

February 13, 2021 – Weekly Review

A late Friday rally accounted for both gold and silver ending higher for the week, with gold finishing up by \$10 (0.6%) and silver ending up 42 cents (1.6%). As a result of silver's relative outperformance, the silver/gold price ratio tightened in by half a point to 66.5 to 1, the strongest relative value for silver in four years.

Reflecting the stronger relative price action in silver, this week's close was the highest for silver since the end of August and about a dollar shy (3.5%) of its highest weekly close in 8 years. Gold is still much closer to its weekly closing lows since its all-time highs of August and below its weekly closing high by about \$220 (11%). Please don't take this as a suggestion that gold won't rally from here, because market structure and broader macroeconomic conditions suggest it will. I'm just pointing out silver's relative strength of late and, particularly, since last March, when the ratio fell to all-time lows of 125 to 1.

In fact, silver's remarkable relative strength compared to gold over the past 11 months now equals the greatest point drop ever in the silver/gold price ratio of 60 points starting in late 2008 when super-depressed silver prices caused the ratio to trade close to 90 to 1, only to fall to 30 to 1 when silver ran to near \$50 in April 2011. That previous 60 point decline in the ratio took some two and half years to develop, this time has only taken 11 months (so far). Quite remarkably, today the absolute price of silver is still close to 50% below its highs of 2011, suggesting to me that the current tightening in the ratio still has a good way to run.

Of course, I would be remiss if I didn't mention the role of JPMorgan in both the great silver/gold ratio tightening from late 2008 to 2011 and that same historic tightening over the past 11 months. You'll recall how JPMorgan took over Bear Stearns and its silver and gold short positions in early 2008 and then proceeded to manipulate prices lower into the end of 2008, which caused the silver/gold price ratio to widen out to 90 to 1. To be sure, it was JPMorgan that caused silver prices to fall to ten year lows last March and push the ratio out to 125 to 1, as it covered all its silver shorts. I'm pretty sure I may have mentioned somewhere along the line that JPMorgan is the biggest silver and gold crook of all (yes, I'm being facetious).

My point is that the silver/gold price ratio has already equaled its largest previous point move in history, has done so in less than half the time and still looks prime to knock the cover off the ball before this move is done. And, aside from the real world fundamentals being in complete accord with further significant tightening, the role of JPMorgan is undeniable.

The turnover or movement of physical metal being brought into or removed from the COMEX-approved silver warehouses snapped back sharply this week as 8.9 million oz were moved, the largest weekly movement in nearly 5 months and close to double the weekly average movement over the past decade. To be truthful, I was beginning to think the highly unusual and unprecedented silver turnover was perhaps a thing of the past although I knew there is no way to predict future movement. Total COMEX silver warehouse inventories fell by 2.2 million oz, to 396 million oz, with the amount of silver in the JPMorgan warehouse increasing by 1.2 million oz to 195.1 million oz, a new record.

The amount of metal in the COMEX gold warehouses rose by 0.3 million oz to 39.5 million oz, notching

another new all-time high. There was minor movement in the JPMorgan COMEX gold warehouses, but not enough to change the 13.72 million oz total when rounded.

Nothing special to report about the COMEX February deliveries, other than the total gold issuances are high at 32,100 contracts (3.2 million oz) and with Goldman Sachs the biggest issuer with nearly 16,000 contracts both for customers and its house account and with JPMorgan the biggest stopper in its house account with 5292 contracts and on both sides for clients.

https://www.cmegroup.com/delivery_reports/MetalsIssuesAndStopsYTDReport.pdf

Both gold and silver intra-month spreads remain narrow, suggestive of tight physical wholesale conditions and I have a feeling that the upcoming March silver delivery might be eventful.

Physical metal flows in the silver ETFs have continued to be notable this week, both for the continued withdrawals (now up to 48 million oz) from the biggest silver ETF, SLV, following the epic three day deposit of 110 million oz at the beginning of the month and the net deposits into the Sprott silver ETF, PSLV, of nearly 4.4 million oz this week. I know there is continued chatter on the Internet about how one should be distrustful of SLV (because of the JPMorgan connection and other things) and stick to PSLV.

