January 21, 2023 – Weekly Review/The Bottom of the Barrel

For a fourth straight week, gold closed higher, this week by $5 (0.3%) and at fresh nine-month highs; while silver continued to struggle, ending the week down by 35 cents (1.4%), but up sharply from the price lows into early-Thursday. Â As a result of goldâ??s continued relative outperformance, the silver/gold price ratio widened out by more than a full point to just over 80 to 1 â?? the most undervalued silver has been to gold in two months â?? but still more mid-range for the past year or so.

Gold has now risen by $300 (18.5%) since the beginning of November, with $100 of the rally coming over the first three weeks of the New Year. Silver has struggled in the New Year, actually down 15 cents or so, but from its low in mid-October, is up more than $6 (35%).

What do I make of silverâ??s sub-par performance, both on an absolute basis and relative to gold over the past month or two? As Edwin Starr sang in â??War â?? what is it good for?â?• â?? absolutely nothing.

https://www.youtube.com/watch?v=dQHUAJTZqF0

Trying to divine the future from recent price performance alone is not a game played successfully by many and not one I choose to dwell on –Â not when there is so much more to consider. In the case of silver and gold, itâ??s still mainly a question of whether the collusive commercials on the COMEX can arrange for one more sharp selloff before prices explode or do we explode straightaway? Â While mindful of what the collusive COMEX commercials are capable of, Iâ??m still playing it as if we explode straightaway.

The basis for my premise is still rooted in the physical developments in each metal, particularly so in the case of silver, and the continuing signals from paper positioning on the COMEX, where the new Commitments of Traders (COT) report, provided, once again, evidence of minor deterioration relative to price action, almost as hoped for. Iâ??ll dig into the new COT report in a bit.

The turnover or physical movement of metal either brought into or removed from the COMEX-approved silver warehouses cooled a bit in this holiday shortened work week, as just under 3.4 million oz were physically moved and as total inventories fell by 1.9 million oz to 293.7 million oz, a fresh four-year low. Holdings in the JPMorgan COMEX silver warehouse fell by 0.6 million oz to 151.4 million oz, not quite down to multi-year lows, but close.

While this weekâ??s new low in total COMEX silver warehouse inventories does take out the previous low-water mark of 294.4 million oz set ten weeks ago, it does not materially violate a premise I recently laid out about these inventories, effectively, reaching zero â?? where no substantial further reductions appear likely. Of course, this will be determined by the passage of time. I have the same feelings about SLV, where there were big reductions in silver holdings this week and which Iâ??ll more fully expound on later.

Total COMEX gold warehouse holdings fell by 0.1 million oz to 22.7 million oz, another fresh multi-year low, with the holdings in the JPM COMEX warehouse falling by a steeper 0.17 million oz to 8.62 million oz.

Speaking of SLV, the big silver ETF, some 7 million oz came out of the trust this holiday (MLK Day) shortened week and that includes an inflow of 1.2 million oz yesterday. While this weekâ??s withdrawals from SLV were steep, as was the case with the COMEX silver warehouses, the new lows were only 5 million oz or so below previous low-water levels set a few months ago. In contrast, holdings in the worldâ??s gold ETFs, fully represented by GLD, rose notably this week by 200,000 oz or so, apparently somewhat reflecting the rise in gold prices â?? finally.

Iâ??m going to skip over the deliveries in the COMEX January gold contracts for the simple reason I canâ??t decipher any real message. Citibank emerged as a big gold stopper in recent days, but then re-issued a bunch of deliveries yesterday. Color me as mostly confused.

Turning to yesterdayâ??s new COT report, I was hopeful the deterioration (managed money buying and commercial selling) in gold wouldnâ??t be as serious as the price moves over the reporting week might indicate, and with no real deterioration in silver. As a reminder, gold prices surged as much as $55, setting fresh nine-month price highs in the process, while silver surged by as much as a full dollar, although it was still contained by its monthly trading range. Students of market structure know full-well that such strong reporting week price gains are the formula for significant deterioration.

