January 14, 2023 – Weekly Review

Gold and silver prices moved to fresh nine-month closing weekly highs, with gold surging by $53 (2.8%) for the week, while silver limped higher by 40 cents (1.7%), with all of its gains coming on Friday.

As a result of goldâ??s relative outperformance, the silver/gold price ratio widened out by a full point to just under 79 to 1. Despite silverâ??s relative sub-par price performance over the past month or so, from the price lows of the fall, it is still much closer to the bottom (higher relative valuation) of the price ratioâ??s 96 to 1 and 75 to 1 trading range. Again, changes in the silver/gold price ratio have nothing to do with investors selling or buying the physical metal of one to exchange for the other metal; and everything to do with paper position on the COMEX.

This has been a remarkable precious metals rally, with gold climbing $300 (18.5%) over the past ten weeks (with five of the weeks featuring flat to down weeks) and with silver climbing $6.50 (36%) over the past 13 weeks; yet, in many ways the rallies seem disbelieved or doubted, as if climbing a wall of worry â?? a sure sign of further gains to come, according to contrarian sentiment.

I have a list as long as my arm as to why gold and silver should continue to climb, even explosively so, and but a single reason as to why they may not. The sole reason for why a set-back may occur (aside from â??overboughtâ?• technical conditions in gold) is if the 40-year ongoing manipulation on the COMEX asserts itself yet again. Only a fool would completely disregard a price manipulation in force for decades, but at the same time, the signs of real change in that regard have never been clearer (as I hope Iâ??ve been conveying).

The main (but hardly exclusive) sign of real change in the pattern in the ongoing COMEX paper positioning manipulation is in the latest Commitments of Traders (COT) report published yesterday, where the results exceeded my most bullish hopes. Of course, Iâ??ll get into the details shortly and, later, present some new speculation as to why the market structures in COMEX gold and silver are as bullish as they are, after such a spirited rally. Let me stick to the usual format for now.

The turnover or physical movement of metal either brought into or removed from the COMEX silver warehouses remained strong as nearly 6.4 million oz were moved, and mostly out, as total COMEX inventories fell by a very sharp 5 million oz to 295.6 million oz. This is just barely above the low-water mark of 294.4 million oz eight weeks ago. Holdings in the JPMorgan COMEX silver warehouse fell by 0.8 million oz to 152 million oz.

For the time-being, my recent speculation that COMEX silver warehouse totals may have, effectively, reached zero (in terms of available metal) may still turn out to be correct, or nearly-so, since it has now been 13 weeks in which total COMEX silver inventories have remained on either side of 300 million oz â?? and with the continuing frantic turnover suggesting a real hand-to-mouth demand.

Along these lines, I have received a number of recent emails from subscribers that my message of extreme physical tightness being reflected in the physical turnover is getting through, which is gratifying to say the least. One email, in particular, received this week, I thought worthy of sharing â??

Hi Ted,

Thanks again for your cogent and insightful commentary.

Please pardon my ignoranceâ?¦..I am more than happy to be viewed as ignorant if I can learn something.

Soâ?¦..with the red hot silver turnover. Â I am trying to connect the dots of turnover with consumption/usage.

Where I get to is that the demand is high, supply is low, so those that wish to take delivery of physical silver must access multiple warehouses to get it and/or the silver has to be moved to a different warehouse so as to be delivered. Â Sort of like a network of ice cream stands on a 90-degree day with demand very high they have to keep moving the ice cream around to satisfy demand. Â Soâ?¦.if that is true then why wouldnâ??t we see a similarly pronounced progressive draw down in overall Comex silver stores.

It would seem if the silver is in such great demand (as evidenced by the turnover) they why havenâ??t the warehouse stores moved much lower?

Your thoughts?

Sincerely,

John

Dr. K,

Far from ignorant, I think you nailed it perfectly. The only difference is that the 90 degree day you speak of in your ice cream analogy, isn’t a one-day phenomenon, but a long stretch of such days.

In fact, the warehouse totals, both in the COMEX and in the big ETF, SLV, have moved lower over the past two years, falling by 100 million oz in the case of the COMEX and another 200 million oz in the SLV (a total of 300 million oz)

Some ignorance!

Ted

This whole turnover business has crept in slowly for everyone, and that certainly includes me, but that in no way should diminish its importance. Itâ??s occurring for a reason and is uniquely confined to silver of all commodities, making it unprecedented. Not to contemplate this unprecedented turnover in inexcusable.

I neglected to list last weekâ??s COMEX gold warehouse statistics, so for the past two weeks, total gold warehouse holdings fell by 0.4 million oz to 22.8 million oz, a fresh near three-year low (but lacking the frantic physical turnover evident in silver). Accordingly, the holdings in the JPM COMEX gold warehouse fell by .34 million oz to 8.79 million oz over the past two weeks.

And itâ??s certainly not just the COMEX silver warehouses experiencing a drain (run) on inventories in the face of the rather strong rally over the past few months. Close to 5 million oz were removed from the silver ETFs this week, with the majority coming from SLV. The most plausible, if not only possible explanation is that the metal was needed more urgently elsewhere and not due to plain-vanilla investor liquidation.

