April 6, 2024 – Weekly Review

It was yet another standout week for gold and silver price performance, as gold rocketed higher by $91 (4%) to fresh all-time highs, while silver jumped by $2.40 (9.6%) to near three-year highs. As a result of silverâ??s relative outperformance, the silver/gold price ratio tightened in by more than 3.5 full points to 85.25 to 1. While the journey to a much lower price ratio is unknown on a short-term basis, it seems dead solid certain that the silver/gold price ratio will end up tens of points lower than it is currently.

Aside from the outstanding price performance, highlights for the week included a continued lack of net physical deposits into the world gold ETFs, despite the strong price action, but with super-strong deposits into the silver ETFs (as expected), along with what I would interpret as bullish readings in the yesterdayâ??s new Commitments of Traders (COT) report, despite overall deterioration in the COMEX market structure. Let me run through the usual weekly format before getting to the new COT report and some other developments.

The turnover or physical movement of metal either brought into or removed from the COMEX-approved silver warehouses cooled off this week to just under 2.9 million oz, as total COMEX inventories rose by 1.8 million oz to 289.5 million oz. This is another new one-year high in COMEX silver inventories. Holdings in the JPMorgan COMEX silver warehouse remained unchanged at 129.8 million oz (ignoring the all but certain double-counting of 103 million oz in COMEX and SLV inventories).

I know it may seem confusing to those that equate a deepening physical silver shortage with growing recorded world silver inventories (wait until we get to inventories in SLV and other silver ETFs), but rising recorded silver inventories merely reflect the sudden increase in wholesale investment demand, which is quite bullish, and not any respite from the deepening overall shortage.

Total COMEX gold warehouse holdings rose 0.1 million oz to 17.8 million oz (mostly due to rounding), while holdings in the JPM gold warehouse remained stuck at 6.65 million oz.

It has been a fairly active delivery month for the traditionally large COMEX April gold contract month (more than 13,300 deliveries), but itâ??s hard for me to attach much meaning to it (aside from the obvious increase in price) and total remaining open interest is quite small â?? although that doesnâ??t preclude new contract creation in the April contract. JPM has been a net stopper of nearly 4000 contracts for customers and is AWOL in its house account â?? which I consider constructive.

As previously mentioned, there were continued net outflows from the worldâ??s gold ETFs, which is highly-counterintuitive considering the steady series of new price highs. Compounding the matter is that there have been big single day inflows, followed by equally-large single day outflows â?? which is confusing to me. Also confusing to me (along with others) is who is actually buying gold in general which is driving gold prices higher. I mean, I think I can measure what is occurring on the COMEX, since the data are published, but itâ??s hard to decipher that which you cannot see or document (physical gold demand). Something, of course, is driving gold prices higher, but at this point it appears to be in the opaque category.

Itâ??s different in silver, as there were large deposits into the silver ETFs of more that 20 million oz, with 15 million oz coming into the big silver ETF, SLV (Wisdom Tree took in a bunch, as well). The combined holdings in the COMEX warehouses and in SLV rose by a sharp 19 million oz to 730.9

million oz, the highest level in months (minus, of course, the 103 million oz of double-counting). Again, some may be confused about an increase in recorded silver inventories in a deepening physical shortage (the first such shortage in history) being compatible and bullish, but not when you step back and recognize that the physical shortage to this point has been exclusively driven by strong industrial demand (think solar panels). Suddenly adding strong investment buying (which didnâ??t exist previously) to continued industrial demand would seem to be as bullish a combination as possible, and the investment demand I refer to would be primarily visible in big ETF buying and required metal deposits. Hence, growing silver ETFs holdings are bullish, not bearish.

Turning to yesterdayâ??s new COT report, while we did get some deterioration in the market structures in gold and silver, considering the large price increases over the reporting week until the Tuesday cutoff (as much as $100 in gold and $1.50 in silver over the four trading days), the level of managed money buying and commercial selling wasnâ??t proportionate, in my opinion. Yes, we did set new recent high-water marks in total commercial selling and managed money buying, but there were other extenuating circumstances â??under the hoodâ?•.

