

August 26, 2023 – Weekly Review

Gold and silver prices finished higher for the week, with gold up by \$25 (1.3%) and silver up by \$1.48 (6.5%). As a result of silver's greater relative strength, the silver/gold price ratio tightened in by four full points to 80 to 1, the strongest silver has been to gold in five weeks (and when I switch to December from September next week for silver pricing purposes, the actual price ratio will tighten in by another full point).

Given the set up (market structure) on the COMEX, the price rallies this week can hardly be considered as surprising. And based upon yesterday's new Commitments of Traders (COT) report, there was significant improvement in gold's market structure and no significant deterioration in silver, as far as commercial selling was concerned. Therefore, make no mistake – the outsized gains witnessed in silver and gold on Wednesday (the day after the cutoff for the COT report) were directly related to the extremely bullish set up in COMEX futures positioning.

At the same time, however, I am gobsmacked by what I see developing in the wholesale physical silver market, which when superimposed on the paper market structure on the COMEX, explains why I am so bullish on silver right now (not that gold also doesn't appear set for a significant rally). Knowing that a physical shortage is the most bullish circumstance possible in any commodity, the continued signs of such a shortage in silver, suggest to me the time is close when physical will trump paper positioning – although COMEX paper positioning looks set to deliver price fireworks on its own.

As it turns out, most of what I cover in the usual weekly format before the COT report discussion is directly related to the developing physical tightness (shortage) in silver, starting with the turnover or physical movement in the COMEX-approved silver warehouses. This week, some 4.7 million oz were physically moved in or out from the COMEX warehouses, about the average weekly movement of the past 12+ years. While wildly-underreported, this torrid physical movement exists in no other commodity and by itself is among the strongest signals possible of physical tightness. Silver has been frantically moved in and out from the COMEX warehouses because it is in great demand and as metal is removed, new metal needs to replenish the departed metal. Something not in great demand wouldn't feature torrid turnover.

This week, most of the movement was of the "out" variety, as there was a 3.5 million oz net reduction in total inventories to 276.2 million oz – still a bit unusual as first delivery day for the September COMEX contract is next Thursday. And while the holdings in the JPMorgan COMEX warehouse were unchanged at 139.3 million oz, there was a notable 7.4 million oz transfer (not physical movement) from eligible to registered in that warehouse – obviously intended for delivery.

While it's impossible to know if the delivery will be made by customers of JPM or in its house account (who really knows the actual difference anyway?), I'm always sensitive to what this crooked bank is up to, given my slavish attention from when JPM took over Bear Stearns in 2008. Strictly speaking speculatively, JPM's intended delivery is not particularly worrisome this time for a number of reasons, including I'm not sure who else could come up with the silver and the proximity to the expiration of JPM's deferred criminal prosecution agreement with the Justice Dept next month.

If silver does explode in price (as I've been suggesting of late), by issuing a chunk of metal in the

September delivery, JPM would be hard to blame for any upside price fireworks as any big issuer could hardly be accused of wanting to goose the price. But disinformation and false signals are part of the game. That's just how these boys roll.

Jumping to ETF flows, there were continued outflows from GLD of around 200,000 oz this week, still mostly in line with price action, although I suspect that's about to change. The way ETF metal flows have worked generally is that after prices are set on the COMEX, metal flows follow, with lower prices resulting in redemptions and higher prices resulting in new deposits. Since I'm expecting a fairly rigorous rally in gold momentarily, I would conclude that rally will lead to deposits in GLD as and when it develops.

It's been quite different in silver, however, where despite a rather spirited price rally this week, there were almost 6 million oz removed from SLV, about as counterintuitive as it gets particularly since there were no signs of investor liquidation and sure signs of collective investor buying (in the quite reliable deposits in PSLV of 900,000 oz this week). Wednesday's sharp rally featured the heaviest upside volume in SLV in months and it would be preposterous to suggest anything but net investor buying along with the requirement to deposit metal. In fact, instead of 6 million oz coming out of SLV, close to that amount should have been deposited.

So, what could explain the big withdrawals from SLV where there should have been deposits? I've narrowed it down to two things, first that physical silver is needed so desperately elsewhere, that it is being taken from the SLV as unavoidable (since it's the largest holding of silver in the world). Two, and perhaps related to this, is that new buying in SLV is being immediately converted from shares purchased into metal in order to avoid (legally) share-reporting requirements. Both reasons look extremely bullish to me and point to extreme physical tightness (shortage).

This week witnessed a near 10 million oz drop in the combined holdings of SLV and the COMEX silver warehouses to just above 720 million oz, down from what had been a recent floor of 730 million oz and down even further from my predictions of a bedrock level of 750 million oz at the start of the year. My bedrock premise was based upon a certain level of investment holdings in each holdings, beyond which big further declines would be impossible. While I always acknowledged the possibility of the bedrock levels being lower than what I supposed was possible, I see no reason to abandon my basic premise.