The new short report on securities released late Wednesday, indicated a slight reduction in the short position on SLV, of a bit over 3 million shares to just under 47 million shares (43 million oz), as of Dec 30.

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

I had gone to bed that night all fired-up about complaining to the SEC and BlackRock had the short position in SLV increased meaningfully, but seeing as there was a slight reduction, I put complaining for fifth time in as many months on hold, pending another future increase. More than ever, it looks increasingly clear to me that the short position in SLV is as large as it is because the physical silver required for deposit is simply unavailable â?? just another brick in the wall pointing to extreme physical tightness in silver.

Turning to yesterdayâ??s new COT report, I must say it ticked-off just about every one of my hoped-for expectations, starting with my hope that the massive 32,000 contract increase in total gold open interest was more the result of phony spread creation and not pure managed money buying and commercial selling. In fact, more than 18,000 contracts of the increase in total gold open interest was attributable to phony spread creation, which sets a bullish tone.

As a reminder, gold prices had surged by as much as $40 (to new highs) over the reporting week, including being as much as $100 above its 200-day moving average, usually a sure sign that the managed money technical funds would be absolutely plowing onto the long side (and the commercials would need to sell just as forcefully).

Silver prices, on the other hand, largely stunk up the joint over the reporting week, falling as much as a dollar, eliminating any of the managed money buying and commercial selling that was expected in gold. As it turned out, not only were the expectations for what the commercials might do in each met, under the hood, what the managed money traders did, turned out even better than what the commercials didnâ??t do.

In COMEX gold futures, the commercials increased their total net short position by 12,500 contracts to 172,500 contracts. Yes, this is the highest commercial net short position since June 28, just as gold was embarking on a price smash that would take it from $1820 to $1620 months later, but things have changed so much and in so many different ways since then, that it seems like comparing apples to oranges to me.

For one thing, there was absolutely no increase to speak of in terms of new short selling by the 4 and 8 biggest shorts â?? all the selling was by the raptors, in the form of long liquidation. The 4 big shorts did add less than 200 short contracts to a short position amounting to 130,492 contracts (13 million oz), while buying by the next 5 thru 8 largest shorts brought the big 8 short position down by 300 contracts to 210,905 contracts (21.1 million oz). The raptors (the smaller commercials apart from the big 8) sold off 12,800 longs, reducing their net long position to a still-large 38,400 contracts.

As encouraging as I found the paucity of commercial selling to be in gold, the managed money tradersâ?? performance was even more encouraging, as these traders only bought 7228 net contracts, consisting of the purchase of 7464 new longs and the new short sale of 236 contracts. The resultant managed money net long position of 61,809 contracts (116.604 longs versus 54,795 shorts) is very much less than I would have ever expected following the magnitude of the gold price rally of late. More on this in a bit.

Explaining the difference between what the commercials sold and the managed money traders bought was buying by both the other large reporting traders and the smaller non-reporting Â traders.

In COMEX silver futures, the commercials reduced their total net short position by 1300 contracts to 42,900 contracts, coincidentally, the same amount of commercial selling in the prior reporting week. As was the case in gold, there was no selling by the 4 and 8 largest shorts, as the big 4 bought back nearly 300 contracts, reducing the big 4 short position to 43,797 contracts (219 million oz), while the big 8 short position fell to 65,890 contracts (329 million oz). The silver raptors were the biggest commercial buyers as they added 900 new longs to a net long position of 23,000 contracts.

The managed money traders in silver were net sellers of a remarkably-large 4543 contracts, consisting of the sale and liquidation of 2029 longs and the new short sale of 2514 contracts. This answers/explains why silver prices were so punk over the reporting week, namely, someone or something influenced the managed money traders to sell aggressively. The resultant managed money net long position contracted to Â 23,234 contracts (44,900 longs versus 21,666 shorts). If you had told me at the outset of the $6.50 (36%) price rise in silver over the past 13 weeks that after the rally, the manged money traders would be still so lightly configured net long, I wouldnâ??t have believed you.

Before I get into some new speculation about the highly-unusual (at least to me) behavior of the both the gold and silver managed money traders being so tentative on the long side to this point, a quick word about the explosive up move in copper, which has surged by 50 cents (per pound) over the past 7 trading days. Iâ??ve been a long-term bull on copper prices based upon supply/demand fundamentals, so I canâ??t feign surprise at the move, thinking it should have occurred much earlier.

This weekâ??s COT report does indicate a sharp increase in net managed money buying of some 19,000 contracts, increasing the net managed money long position by the equivalent of 237,000 tons, or 12% of world copper production. Undoubtedly, even bigger positioning changes occurred on the LME, a much bigger market than the COMEX. Despite the sharp increase in managed money positioning on the COMEX, there still appears to be a long way to go before the managed money traders are anywhere near the net long positioning, they held as recently as two years ago, when copper prices were lower than they are today; therefore, implying there is still much room to go before those old managed money long extremes are hit.

