

July 3, 2021 – Weekly Review

For a change, a late Friday rally lifted gold and silver prices to positive weekly closes, with gold finishing up by \$6 (0.3%) and silver by 42 cents (1.6%). As a result of silver's relative outperformance, the silver/gold price ratio tightened in by nearly three quarters of a point to 67.2 to 1, still stuck in the same five-point trading range since earlier in the year. Considering all that has transpired in the world of precious metals over this time, it's sort of freakish that the prices of gold and silver would be so tightly joined at the hip. Yes, "freakish" in this case is another word for price manipulation.

The big news (at least for me) this week were some highly unusual results in yesterday's Commitments of Traders (COT) report for silver. There is one potential fly in the ointment, but aside from that I'm tempted to pronounce yesterday's report as the most significant I've encountered and that's going back 30 years.

Ironically, the report came in extremely close to expectations expressed on Wednesday, namely, with some improvements in the market structures, more so in gold than silver. The surprise was in the details under the hood as concerned the short position of the 4 largest silver traders. The surprise was great enough to have me checking and rechecking the data and while it's possible there was some type of reporting error, I don't think that's the case. Let me run through the usual weekly format before getting into the details of the COT report.

The turnover or physical movement of metal either brought into or removed from the COMEX-approved silver warehouses amounted to just over 4.9 million oz this week, quite close to the weekly average of the past ten years. Most of the movement this week was of the "out" variety, as total COMEX silver holdings fell by 3.7 million oz to 350.7 million oz. No change in the holdings in the JPMorgan COMEX silver warehouse, still stuck at 187.5 million oz.

This is a new low for total COMEX silver holdings since the decline began in January from just over the 399 million oz level and marks the lowest level of these inventories since last August. As previously noted, the decline in COMEX silver inventories over the past several months is one of the largest declines in years and combined with the still-unprecedented physical turnover points to a physical tightness not present in other commodities. And for good measure, throw in the fact that this week's sharp decline comes in the face of the start of an active delivery month, when increases in COMEX physical silver holdings would be intuitively expected.

COMEX gold warehouse holdings increased this week by around 0.2 million oz to 35.4 million oz, with most of the increase tracing to an increase of 160,000 oz in the JPMorgan COMEX gold warehouses, now at 12.95 million oz.

Turning to deliveries on the July COMEX silver contract, JPMorgan still dominates both sides of the issuer (deliverer) and stopper (taker or acceptor) functions, but strictly for clients and not in its own house account (which I still believe is good news). Of the 5211 total silver deliveries made so far this month (with less than 1800 contracts effectively still being open in July), JPM has issued 1676 contracts and stopped 3561 contracts for its customers. One unexpected development was that yesterday Citibank issued 967 contracts from its house account. You'll recall I mentioned Citibank in

connection with the latest OCC report on Wednesday. If you do decide to peruse the details in the year-to-date delivery report linked here, be sure to scroll down to the silver deliveries, which begin on page 18 of the 23-page report)

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

In silver ETF physical metal flows, metal still is being redeemed in SLV, to the tune of a few million oz this week, while metal is still flowing into the other silver ETFs, including, but not limited to PSLV. On balance, total silver ETF flows this week were largely unchanged. I'm starting to believe that the net declines in SLV are related, much like the COMEX warehouse declines, to physical silver being needed elsewhere and it is logical for drawdowns to occur in the two largest stockpiles of silver in the world. In short, the declines in holdings in SLV are of no particular concern.

In the interest of full disclosure, while I haven't sold any of my wife's SLV holdings (and don't intend to), I did add a chunk of PSLV this week for diversification purposes and to take advantage of what looks like a very bullish set up for a sharp rally. I also bought a few kamikaze call options on SLV after having to grovel (again) for permission from she who must be obeyed - happy wife, happy life and all that jazz. Given that kamikaze call options haven't worked in some time, only fools, drunks and the mentally unbalanced would entertain this approach, and my wife doesn't possess any of those qualities. Other than that, she's not bad.

Turning to yesterday's COT report, let me run through what looked like a highly expected report at first, but that quickly turned into something quite shocking to me in silver. I had already bought my reckless call options before the report was released, but if I hadn't - win, lose or draw - I'd be wishing I had.

In COMEX gold futures, the commercials reduced their total net short position by 7300 contracts to 195,100 contracts. Of course, this follows last week's near 29,000 contract reduction in the total commercial short position and is the lowest total short position since March 30, when the total commercial short position was 193,700 contracts and the 8 big shorts were able to whittle their total losses down to \$8.3 billion at the quarter end (down from the \$14 billion yearend loss).