As you know, silver is just about the only industrial commodity that is also a primary investment asset. So, while industrial and other fabrication demand would result in a reduction in total recorded inventories, since silver is also widely-held by investors in the COMEX warehouses and in SLV (and other silver ETFs), the investment portion of total deposits would prevent total holdings from declining below the collective investment holdings. In other words, some level well-above zero inventories would represent the practical depletion of total silver inventories.

Despite having dipped below what I thought was the effective "bottom of the barrel" level of 750 million oz, the new lower levels do nothing to negate the basic premise. In fact, with absolutely no signs of collective investor liquidation and strong signs of investor accumulation, it looks to me we are as close to zero effective silver inventories as it gets. Maybe JPMorgan can cough up a little bit more to stay in the Justice Dept's good graces for a little while longer, but it does look to me that the actual silver available in recorded inventories gas tank (that is, remaining investment holdings) is running on empty.

Speaking of SLV, the new short report indicated that as of August 15, the short position on SLV, fell by 3 million shares to 24.1 million shares (22 million oz). While up in recent months (from a low of 14 million shares) and still down sharply from last year's record high of 60 million shares, the short position on SLV is still way too large at 5% of total shares outstanding. I'm still of the opinion that with commercial shorting on the COMEX close to a record low, the only reason the short position on SLV is still as high as it is, is due to there being a shortage of physical metal readily available to deposit, as required by the prospectus. Yes, this is yet another clear sign of physical tightness and shortage.

<https://www.wsj.com/market-data/quotes/etf/SLV>

Finally, it appears enough pressure has been put on the US Mint for it to start obeying the law and produce more Silver Eagles. There are signs the Mint is doing just that, based upon recent sales statistics. With mine production interruptions (Pensacito and Hecla), if the Mint sticks with its recent Silver Eagle sales, more pressure is put on physical silver availability.

Turning to yesterday's new COT report, the results were in line with the general expectations given on Wednesday of deterioration in silver (managed money buying) and improvement in gold (managed money selling and commercial buying), although the gold numbers were better than I would have expected. As always, the results were in keeping with price action silver up and with gold making new lows.

In COMEX gold futures, the commercials reduced their total net short position by a hefty 20,900 contracts to 121,000 contracts. This the lowest (most bullish) total commercial short position since March 7 and which led to a \$250 rally over the next two months. I don't see any particular reason not to expect similar results this time around. By commercial categories, the news was just as good, as the 4 big commercial shorts bought back 9200 short contracts and held 127,781 short contracts (12.8 million oz), as of Tuesday, the lowest since year end 2022.

Since the recent price top around July 18, the commercials have been able to rig gold prices lower by around \$75 and by inducing enough managed money selling to enable the commercials to buy more than 92,000 gold contracts (9.2 million oz), with the 4 big shorts accounting for around 44,000 contracts or nearly half, a particularly impressive result. The COMEX gold commercials meant business and no category meant more than the big 4 (hey, that rhymes).

Due to an expansion of the big managed money short position, that I first mentioned last week, the usual commercial category breakdowns (away from the big 4) are distorted but in a good way. The big managed money short position has grown to around 20,000 contracts (from 12,000 last week) and that makes the big 8 commercial-only short position around 173,000 contracts (and not the 193,177

contracts on a straight calculation and also makes the gold raptorsâ?? (the smaller commercials apart from the biggest commercials) net long position around 52,000 contracts. I understand if this sounds overly complicated, but please know the net result is quite bullish, beyond the usual straight calculations. The fact that a managed money trader entered a big short category is bullish beyond question (and as has been the case in silver).

On the managed money side of gold, these traders sold 20,427 net contracts, nearly matching the total commercial buying and consisting of the sale and liquidation of 8061 longs and the new sale of 12,366 short contracts. It was the slight reduction in the number of traders in the managed money short category, as well as the increase in shorting in the big 5 thru 8 short category that led to the conclusion that a single big managed money short increased its short position from 12,000 to 20,000 contracts.

The resultant managed money net long position in gold fell to 9109 contracts (105,085 longs versus 95,979 shorts), the lowest (and most bullish) position since November 2022. It never ceases to amaze me how the managed money traders could continue to allow themselves to be snookered and hoodwinked by the commercials after all these years and decades, but readers know full-well that this is the case. In any event, itâ??s hard not to imagine that a significant gold price rally is not already underway or soon will be.

In COMEX silver futures, the commercials only increased their total net short position by around 500 contracts to 23,800 contracts â?? which was much less than I expected and caused a brief moment of elation on my part. My elation cooled notably when I then observed the quite significant increase in managed money net buying of more than 8000 contracts. The combination of very slight commercial selling and much heavier than expected managed money buying took a few minutes to reconcile as Iâ??ll explain.

There is no question that the silver commercials sold very little and thatâ??s the best news. The 4 big shorts actually reduced their short position by a hundred or so contracts to 37,177 contracts and despite managed money short covering, the big managed money short appears to have stood pat at 7000 contracts short, same as last week. The next 5 thru 8 largest shorts bought back around 800 shorts and the big 8 short position amounted to 54,399 contracts â?? but when adjusted for the presence of the big managed money short of 7000 contracts in the big 4, the commercial-only component of the big 8 short position was closer to 47,000 contracts and that would make the raptor long position around 23,000 contracts. These are all very low and veryÂ bullish commercial positions.