But itâ??s also true that the price rallies over the past couple of months in both gold and silver havenâ??t (yet) resulted in the typical deterioration seen on previous such rallies. I donâ??t know whether to call it as climbing a wall of worry, or stealth rallies, or rallies simply not trusted, but the fact is that the managed money traders donâ??t seem to trust or believe in the rallies, judging by their rather limited participation on the long side. Iâ??ve speculated that itâ??s not accidental, but rather the work of the prime brokers discouraging the managed money traders from getting aggressively long (so that the commercials donâ??t have to go short aggressively), but whatever it is, it is notable, and all things considered, bullish.

In COMEX gold futures, the commercials increased their total net short position by a scant 3400 contracts, to 175,900 contracts. Yes, this is the largest total commercial net short position since June 28, when gold was about $100 lower ($1820) and is about 100,000 contracts more than the total commercial short position was on November 1, at the price low of $1620, but this needs to be put into perspective. Gold has rallied $300 on a 100,000 contract increase in total commercial shorting (and equivalent managed money buying).

Back on March 8, when gold was at $2060 (its all-time price high), the total commercial net short position was 307,000 contracts (30.7 million oz), or 130,000 contracts more than on Tuesday. You may recall me concluding that was when the commercials looked at what was happening in LME nickel and deciding to whittled down short positions in COMEX gold and silver (and other commodities) ASAP. So the commercials then went to work, orchestrating a $440 price decline in gold ($10 in silver) and buying back 230,000 short contracts in gold into the price low of $1620 in November.

Here’s the real math â?? the commercials bought 230,000 contracts (23 million oz) on the $440 engineered drop in gold prices and on the subsequent rally of $300 to this point have only sold 100,000 contracts from the lows of November. Not only is this criminally masterful positioning by the COMEX commercials (at the expense of the managed money traders), compelling evidence in the form of the Bank Participation report, further suggests that the short positions of the banks is disproportionately lighter than it was at the gold price highs, all things considered. So, not only are the pure commercial numbers meaningful, the change in the composition of the commercials shorts are just as meaningful.

To me, this is one of those things of such profound significance that itâ??s hard to visualize as it is occurring and only becomes visible in the fullness of time â?? not at all dissimilar to the study of history itself. In other words, itâ??s hard to pin down and dissect history as itâ??s being made and, instead, can only be objectively fully-considered much later. Perhaps that means Iâ??m reading too much into whatâ??s developing in gold and silver, but it sure checks off all the boxes formed by decades-worth of close study.

The commercial selling this week in gold was by the 4 largest traders, certainly not my first choice of traders, but since the amounts were so low to begin with, is not an excessive concern at this point. Anyway, the 4 largest shorts added around 3800 shorts, increasing their short position to 134,266 contracts (13.4 million oz), while the next 5 thru 8 largest shorts bought back around 1700 shorts, with the big 8 short position rising to 212,951 contracts (21.3 million oz). The raptors (the smaller commercials apart from the big 8) sold off 1300 long contracts and now hold 37,100 longs. I still consider this quite high (and bullish) after a $300 gold rally. By contrast, back at the March 8 price highs in gold, the raptors were net short nearly 28,000 gold contracts â?? a net difference of 65,000 contracts from where they stood on Tuesday.

The managed money traders did buy more than the commercials sold, as these traders bought 7568 net longs, consisting of 7618 new longs and the new short Â sale of 50 contracts. Still, on as much as a $55 gold rally to new nine-month highs, the managed money buying was quite subdued. The resultant net managed money long position of 69,377 contracts (124,222 longs versus 54,845 shorts) is still historically low (and bullish), all things considered. Explaining the difference between what the commercials sold and the managed money traders bought was net selling by the other large reporting traders of nearly 5000 contracts, mostly in the form of long liquidation.

In COMEX silver futures, the commercials added 2400 contracts to a net short position amounting to 45,400 contracts. This is the largest total commercial net short position since April 26, when silver was about current price levels, but the direction back then proved to be much lower, whereas that hasnâ??t been the direction of late. It was encouraging to see that the 4 largest shorts actually bought back 500 shorts, reducing their short position to 43,251 contracts (216 million oz), while the next 5 thru 8 largest shorts added nearly 700 new shorts, which increased the big 8 short position to 66,063 contracts (330 million oz). The silver raptors sold off 2300 longs and now hold a net long position of 20,700 contracts, the lowest raptor net long position since April.

