In a week packed with more significant developments than typically occur over the span of a year or more, the price of gold fell a slight $9 (0.5%), while the price of silver rose sharply by $1.50 (5.9%), and closing at weekly highs not seen since early September.

As a result of silver’s sharp relative outperformance, the silver/gold price ratio tightened in by more than 4 full points to 68.3 to 1, by a slight margin to silver’s best relative showing in nearly 4 years and close to the most fully valued silver has been relative to gold in nearly 7 years. What this means is that anyone who swapped gold for silver or bought silver instead of gold, has no reason now to regret doing so. While the short term is always a crap shoot, in the long term it’s hard for me to fathom how silver won’t be massively revalued higher relative to gold.

Silver’s stark relative outperformance this week had the rare (to this point) effect of adding more than gold to the total loss of the 8 big shorts in COMEX gold and silver – the main factor at the epicenter of all that matters to price. Netting out the small gains the 8 big short crooks benefitted from by the drop in gold with the larger losses they experienced in silver, the 8 big shorts ended the week $300 million worse off at $12.6 billion in total. As you know, there haven’t been many weeks over the past year and a half where silver has accounted for more losses to the big shorts than gold.

The stunning developments this week are, likewise, centered on silver in the form of truly remarkable changes in the big silver ETF, SLV, and goings on at the Robinhood brokerage, as well as on the Reddit chat site. In order to get to those more important developments, let me first run through the usual weekly developments, including the new COT report before getting to the core of what needs to be said.

The turnover or physical movement of metal either brought into or removed from the COMEX-approved silver warehouses slowed to a near halt this week, as only 1.5 million oz were moved. That has to be one of the lowest weekly movements in the ten years I have been monitoring the weekly turnover. And all the movement was out, as total COMEX silver warehouse inventories fell by that amount to 397.3 million oz, not that far off the record total of the previous week. No change in the JPMorgan COMEX silver warehouse, which was unchanged at 193.9 million oz.

COMEX gold warehouse inventories rose again by a slight 0.1 million oz to 38.8 million oz, another new record high. No change in the JPM COMEX gold warehouses, which remained unchanged at 13.72 million oz.

Deliveries against the big traditional COMEX February gold futures contract over the first two delivery days were large relative to past years at 17,212 total contracts (1.7 million oz), but still progressively lower than the peak of deliveries this past spring and summer. Goldman Sachs was a noted issuer in its house account of nearly 9000 contracts, with the only name I really care about, JPMorgan, on both sides for clients, but taking (stopping) nearly 3000 contracts in its house account.

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

A key feature to me is still the dramatic tightening of intra-month spread differentials in both COMEX gold and silver futures contracts. Last spring, as you may recall, the spreads “blew out” to unprecedented wide levels and now they have tightened in nearly as dramatically. My best conclusion is that this is a strong indication of wholesale physical tightness in both gold and silver.

Turning to yesterday’s new Commitments of Traders (COT) report, I should have stuck with not knowing what to expect, instead of adding “not much” as the changes were larger than what I would have guessed in gold. However, when going back and reviewing the price pattern in gold over the reporting week, I can see how the managed money traders bought as many contracts as reported.

In COMEX gold futures, the commercials added 11,500 new short contracts to a total net short position measuring 298,900 contracts (29.9 million oz). By commercial category, the 8 big shorts added around 2700 new contracts to a concentrated short position now (as of Tuesday) amounting to 257,665 contracts (25.8 million oz). The raptors (the smaller commercials) added 8500 new shorts. JPMorgan appears to have been a light seller of perhaps a thousand contracts, which would put them flat (same in silver).

On the buy side of gold, there were a couple of surprises, including the large buying by the managed money traders of 18,328 net contracts, consisting of new longs of 15,654 contracts and the buyback of 2674 short contracts. This put the net long position of the managed money traders at 96,399 contracts (142,815 longs versus 46,416 shorts) up quite sharply for the week, but still on the low side historically. It does somewhat explain gold price weakness after the Tuesday cutoff.