Additionally, it is not the banks, neither US nor foreign, that are short to the managed money traders in COMEX copper, as the banks are quite net long. I guess what Iâ??m trying to say is that the bust out in copper prices is long overdue and that price volatility appears likely to stick around for a spell.

On second thought, perhaps there is something about the lack of more managed money buying in copper before this week that is related to some new speculation by me about why the same has largely occurred in COMEX gold and silver. What Iâ??m referring to is the rather odd lack of more managed money buying than weâ??ve seen on the rather strong gold and silver rallies of late. I do find it very strange (as well as bullish) that after such large rallies in gold and silver and with upside moving average penetrations galore, that the managed money net long positions are as subdued as they are.

Most puzzling of all is how these same managed money traders in gold and silver got to be so massively net and gross short into the price lows of the fall. It looked absolutely ridiculous to me at the time, since never in history had the managed money traders ever collectively profited in either gold or silver when getting so heavily net short. Iâ??m sure you remember me pounding away at this issue non-stop and it was no surprise that the managed money shorts gave back every penny (and then some), when prices turned higher â?? as was pre-ordained.

Despite my complete confidence that the managed money shorts were destined to lose, Iâ??m still surprised a bit about how heavily short they got back then. Now, my surprise is in how lightly they are on the long side. Iâ??m starting to think that both the formerly heavily short and current light long positions of the managed money traders are not coincidental, but the result of a very intentional ploy by â?? who else? â?? the collusive big COMEX commercial crooks.

I havenâ??t touched on this in quite some time, but the managed money traders conduct and execute their buy and sell orders through the very same commercials which trade against them. Â All non-clearing members of the COMEX must conduct their trading through a designated clearing member. Therefore, every managed money trader must conduct their trading through what is typically called a prime broker. Examples of prime brokers would include JPMorgan and just about every other large commercial.

On its face, it is perhaps the most incestuous and conflict-prone relationship of any that exist in the financial world. The thought that one set of competitors, the managed money traders, must conduct their trading through their most fervent competitors, the commercials, should make your hair stand on edge. The broker, after all, is extremely well-versed in every possible financial detail of every trader which maintains an account at the broker (the â??know your customer ruleâ?•) and how the customer trades. I suppose if it wasnâ??t for the prime brokers also being the chief counterparty rivals of the managed money traders, the thought of a serious conflict might not exist. Obviously, thatâ??s not the case and if you are not at all troubled that that such a conflict does, in fact exist, you better check to see if you have a pulse.

Cutting to the quick, Iâ??m 100%-convinced that it is this highly-conflicted relationship between the managed money traders and their prime brokerage relationships that is behind the highly-unusual massive short selling by the managed money traders into the gold and silver price lows of last year, as well as the lack of buying on the rallies weâ??ve seen of late. Something prompted the managed money traders to get so heavily-short last year and now so lean long Â and that â??somethingâ?• was the managed money tradersâ?? prime brokers whispering into the managed money tradersâ?? ears influencing the positions.

Yes, the managed money traders profess to be strictly technically-oriented (the majority of the active manged money community) and to dispassionately adhere to technical signals no matter what â?? but that doesnâ??t seem to be borne out in their recent positioning. Something appears to have influenced their position-taking – other than pure price performance.

Do you not think that the COMEX commercial crooks are both fully capable and criminally-motivated enough to behave in such an underhanded manner? The fact that it blends in with and further explains all the other highly unusual events of late, in terms of the sea change in positioning composition is just icing on the cake. After all, if the managed money traders can be persuaded to not putting on the amounts of long positions they always have put on in past price rises, then that means the commercial crooks wonâ??t have to sell as many shorts (besides getting other commercials to replace them).

Yes, I realize this is speculation on my part, but every single bit of it matches all the other factual developments, both recently and over the decades. Itâ??s just a case of putting the pieces of data into some semblance of logical order. Try to come up with a more compelling explanation for why the managed money traders were so heavy on the short side into the price lows and are now so light on the long side?

I recall a previous occasion when the managed money traders didnâ??t load up on the long side as silver prices moved higher, much to their chagrin. Back in the fall of 2010, as silver prices moved higher into the mid-$20â??s, the managed money traders uncharacteristically reduced a fairly-substantial long position and remained very light on the long side as silver rose to near-$50 six-months later. There were other similarities and non-similarities between that time and today, with the key similarity between then and now being a very tight physical circumstance.

The bottom line, it seems to me, still supports an explosive move higher, either with or without the typical COMEX-rigged price smack-down first. Iâ??m long-past the point where I would attempt to base much on the smack-down first approach, too afraid of missing the inevitable great launch higher. I can live with yet-another manipulative smack-down; but not with going light into what looks like the liftoff.

Ted Butler

January 14, 2023

Silver Â – $24.40Â Â Â Â (200-day ma – $21.20, 50-day ma $22.65, 100-day ma – $20.87)

Gold – Â $1923Â Â Â Â Â Â Â (200-day ma – $1787, 50-day ma – $1790, 100-day ma – $1740)

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