The managed money traders bought 3234 net longs, consisting of the purchase of 1215 new longs and the buyback and covering of 2019 short contracts. One reason Iâ??m not particularly disappointed with the increase in managed money net buying (I was hoping for flat positioning), aside from the fact that silver did rally as much as a full dollar over the reporting week, is that I sense the sharp selloff on Wednesday into Thursday completely reversed this weekâ??s deterioration. The resultant managed money net long position of 26,468 contracts (46,115 longs versus 19,647 shorts) is still historically low, considering just how much silver has rallied over the past couple of months.

Can the collusive COMEX commercials arrange for a sharp selloff in gold and silver at any time? You betcha. Will they? I donâ??t know, but if they donâ??t, we could and should fly higher. More than ever, particularly in silver, I believe whatâ??s going on in the physical markets should make the difference.

The Bottom of the Barrel

It appears to me that we have or soon will have hit the point of full depletion of meaningful wholesale quantities of physical silver which are available at current prices. Maybe the charade of the COMEX paper manipulation continues for a while longer, since itâ??s hard to pinpoint the end of anything that has lasted for 40 years â?? but the evidence is clear that we are scraping the bottom of the barrel when it comes to available industrial-size quantities of physical silver.

Case in point is the current state of depletion in the two largest stockpiles of silver in the world â?? the holdings in SLV (nearly 460 million oz) and in the COMEX warehouses (just under 295 million oz) â?? which together are now lower by 325 million oz over the past two years. Wait a minute, I can almost hear someone say â?? there are still 750 million oz in these two stockpiles, isnâ??t that enough for years more of being able to satisfy demand? No, it doesnâ??t work that way.

The remaining 750 million oz in SLV and in the COMEX warehouses (plus the additional 600 million oz in other silver ETFs and deposit programs) does look like a lot of silver â?? some 1.35 billion oz, representing close to 70% of the total 2 billion oz of silver bullion in the world (in 1000 oz bar form). But just because it is visible and publicly recorded does it mean itâ??s available for sale at anywhere near current prices. Somehow, it seems natural to assume that visible inventories (of anything) are â??availableâ?• for sale, but when you think about it further, you quickly realize that is patently absurd.

Particularly in the case of the nearly 1.4 billion oz of silver held for investment purposes in the silver ETFs and in the COMEX warehouses, the assumption that such silver is readily-available for sale is a basic contradiction of terms. Investment implies an expectation of higher prices. After all, no one buys or holds an investment in the expectation of lower, not higher prices. While itâ??s true that not all expectations of future profits (higher prices) are always met (after all, weâ??d all be billionaires by now), itâ??s also true that those holding silver (or any asset) as an investment are holding in the expectation of higher prices. What am I getting at?

Those holding silver as an investment in the expectation of higher prices to come are doing just that â?? holding, not selling. Particularly in the case of silver held in the silver ETFs and other deposit programs (essentially created for the purpose of holding silver as an investment) and also in the case of the remaining silver in the COMEX warehouses, essentially all this silver is held in the expectation of higher prices.

Another way of saying this is that the silver remaining that is held for investment purposes is not available for sale at current prices â?? only at some higher and unknown price. And remember, Iâ??m not referring to or including the near-certain new buying of silver as an investment asset ahead, as compounding the fact that currently held investment silver is not available for sale.

Therefore, once you subtract all the silver being held as an investment in the expectation of higher prices from the total amount of silver held on a published basis, the remaining amount is, in a highly-technical term, bupkis â?? or absolutely nothing. (Originally from a Yiddish term, meaning goat or sheep droppings). So, where do I get off concluding that the effective amount of available silver from all the silver ETFs and in the COMEX warehouses as being tapped-out?

This is the point of my never-ceasing discussion on the incredible turnover or physical movement in the COMEX silver warehouses and more recently in the SLV, namely, the movement is occurring precisely because the vast bulk of the total amounts held are held as investments and are not available. This unavailability is what necessitates the frantic and unprecedented physical turnover and is occurring only in silver of all commodities.

After two years and more than 400 million oz taken out from the SLV and other select silver ETFs and the COMEX, offset by an 80 million oz inflow into the Sprott silver ETF, it seems to me that the silver fuel gauge is far below â??Eâ?• and, essentially, we are running on fumes. The price may not yet be saying that, but soon will.