In COMEX gold futures, the total commercial net short position did increase by 7400 contracts to 225,700 contracts, but as is often the case, there was no big increase in actual commercial shorting by the big 8. The big 4 actually bought back 5100 shorts and held 153,014 contracts (15.3 million oz), nearly offsetting last weekâ??s increase of 5700 new shorts. The big 5 thru 8 added around 5500 new shorts and the big 8 short position rose slightly to 227, 520 contracts (22.8 million oz). With the big 4 and big 5 thru 8 traders largely evening each other out, it was the selling and long liquidation of 7000 contracts by the raptors (the smaller commercials apart from the big 8) that accounted for the net change in the total commercial positioning. As of Tuesday, the raptors were net long to the tune of 1800 contracts. I always find it constructive when the big 4 buy back short positions.

On the managed money side of gold, these traders did buy 11,285 net gold contracts, consisting of the purchase of 10,067 new longs and the buyback of 1218 short contracts. The resulting net managed money long position of 147,080 contracts (173,073 longs versus 25,993 shorts) is the largest such position in two years and must be considered bearish, same as the total commercial short position. At the same time, considering how sharply the price of gold has increased over the past month or so, it is somewhat surprising these positions arenâ??t larger. Explaining the difference between what the commercials sold and the managed money traders bought was the net selling of nearly 4000 contracts by the other large reporting traders and the smaller non-reporting traders, which struck me as bullish.

In COMEX silver futures, the commercials increased their total net short position by 2600 contracts, to 67,700 contracts. While (as in gold) this represented a new high in the total commercial short position going back a couple of years, all things considered, it is somewhat surprising this position isnâ??t larger, given the price rise. Even more important (at least to me), is the lack of an increase in big 4 and big 8Â short selling –Â a signature issue of mine going back decades. This week, there was virtually no increase in either the big 4 or 8 short positions â?? 43,708 contracts and 64,561 contracts respectively, down less than 100 contracts in each.

Over the near $3.50 rally since Feb 27 thru the Tuesday cutoff to this reporting week, there has been a 35,000 contract increase in the total commercial net short position in COMEX silver futures. Remarkably, the big 4 have added only 1400 new shorts and the big 5 thru 8 have added only about the same amount (less than 1400 contracts). This means the raptors have sold the balance of more than 32,000 contracts and have slipped into the net short category by around 6000 contracts or more (the actual calculations are sort of complicated). I didnâ??t think the raptors would go short to this extent, but now that they have, I am encouraged by it.

The question at hand is whether the big 4 and 8 have refrained from shorting until silver prices rose and now that prices have risen, do they intend to short now at the higher prices, or if their aggressive shorting days are in the past? I donâ??t know which it will be, but the good news is that whatever it turns out to be, we will be able to see it in future COT reports.

On the managed money side of silver, these traders bought 3362 net contracts, consisting of the Â purchase of 3992 new longs, as well as the new sale of 630 shorts. The resulting net long managed money position expanded to 33,301 contracts (57,863 longs versus 24,562 shorts), remaining close to the highs over the past couple of years.

It appears the big managed money short which surfaced in last weekâ??s COT report was still in place as of the Tuesday cutoff. I would estimate this big shortâ??s position to be around 8000 contracts or 40 million oz, the sale price of which was around $25. As of Tuesday close, I would estimate the open loss on the position to be around $40 million. Going back over the past year or so, I would estimate this same trader had come to accrue close to a combined $80 to $100 million realized total profit on successful forays on the short side of silver. Therefore, as of Tuesday, he had given back, in unrealized losses, close to half his former realized profits. Had the position been held into yesterdayâ??s close ($27.50), the entire previous realized profits now are equal to the unrealized open loss.