Also a surprise was selling by the other large reporting traders of 7420 net contracts, consisting of the sale and liquidation of 9629 longs and the buyback of 2209 short contracts. While still very large net long, these other guys did sell this reporting week – I would guess on the earlier price rally in the reporting week.

In COMEX silver futures, the commercials added 3100 contracts to a net short position amounting to 73,400 contracts. By commercial category, the 4 big shorts added more than 1300 new contracts to a concentrated short position of 58,590 contracts (293 million oz) as of Tuesday. The next 4 largest shorts also added about 700 new short contracts new shorts and the 8 largest traders hold a concentrated short position of 77,561 net contracts (387.8 million oz) as of Tuesday and undoubtedly more as of yesterday's close. The smaller commercials, the raptors (mostly JPMorgan) sold 1100 long contracts which would put JPM flat – no short position as of Tuesday.

On the buy side of silver, the managed money traders accounted for most of the non-commercial buying, as they bought 2836 net contracts, consisting of new longs in the amount of 323 contracts and the buyback and covering of 2513 short contracts.

After the Tuesday cutoff, both gold and silver prices remained on the weak side on Wednesday, but as you know, silver prices surged on Thursday and yesterday on very heavy volume, with gold unable to hold early gains on either Thursday or yesterday. Now we get to the juicy part, involving the tremendous trading volume in silver on Thursday and Friday, both in COMEX futures and in shares and options in SLV and last night's record deposit of more than 34 million oz into the trust.

Before getting to the remarkable trading volumes of the past two days and record one-day deposit into SLV, I "snuck" in a paragraph (fourth from the bottom) in Wednesday's article in which I had a "Spidey-sense" that there might be a large increase in the short position of SLV when the new short report was issued much later that night. There really shouldn't have been a sharp increase in the short position of SLV, for the trading period of Jan 4 thru Jan 15, because after a rally on Jan 4 and 5, SLV and silver prices sold off pretty sharply on much higher trading volume right through Jan 15 (the cutoff for the short report released late Wednesday). But, sure enough, there was a large increase in the short position of 10 million shares to 24 million shares (oz).

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

What caused me to suspect there might be a large increase in the short position was the very large one-day deposit of 20 million oz (a record until yesterday) into SLV on Jan 19. Whenever there is a large metal deposit into SLV, that deposit is most always related to new buying on heavy trading volume and prices increasing (like yesterday's deposit) or a metal deposit to cover and eliminate a short position. Clearly in the case of the big 20 million oz deposit on Jan 19, it was related to a large short position put on earlier, since the trading volume and price action immediately preceding the deposit was lackluster. In other words, the short position was established on what were the mostly weaker prices that prevailed until Jan 15, which is supportive of the premise a large buyer was methodically accumulating shares. Most bullish is that the delay in depositing the metal until Jan 20 is supportive that the metal was leased, and also meaning physical conditions were very tight.

Yesterday's deposit of 34 million oz is different in that it came in quickly, following the explosion in trading volume in SLV of 150 million shares on Thursday (the most in my memory), followed by yesterday's 110 million share trading volume. In fact, my guess was that the SLV was "owed" 50 million ounces for both days' combined volume and my sense is that the remainder is still due to be deposited.

There should be little question that yesterday's big deposit came from metal already in the appropriate SLV warehouse and not moved in yesterday, as moving 57 full truckloads of physical metal in one day is even more impossible than moving 33 full truckloads back on Jan 19. I expect that there will be moaning and whining from some about this all being phony, except it appears that all the serial numbers, specific bar weights and hallmarks of the 34,000 added bars are already posted on the BlackRock SLV site.

https://www.ishares.com/us/products/239855/ishares-silver-trust-fund?qt=SLV

Some things that I believe can be said about the physical silver deposits into SLV are that the metal appears to have come from leasing. Importantly, the leasing was done by the authorized participants which sold the shares and made the metal deposits and not by SLV, meaning that the trust got the metal free and clear of any encumbrances or promise to return. The obligation to return the metal some day is not a problem for the SLV, but for the authorized participants which did the borrowing.