Moreover, you have to go back to June 2019 (when I first started calculating the 8 big shorts' losses this time around) to find a lower (more bullish) commercial short position. And remember, the March 30 low of 193,700 total contracts held short by the commercials is what led to a \$220 gold rally within roughly two months. I will be surprised if the gold rally to come isn't much greater.

By gold commercial categories, the 4 biggest shorts bought back close to 1600 contracts and now hold a concentrated short position of 137,321 contracts (13.7 million oz). This is the lowest big 4 gold short position since last August. The 5 thru 8 next largest gold shorts only bought back around 100 contracts and the big 8 concentrated short position is now 205,302 contracts (20.5 million oz).

Therefore, the biggest commercial buyers this week were the smaller commercials I call the raptors which added 5600 longs to a net long position now amounting to 10,200 contracts. Over the past five reporting weeks (since June 1), the smaller raptors have purchased 46,600 gold contracts of the 53,100 total commercial contracts purchased over this time, flipping from a net short position of 36,400 contracts to this week's net long position of 10,200 contracts. Who says the smaller commercials aren't every bit as collusive as the bigger commercial cheaters?

On the non-commercial side, the managed money traders were net sellers to the tune of 1154 gold contracts, consisting of the purchase of 5400 new longs and the new sale of 6554 short contracts, an admittedly strange combination. The other large reporting traders and smaller non-reporting traders combined to sell close to 6000 net gold contracts, providing the bulk of what the commercials bought on balance. Bottom line, the already extremely bullish gold market structure got even more bullish.

In COMEX silver futures, the commercials reduced their total net short position by 600 contracts to 57,100 contracts. This is the lowest (most bullish) total commercial short position since mid-April, but the shock and surprise to me were the changes in the commercial categories. The 4 largest shorts, which I claim account for the silver price manipulation, bought back an astounding 5021 net contracts, in reducing their concentrated short position to 48,393 contracts (242 million oz). The 5 thru 8 next largest shorts bought back a bit over 300 contracts and the big 8 short position fell to 66,147 contracts (330.7 million oz). The raptors sold off 4800 longs and reduced their net long position to 9000 contracts.

Only once before can I recall large big 4 short covering and raptor selling and that was exactly a year ago in the COT report of June 30, 2020. Back then the 4 big shorts reduced their short position by just over 6000 short contracts and the raptors sold that many longs, but there were some important differences between what transpired back then and in the current COT report. I'm not trying to make this complicated, so if anyone has any questions please don't hesitate to fire away.

Last year's COT report included the first delivery day of the big July contract, while this year's doesn't. Last year, JPMorgan delivered close to 6000 contracts on the first delivery day and at the time, I predicted as a result of that delivery it would wipe out JPM's silver short position, which I had been pegging at 5000 contracts or more. Therefore, the big 6000 contract closeout of the big 4 short position last year was the direct and automatic result of the big first day delivery by JPMorgan. Also, last year, the raptor selling of 6000 longs was the result of managed money buying of 6400 net longs.

The current COT report is markedly different from what occurred last year. For one thing, it had nothing to do with deliveries as it was cutoff on the 29th, a day before first delivery day. Plus, JPMorgan wasn't short going into this week's report, as it was the prior year. Therefore, the 5000-contract reduction in the big 4 short position this reporting week was the result of actual short covering and the near exclusive sellers to the 4 big shorts were the raptors. One of the interesting twists in this week's report is that it was largely a case of commercials vs other commercials, as well as non-commercials vs other non-commercials. (In fact, I'm going to skip over the non-commercial dealings this week in order to keep things from getting too wonky).

Here's my point for the first time I can recall, the main feature of this week's COT report was the decisive and significant short covering by the big 4 and the selling to them by the smaller commercials, the raptors. What makes this significant is that for the first time in memory, the 4 big shorts bought back short positions on higher prices and not the previously-exclusive short covering on

lower prices. We know this from the actual data and because the raptors always and only sell on higher prices.

While I haven't mentioned it recently, longtime readers may recall this is an outcome I discussed frequently in the past. Just about every time the raptors built up a substantial long position (on lower prices) over the years, along with an always concurrent relatively low big 4 short position, invariably I pointed out how the 4 big shorts had an opportunity to buy back short positions on higher prices from the raptors and before the managed money traders began buying in earnest on higher prices. Also, invariably, the big 4 never did so, But, suddenly, they appear to have done just that in this reporting week.