As for the explanation for why the Sprott silver ETF, PSLV, as gone sharply against the general trend of silver withdrawals from other silver ETFS and in the COMEX warehouses, early on it was believed by many that silver holdings were being shifted from SLV to PSLV and I suppose some of that may have occurred. But, over time, the switching from SLV into PSLV, simply hasnâ??t held up as a logical explanation. Since mid-2021, silver holdings in PSLV have grown by around 20 million oz, as total silver holdings in SLV and other word silver ETFs and in the COMEX warehouses have fallen by around 275 million oz. Thatâ??s a greater thanÂ 250 million oz discrepancy that doesnâ??t at all support the switching to PSLV premise.

As a holder of PSLV (as well as SLV), it would be foolish to take my comments as being negative towards PSLV in any way. In fact, Iâ??m highly encouraged that the holdings in PSLV have held and increased over much of the past year and a half, as it solidifies my argument about silver continuing to be held and not sold on an investment basis and rendering the remaining holdings in the other ETFs and the COMEX as unlikely to move substantially lower from here. How so (I think I hear someone in the back of the room asking)?

As I have been explaining for a while, the holdings in SLV and other silver ETFs and in the COMEX warehouses have been declining because New York and London are the principal world industrial silver distribution hubs; while Ottawa, where the PSLV stores its silver is not such a hub. Not good, not bad â?? just different. Because Ottawa is not a distribution hub for silver, there is little reason for the main distributors (the dreaded banks), to turn to PSLV to participate in the frantic physical turnover that has existed for 12 years in the case of the COMEX warehouses and for the past near-two years in SLV and other silver ETFs. Come to think of it, Iâ??m not sure I ever recall a single withdrawal from PSLV, but there is so much silver stuff crammed into my head, that itâ??s possible Iâ??m wrong about that.

More to the point, the fact that silver holdings in PSLV have been up by around 20 million oz (to 170 million oz) over the past year and a half is perhaps the single biggest proof that those holding silver as an investment are doing just that â?? holding â?? and not selling. The funny thing about investors is that they generally behave similarly â?? putting their pants on one leg at a time â?? and the investors in PSLV are not materially different from the investors holding SLV and other silver ETFs, as well as investors holding silver in the COMEX warehouses.

The lesson to be learned from the slightly increased holdings in PSLV over the past 1.5 years is that investors in that trust are, essentially, holding, not selling and the same goes for investors in other silver ETFs and on the COMEX as well. That leaves the explanation for the steep withdrawals from SLV and other silver ETFs and in the COMEX warehouses to something else. By process of elimination, that â??something elseâ?• can only be industrial demand and also net demand from India and other points east. And if this is true (as it would seem to be), once you take away all the non-investment silver already removed from total inventories and get down to pure investment holdings, silver holdings are unlikely to fall further (my premise).

Additionally, while the less than 1.4 billion oz remaining in all world silver ETFs and in the COMEX warehouses may still sound like a lot, once you convert those remaining holdings into dollar terms (by multiplying by $24), the dollar value of those holdings is less than $35 billion. Please stop and think about that for a moment. All the visible and recorded investment silver bullion in the world is worth less than $35 billion, a figure so low as being hard to calculate when comparing to other world investment holdings in other assets like stocks, bonds and real estate, where the levels run into the many tens of trillions of dollars, not a piddly $35 billion. The value of the 3 billion oz (out of 6 billion total oz) of gold bullion in the world is around $6 trillion (with a â??Tâ?•), or more than 170 times the value of the silver bullion held as an investment in publicly-reported form.

As for what accounts for silverâ??s off-the-charts and off-the-wall undervaluation, pull up a chair and let me tell you all about a 40-year price manipulation on the COMEX. Alternatively, why not instead do the most practical thing possible and grab hold of as much investment silver as you can practically afford, ignore the near-term price noise and plan to live as long and healthy a life as you can â?? confident that this price scam has now fully-depleted all the non-investment held silver and, therefore, canâ??t continue for much longer.

Ted Butler

January 21, 2023

Silver – $24.05Â Â (200-day ma – $21.18, 50-day ma – $22.95, 100-day ma – $21.06)

Gold – $1928Â Â Â Â Â (200-day ma – $1787, 50-day ma – $1811, 100-day ma – $1747)

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