August 27, 2022 – Weekly Review

Gold and silver prices fell for a second week, with gold down $11 (0.6%) and with silver lower by 25 cents (1.3%). Silverâ??s relative underperformance resulted in the silver/gold price ratio widening out by just over a half point to 93.3 to 1, following last weekâ??s five-point widening blow out. Still, it was, yet again, the most undervalued silver has been relative to gold in two years and considering all the facts as I believe I know them to be, is perhaps the single biggest price aberration in the world today.

While the losses in gold and silver werenâ??t particularly significant on their own this week, the price smash yesterday, along with the absolutely horrid price performance this year has to be especially draining on investor spirits. If you are not disheartened by the price performance this year, particularly in silver, then you have a stronger internal sentiment than me. But bad feelings aside, if every single important data point that matters â?? aside from the price itself â?? wasnâ??t more bullish than ever before, thereâ??s no way I could or would continue to proclaim silver as the best asset bargain of all. And in a world of logic, since when is a cheap price a reason not to hold a valuable asset?

At the root of the problem for why itâ??s normal to feel downtrodden about silver is the length of time it has remained undervalued and, most importantly, the reason for the undervaluation. You would have to have been living in cave not to know that silverâ??s price has been artificially suppressed for decades. The real problem, therefore, is the unavoidable feeling that anything kept as depressed in price for as long as silver has been, leads to the feeling that the artificial price manipulation can continue indefinitely. Itâ??s kind of ironic â?? if Iâ??m reading the signs correctly â?? that while more observers than ever, certainly in the many hundreds of thousands, if not more, recognize the long-term manipulation of the silver price, at the very same time more than ever feel the manipulation wonâ??t end.

In fact, because the allegations of a silver manipulation are so well-documented and visible, the most frequent inquiry and line of thought I get is that the US Government is behind it. Make no mistake, the COMEX silver manipulation is a very big deal (including the recent burst in short selling in SLV) and thereâ??s no way to deny that important agencies of the USG have been complicit and worse in dealing with something as rotten as silverâ??s continued price suppression. Examples include the US Mint not producing enough Silver Eagles, as required by law, due to orders from higher-ups in the Treasury Dept, to the refusal of the CFTC and Justice Dept. to truly crack down on JPMorgan and the CME Group for the roles they have played in the ongoing silver manipulation.

While I certainly acknowledge the failures of these federal agencies to enforce the law, Iâ??m still not convinced the silver manipulation was dreamed up by the USG to protect the US dollar or that if silver were to surge in price to $100, $200 or higher that the financial system would collapse. Iâ??m not saying there canâ??t be systemic problems in the future, just that I canâ??t see why a sharply higher price on silver would be the culprit. Sharply higher energy or food prices, or other critical commodities to the point of widespread unavailability seems much more a danger than higher silver prices brought about by a shortage.

Manufacturers use such small amounts of silver per application that the highest prices imaginable wouldnâ??t seriously impact the cost of finished goods. And silver is so out of favor in the general investment arena, that the average investor or man in the street would likely not even notice that silver was at $200. Besides, even if Iâ??m wrong and the US Government has orchestrated the silver manipulation from the get go (from when Ronald Reagan was president), how could it avert a physical silver shortage without further inflaming such a shortage (by taking actions that would only publicize the shortage)?

Of all things, commodities are driven by the law of supply and demand and even if manipulative actions interfere and frustrate the workings of this most basic law for long periods of times (as has been the case in silver), in the end, only price can dictate surplus or shortage. Too high of a price and surpluses will result; too low of a price and a shortage must appear at some point. Yes, silver prices have been too low for too long and itâ??s frustrating that it has taken 40 years for the law of supply and demand to enforce the required physical shortage. At the same time, however, the signs of a silver shortage have never been more plentiful than currently in shrinking stockpiles and exploding demand from India and elsewhere. So, while the continued low silver prices are frustrating and wearing, the march to pronounced physical shortage and the long-overdue sudden adjustment in price appear to be close at hand.

The turnover or physical movement of metal either brought into or removed from the COMEX-approved silver warehouses remained strong this week as 7.8 million oz were moved (an annualized rate of more than 400 million oz, or close to half of annual world mine production). Total holdings fell to 329.8 million oz, down 3.4 million oz and another new two-year low. Holdings in the JPMorgan COMEX warehouse fell by 1.8 million oz to 170.4 million oz, also a two-year low.

While not written in stone, it is somewhat unusual for COMEX holdings, particularly of the registered variety, to fall immediately prior to first notice of delivery day on a traditionally big COMEX delivery month, as is the case for next weekâ??s start of the September silver delivery. In addition, there was some unusual tightening in the spreads involving the September trading month, that suddenly reversed yesterday â?? no doubt due to heavy spread liquidation. In other words, the tightening of silver spreads looked like another clear sign of physical tightness until yesterday.