My surprise that the big 4 silver shorts appear to have bought back aggressively on higher prices caused me to recheck my calculations more than a few times. I suppose it's possible that there was a reporting error by the CFTC, but that's highly unlikely, as the input for the concentrated positions of the largest 4 and 8 traders in each commodity is a separate and specific calculation and it would be hard to screw that up.

Of course, I can't help but connect the reported big 4 short covering (8700 contracts – 43.5 million oz – over the past two reporting weeks) with everything I have been trying to get the CFTC to do, namely, to get the 4 big shorts to stop manipulating silver prices. Certainly, the timeline can't be more connected. I wrote to the Commission on March 5, laying out the largest concentrated short position held by the 4 big shorts on Feb 2 in a year and the Commission responded on May 3 that it was considering what I wrote (unlike its sharp disagreements of the past).

Now, as of June 29, the 4 big shorts are holding 16,869 fewer shorts (84 million oz) than they held on Feb 2 and the lowest concentrated short position in a year. And the extreme positioning change has occurred on what – a two or three-dollar price change in silver? Sure, maybe I'm reading it all wrong, but then again, maybe I'm not. But it seems to me that the 4 big shorts are operating in a manner unlike previously. Look, I have no control over what these crooks and cheats do or don't do, but I would hope the Commission has some control.

In any event, for the sake of discussion, let's assume for moment that the Commission has persuaded the 4 big shorts to cease and desist from behaving as they have in the past, namely, always selling short aggressively on every silver price rally. If the 4 big shorts revert to adding short positions on higher prices, then no change and silver price rallies get capped and the manipulation lives on. But what if they don't?

In that case, I can see little that can stop silver prices from exploding. If the 4 big shorts don't sell short aggressively on higher silver prices – then who will? Certainly, not the managed money traders or other non-commercials. And as far as other commercials, once the raptors sell out their remaining longs, they are not likely to aggressively short silver or, at least, haven't in many years. And there's no way the 5 thru 8 largest shorts could add enough shorts to stem the tide of higher prices.

It's always been a case that the 4 big shorts held the key to the silver manipulation and that's why I have persisted in pointing the finger at them. That was true when JPMorgan was the leader of the big shorts and it's truer now that it no longer is the leader. And it seems unlikely that the 4 big shorts, after buying back aggressively this week and last that they would turn around and add shorts aggressively quickly. Therefore, it's hard for me not to think in uber-bullish terms.

The one fly-in-the-ointment I mentioned earlier has to do with the total open interest increasing sharply (4700 contracts) in yesterday's preliminary statistics. I can easily imagine who the buyers might be (after all, we did slightly penetrate the 100-day moving average, leaving only the 50-day ma as a technical obstacle), but I do have trouble imagining who the new sellers might have been away from the big 4. But the data in yesterday's published report leave no doubt that the 4 big shorts bought aggressively for the second straight reporting week and that must be considered as birds in hand, whereas the tentative open interest data are birds in the bush.

Finally, there is no doubt in my mind that silver must explode at some point and the time for that should have been long ago. So, it comes down to what specific signs, if any, might we be able to see before the explosion. Of course, being able to spot the signs in advance would be great and make reckless kamikaze call option buying a sure thing and not reckless at all. But the important point is not to swing for the fences with much greater odds of striking out, but instead be in position to profit whether we explode now or later. The only sure way of doing that is by holding fully-paid for positions, not subject to forced liquidation by holding margined positions susceptible to being jettisoned on contrived selloffs. This is a case of mostly doing what I say and not what I do.

The whole discussion today about the unusual short covering by the 4 largest silver shorts falls under the categories of perhaps me being too sensitive to something I have long envisioned weighed against not speaking up on something that might be of profound importance. I'm still unquestionably convinced that the 4 big shorts not adding to short positions is the key to silver prices exploding. Whether this week's COT report points to that should be known fairly quickly.

This week's slight gain in gold and silver prices added more than \$200 million oz to the 8 big shorts total losses and raising those losses to \$10.6 billion from last Friday's close and up \$500 million from the quarter end close of \$10.1 billion on Wednesday.

Ted Butler

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Silver \$26.60 (200 day ma – \$25.79, 50 day ma – \$27.13, 100 day ma – \$26.59)

Gold – \$1788 (200 day ma – \$1833, 50 day ma – \$1832, 100 day ma – \$1790)

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