Also, the only entity capable of providing the leased metal was JPMorgan or its close affiliates, since they are the only ones holding that much physical silver. You will recall that when massive amounts of physical silver began flowing into SLV, other silver ETFs and the COMEX warehouses last spring, I quickly concluded JPM was leasing the metal (300 million oz or more) and later speculated that JPM was doing so as part of its pending settlement with the Justice Department and CFTC. After further consideration, I went back to my original leasing premise because I just couldn’t see JPM being that charitable. I admit it has to be one or the other, leasing or donating of metal by JPM, and still come down on the side of leasing, as that benefits JPM the most (and places the other shorts in greater jeopardy).

The good news about all this is that those holding shares of SLV (like my wife, who is now talking to me again since silver moved higher last year) are fairly assured that real metal backs the shares and that newer buyers are getting shares at such attractive (low) prices. However, it also raises the disturbing questions of why the authorized participants are being so accommodative to the new buyers in selling so many shares and borrowing so much physical silver at such low prices, when the sellers could easily demand much higher prices. Here's where it gets ugly.

The only conceivable reason the authorized participants would sell so aggressively at such low prices and further compound their position by going out and borrowing physical metal to back the shares is to prevent silver and SLV prices from rising. There can be no doubt that the authorized participants in SLV that are doing this are also among the 4 and 8 big shorts on the COMEX. It can't be anyone else. The only seller who wouldn't demand higher prices when higher prices are easily attained, is a seller with a greater motivation of preventing higher prices because higher prices would jeopardize the large short positions already in place.

I would compare this circumstance to what happens in a bank run, like took place in the 1930's before federal deposit insurance protected bank deposits. More recently, there were the institutional bank runs at Bear Stearns and Lehman Bros. in 2008. If word starts to get out that a financial institution may be in difficulty, nervous depositors and investors start to withdrawn money. The only possible remedy for cutting off a developing bank run is for the institution in question to meet initial withdrawal demands quickly to show there is no problem, even though there is a problem. Any delay or hesitation in meeting demands for withdrawals will only result in a wider panic by other depositors and investors ultimately guaranteeing the failure of the institution in question.

This is exactly what the big shorts are doing in SLV, selling new shares and borrowing more metal to deposit promptly in order to prevent a run on silver. But at best, it's only a band-aide approach that might succeed in the very short term (days or weeks) of preventing prices from exploding today, but actually further ensures the eventual price explosion.

Then there's the matter of the reported newly-instituted trading restrictions at Robinhood for about 50 different securities. Take a good look at the securities on the list and imagine you were back in your kindergarten days in which you were given an assignment to pick out what didn't belong on a picture list of, say, animals that people keep as domestic pets which included puppies and kittens and goldfish and parakeets, but also elephants and lions and tigers which obviously didn't belong on the list.

https://www.cnbc.com/2021/01/29/robinhood-is-still-severely-limiting-trading-gamestop-holders-can-only-buy-one-additional-share.html

Just like a kindergarten student should be able to separate the elephants and lions and tiger from the puppies and kittens, you should be able to see that AG (First Majestic Silver Corp), MUX (McEwen Mining) and SLV (the big silver ETF), don't share much in common with the other stocks (like Gamestop) on the list. Particularly with SLV, where the short position, despite the big increase reported Wednesday to 24 million shares, only amounts to less than 4% of current total shares outstanding (compared to Gamestop's more than 100% short position), the trading restriction makes no legitimate sense.

Further, there is no possible comparison in the price action of the silver-related stocks on the restricted list and that of Gamestop and the others. Gamestop ran from $20 on Jan 12 to as high as $500 this week, while SLV rose a point and a half this week and is still not higher than it was six months ago. What possible reason could there be to include SLV (as well as AG and MUX) on this list? Only one.

