April 20, 2024 – Weekly Review

Gold prices closed higher for the week by $46 (2%) and at new all-time weekly closing highs, while silver tacked on 72 cents (2.6%) to close at what looks like 11-year highs. As a result of silver's slight relative outperformance, the silver/gold price ratio tightened in by a half a point to 83.8 to 1. That the relative value of silver is still so darn cheap compared to gold, now on a pronounced upswing in prices, is unprecedented and contrary to easily-observed historical patterns.

A reversion to the mean would suggest outstanding relative and historic price gains ahead for silver, but, to my mind, even that is secondary to the readily observed deepening physical shortage in silver – still the most powerful price force known to commodities. It's just a question of how long before the COMEX price manipulation ends, although there are growing signs that the manipulative commercial shorts have their backs up against the wall. That said, we have not reached the point where it is safe to write off the shorts.

From my perspective, a major difference between the recent sharp rallies in gold and silver seems to be some question as to who is buying the gold, while in silver, the question is more what's holding back the price? Let's face it – gold has made a series of new all-time price highs, so it's hard to argue its price is being heavily suppressed and manipulated. Silver, on the other hand, has recently popped higher in price, but is still 40% lower than its previous highs of 44 and 13 years ago (not adjusted for inflation). And just about every day, we get new evidence of the deepening physical shortage, the first in history. And I can't help but be taken aback by the growing army of analysts and commentators signing the praises of silver as the candidate for a price moonshot.

For my part, I can't help but believe that all of this is tied closely to my contentions over the past near-40 years that silver prices were suppressed and manipulated on the COMEX. In fact, I can't see any way in which to explain the current circumstances in silver other than the price being manipulated on the COMEX for decades. And regardless of what happens in the very short term, the resolution of the 40-year COMEX silver manipulation will reverberate forever in the future history of silver.

The turnover or physical movement of metal either brought into or removed from the COMEX-approved silver warehouse turned in an average weekly performance this week, as just over 4.8 million oz were moved and total inventories slipped by a marginal 0.4 million oz to 291.4 million oz. Total COMEX silver inventories are still at one-year+ highs, which has not proven to be any strong headwind for higher prices – along the lines of my contention that these inventories wouldn't fall to zero, as they are held by investors. Holdings in the JPMorgan COMEX silver warehouse slipped by 0.2 million oz to 130.2 million oz (with no consideration of the double-counting of 103 million oz).

No change in the COMEX gold warehouses, either by totals, at 17.6 million oz or the gold held in the JPM warehouse, at 6.65 million oz.

Undoubtedly, the deliveries on the April COMEX gold contracts (traditional) and silver (not traditional) have had some influence on prices, but I'm not sure what the specific influence has been, by the limited amount of information provided.

There have still been some net reductions in the gold ETFs this week, but a big deposit in GLD last night made the week's net reductions marginal. It was a very different story in silver, as there were massive outflows in SLV this week of close to 18 million oz and millions more from other silver ETFs. Again, these outflows have occurred against a backdrop of steady to higher prices and increased trading volume – the precise formula for metal deposits, not withdrawals. The only plausible, if not possible explanation for the highly-counterintuitive metal flows is that the metal is more urgently needed elsewhere in the developing world physical silver shortage. And I have previously stipulated, the ultimate source of the physical silver is most likely, JPMorgan, as a result of its illegal accumulation of a billion oz of physical silver over the course of a decade (which I chronicled all along the way). My only questions are how involved the Department of Justice is involved in this, essentially, illegal dumping of physical silver and how much JPM has left – because at recent rates of disposals, the remaining stockpile may now be well-less than the 500 million oz previously estimated.

The combined holdings in the COMEX silver warehouses and in SLV fell by 18 million oz to 707.7 million oz this week, pushing the holdings closer to the year's lows than the highs, but in reality, inventories have been mostly steady at the levels of the past 6 to 8 months. The main takeaway is the remarkably high level of churn in the physical silver ETF holdings, which when you step back, is clear and compelling proof of physical shortage and almost insatiable demand – same as the unprecedented physical churn in the COMEX silver warehouse inventories over the past 13 years. No other commodity has ever exhibited the physical churn as had silver – first in the COMEX warehouses and now in the silver ETFs.

Turning to yesterday's new Commitments of Traders (COT) report, there was some deterioration (managed money buying and commercial selling) in silver and the opposite in gold, but neither positioning change could be considered significant. As a reminder, both silver and gold prices had an upside bias, but also exhibited choppiness.

In COMEX gold futures, the commercials reduced their total net short position by 1800 contracts to 222,800 contracts. The 4 big shorts added 1600 new shorts (same as last week) and held 156,192 short contracts (15.6 million oz) as of Tuesday. The next largest 5 thru 8 shorts bought back 1000 shorts and the big 8 short position came to 230,668 contracts (23.1 million oz). The raptors (the smaller commercials apart from the big 8) added 2600 new longs to a net long position amounted to 7,900 contracts.

On the managed money side of gold, these traders sold 6996 net contracts, consisting of the sale and liquidation of 4707 longs and the new sale of 2289 short contracts. The resulting net managed money long position fell to 134,736 contracts (169,910 longs versus 35,174 shorts).Explaining the difference between what the commercials bought and what the managed money traders sold was the buying of more than 6000 net contracts by the other large reporting traders.