For the record, I have nothing against PSLV or any silver ETF, including SLV. The PSLV is somewhat different than SLV and other silver ETFs, like SIVR, ZKB and the Deutsche Bank version, in that the PSLV is closed-end, where the others are open ended funds. This means that the PSLV can trade at a (slight) premium or discount to net asset value and needs a certain amount of net buying before buying (or selling) physical silver. In the open ended versions, net buying occurs immediately at the current price of silver on a fairly rigid formula. If one feels better buying or holding PSLV as an alternative to SLV or the others, then please do so.

But I have to point out (yet again) that to a truly large buyer of silver, the choice has to be SLV. Not only is the liquidity many times better in SLV than in any other silver ETF, I'm convinced SLV is now a better choice for a large investor than even the COMEX. Remember, I'm kind of a COMEX-centric guy, having grown up as such. I still believe, for instance, that compared to the COMEX, the LBMA is a joke. I've lived through the two largest physical silver accumulations in history, the Hunt Bros in 1980 and Warren Buffett in 1997, which could only have been accomplished via the COMEX. And I still play close attention to what's going on in COMEX positioning (the COTs) because that explains the manipulation.

All that said, something very important has occurred and not that many people recognize it yet. That something is the ascendancy of SLV as the first choice to go to if a buyer seeks to acquire very large amounts of silver 50 million oz, 100 million oz or more. The proof of that lies in the three day deposit of 110 million oz less than two weeks ago. I still maintain that the sellers of that silver artificially depressed and manipulated the price because they could have received much higher prices than what they accepted, but let's put that aside for a moment.

110 million oz equals 22,000 COMEX silver contracts. In no realistic way would an outside buyer or buyers be able to come to the COMEX and buy 22,000 silver contracts and demand delivery if it went against (as it likely would) the old boys' interests. The largest full month deliveries on the COMEX silver futures contract took place last July, when just over 17,000 contracts were issued, and in which

JPM issued just under 6000 contracts from its house account. Included in those total issuances were redeliveries, which artificially boosts the real amounts actually delivered. To think that 22,000 contracts could be bought and in which physical delivery was demanded by a large buyer or two isn't realistic, unless it was an insider.

Yet, 110 million oz were deposited over three days in the SLV. In fact, I now believe more than 110 million oz were bought and the posted number was reduced by conversions of shares to metal over those three days and as has occurred since. There's no rule that I'm aware of that would preclude a large buyer from converting shares of SLV to metal the same day the shares are purchased, or the very next day(s).

The whole idea of conversions is to keep one's ownership under 5% of total shares outstanding, while increasing actual silver ownership and is perfectly legal (as far as I know). It's certainly what I would do if I was in position to buy a few billions of dollars' worth of silver. As long time readers may recall, the conversion of shares of SLV into actual physical silver has long been cited by me as JPMorgan's principle means of acquiring the biggest portion of the one billion oz I allege the bank had accumulated over the years. Share ownership over 5% requires public reporting according to SEC rules; there are no reporting requirements for physical metal ownership.

There is no question in my mind that most or all of the 48 million oz that have come out from the SLV since the big three day deposit were conversions and I am now adding that more may have been converted over the three day deposit as well. The only other possible explanation for the withdrawals would be net selling, but that is not supported by trading volume and price movement. I know many are trying to pick apart the SLV, but to big buyers, there really is no other good choice not PSLV or even the COMEX. And I do believe all this suggests that silver is in play or under active accumulation by someone or more very big. I'm sure I'll have more to say about this as time progresses.

Turning to yesterday's Commitments of Traders (COT) report, it was expected that the overall positioning changes wouldn't be significant and that certainly turned out to be the case. As such, it still remains that the market structure in both gold and silver must be resolved in some rather dramatic way.