Total COMEX gold warehouse holdings fell again, this week by a minor 0.2 million oz to 28.4 million oz, another two-year low. Holdings in the JPM COMEX gold warehouse fell an even slighter amount to 11.83 million oz.

Another 10 million oz of silver came out of the big silver ETF, SLV, this week, which I find astounding given the rather slight change in price and ultra-low trading volume. It is looking increasingly clear that silver from the SLV is providing a big chunk of the demand from India and Asia â?? and is not due to plain vanilla investor liquidation â?? and the next question is how long this can continue with no jump in price. Combined with Wednesdayâ??s release of the new short report on stocks, the continued redemptions in SLV are most remarkable.

The new short report for positions held as of August 15, indicated another increase in the short position on SLV of more than 4 million shares, to 51.66 million shares. In terms of how much the short position is as a percentage of total shares outstanding (524.6 million shares), the percentage of shares held short is just over 9.8% – exceeded only once in the past (when total shares outstanding were much less).

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

As I explained on Wednesday, I had no guess on what the short position might be, as the first down day of what would be a six-day price smash was August 15, the cutoff for the short report, so it is likely the short position was even greater going into that day. The next short report on September 12, will be a much better indicator if the price decline since August 15 was used to buyback and cover some of the record short position in SLV. For the record, I did renew my complaint to the SEC this week and I suppose if we see another increase in the next short report, Iâ??ll have to reserve a window at Macyâ??s in Times Square to showcase the issue.

Some thoughts on the record large short position on SLV include the stark contrast in general to what is, essentially, a record low commercial short position on the COMEX and how this is very much the opposite of what occurred historically, when the short position on SLV generally rose and fell in concert with the commercial short position on the COMEX. Of course, there is a difference in the reporting dates for each report, but the next short report on Sep 12, should be in synch with yesterdays and next weekâ??s COT report. Yesterdayâ??s COT report did feature a sharp reduction in the commercial short position in COMEX silver, so if the short position on SLV doesnâ??t decline sharply in the next report, something is seriously wrong.

A new thought on the SLV short position, which I still consider to be a very big deal, involves the clash between the large physical redemptions which automatically reduce the total amount of shares outstanding and the large increase in the short position. The clash I refer to results from reduced total shares outstanding automatically reducing the capacity of the short sellers to borrow enough shares to increase or even maintain existing short positions. Should the redemptions in SLV continue, the ability to borrow shares will be limited and itâ??s not unheard of for shares previously borrowed (to sell short) to have the borrowing privileges rescinded and the borrowed shares called in.

Adding this possibility to the only plausible reason for why anyone would go short shares of SLV, namely, to avoid having to buy physical silver to deposit which would drive prices higher, and the premise for going short SLV looks even more fraudulent and manipulative. Also, Iâ??d bet dollars to donuts (whatever that means), that the new short sellers in SLV are very few in number â?? likely not much more than one or two.

As Iâ??ll describe momentarily, itâ??s important to put things in proper perspective. Over the six weeks into August 15, the short position in SLV grew by roughly 20 million shares, somewhat less when expressed in equivalent silver ounces sold short (after subtracting the roughly 8% cumulative management fee). This reporting week, the collusive COMEX commercials hoodwinked the managed money traders (most likely not more than one or two) into selling short close to 10,000 contracts or the equivalent of nearly 50 million ounces. Less than 20 million oz over six weeks is quite different than nearly 50 million oz in one week. Just sayinâ??.

Turning to yesterdayâ??s COT report, it turned out to be a delightful report, particularly in silver. Gold and silver prices were sharply lower over the reporting week, down more than $50 and a full dollar, respectively, with both downwardly penetrating their 50-day moving averages. While this is the rigid formula for significant managed money selling and commercial buying, I had doubts we would see significant positioning changes, given the low trading volume and minor total open interest changes. Unspoken were also my feelings that no way could the managed money traders be persuaded to short heavily again, given the fact that they had just bought back a chunk of short sales at higher prices recently.

Iâ??m happy and somewhat surprised that the managed money traders added aggressively to short positions in both gold and silver, with the kicker that the short selling appeared to be by only a handful traders, perhaps only one or two in silver. Having been surprised, itâ??s possible more such new short selling is in store on lower prices, but thatâ??s OK at this point and so much better than going lower on little managed money shorting. In fact, the hands-down prime feature to yesterdayâ??s COT report was the sharp increase in managed money short selling in gold and, particularly, in silver.

In COMEX gold futures, the commercials reduced their total net short position by 15,600 contracts to 138,100 contracts. The 4 big shorts (which still appear to be all commercials) bought back 4100 shorts and hold 108,947 contracts short (10.9 million oz). Â The big 8 shorts of which I believe there is a one managed money short held 177,154 contracts short (17.7 million oz), of which around 17,000 contracts may be held short by a managed money trader, meaning the gold raptors are holding 22,000 longs.

