July 30, 2022 – Weekly Review

Gold rose for a second week (following five straight weeks of declines), this week by a sharp $40 (2.3%) and silver finally joined the upside party after six straight weeks of declines, surging higher by $1.83 (9.9%). Effectively, the rallies took place in the two days following the COMEX official close early Wednesday afternoon and coincided with the latest Fed meeting. The rally in silver was particularly stunning, as the two-day rally reversed what had been a rather severe monthly selloff to two-year price lows,

As a result of silverâ??s extreme relative outperformance this week, the silver/gold price ratio tightened in by nearly 6.5 full points, to 86.8 to 1, one of the sharpest ratio movements in recent memory. Of course, I believe silver is still wildly undervalued relative to gold, making it very hard for me to see how this isnâ??t just the start of what I expect to be an explosive move higher in silver (and gold) and a sharp revaluation of the silver/gold price ratio (as I hope I conveyed on Wednesday and for some time before that).

As far as what caused the stunning upside reversals in gold and silver prices these past days, look no further than the same central theme discussed on these pages incessantly, namely, futures positioning on the COMEX between the commercials (mostly banks) and their principal counterparties, the managed money traders. For sure, there would appear to be more bullish ingredients in gold and silver than are almost capable of being counted, but the one price influence that stands head and shoulders above all combined is positioning on the COMEX.

Iâ??ll try to get into some of those bullish ingredients, as well as addressing what are continued questions expressed by subscribers that I sense are shared by many, as well as the all-important new Commitments of Traders (COT) report released yesterday, which revealed surprisingly bullish results in silver.

The turnover or physical movement of metal either brought into or removed from the COMEX-approved silver warehouses remained quite strong this week, as more than 8.6 million oz were moved and total inventories fell a sharp 5.1 million oz to 336.8 million oz. Holdings in the JPMorgan COMEX silver warehouse fell by 2.5 million oz to 174.1 million oz. Total COMEX silver inventories havenâ??t changed much over the past six months or so, but continued attention has been placed on the decline in the registered category versus the eligible category.

I do find the decline in the registered category as bullish, as it suggests to me that owners are moving the metal into the cheaper form of storage charges, implying long-term ownership intentions, but I draw the line at statements suggesting the movement from registered to eligible implies that meaning that JPMorgan is running out of silver. JPM, in my opinion, is running out of physical silver (or gold) about as much as Iâ??m running out of daily aches and pains as I trudge deeper into old age. Over the same six months of relatively stable total COMEX silver holdings, more than 200 million oz have been physical brought into and out from these warehouses, without hardly a peep of notice. Go figure.

Total COMEX gold warehouse holdings fell again, this week by 0.9 million oz to 30.3 million oz, another multi-year low. Likewise, holdings in the JPM COMEX gold warehouse fell by 0.5 million oz to 12.46 million oz. Just to put things into proper perspective, aside from not knowing for sure what the decline in the COMEX gold warehouses means, please remember that we are talking about changes in a total COMEX stockpile thatâ??s only one percent of the worldâ??s 3 billion oz inventory of gold bullion. At least in silver, the COMEX warehouse holdings represent more than 16% of all the silver bullion (2 billion oz) in the world.

The start of the traditionally large COMEX August delivery month in gold commenced this week and after the first two days of delivery, a rather large 21,935 total contracts were issued, with around 9000 contracts still open in the delivery month. Itâ??s hard for me to make heads or tails from what it all means, except that JPMorgan is the biggest net stopper for customers and took 142 contracts in its house account, so allâ??s well in my world.

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

There were some slight withdrawals/redemptions in the worldâ??s gold ETFs, but the numbers in silver, exclusively in SLV, continued to be remarkable â?? another near 20 million oz this week, 60 million over the past month and 100 million oz over the past four months. These are staggering amounts and the best I can determine are not related to plain vanilla investor liquidation, since there have been virtually no redemptions in the other world silver ETFs, just SLV. I have to consider this bullish, as it strikes me that the 100 million oz redemption points to conversions of shares to metal for the prime purpose of clearing the deck for future purchases by the large entities doing the conversions. One of the most consistent questions on most minds (mine included) is why isnâ??t someone big stepping up to buy silver at its super-depressed price? The massive redemptions in SLV suggest such accumulation is in progress.

