September 4, 2021 – Weekly Review

For a second Friday, gold and silver prices surged, with gold ending the week up by $9 (0.5%) and with silver finishing higher by 75 cents (3.1%). As a result of silverâ??s relative outperformance, the silver/gold price ratio tightened in by nearly two full points to 73.75 to 1, silverâ??s best relative showing in about a month,

It was the highest weekly close for gold in three months and the best weekly close in silver in a month and left gold down by around $70 (3.7%) and silver down by $1.70 (6.4%) on a year-to-date basis. The impetus for the rally on Friday was said to be the weaker than expected monthly employment report, but whoever is saying that leaves me unpersuaded, as I continue to see little, if any legitimate connection between what is said to affect gold and silver prices â?? other than changes in COMEX futures positioning.

I think itâ??s much closer to the truth to attribute Fridayâ??s gains as an expected reaction to the highly deliberate middle of the night takedown into Aug 9. After rigging gold prices down below all of its three key moving averages (the 50, 100 and 200-day maâ??s) on that intentional price smash designed to induce as much managed money selling as possible, the commercials succeeded in causing more than 54,000 contracts (5.4 million oz) of managed money selling in the COT report of Aug 10. It was this selling, completely orchestrated and induced by the commercials (who bought) that drove gold prices down by $140.

In yesterdayâ??s COT report for positions as of Aug 31, three weeks later, the managed money traders have purchased 46,000 gold contracts (4.6 million oz) in this time, as gold prices rose by the same $140, they had fallen and â?? voila â?? gold prices were back above all its key moving averages – as if nothing happened. But something did happen and it sure didnâ??t have anything to do with employment reports, Fed statements, inflation expectations or anything else one hears bandied about. Gold (and silver) prices move on COMEX positioning changes. Someday, that will change and while that day has not yet arrived, my sense is it might be quite close.

Yesterdayâ??s new Commitments of Traders (COT) reports for gold and silver were quite close to my hopes and expectations, as far as headline numbers, but there was something quite weird in the silver report, which Iâ??ll get into shortly. Let me run through the usual weekly format first.

The turnover or actual movement of physical metal either brought into or removed from the COMEX-approved silver warehouse perked up to just over 6.9 million oz this week, as total COMEX warehouse inventories remained unchanged at 362.1 million oz. Â Silver holdings in the JPMorgan COMEX warehouse slipped by 600,000 oz (a truckload), to 185.6 million oz.

Moving 6.9 million oz requires a lot of huffing and puffing and human effort, to say nothing about this weekâ??s movement being more than 45% of total world silver mine production when annualized. So highly elevated and persistent has the physical silver movement in the COMEX warehouses been for the past ten and a half years that it is unprecedented among all commodities and suggests a physical tightness not about to go away. Yet I can count on one hand (with many fingers left uncounted) the number of commentators and analysts who mention it. Iâ??ve almost given up that any will ever notice (or comment) on it. So it goes.

Total gold holdings in the COMEX warehouses slipped another 0.3 million oz to 34.2 million oz. Holdings in the JPM COMEX slipped by 0.11 million oz to 12.53 million oz.

Still nothing special to report on COMEX silver deliveries as deliveries in the traditionally large September contract look, essentially, done for the month, although the delivery period extends until month end. JPMorgan is still the largest net stopper (taker) for customers. Someday, silver deliveries on the COMEX may have a profound influence on price, but, again, not this day.

For the week, physical gold continued to leave the gold ETFs, but should gold prices remain strong, I would expect deposits to resume. In silver, there were fairly strong ETF inflows, not only into SLV, but also into the Sprott silver ETF and others.

While yesterdayâ??s trading volumes in SLV and PSLV were quite strong, those volumes seemed very much in tune with the strongest silver price action in months. Iâ??m still scratching my head over last Fridayâ??s epic volume in SLV, which while it did result in a net 4 million oz deposit this week, I still sense may have involved (finally) some reduction in the very large short position on SLV (next short report on Sep 10). Thereâ??s still something special about last Fridayâ??s trading volume in SLV (38 million shares) versus yesterdayâ??s volume (28 million shares) that sets off my Spidey-senses about very special professional buying last Friday.

Turning to yesterdayâ??s COT report, as previously mentioned, the headline numbers (managed money buying vs commercial selling) were not only close to expectations in both gold and silver, but even a bit better in that they were a bit less than the expected deterioration. There was, however, something quite â??hinckyâ?• in the silver report.

In COMEX gold futures, the commercials increased their total net short position by 5800 contracts to 240,500 contracts. (I was hoping for no more than 10,000 contracts). This is the largest (least bullish) total commercial net short position since June 8, when gold was trading around $1900. Having described earlier how the price of gold fell on induced managed money selling and recovered on buying from those same traders, Iâ??ll not chew my cabbage twice (as my late grandmother would say). But, hopefully, itâ??s clear to everyone how COMEX positioning sets the price.