On the managed money side, these traders sold 14,262 net gold contracts, consisting of the sale and liquidation of 915 longs and the new short sale of 13,347 contracts. The managed money net long position in gold dropped to 22,111 (95,850 longs versus 73,739 shorts), again, much more bullish than bearish by historical standards, just nowhere near as bullish as the net short position of 19,000 contracts on July 26.

In COMEX silver futures, the commercials reduced their total net short position by a hefty 8100 contracts to 4300 contracts, the lowest (and most bullish) short position since the 2700-contract total net short position of July 26, the then-lowest in years. On a combined basis (commercial plus managed money), the big 4 short position grew by 3000 contracts this week to 42,730 contracts (214 million oz) and the big 8 short position grew to 66,982 contracts (335 million oz).

But since the commercials were net buyers and the managed money traders net sellers, the commercial-only component of the big 4 short position came in at 26,000 contracts and the big 8 commercial-only component was 42,000 contracts, even lower (and more bullish) than on July 26. If my numbers are accurate, the silver raptors are net long close to 38,000 contracts.

On the sell side of silver, it was an exclusive managed money affair as these traders sold 9733 net contracts, consisting of the sale and liquidation of just 78 longs and the new sale of 9655 short contracts.Â The resultant managed money net short position grew to 15,824 contracts (31,703 longs versus 47,527 shorts), exceedingly bullish and only 2000 contracts less than the net short position on July 26. The managed money gross short position was close to 7000 contracts higher on July 26, but their gross long position was also 5000 contracts higher back then â?? a marked and much more bullish contrast than what exists in gold (even though goldâ??s structure is bullish).

Also, since July 26, the big 4 commercial net short position in gold is still around 35,000 contracts greater than in the new COT report, whereas the big 4 commercial-only concentrated short position in silver is actually a bit less than it was back then. Silver prices were close to $18 around July 26 and quickly rallied by more than $2.50, as the managed money traders bought back more than 16,000 short contracts on the rally to $20.80. Now, the managed money silver traders have added back close to 10,000 new shorts, but are still 5000 contracts less long than they were on July 26 â?? meaning there is an absolute ocean of potential managed money buying in silver, between short covering and adding new longs on higher prices â?? some 65,000 contracts if we were to get back to the near-50,000 contract managed money net long position that existed on March 8.

Therefore, still-lower prices at this point, should it involve additional managed money shorting is not to be feared â?? although I admit it might be hard to accept graciously â?? since the COMEX market structure in silver is already so darn bullish.Â The decisive turn up in silver prices will surely come and when it does come, it is likely to astound. And itâ??s not just the immutable law of actual supply and demand that will force silver prices higher, the actual physical law of supply and demand is greatly augmented by perhaps the most bullish COMEX market structure we will ever see in the future.

At the risk of repeating myself, the absolute key to the coming explosive silver rally will be whether the former large concentrated commercial shorts plow onto the short side aggressively on higher prices. So far, these former big commercial shorts have added very few new short contracts (3000 or so at the recent peak) and have been very quick in buying those few added shorts back at the first opportunity â?? as so say the COT reports to date.

One thing I do wish to correct myself on is my recent finding that the increase in the short position on SLV was likely the sole cause of the very recent price decline. This weekâ??s COT report shows an absolutely massive increase in managed money shorting in silver, with this weekâ??s increase alone of close to 50 million oz in new managed money shorting roughly equaling the total short position in SLV, as well as towering over the roughly 20 million oz increase in SLV shorting over the past six weeks.

I still believe the issue of the massive SLV short position to be of profound significance, but there can be little question that COMEX positioning is still the main sled dog when it comes to manipulating silver prices. Therefore, I must correct my statements that the most recent price silver price takedown was due to SLV shorting alone, as this weekâ??s COT report clearly shows it was both the SLV short and the much-bigger COMEX positioning. The main difference, of course, is that COMEX positioning was an all-paper affair, while the SLV shorting was an obvious attempt to avoid the required physical metal purchase.

And should the regulators be paying attention, how is it possible for a quite-specific set of openly acknowledged speculators (and maybe little more than one or two traders, at that) to be allowed to sell short close to 50 million oz of silver in a single week? Thatâ??s the equivalent of three full weeks of world mine production and even the CFTC canâ??t pretend the few traders going short this amount of silver are legitimate hedgers, since the Commission categorizes them as speculators. Again, what do these people do all day (aside from demonstrating indifference to what they should be doing)?

Ted Butler

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Silver – $18.75Â Â Â Â (200 day ma – $22.56, 50 day ma – $19.76, 100 day ma – $21.30)

Gold – $1750Â Â Â Â Â Â Â (200 day ma – $1841, 50 day ma – $1773, 100 day ma – $1827)

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