About as counterintuitive as the redemptions in SLV are the results of this weekâ??s new short report on stocks. I didnâ??t choose to include the results in Wednesdayâ??s piece, so as not to diminish the thrust of my message that day, but as of July 15, the short position in SLV grew by 7 million shares to just over 39 million shares/oz (minus the cumulative 8% management fee since inception in 2006). This is just shy of the 41 million share extreme not that long ago and not at all what I would have expected. What makes the sharp increase so counterintuitive is that the commercial short position on the COMEX has done nothing but decline sharply and most usually, the short position on SLV moves in parallel. Obviously, not this time.

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

The most plausible explanation for the increase in the short position on SLV is still that physical silver is incredibly tight and the new shorting represents an inability to secure the physical supplies required to match new share creation. But the disparity between what is occurring on the COMEX, where the commercial short position is melting like ice on a hot July day, is that others, apart from the usual commercial crooks are doing the new shorting. Admittedly, I hold a particularly bullish outlook for silver at this time, but the sharp increase in SLV shorting looks necessary for reasons apart from a straight, logical bet that silver should move lower. As it stands, all new shares shorted over the two-week reporting period are already in the red as a result of the rally over the past couple of days.

Turning to yesterdayâ??s COT report, given the relatively flat price action in the reporting week ended Tuesday, I wasnâ??t expecting much of a change in silver or gold, except for perhaps some additional managed money selling and commercial buying in gold on the fairly big down day in gold at the start of the reporting week. Instead, the fairly sharp improvement in silver came as a welcome surprise.

In COMEX gold futures, the commercials further reduced their total net short position by 3800 contracts, to 108,400 contracts, yet another new bullish low extending back three years. Since the commercial short position has declined nearly non-stop for nearly 5 months, since March 8, youâ??ll forgive me if I donâ??t overly dwell on the details of this weekâ??s report and instead, stick to the highlights.

There was reduction in the big 4 short position on a straight mechanical calculation of around 2600 contracts to 102,866 contracts (10.3 million oz), but adjusting this position to commercials only, it dropped to around 73,000 contracts (7.3 million oz), in each case the lowest in memory. Â On a straight calculation the big 8 short position (including managed money shorts) fell by 1800 contracts to 174,530 contracts (17.5 million oz), while the commercial-only component came to 134,000 contracts (13.4 million oz), about the lowest ever.

The managed money traders didnâ??t do anything to speak of in gold this week, as their net short position increased by a scant 300 contracts or so, to 19,093 contracts (92,216 longs versus 111,309 shorts), extremely bullish by any account. The other large reporting traders and smaller non-reporting traders accounted for the 3500-contract difference between what the commercials bought and the managed money traders sold.

In COMEX silver futures, the commercials bought and reduced their total net short position by a rather hefty 5600 contracts to 2700 contracts. What made this weekâ??s reduction notable was that it was larger than the combined reduction in the total commercial short position of the two previous weeks, when the price of silver dropped more sharply.

Saying that this was the lowest commercial silver net short position in more than three years doesnâ??t come close to truly expressing just how low and bullish the position is now compared to the last few decades. It is truly remarkable how the commercials deliberately rigged silver prices lower over the past 5 months to achieve such a result. In a different venue, this crooked and collusive COMEX commercial achievement would be a modern wonder of the world.

On a straight mechanical calculation, the big 4 concentrated short position was lower by around 700 contracts to 44,631 contracts (223 million oz), and by the commercial-only component was around 27,000 contracts (135 million oz), the lowest ever. The big 8 short position was roughly unchanged at 66,355 contracts (332 million oz), but the commercial-only component was around 43,000 contracts (215 million oz), 4000 contracts lower than the previous week and also a historic low. As a result, the raptors net long position was just over 40,000 contracts,

What made the silver report so surprising was net selling by the managed money traders of 3777 contracts, consisting of the new purchase of 310 contracts and the new sale of 4087 short contracts. The resultant net short position of the managed money traders was 17,818 contracts (36,721 longs versus 54,539 shorts), the largest and most bullish in years. Explaining the difference between what the commercials bought and the managed money traders sold was net selling by the other large reporting traders.

