September 30, 2023 – Weekly Review

Gold and silver prices were absolutely hammered this week, with gold closing $80 (4.1%) lower and at six-month lows; and with silver diving $1.42 (6%), also at an effective six-month weekly closing low. Â Remarkably, a sharp early rally on Friday had silver unchanged for the week, meaning that silver, effectively, achieved both its weekly high and low price on Friday â?? not something I recall occurring previously, and underscoring the extreme volatility.

As a result of silverâ??s greater relative underperformance, the silver/gold price ratio widened out by a point and a half to 83.25 to 1, not that much of a change considering the overall price weakness and volatility and still leaving silver grossly undervalued relative to gold, where it seems to have been stuck forever.

The price weakness this week in gold and silver was nothing short of stunning, exceeded only by the near-incredible price volatility in silver on Friday â?? and all on extremely heavy trading volume, particularly in silver â?? both on the COMEX and in shares of SLV, the big silver ETF. Friday was also the end of the third quarter and no doubt there was some â??window dressingâ?• or the selling of shares of ETFs by institutional holders, as it represented the lowest quarterly close in 9 months for gold and the lowest quarterly close in silver for a full year.

But the most remarkable thing of all was that, to my knowledge, there was no actual supply/demand developments to account for the extreme price weakness and volatility, particularly in silver. And clearly, both on Friday and over the balance of the week, the price weakness and volatility was mostly centered on the regular trading hours of the COMEX, often when all other world markets were closed.

You know where Iâ??m going with this â?? gold and silver prices were set this week by paper positioning on the COMEX and not by any actual supply/demand developments. What makes this particularly egregious is that the actual fundamentals, especially in silver, could hardly be more bullish â?? if you accept (as I do) that an actual physical shortage is the most bullish condition possible in any commodity. The fact that silver prices could plunge to new lows in the face of an actual physical shortage seems preposterous on its face.

The â??problemâ?• is that, as captive to the human condition as most investors are, we are prone to â??reverse-engineerâ?• the price to fit with what we imagine the actual supply/demand fundamentals to be, rather than to take the time to investigate and research on our own. If the price of silver is weak, therefore the supply/demand fundamentals must be bearish. Who has the time and energy to investigate and research the actual fundamentals in silver, or anything else, if the price is telling us that there is ample supply or inadequate demand? The collective human condition is to buy on increasing prices and not on flat to falling prices.

Just this week, a subscriber asked me to point out where I substantiated the facts around my claims that silver is in a pronounced wholesale physical shortage â?? no doubt due to the all-powerful influence of the continued low prices. I explained I do so in every weekly review, but condensed it to a few bullet points. For one thing, there was the persistent physical turnover or movement of silver in the COMEX warehouses for more than 12 years, which has now come to include the silver ETFs, a turnover highly unique to silver of all commodities. Who moves great quantities of physical stuff around except under extraordinary demand?

Then there is the matter of dramatically falling silver inventories, where the recorded world inventories of silver have fallen by, roughly, 400 million oz, from 1.7 billion oz at the start of 2021 to just over 1.3 billion oz today. By the way, virtually all of the decline has come in the two largest silver stockpiles in the world, the COMEX warehouse inventories and the holdings in SLV. This has been the largest silver inventory reduction in history and since when havenâ??t sharply declining world inventories of any commodity indicated a deepening shortage?

Finally, there are the reports from sources thought to be fairly-objective, like the Silver Institute, citing flat to declining annual silver mine production and growing demand for more than a decade â?? to the point of creating (in its words) a record deficit. Isnâ??t â??deficitâ?• just another word for deepening shortage?

I understand the power of price over substance and how the power of the influence of price affects us all, particularly if the price sends false signals for decades, as has been the case in silver. But I also understand the power of the actual law of supply and demand and how a deepening physical shortage cannot possibly be reversed, as it must, with continued low prices. Admittedly, even these words might ring hollow if there was no reasonable explanation for why the price of silver was out of step with the actual fundamentals.

However, the most reasonable explanation exists and is proven out by official data, in the form of the statistics published by the US Governmentâ??s weekly Commitments of Traders (COT) reports. These reports show beyond question, that the price of silver (and other commodities) is artificially set in COMEX trading between two separate sets of large traders, the commercials (largely banks) and the managed money traders. Were it not for these reports, the explanation that the price of silver has been artificially manipulated and suppressed in the face of a deepening physical shortage would not exist.

But the reports do exist, as does the explanation for how the heck could silver prices remain so low for so long in the face of the most important documented signs of physical shortage. The explanation, followed to its inevitable conclusion, namely, that this all must lead to a dramatic upward surge in the price, is still squarely in place. By all measures, and contrary to how it may feel, this weekâ??s dramatic selloff and volatility auger even stronger for the coming price explosion.