While the managed money net buying of 8053 silver contracts, consisting of the new purchase of 4787 longs and the buyback of 3266 shorts, disappointed me at first (since it was a few thousand contracts more than what I expected), it didnâ??t seem so bad after further thought. The resultant managed money net position swung to a net long position (following two weeks of net short) of 1383 contracts (36,497 longs versus 35,114 shorts), still very much on the low and bullish side.

Due to a usually large number of traders exiting the short side of the managed money category (6) and the number of traders entering the long side of that same category (8), was the biggest prompt to me concluding the big managed money trader stood pat at 7000 contracts short. After trading from the short side quite successfully over the past couple of months, I detect this big short may have overstayed his or her welcome on the short side, jeopardizing past gains.

As to why I would consider the results in this weekâ??s silver COT report to be fine, despite the larger

than expected managed money buying, that is due to the vast bulk of the managed money buying being met with the quite unusual net selling from the other large reporting traders (3000 contracts) and the even more unusual net selling from the smaller non-reporting traders (nearly 4500 contracts). It was just a couple of weeks ago when I mentioned that the smaller traders in silver held the largest net long position in years and now, they are back to a quite low net long position – where price action would have suggested the opposite.

I don't have any particularly good reason why the smaller non-reporting and other large reporting traders would have been such heavy sellers in silver this week, but the fact that they were and not the commercials was very good news. I am not especially concerned by how much the managed money traders may buy or even by how much the commercials may sell – as long as the commercial selling is in the form of raptor (smaller commercial) long liquidation and not aggressive new short selling by the big 4.

To be sure, the large price gains on Wednesday most likely involved notable deterioration in silver (and gold), since we upwardly penetrated the remaining two (of the three) key moving averages in silver yet to be penetrated. I don't think there was much positioning change on Thursday and Friday, but there was on Wednesday, perhaps on the order of 10,000 net contracts. I wouldn't find this alarming or about to derail the developing up move in silver as long as the commercial sellers were largely the raptors pitching long positions and not the big 4 adding new shorts aggressively as that has been my premise all along.

I do believe, based upon the steady drumbeat of unmistakable signals from the ever-tightening wholesale physical silver market, that the biggest commercial shorts would be crazy to add aggressively to shorts at this juncture, but it remains to be seen if they will or won't. I'm also still convinced that raptor long liquidation alone will not be sufficient to satisfy the expected amount of buying on the COMEX that might emerge, without big 4 and big 8 aggressive short selling and therein lies the dilemma.

I also believe that should silver prices trade just a few dollars higher from yesterday's close, it will put silver at multi-year price highs and bound to set off additional buying in a world that more than fully embraces price momentum as a prime reason to buy any investment asset. Should silver prices find their way above \$30, only 25% higher than yesterday's close, it would put silver at ten-year highs, meaning just about every trader, large and small, with a stock account (and who doesn't have a stock account?) and is in tune with buying as assets make significant new highs (many millions of potential investors) will be most inclined to buy silver – most likely in ETF form, perhaps the most popular investment asset of our time.

As a reminder, it matters not, as and when general investment demand moves into the silver ETFs (of which there are several) whether the new buyers are aware that physical silver must be deposited to meet any net new investment demand or if they are merely concerned with catching a promising up move. Rather than some deep, dark conspiracy theory as to why silver prices have been suppressed for as long as they have, I would submit, that for the last decade or so, a prime motivation by the collusive COMEX commercials was to keep silver prices in check so as not to set off the massive momentum buying that would kick in at certain higher price levels.

But because the collusive commercials have been remarkably successful at preventing the buying surge from igniting by keeping silver prices in check and because the regulators shared a similar

objective of postponing the day of reckoning for as long as possible, the delay has only made matters more critical.

Because the artificially-suppressed silver prices have lasted so long (decades), they have come to distort the actual supply and demand fundamentals that we all learned about in high school, college or in the school of hard knocks, namely, that too low of a price for too long will discourage production and encourage consumption to the point of physical shortage. Please reread the factors outlined at the start of this review and try to tell yourself that these aren't the signs of shortage.

I suppose it's possible that the crooked and collusive COMEX commercials could, yet again, succeed in frustrating the law of supply and demand by arranging for the biggest shorts to load up on the short side and then to pull the rug out from the managed money traders. But what's not possible is for these crooks and crooked regulators to deny the law of supply and demand from functioning as it must forever. Everything I look at still convinces me that we are in a Code Red market emergency in COMEX silver and that the explosive move in silver is intact. The fact that the COMEX gold market structure has become so bullish over the past month is yet another bullish factor for silver, as gold will cease being a drag on silver and instead a supporting influence.

Ted Butler

August 26, 2023

Silver – \$24.28 (200-day ma – \$23.39, 50-day ma – \$23.68, 100-day ma – \$24.15)

Gold – \$1943 (200-day ma – \$1916, 50-day ma – \$1950, 100-day ma – \$1975)

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