Of special note was another extremely large increase in the total open interest in the futures and options combined COT report in gold, where total open interest increased by more than 58,000 contracts. The vast majority of the increase involved spreads, which as previously discussed, also involves a delta-hedging adjustment, which means many out-of-the -money options aren't included, but could involve substantial profits and losses.

In COMEX silver futures, the commercials increased their total net short position by 2800 contracts to 74,000 contracts. I was discouraged by the big 4 increasing their concentrated short position by 1400 contracts to 45,704 contracts (229 million oz), mostly, I suppose, because I am so focused on this short position. Putting things into perspective, the big 4 short position has "only" increased by 3400 contracts on the more than $6 rally in price since Feb 27 and by only 1000 contracts on the $4 portion of the rally since March 26. While I get disappointed on any increase in the big 4 short position, the increase on this rally (the largest in years) hasn't been excessive. The big 5 thru 8 bought back 200 contracts and the big 8 short position increased by just over 1200 contracts to 69,435 contracts (347 million oz). The raptor net short position rose to close to 13,000 contracts, the largest raptor short position in many years.

I'm still convinced that a managed money trader is holding an 8000-contract short position, the position having been established just three weeks ago around the $25 mark. I know the gross managed money short position is now only 20,255 contracts, meaning that without the one big short, the total gross managed money short position would be close to 12,000 contracts, but back on occasions similar to now, that's precisely what the managed money gross short position was – 12,000 contracts or so. I would cite a previous time when silver prices were high (compared to now) – the end of March 2022, after a near $6 rally and the gross managed money short position was close to 12,000 contracts. The managed money short position would be expected to be low after large silver rallies, as these traders are typically strictly technically-driven and don't short as prices rally.

Concerning the big managed money trader, on yesterday's close, he would appear to be out $3.70 from the $25 sale price of little more than three weeks ago, putting him in the hole for close to $150 million – now more than the $125 to $130 million total profit he made by playing the short side on a number of occasions over the past year. Obviously, we know very little about this trader, given the quite limited experience garnered from his previous trading experiences. We do know some things, of course, namely, that he has added short positions in silver only after prices have rallied and the market structure turned bearish (a large managed money long position and large commercial short position). As such, he appeared to be playing and taking advantage of the regular "wash, rinse, repeat cycle" we've all become accustomed to. We also know this trader is managing the money of others – otherwise he wouldn't be in the managed money category.

What we don't and can't know is how this trader will behave if the trade continues to move against him and price continue to rise. We can be pretty sure he will buy back and close out the position on lower prices, as he has done in the past, but we (and he) have no experience with his behavior should prices continue to rise. At some higher price, one would imagine the losses become unacceptable – at least to the investors whose money is being managed and at that point the position would have to be bought back. Seeing as this is not a small position by any measure, should it be bought back on higher prices, it's important to consider what effect the purchase of 8000 silver contracts (40 million oz) would have on price. Perhaps, the commercial shorts succeed in lowering the price boom on silver and the big managed money short gets bailed out, but then again, perhaps not.

The (other) managed money traders bought 3559 net silver contracts, consisting of the purchase of 840 new longs and the buyback of 2719 short contracts. The net managed money long position grew to 40,190 contracts (60,445 longs versus 20,255 shorts), the largest (most bearish) position in two years. Certainly, should we experience a sharp selloff in silver and gold prices, it will be due to futures positioning rigging on the COMEX, given the bearish market structures in each; but at the same time, everything considered, the shorts haven't seemed to be in complete control to this point – not by a long shot.

I am still quite mindful of the extreme losses accruing to the shorts, now at more than $20 billion for all the COMEX gold and silver futures shorts on the $365 increase in gold and $6 increase in silver prices since Feb 27. Plus, there are the many additional billions of dollars of losses to those short COMEX gold and silver call options. And as I mentioned on Wednesday, Bank of America's massive 25 million oz gold and one billion oz silver short position in the OTC market has sprung back to life (in a bad way for it – like Frankenstein) as a result of the recent rally over the past two months. Something tells me that the shorts deliberately putting themselves many tens of billions of dollars into the hole, precisely at the same time of unknown physical demand for gold and the first physical shortage in silver in history sure doesn't sound like the ultimate master-plan. Even if we do get a selloff, how is that going to remedy the physical silver shortage?

Even if the shorts come up with some miraculous "Hail Mary" pass and manage to escape the clutches of pending financial doom they seem to be facing at this point, what if they don't? While we have yet to see any obvious and pronounced general short covering, are all the shorts somehow exempted from the requirement to buy back short positions regardless of how high prices rise? Or is it more of a question that the financial pain hasn't quite reached the point where great numbers of shorts are ready to head for the exits and begin to buyback short positions aggressively?

We should learn which it will be – a last stab effort by the shorts to rig a selloff and temporarily stave off financial disaster or a succumbing to the continued pressure of losses and margin calls by the genuine start of the buying back of short positions. The magnitude of losses would seem to suggest a resolution sooner, rather than later.

Ted Butler

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Silver – $28.72 (200-day ma – $23.87, 50-day ma – $25.03, 100-day ma – $24.34)

Gold – $2406 (200-day ma – $2031, 50-day ma – $2184, 100-day ma – $2113)

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