By commercial categories in gold, the 4 biggest shorts added around 700 new shorts to a concentrated short position amounting to 154,669 contracts (15.5 million oz) as of Tuesday. The next 4 largest traders added 2900 new shorts and the big 8 short position rose to 235,808 contracts (23.6 million oz). The smaller gold commercials (the raptors) sold 2200 new shorts adding to a short position totaling 4700 contracts.

On the buy side of gold, it was mostly a managed money affair, as these traders were buyers of 6233 net contracts, consisting of the purchase of 9919 new longs and the new sale of 3686 short contracts. The other large reporting traders and smaller non-reporting traders largely netted each other out. I would characterize the current managed money net long position as back to mostly neutral from what it has been over the past year or so, but there is still much room for managed money buying should these traders buy as many contracts as they held as recently as a two years ago.

A subscriber asked me this week if the 46,000 contracts of managed money buying has now largely fulfilled the 75,000 contracts I indicated would be bought shortly after the key moving averages in gold were decisively penetrated. I would imagine more managed money contracts were purchased yesterday, so we would be even closer to the 75,000-contract figure I threw out. I should have added that the 75,000-contract figure was more a minimum expectation and not a hard cap.

I also should mention that the 4 largest gold longs (not something I typically mention) have further increased their net holdings by another 8000 contracts this reporting week to 121,707 contracts â?? up a substantial 38,600 contracts from Aug 3 and the largest such concentrated long position in a year. The last time the total commercial gold short position was as large as it is currently (240,500 contracts) back in June, the concentrated long position of the 4 largest long traders was around 85,000 contracts â?? so there is a marked difference between the concentrated long position today and what it was in June.

It would further appear that the big concentrated gold longs are most likely held by other large reporting traders and/or managed money traders since those categories hold the largest gross long positions in gold. As far as how determined these large traders are to hold (or increase) their quite large gold positions canâ??t be determined at this time. Ask me down the road, as it is a circumstance I will be monitoring. By the way, this large concentrated long position happens to be unique to gold, as no such unusual long concentration exists in silver.

In COMEX silver futures, the commercials increased their total net short position by a moderate 1800 contracts to 38,000 contracts. So, while the commercial net short position in gold has made a full roundtrip from Aug 3, first falling by 35,000 contracts on the price plunge and then increasing by 45,000 contracts as gold prices recovered, it was different in silver. Â The commercial net short position in silver over the same time span first fell by nearly 17,000 contracts on the price plunge and since prices only recovered moderately into last Tuesday, the commercial net short position has only increased by 2500 contracts (likely more due to trading yesterday).

As of Tuesday, the commercial net short position in silver was still extremely low and bullish, while the counterparty managed money net long position was also very low and quite bullish. Where the silver COT report was â??hinkyâ?• (at least to me) was in the commercial category changes. Let me first go into the report as it was published and then get into where I think it was wrong.

This report indicated that the 4 big shorts increased their concentrated short position by 4500 contracts to 44,959 (225 million oz). The next 5 thru 8 largest traders remained virtually unchanged and the big 8 short position rose to 62,153 contracts (310.8 million oz). The raptors (the smaller commercials) added 2700 new longs to a net long position now amounting to 24,200 contracts. So, the raptors were significant buyers, the big 5 thru 8 stood pat and the big 4 were the sole sellers in adding 4500 new shorts â?? even though this all flies in the face of normal behavior which indicates that when silver prices are essentially flat to a bit higher during a reporting week, nothing of this kind of commercial category changes occur.

Further, when one examines the changes in the trading categories in the disaggregated report, the commercial category changes make even less sense. And there is recent precedent for what I am alleging is a reporting error in this report, as back on June 29, the COT report on that date featured a rather shocking 5000 contract reduction in the big 4 short position, which not only was out of place considering the near-unchanged price movement that week, but was subsequently reversed in the next COT report. I remember getting all excited when the June 29 COT report was published, only to realize it was in error when the next report was issued.

The error in this report seems to be a misstatement of the percentages assigned to the 4 and 8 largest shorts. Undoubtedly, the concentration data is derived on an electronic machine count of contracts held by the largest traders and once that exact contract count is determined, the number of contracts held is converted into the precise percentages of total open interest that is presented in the COT report. My guess is that someone made a human error of 3% in the transition from actual contracts held to the published percentages given in the report. 3% equals just over 4220 contracts â?? explaining the large jump in the big 4 short position.