The standout, by far, of this weekâ??s COT report was the new short sale of more than 4000 silver contracts by the managed money traders. The fact that the number of traders in this category hasnâ??t increased in many weeks points to the short position being held by large managed money traders and accounts for at least two of these traders being in the big 4 and big 8 short categories.

This also accounts for one of the most frequently-asked questions by subscribers and other readers, namely, given that it seems so dumb and near-suicidal for anyone to be so heavily short silver, considering its low price, is there not some type of hanky-panky or secret agreement to misreport positions â?? such as, are these managed money traders being paid under-the-table to short so heavily, say on behalf of the commercials? I understand and empathize with the questioning because it seems so gosh-darn dumb to short silver in its current price hole.

If I didnâ??t have hands-on experience in dealing with these managed money technical funds, I would likely reach the same conclusion as many. But I have had such experience and I am convinced that what you see â?? new and aggressive shorting on ever-lower prices â?? is what is occurring. The technical funds, a more proper term is quantitative funds, do just that, namely buy on ever increasing prices with no regard for value and sell short on lower prices, again with no consideration for value. The kick in the pants is that of late, the last six months or longer, these brain-dead, no regard for value, technical funds have been knocking them dead in many marketsâ?? performance-wise.

But this utter and complete disregard for value has its downside in that when markets do turn (as they always do) after an extended run higher or lower, the technical funds which ruled the roost before the turn, then take it on the chin and their large accumulated profits can disappear in a flash. I believe that is exactly what has occurred over the past couple of days in gold and, particularly in silver.

While it remains to be seen whether this rally turns out to be the big move higher (as I suspect), there can be little question that no one has lost as much over the past two days as the managed money technical fund shorts. They are still very much in the black, to be sure, but another two days like we just had in silver, for instance, and the managed money shortsâ?? total profits over the past few months will have completely evaporated. Live by the sword, die by the same sword.

Complicating matters for the big managed money shorts are that itâ??s not just me that understands how they operate, the collusive COMEX commercials understand the technical fundsâ?? playbook, probably even better than do the funds themselves and thatâ??s what makes it easy for the commercials to snooker and hoodwink the managed money traders into and out from positions. This knowledge and the power to rig prices is a force that makes the commercials all-powerful compared to the managed money traders.

This brings to mind another question I get often, namely, if the commercials are as all-powerful as I suggest, whatâ??s to prevent the commercials from completely eliminating their former large concentrated short positions in silver and gold to zero, instead of what I suspect is their limit of late. In this case, thereâ??s no disagreement as to what the commercials have done in greatly reducing their short positions to levels not seen previously, just why canâ??t they do even more? Admittedly, this is somewhat subjective, as there is implicit agreement that once the commercials have lowered their short positions as much as they can, then itâ??s off to the races on the upside.

Here, Iâ??m more concerned with how much the managed money traders are capable of selling short, not the commercialsâ?? desire to buy back as many contracts as they can. After all, I think we would all agree that the commercials would buy a virtually unlimited quantity of silver and gold contracts â?? were they able to. But what limits the commercials is the limited number of contracts â?? admittedly unknown until after the fact â?? that the managed money traders are able to sell short.

In fact, both questions â?? how can the managed money traders be so brain-dead in selling short so many contracts at ever-lower prices and how many contracts the commercials are capable of buying â?? are necessarily related to the point they are one and the same. So, if you are wondering about one, you are also wondering about the other â?? just like I am.

However, thereâ??s a sudden new twist in the sharp turn up in price over the past two days, namely, the managed money traders have now flipped to the buy side, making the question of how many more contracts they are capable of selling short (and how may contracts the commercials are capable of buying) suddenly moot. I would estimate that the managed money shorts have bought back around 10,000 net silver short contracts since the Tuesday cutoff, leaving a boatload still to go. Iâ??m still tickled-pink (whatever the heck that expression means) about the 4000 new short contracts added by the big managed money shorts in the reporting week ended Tuesday as that provides a bit of a cushion for the short covering over the past two days.