There is not the slightest doubt in my mind that someone “got” to Robinhood. And the only possible candidates were the big COMEX shorts, who are also actively engaged in preventing a bank run in SLV by selling shares way too cheap and borrowing physical metal to head off the developing bank run in silver. Anything to keep prices from rising.

Account holders at Robinhood were incensed when trading restrictions began to be put on and then taken off, only to be put on again. But truth be told, while I understand the outrage at the sudden on again, off again and back on again restrictions in Gamestop and other shares, the regulators were almost required to do something – although, Heaven forbid that there be any restrictions on short selling which is the proximate cause behind the crisis. But SLV? You got to be kidding. This is a thousand times more outrageous than restrictions on Gamestop.

The good news is that there is a much better chance than ever that all this will shine the light on the real problem in silver, namely, the existence of the most concentrated short position – larger and more manipulative than in any other commodity. And while I never would have imagined it would get exposed in the manner it’s getting exposed – by the Reddit site – my dream is closer to fruition than ever before. That dream is no more than having large and sophisticated investors finally focus in on the real facts in silver. That’s all I ever desired – a no-nonsense and objective review of the effect of the concentrated short position on the COMEX in silver.

The fact that an army of (mostly) young and previously inexperienced investors may be the catalyst behind the “sophisticated” investment world waking up to the COMEX silver suppression never occurred to me. Yet the signs suggest that is what is occurring. As recently as a week ago, it wouldn't have occurred to me that this was even possible – now the signs are that the big shorts are starting to pull off every dirty trick in the book to prevent a long overdue and fully justified silver price explosion.

When something is cheap (as silver surely is), it makes sense to buy it, not sell it – and certainly not sell it short. Yet that is precisely what the big shorts are doing on the COMEX and in SLV – by leasing the metal they are depositing. Leasing is nothing more than another version of short selling. And the only possible motivation for the big new short selling by the big shorts is to keep prices from rising, which is about as illegal and manipulative as it gets.

One thing you can be sure of – just as I and everyone waiting on silver to rise in price were shocked to see the developments of the past week (few days actually), the big shorts were just as shocked. This Robinhood/Reddit development was a true bolt out of the blue – completely unexpected and earth-shaking in significance. The best the big shorts have been able to do in reaction is to short more COMEX contracts and borrow scads of physical metal to throw at the SLV and force Robinhood to prevent its clients from buying. That's pretty darn desperate. Will the big shorts succeed in stemming the rising price tide in silver?

Perhaps in the very short term, but not beyond the short term. And maybe not even in the short term. The more attention to this matter, the more folks will see the real issues that matter. The problem in Gamestop and the other shares that did explode in price was outsized short positions. That's been the problem in silver for decades, but the futures and other derivatives markets are infinitely more complicated to the average investor than the stock market and when anyone first looks at a COT report and tries to ascertain what the concentrated long and short positions are, and no less mean, well forget about it. But these Robinhood/Reddit people appear to have shaken things up enough that some really smart and wealthy people will be forced to take a hard look.

In the meantime, the Robinhood clients are certainly smart enough to know that the trading restrictions in SLV, AG and MUX don't fit with the trading restrictions in Gamestop and the others and are designed to deprive and cheat those clients from participating in the great price run in silver ahead. Whoever put those trading restrictions on was bought out by the big shorts, pure and simple, and should be boiled in oil. Along with the 4 and 8 big shorts, and while I'm at it, the regulators, particularly the self-regulators at the CME Group.

(On a housekeeping note, I'm switching to the April COMEX gold contract for closing price purposes, which has the effect of adding $3 to the price)

Ted Butler

January 30, 2021

Silver – $27.05   (200 day ma – $22.66, 50 day ma – $25.19, 100 day ma – $24.99)

Gold – $1849   (200 day ma – $1852, 50 day ma – $1859, 100 day ma – $1884)