Maybe Iâ??m all wet and the report is correct as it stands. In any event, it will get washed out in the next or subsequent COT reports. Iâ??m not going to formally complain to the CFTC because I realize it has every incentive not to acknowledge the error and, particularly, to who it is coming from. But I will be sending this article (as I always do) to the Director of the Market Oversight Division, Dorothy DeWitt. I canâ??t know if Director DeWitt reads the articles I send to her, but I do know that when the Commission responded on May 3 (to my letter of March 5), it was implied that the matter had been referred to both the Division of Market Oversight and the Enforcement Division, so itâ??s not unreasonable to conclude that Director DeWitt would look into this.

Of course, itâ??s also quite possible that the Commissionâ??s response to me (and my elected officials) was little more than an attempt to head off the immediate pressure to respond to a serious matter and was little more than malarky. To be sure, even if the Commission verifies that an error was made, Iâ??m not holding my breath expecting a â??Dear Ted, thank you very muchâ?• letter.

Finishing up on the silver COT report, since the error I allege concerns only how I calculate the commercials by categories (big 4, big 8 and the raptors), the non-commercial changes wouldnâ??t be affected by a reporting error of the type I just described. Â This reporting week, the managed money traders bought, essentially, what the commercials as a whole sold, as these traders bought 1649 net contracts, consisting of the purchase of 914 new longs and the buyback and covering of 735 short contracts. As was mostly the case in gold, in silver the other large reporting traders and the smaller non-reporting traders largely offset each other.

The biggest takeaway is that whereas the managed money traders in gold bought 46,000 net contracts over the past 3 reporting weeks, the managed money traders in silver were net sellers of 1800 silver contracts over that same period. Thus, there is a marked difference in the respective market structures in gold and silver. A good chunk of the expected minimum managed money buying has already occurred in gold as gold prices have now moved above all the key moving averages. Since silver prices are up from the extreme recent lows, but still below all its key moving averages, much less of the minimal expectations of managed money buying (30,000 contracts) has occurred.

In gold, Iâ??d classify the structure as no worse than neutral and quite likely as very bullish if the managed money traders, now possibly assisted by the existence of a large concentrated long position, return to their historical levels of net long positions. Â Considering the virtual sea of money and unlimited buying power pushing just about every asset to record levels, why shouldnâ??t there be a major influx of buying power into gold?

The situation in silver is quite different. Not only is the current market structure on the COMEX exceedingly bullish, thereâ??s the same potential sea of liquidity and unlimited buying power in the wings, same as exists in gold. But hereâ??s the kicker â?? the amounts of potential silver versus gold that could be bought.

I just ran across a fascinating short interview with John Paulson, noted hedge fund operator, with David Rubenstein on Bloomberg TV.

https://www.bloomberg.com/news/videos/2021-08-29/john-paulson-on-why-gold-goes-parabolic-video

In the interview Mr. Paulson makes the impossible to argue with point of comparing the few trillions of dollars-worth of gold bullion in the world ($5.5 trillion for the 3 billion oz of true gold bullion in the world) versus the hundreds of trillions of dollars in world stocks or debt. Itâ??s a compelling point for gold prices moving sharply higher, so much so that I canâ??t help but wonder if Paulson isnâ??t among the new concentrated longs in COMEX gold futures.

But at the same time, I nearly found myself screaming at my computer screen â?? what about silver? Sure, there is only $5.5 trillion worth of gold in bullion form in the world, but the same metric in silver is only $50 billion â?? less than 1% of all the gold bullion in the world. How can Paulson and every other plugged-in investor in the world not see this? Paulson is advancing the idea that gold is such a great bargain because its market cap is much less than the market caps in stocks and debt. Great, who could argue with that? But at the same time, how could someone not see â?? forget argue with â?? the fact that compared to gold, silverâ??s market cap is even more infinitesimal?

At the same time, the hard fact that so many of the worldâ??s great investors are overlooking silver is bullish beyond words, because sooner or later, the dawn of enlightenment will set in and when it does, the great silver rocket ride will commence. I wouldnâ??t concern myself with exactly when that ride will begin (it may have started already), but simply to make sure you are positioned beforehand â?? at least before the whales like Paulson get drift of the real facts in silver.

The rise in gold and silver prices this week added more than $400 million to the total losses of the 8 big COMEX shorts, bringing those total losses to $10.7 billion. Even though I have become increasingly convinced that the big shorts in gold have had the time and opportunity to hedge much of their gold short position, I still find the running compilation of total losses to be a worthwhile exercise and will continue to report on it.

Ted Butler

September 4, 2021

Silver – $24.80Â Â Â (200 day ma – $25.86, 50 day ma – $24.90, 100 day ma – $26.01)

Gold – $1830Â Â Â Â Â Â (200 day ma – $1811, 50 day ma – $1797, 100 day ma – $1815)

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