later.

On the managed money side of silver, these traders sold 5207 net contracts, consisting of the sale and liquidation of 564 longs and the new sale of 4643 short contracts. The managed money net short position increased to 21,031 contracts (31,139 longs versus 52,170 shorts) and is now the largest (most bullish) since May/June 2019. Even though the gross short position of the managed money traders was about 2500 contracts larger on July 26, the gross long position of this category is now 5600 contracts less than then, making the net short position more than 3000 contracts larger and more bullish today.

Over the past two reporting weeks, the managed money traders have sold nearly 15,000 net silver contracts, mostly in the form of new short positions. That's the equivalent of 75 million oz of silver, or more than is produced in a month in real world terms. Try to imagine a full month's world production of crude oil (3 billion barrels or 3 million NYMEX contracts) being sold by a single trader category in two weeks and you'll get a sense of how nuts and manipulative to price is the sale of 15,000 COMEX silver contracts.

The miracle or wonder to this data is how the heck did the crooked and collusive COMEX commercials arrange to get the managed money traders to sell short as aggressively as they have sold in silver. Even more important is how the heck have the commercials arranged to have done this very thing repetitively over the decades as in the old wash, rinse and repeat routine. This, you may recall, was the subject of Wednesday's article "Why, What and How?"

So, while there will likely be endless commentary on the remarkable achievement of the commercials getting net long in silver, there will just as likely be little to no discussion on how the commercials achieved this miracle almost as if it was some type of Immaculate Conception or it was achieved by the hand of God. Let me assure you, God had nothing to do with this, as my version of Him (or Her) doesn't include crooked means. And while I certainly couldn't argue with the current commercial position being almost bullish beyond words, I am gobsmacked by the lack of notice to how it got so bullish. I just can't comprehend how anyone can see one and not the other.

Yes, the current commercial position in COMEX silver (and gold) is a bullish sight to behold, but shouldn't some thought be given to how frequently and repetitively this has played out over the decades. I can count on one hand (with fingers left over) how many times over the decades that the commercials haven't been big buyers on significant silver and gold price declines and how many

times they haven't been big sellers on significant price increases. I know, full-well, it is what they do, but how the heck can anyone come up with a legitimate explanation for how they do it – other than to acknowledge the commercials are just zooming the managed money technical funds because they know how they operate and seek to exploit it. But that's far from legitimate when it creates prices not remotely connected to real world fundamentals.

I confess to thinking that when the regulators finally woke up to the scam of spoofing that they would then make the connection that spoofing was just another dirty trading trick in the commercials' tool box to rig prices in order to scam the managed money traders into and out from positions. But the regulators (the CFTC and DOJ) looked away and pretended not to see the real crime of the long-term manipulation, satisfied to stick to the easy pickings of securing fines and convictions for spoofing and shying away from what the real purpose of spoofing was. I have to think the regulators couldn't possibly be that naïve and chose to avoid the certain pitched legal battles to the death that charging JPMorgan for a long-term manipulation would entail. And heaven forbid if the regulators succeeded as that could result in the demise of JPM or some other systemically-important financial institution.

The good news on all this is that it sets the stage even more critically for my coming moment of truth, in which we will soon learn if the big former commercial shorts will stand aside on the now imminent silver price rally and allow the price liftoff they have denied for decades. Standing aside and not shorting into the certain coming silver rally looks more and more like the perfect solution to the former big concentrated COMEX shorts, as it won't require anyone responsible for the silver manipulation to date, the collusive commercials and regulators alike, to do anything at all – just sit back and watch it unfold. The big former commercial shorts merely have to do nothing and not short and the regulators can blame it on the managed money shorts for getting too heavy on the short side, if push comes to shove. And silver investors will smile and dance after way too much unnecessary suffering.

Ted Butler

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Silver – \$17.85 (200 day ma – \$22.38, 50 day ma – \$19.41, 100 day ma – \$20.97)

Gold – \$1722 (200 day ma – \$1837, 50 day ma – \$1762, 100 day ma \$1816)

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