In order for significant new numbers of managed money shorts to be added from this point would seem to require a move to new price lows, some two dollars or more lower in silver and close to a hundred dollars lower in gold, not something that appears likely to me. In other words, I think we have passed the point of maximum managed money shorting in both gold and silver, based upon the sharp rally of the past days.

As it now stands, we are much closer to upward penetrations in silver and gold in their key moving averages than we are to making new prices lows, particularly concerning the 50-day moving average in each. Before the sharp rally that occurred in silver starting late Wednesday, its 50-day moving average was a full $2 above then-current prices, while as of yesterdayâ??s close, that moving average was only about 25 cents away from upward penetration.

In gold, its 50-day moving average was about $80 above then-current prices early Wednesday and by last nightâ??s close was only $16 away, the closest it had been in a couple of months. (No doubt the lead month rollover from Aug to Dec in gold aided in tightening the differential to the 50-day moving average). Again, moving averages donâ??t mean squat to me, but they do seem to be the Bible for the technical funds.

Separately, I was asked by a subscriber why I hadnâ??t mentioned the big silver retail order thatâ??s been in the news. In fact, I referred to it a few weeks back when I first learned of it, without providing specific details. Certainly, it was the largest retail order I ever heard of and kudos to all involved, particularly considering there appears more to come. Iâ??m not sure if further similarly-sized purchases can be made in Silver Eagles and other retail forms of silver, without completely drying up retail inventories and sending premiums further into the stratosphere and would suspect the purchase of 1000 oz bars will be needed to accommodate further big orders.

Then again, itâ??s important to put things in perspective â?? the close to a million oz retail order occurred against a backdrop of some 600 million oz over the past several months (200 million oz of COMEX warehouse movement, 100 million oz of SLV conversions and more than 300 million oz of COMEX positioning change â?? although thatâ??s paper, not physicals). But, yes, the large retail order does suggest latent demand waiting in the wings, that will likely come to the forefront as silver prices begin to surge higher. Nothing excites and motivates net investment buying (in anything) like higher prices and thanks to the rocket fuel of managed money short covering sitting in the tanks, itâ??s hard to see how a silver price explosion might not be at hand.

Perhaps there will be some backing and filling after the gains of the last couple of days, but perhaps not and we continue to surge higher straightaway. Two more days like the last two and weâ??ll be above all the moving averages in gold and nearly so in silver and itâ??s hard to imagine the managed money traders having bought back all they have sold over the past four or five months or the former big commercial concentrated shorts adding back all the short contracts they just bought back. The current setup continues to suggest that the odds are good for a melt up in prices to me.

I may not continue to report on the losses to the remaining big commercial shorts in COMEX gold and silver, and I should point out why Iâ??m now leaning against doing so. The remarkable maneuvering by these big commercial shorts over the past four or five months has brought their short positions to such low levels (27,000 contracts for the largest silver shorts and 73,000 contracts for the largest gold shorts) that it should have been relatively easy for them to have offset and hedged their remaining short positions in other markets, such as the OTC market for swaps and the OTC and listed market markets for options.

Please remember, these are the very same big commercials that were double crossed by JPMorgan when it abandoned the short side in 2020 and had been suffering since their concentrated short covering over the past months. It just stands to reason to me, while we may debate whether the remaining big shorts can or cannot bring their short positions to zero or not, that these big shorts would be much more aware of their situation than anyone. In other words, seeing how close the largest commercial shorts are to having not much of a remaining short position left, they would know better than anyone how many more contracts they could likely induce the managed money traders into selling and take the appropriate measures to completely offset their remaining shorts in other markets. Crooked? Yes, but these guys ainâ??t dumb.

(On a housekeeping note, Iâ??m switching to the December gold COMEX contract from August for closing price purposes).

Ted Butler

July 30, 2022

Silver – $20.33Â Â (200 day ma – $22.97, 50 day ma – $20.56, 100 day ma – $22.41)

Gold – $1782Â Â Â Â Â (200 day ma – $1841, 50 day ma – $1798, 100 day ma – $1860)

Date Created
2022/07/30