February 8, 2023 – Recent Patterns

Iâ??ll try to cover a few of what I feel are the most important issues in silver (and gold), starting with some new thoughts on the physical turnover and level of recorded holdings of silver, the status of the short position in SLV and recent prospective changes in futures positioning on the COMEX (despite the lack of publication of the COT report).

I know I continue to make a big deal of the physical turnover in COMEX silver warehouse inventories and, more recently in SLV, by far the two largest stockpiles of silver in the world. I wouldnâ??t do so if I didnâ??t feel this was important. The reason I believe this is important is because as and when non-investment holdings reach the bottom of the barrel, then prices have little alternative to increasing rapidly.

The new thoughts Iâ??d like to share on COMEX silver warehouse and SLV turnover and levels of holdings include a rather remarkable change in pattern over the past few months from what occurred over the past two years. The problem, of course, with trying to detect new emerging patterns is that due to the time periods in question, one can be premature in newer trends simply because such trends are more prone to being volatile and erratic. On the other hand, failure to detect important trend changes early on, can result in missing an important development. With that caveat, let me describe what Iâ??m talking about.

Starting in mid-January 2021, total COMEX silver warehouse inventories amounted to close to 400 million oz (the highest ever) and by yearend 2021 had fallen to 354 million oz. Thus, the monthlyÂ rate of decline for 2021 was just over 4 million oz per month. From yearend 2021 to mid-November 2022, total COMEX warehouse inventories fell to 294.4 million oz (the low-point for the year), or a monthly rate of decline of around 5.4 million oz, a noted increase over the monthly rate of decline in 2021.

Likewise, the rate of annual turnover or physical movement in the COMEX silver warehouses increased from 308 million oz (an average weekly turnover of just under 6 million oz) in 2021, to 384 million oz (a weekly average turnover of 7.4 million oz) in 2022.

However, over the past 11 weeks, since the low point of 294.4 million oz in mid-November, the level of total COMEX silver warehouse inventories has only fallen to 291.9 million oz (as of last night). While this level represents a new four-year low in total COMEX silver inventories, it also indicates an average adjusted monthly decline of less than 0.8 million oz â?? a far cry from the average monthly declines in 2021 (4 million oz) or in 2022 (5.4 million oz).

The somewhat shocking monthly rate of change of decline in total COMEX silver warehouse inventories comes on not that much of a rate of change in actual turnover over the past 11 weeks, which at just under 6.9 million oz in average weekly turnover, is mid-range between the 2021 weekly average of 6 million oz and the 7.4 million oz weekly rate of 2022.

Similarly, total silver holdings in SLV have fallen by roughly 200 million oz from the peak in Feb 2021, but current holdings of 478 million oz are not lower than the lows of last August (thanks to the recent addition of 20 million oz). At the very least, the same pattern of a sharply reduced rate of decline in silver holdings in SLV over the past six months would seem to conform to the more recent change in the rate of decline in COMEX silver holdings. I donâ??t keep weekly turnover rates in SLV, but do sense they have markedly picked up over the last year or two.

Now, maybe Iâ??m looking much too closely at the recent change in the rate of decline in COMEX silver warehouses over the past 11 weeks, along with the lack of any real decline in SLV holdings over the past six months, but the change in the rate of inventory declines is more than notable. And while I am mindful this conforms to my recent premise that we may have reached the bottom of the barrel in effective available inventories, meaning that I may be guilty of confirmation bias; Iâ??ve fully-acknowledged that I may be premature and will admit to that should COMEX and SLV holdings decline sharply from here.

Let me be clear â?? continued declines in the holdings of physical silver in the COMEX and SLV (again, the two largest stockpiles of silver in the world) are not unwelcomed by me, as continued declines would strongly suggest continued and intensified physical tightness (shortage). It just seems to me that we are getting quite close to the bottom in available silver inventories.

To be sure, there is a level below which metal inventories cannot fall and in the purely industrial metals, like copper, nickel, zinc and lead, and all those inventory levels are now quite close to zero, having fallen by more than 80% to 90% over the past few years. Itâ??s different in silver, given its unique dual demand profile and it remains to be seen whether we are also effectively close to zero, when silver inventories are adjusted to reflect investment holdings. My point is that I believe we are close to that zero level in silver.