The turnover or physical movement of metal either brought into or removed from the COMEX-approved silver warehouses reached a nine-week high, as just over 7 million oz were moved. Total COMEX inventories fell by a sharp 3.3 million oz to 270.3 million oz, now just a couple of million oz above the multi-year lows set several months back. Holdings in the JPMorgan COMEX warehouse fell by a slight 0.1 million oz to 136.2 million oz, enough to set a new multi-year low. I still make a bigger deal out of the physical turnover as a strong indicator of physical tightness and shortage, but no one would argue that declining inventories arenâ??t even easier to understand.

While there was some physical movement, COMEX gold inventories remained at 20.9 million oz for a third week Â and still at multi-year lows. There was a Â very slight reduction in the gold holdings in the JPM warehouse to 7.66 million oz.

Iâ??m going to skip over the details for the first two days of delivery on the COMEX gold and silver contracts, for the simple reason I canâ??t decipher any deep connection between the delivery details and price movement. As time has evolved, all that seems to matter is COT positioning â?? at least to me.

There were continued outflows from the worldâ??s gold ETFs, on the order of 700,000 oz or more, in keeping with the lower prices. When prices get set lower by COMEX futures positioning, it is most often followed by redemptions in the gold ETFs.

There were also substantial redemptions in the silver ETFs, on the order of 10 million oz, including close to 7 million oz in SLV, but also including a near-2 million oz redemption/withdrawal from the PSLV, although the trading volume in that ETF didnâ??t seem match-up with the large withdrawal. My best guess is that, despite the storage location being in Ottawa and not a traditional silver distribution center, the metal was so urgently needed elsewhere it required metal from this ETF.

This week, the combined holdings in SLV and the COMEX silver warehouses slipped by 10 million oz to 712 million oz, wiping out the previous weekâ??s deposits and setting a new low, now far below my bedrock low of 750 million oz at the start of the year and the 730 million oz plateau later on. While I still believe there is a level beyond which the holdings in SLV and in the COMEX warehouses Â wonâ??t fall (due to investor holdings), this weekâ??s sharp reduction is certainly inline with the deepening physical shortage.

And yes, back in early 2021, the combined holdings in SLV and in the COMEX warehouses hit 1.1 billion oz (700 million oz in SLV and 400 million oz on the COMEX). Â For silver prices to have fallen from close to $30 to $22 and change today in the face of such dramatic inventory declines requires an unassailable explanation. I suppose you could argue the inventory changes didnâ??t take place or there was something wrong with the price. The answer would appear obvious, namely, the price has been manipulated and depressed by paper positioning on the COMEX.

Turning to yesterdayâ??s COT report, the results were fine and largely within my general expectations that there would be much greater improvement in gold than in silver. I wasnâ??t trying to be cagey in my expectations for silver, just I wasnâ??t sure and that was why I really didnâ??t mention silver separately. In fact, there was no improvement in silver, although the actual deterioration was acceptable, in that there was no new commercial short selling, just smaller commercial (raptor) long liquidation. The improvement in gold was better than my non-specified expectations. In both gold and silver, raptor positioning was the main theme, although in opposite directions.

In COMEX goldÂ futures, the commercials reduced their total net short position by 18,100 contracts, to 134,800 contracts, the second lowest (most bullish) reading since early March, which makes sense since weâ??re back to gold prices the lowest since then. And in trading since the Tuesday cutoff, it would appear reasonable to conclude the total commercial short position is now the lowest since March.

By commercial categories, the big 4 added a slight 540 new shorts to a short position amounting to 136,785 contracts (13.7 million oz), while the next 5 thru 8 largest shorts bought back just over 1700 short contracts, resulting in a big 8 short position falling to 209,533 short contracts (21 million oz). The raptors (the smaller commercials apart from the big 8) did most of the heavy lifting in buying 16,900 new longs and increasing their net long position to 74,700 contracts, not coincidentally, the largest since early March and on the cusp of what would turn out to be a $250 gold price rally.

On the managed money side of gold, these traders were net sellers of 23,952 contracts, consisting of the sale and liquidation of 6504 long contracts and the new sale of 17,448 short contracts. The resultant managed money net long position fell to 23,438 contracts (114,668 longs versus 91,230 shorts) the lowest (most bullish) since Aug 22 and, most likely, in trading since the Tuesday cutoff, back to the lowest since March. Explaining the difference between what the commercials bought and the managed money traders sold, was the net buying of 4600 contracts by the other large reporting traders and another 1200 contracts of net buying by the smaller non-reporting traders.