In COMEX gold futures, the commercials reduced their total net short position by 5800 contracts to 292,200 contracts. By commercial category, the big 4 were only able or chose to buy back less than 300 contracts (after adding nearly 5000 shorts the prior week) and the big 4 short position is now 169,251 contracts (16.9 million oz). For the second week running, the 5 thru 8 big shorts were aggressive buyers in buying back more than 5100 short contracts. The big 8 short position is now 246,783 contracts (24.7 million oz). The smaller commercials added a scant 400 new shorts and I'd peg JPM as (still) flat.

I can't help but feel that the 5 thru 8 big shorts may sense something is up as since Jan 5, their portion of the big 8 concentrated short position has shrunk from 112,000 contracts to 77,500 contracts, a reduction of 34,500 contracts as the big 4's share has actually increased by around 1500 contracts. Please remember, I'm just looking for clues at the scene of the crime and there may be a different interpretation than my feeling that some of the 5 thru 8 want out.

The managed money traders did hardly anything in selling 138 net gold contracts, consisting of the

sale and liquidation of 2329 long contracts and the buyback and covering of 2191 short contracts. The managed money net long position is still quite low and bullish in my eyes. I suppose the selling of 5581 net gold contracts by the other large reporting traders (2697 long contracts sold and 2884 new shorts added) might be considered slightly disappointing, but only if you are truly seeking disappointment. It doesn't look like much of anything to me.

In COMEX silver futures, the commercials bought and reduced their total net short position by just 1000 contracts to 72,800 contracts by commercial category, the 4 big shorts bought back less than 200 short contracts (after adding nearly 6700 new shorts in the prior reporting week), and as of Tuesday held 65,082 net short contracts (325.4 million oz). The 5 thru 8 big shorts bought back a larger 800 short contracts and the big 8 concentrated short position was 83,369 contracts (416.8 million oz). The raptors (the smaller commercials) were flat and their net long position remained at 10,600 contracts. As was the case in gold, JPM did nothing this week, meaning it maintains a short position of no more than one or two thousand contracts.

While not as pronounced as in gold, the 5 thru 8 largest shorts seem to be wanting to part ways with the big 4. From Jan 19 to this week's COT report, as the total commercial net short position increased by 2500 contracts, the only new short sellers were the big 4 which added 7837 new shorts. This is about as concentrated as short selling gets and for the CFTC not to have intervened borders on the criminal. Instead, this clown federal agency is reportedly (via the Wall Street Journal) looking into improprieties on the part of the Reddit crowd. A Simply marvelous.

The managed money traders sold 1193 net silver contracts, consisting of the new purchase of 215 long contracts and the new sale of 1408 short contracts, which resulted in a net long position slightly lower than any time since October. The reason I find this bullish is that it suggests limited managed money selling on lower prices and makes one wonder where the amount of non-commercial selling will come from to accommodate the big 4 which need big selling in order to buy back their extremely large concentrated short position. The other large reporting traders sold less than 700 net silver contracts and was no big deal.

The overall market structures, therefore, didn't change much this week in COMEX gold or silver and as such remain washed out and not suggestive of big selling on the downside. The 4 big shorts, particularly in silver, look overextended and in real danger of being run over to the upside, especially when factoring in what's going on in both the physical retail and wholesale markets.

One can never assume the 4 big shorts, given their apparent desperation, might resort to rigging sharp selloffs in one last attempt to induce enough outside selling that would enable them to buy back a big chunk of their concentrated short position. But they haven't yet been able to do so for many months to this point. The logical play, therefore, is to approach it as if the big shorts will fail, because even if they succeed temporarily in rigging a selloff, it shouldn't last very long. And if they fail, the upside is almost un-measurable. That's another way of saying the risk/reward is super favorable.

As far as how the 8 big gold and silver shorts fared this week, their total losses at week's end worsened by a bit over \$400 million, putting those total losses at \$12.1 billion. At the same time, the concentrated short position of the 4 largest shorts in COMEX silver is larger than at any time since early March and lacks any backing from JPMorgan.

Ted Butler

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Silver – \$27.45 (200 day ma – \$23.26, 50 day ma – \$25.89, 100 day ma – \$25.02)

Gold – \$1825 (200 day ma - \$1857, 50 day ma – \$1859, 100 day ma – \$1872)

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