Tomorrow evening the new short report on stocks will be published and weâ??ll get to see whether the short position on SLV was sharply reduced for positions held as of January 31. Certainly, the short position â??shouldâ?• be reduced by roughly the same amount of the massive deposits of more than 20 million oz of metal and increase in total shares outstanding over a few days of the reporting period.

I still canâ??t come up with (nor have I heard of) a more reasonable explanation for the large metal deposit and increase in total shares outstanding and there is no question that the short position in SLV was excessively large â?? so large, that I filed a number of complaints to the Securities & Exchange Commission and BlackRock (the trustâ??s sponsor) about it. So, if we do get a substantially reduced short position in tomorrowâ??s report, that should be confirmation that the large metal deposit was intended to close out the excessive short position in SLV.

However, and as you know, things donâ??t always turn out the way they â??shouldâ?•, so I have been contemplating what would prevent a sharp reduction in the short position on SLV in tomorrowâ??s report â?? mainly because the case for a sharp reduction still seems so clear to me. In thinking it over, one thing that could prevent a sharp reduction in the short position on SLV, was a practice that existed back in the prehistoric times when I was actively engaged as a broker at Merrill Lynch and Drexel Burnham.

Back then and perhaps to this day, there existed a completely legal trading practice known as â??shorting against the boxâ?•. An investor would deploy this strategy whenever he held a large open profit on a stock that he or she wished to sell, but that would accrue a large capital gains tax liability when the stock was sold. There was no way of avoiding the tax liability, but by â??shorting against the boxâ?•, the stock could be sold short in the same account in which the stock was held (locking in the gain), but the actual tax liability could be deferred to the next year, when the back office would be instructed to apply the short sale against the long position to close out the transaction.

It was a trading practice of no risk to the client or the brokerage (since the client was fully-hedged) and in addition to aiding in deferring (not avoiding) tax liabilities to the client, did involve extra commissions beyond what a straight sale would incur. A true win-win. (I even remember there being a special place on the actual order ticket to check off if you were selling short against the box).

Iâ??m bringing all this up beforehand, so as not to appear like Iâ??m just making excuses after the fact, in the event the short position in SLV doesnâ??t decline. I canâ??t see how shorting against the box would involve any tax benefit in this case (since it would be locking in a loss, not a gain), but still could be done for other unknown reasons. Since Iâ??ve speculated that the 20 million oz deposited came from a lease of metal from interests related to JPMorgan to the unknown short seller, the true cost of a metal lease to the lessee is not immediate, but longer term (when the lease must be repaid in full with metal); it is feasible for the short seller to effect a type of short against the box transaction that would result in no reduction in the short position. Itâ??s sad to think in these terms, but you do know that the silver market is the most crooked in the world â?? donâ??t you?

Speaking of crooked, letâ??s now turn our attention to the goings on at the COMEX, ground zero for the metalsâ?? price manipulation. From the price highs of a week ago, gold got smashed for $100 and silver by a much-steeper $2.50 over the next 4 trading days into yesterday, the cutoff day for COT report originally scheduled for this coming Friday. Of course, since the COT report scheduled for last Friday has yet to be published, due to a cyber-related incident announced by the CFTC on Feb 2, there are no assurances either last weekâ??s or this weekâ??s report will be published in the days ahead.

Despite the delay in publishing COT reports to this point, and to state the obvious, that doesnâ??t mean positioning changes – perhaps of some great significance – havenâ??t occurred. After all, not only were the price declines in gold and silver quite sharp, in the case of silver, the key 50-day moving average was decisively penetrated to the downside for the first time in three months. When it comes to COMEX paper positioning, it has been proven time and time again that past is prologue, so we know that the price drop was orchestrated by the commercials to set off significant managed money selling (so that the commercials could buy). Come to think of it, there are not many other things in the world of similar certainty.