In COMEX silver futures, the commercials increased their total net short position by 3300 contracts to 33,100 contracts, but they did so without any actual real increase in short selling by the big 8. The 4 big shorts did increase their short position by a bit over 130 contracts to 36,600 contracts, but the next 5 thru 8 commercial shorts bought back close to 300 shorts and the big 8 short position fell toÂ 51,113 contracts (256 million oz), the lowest since March and the second lowest in many years. Obviously, Iâ??m still of a mind expecting the big commercial shorts to stand aside and not add aggressively to short positions on the next silver rally, so this weekâ??s lack of new shorting is in conformance with that expectation. The silver raptors (the smaller commercials) did all the selling, in liquidating 3500 longs, resulting in a net long position of 18,000 contracts.

The managed money traders bought 3914 net silver contracts, consisting of just 19 contracts of new buying and 3894 contracts of short covering. Itâ??s not surprising that the managed money shorts in silver (and gold) are skittish and liable to rush to cover shorts on the slightest whiff of higher prices (which we did see early in the reporting week). Their â??skittishnessâ?• would appear well-deserved, in that they have never collectively profited whenever being heavily short.

The resultant net managed money long position in silver increased to 5267 contracts (32,719 longs versus 27,452 shorts), still very much on the bullish side and undoubtedly much better in trading since the cutoff, and considering yesterdayâ??s obviously deliberate commercial price smash, most likely into a net short position as of yesterdayâ??s close.

I know it gets old in hearing me talk about a deepening physical silver shortage and explaining the ongoing suppressed prices as being due to the continued price manipulation on the COMEX â?? mainly because itâ??s much easier to accept the knee-jerk and reverse engineering that the suppressed price points to some type of physical surplus. But it is when you take the time to look at the actual facts of rapidly shrinking world inventories and the massive and unprecedented physical turnover of the remaining shrinking inventories, as well as the outside reports of declining production and increasing demand, that the choice of what to believe and how to invest should become clear.

The final clincher, the objective evidence that the decades-old hoodwinking of the managed money traders by the commercials in COMEX paper positioning, provides as clear an explanation that the price of silver is set by such hoodwinking and speculative games as is possible. Yes, the price is the ultimate proof to most that there canâ??t be a silver shortage, but the facts argue otherwise. Of course, those that donâ??t consider the facts canâ??t be expected to be convinced otherwise, but if the price was always correct at interpreting correctly the underlying facts, there would be little reason to research anything and little reason to expect change.

But history has shown that there can often be wide differences in prevailing prices and true value based upon the underlying facts. Otherwise, there would be little reason to go against the crowd and prevailing prices. In silver currently, there is as wide a gap between price and the underlying fundamentals and facts as has ever existed. Itâ??s just that the price is easy to see, while the real facts require some digging and some thought.

While the type of price beat down in silver and gold yesterday and for the week and month suggests to many that prices are in for a continued fall, a more objective studyÂ of what typically occurs after such selloffs are impressive rallies. Even if one were to brush aside the compelling evidence of the deepening physical shortage in silver, the obvious improvement in the COMEX market structures in silver and gold have always been very reliable indicators of a brewing substantial rally.

We sold off in both metals so that the commercials could induce maximum managed money selling (so that the commercials could buy) and it follows we will soon rally substantially for that very reason. The commercials didnâ??t rig prices lower in order to buy and to then plan to sell on even lower prices to see how much they could lose â?? the commercials bought low in order to sell high (if at all in the case of aggressive short selling). It’s just amazing how consistent this rigged game has been for decades with so few seeing the obvious manipulation (particularly the regulators).

I should also mention that there has been substantial improvement in the market structure in COMEX copper futures, with the managed money traders holding a substantial net short position and, get this, their largest gross short position in three and a half years, as of Tuesday.

For what itâ??s worth, the CFTC seems to be on a rampage of late in extracting a maximum number of fines and in quite substantial dollar amounts against the biggest banks for general reporting and record-keeping violations. Just yesterday, the Commission fined three of the largest banks/dealers a combined $50 million

https://www.cftc.gov/PressRoom/PressReleases/8801-23

Iâ??m certainly not shedding any crocodile tears for the big bank crooks, but I am a bit troubled that the Commissionâ??s priorities seem a bit twisted. Instead of digging for broad-based general violations, how about having an employee or two look into what really concerns the public â?? like an explanation for yesterdayâ??s egregious beat down in COMEX silver prices?

Finally, at this point, the odds for a government shutdown of some unknown duration look high, although developments as I get ready to send this, suggest a last-minute stop-gap measure might delay the shutdown. Should we get the shutdown, it is likely future COT reports might be delayed. At least, that was what occurred in the last shutdown of 2018-19.

Ted Butler

September 30, 2023

Silver – $22.40Â Â Â Â Â Â (200-day ma – $23.59, 50-day ma – $23.85, 100-day ma – $23.74)

Gold â?? 1865 Â Â Â Â Â Â Â Â Â Â (200-day ma – $1936, 50-day ma – $1947, 100-day ma – $1956)

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