Back when this large managed money trader emerged on the short side last year, I mentioned a couple of things Iâ??d like to repeat now. Since this trader is in the managed money category, we know the trader involved is trading the capital of others, not his own. As such, the trader is beholden to the investors whose money he is managing. These investors, obviously, are interested in making profits, not losses and should losses continue to grow from here (on higher silver prices), given the size of the position, the dollar amount of the losses will grow rapidly and quickly push the investors to meet margin calls, a universal undesired event, to say the least. Â Then again, should silver prices fall sharply from here, all should be well with this big short position. The good news, just like discovering what the big 4 and 8 will do in future COT reports, these same reports will reveal the fate of the big managed money short. I would point out that this big managed money short has no documented experience of buying back on higher prices, mainly due to his limited trading history.

Before I get into the current plight of those short gold and silver, Iâ??d like to discuss the recent (as of Thursday) increases in the COMEXâ??s margin requirements on gold and silver futures (around 7% and 12%, respectively). Iâ??m not sure if Iâ??ve ever addressed this before, but there is a recurring pattern to margin increases in COMEX gold and silver over the decades on higher prices. The pattern Iâ??ve noticed is that the CME Group delays for as long as possible, increasing margins on higher prices, with the obvious intent of timing the margin increases until prices start heading lower. Increasing margin requirements as prices are rising, increases pressure on the shorts, who have had to post mark-to-market maintenance margin calls as prices have increased. Since the shorts, particularly the biggest shorts, are among the CMEâ??s prime customer base, it is understandable, if not despicable, that the CME would seek to help the shorts. By delaying margin increases until prices turn lower, the shorts wouldnâ??t be harmed by such increases. At least this is the pattern I have observed over the decades. (Hey, have I ever told you that I feel the CME and the COMEX is a rotten, vermin-ridden cesspool of an exchange?)

Anyway, based upon the immediate price reaction to this latest margin increase in gold and silver, it appears the typical dirty trick by the CME may have backfired. It seems to me that the new margin increase was intended to coincide with Fridayâ??s employment report and while this report has absolutely nothing to do with gold and silver prices, it is often used as a cover story to result in a rally or selloff. My sense is that yesterdayâ??s report was pre-planned to result in a selloff, but after some initial price weakness, prices, particularly for gold, quickly soared. Thatâ??s where I get off suggesting that the CMEâ??s intended price reaction backfired, one of the very few times I can recall. Forget very few, I never recall such a backfire.

So, where do we go from here? While Iâ??m still in the â??weâ??ll seeâ?• camp, I canâ??t help but believe the stress on the shorts is close to becoming overwhelming and coupled with the blatant physical tightness in both gold and silver, it looks increasingly dire for the shorts (then again, decades of experience and disappointment caution me not to declare the shorts as dead meat just yet). Still the numbers are compelling and more dire for the shorts than ever I recall.

As of last nightâ??s close, the Â $300 gold price rally since Feb 27, has resulted in an unrealized total loss to the COMEX gold futures shorts of at least $13 billion, with another $3.5 billion loss to the COMEX silver futures shorts on the $5 increase in silver prices since Feb 27. Thatâ??s a total of $16.5 billion in little more than five weeks. And Iâ??m just including COMEX futures contracts and not COMEX options or OTC dealings or shorts on SLV or its options. Simply put, there has never been such a large loss in as short a period of time as weâ??ve just seen. And please be sure that just about every dollar of the $16.5 billion loss in unrealized losses to all the COMEX gold and silver futures shorts (of which the big 8 hold close to half) over the past five weeks has had to be deposited as variation and maintenance margin, a strict exchange requirement. This does not, in any way make the shorts stronger and better prepared to withstand further price increases. It does, however, make the shorts more desperate.

In times past, whenever the shorts have had their backs up against the wall, theyâ??ve always managed an escape of some type. But these times appear to be different and while the shorts may escape yet again, the odds for a melt up in prices, particularly in silver, appear greater than ever.

Ted Butler

April 6, 2024

Silver – $27.50Â Â Â Â (200-day ma – $23.60, 50-day ma – $23.95, 100-day ma – $23.85)

Gold – $2345Â Â Â Â Â Â Â (200-day ma – $2009, 50-day ma – $2117, 100-day ma – $2073)

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