So, the question is not if there has been significant managed money selling in gold and silver, but rather, how much and how much more is there to go? Of course, weâ??ll only know for sure in the fullness of time, but then again, weâ??ll all be dead in the fullness of time. Thus, for investment purposes, weâ??re forced to deal with these questions in less-philosophical terms. Against a backdrop of knowing just how collusive and ruthless the COMEX commercials are and how relatively close we are to taking out the remaining two key moving averages in silver (the 100-day and 200-day moving averages), where a further $1.50 drop in price would do the dirty deed â?? such a manipulative move canâ??t be definitively ruled out. After all, these same crooked COMEX commercials just orchestrated a $2.50 price smash for no legitimate reason â?? other than to induce managed money selling.

But itâ??s not solely up to the commercials in this manipulative game; the managed money traders play a pivotal role, as well. The commercials can only succeed if the managed money traders play the Washington Generals to the commercialsâ?? masterful Harlem Globetrottersâ?? routine. And while the managed money traders have, for the most part, played the patsy time and time again, they do so with varying degrees of non-thinking cooperation.

For instance, I believe I have demonstrated over the many years how the managed money traders have never collectively profited whenever they have amassed large short positions â?? the most recent example being this past summer and fall, when a large short position was bought back and covered at a loss â?? the same outcome as every single other time when the managed money traders had gotten heavily short silver or gold. If an outsider, like me, can see it and prove it, you would think the managed money traders would see it as well and adjust their collective positioning to guard against all of them getting heavily short.

My main point here is that whether the managed money shorts add aggressively to short positions from this point is the key question of how much lower we go in the price of silver. Recently, I did state that should the managed money traders get hoodwinked into selling (both long liquidation and new short selling) by the commercials, then silver would go lower in price. Unfortunately or otherwise, that has come to pass. Now the equation has changed somewhat.

Based upon two full reporting weeks, the equation in silver and gold are now different than what they were two weeks ago. In silver, I believe there might have been as much as 10,000 net contracts of managed money selling, somewhat evenly divided between long liquidation and new short selling. If my estimates are close, that leaves very little room for additional managed money long liquidation, meaning large amounts of new managed money short selling would be required to take prices significantly lower from here. Should that new short selling not materialize, then it will be hard for the commercials to rig sharply lower silver prices.

In gold, while I had anticipated some managed money buying in the prior reporting week, the sharp declines in price over the reporting week ended yesterday, involved much more significant managed money selling, mostly in the form of managed money long liquidation. It wouldnâ??t surprise me if 30,000 net contracts or more of managed money selling occurred on a two-week combined basis, whenever the CFTC publishes the data. This is supported by reports of heavy speculative long liquidation on the Shanghai gold futures exchange.

It must be kept in mind that, aside from the obviously heavy-hand of the COMEX commercials rigging gold and silver prices lower for the sole purpose of inducing managed money selling so that the commercial could then buy, not much, if anything changed in the real non-paper world of metals. We still have the tightest physical market in silver in history and no obvious let up in central bank buying in gold. The sharply lower prices of the past week do nothing to change that, except perhaps argue more forcefully for much higher prices to come.

I would never rule out further dips in price, knowing full-well how this crooked game is played; but I am also mindful that the lower prices and managed money selling and commercial buying over the past week or so, do nothing but strengthen the case for sharply higher prices. The commercials, as always, are buying and seeking to buy because they know much higher prices are in store. You should do likewise.

Finally, some credible news of the unfortunate kind has come up regarding a principal behind the #WallStreetSilver/reddit movement, casting the movement in a negative light. As a small part of the revelations, some negative opinion was made against Kinesis, an online platform, which involves allocated storage of gold and silver. Iâ??ve mentioned Kinesis on a couple of past occasions and my concerns involve the storage of metal without storage charges and the fact that there is no direct regulatory oversight of the program â?? both red flags to me. Additionally, from what I can tell, what the program offers appears to meet all the requirements for registering with the Securities & Exchange Commission for offering a security to the public and no such registration has occurred. My intent is not to attack the program, but spare readers who may be involved in avoiding a possible heartbreak in the future.

Ted Butler

February 8, 2023

Silver – $22.35Â Â (200-day ma – $21.07, 50-day ma – $23.42, 100-day ma – $21.64)

Gold – $1890Â Â Â Â Â (200-day ma – $1795, 50-day ma – $1852, 100-day ma – $1770)

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