June 11, 2022 – Weekly Review

In a stunning rally yesterday, gold prices reversed an early price plunge, which took prices down to fresh three-week lows, only to close at five-week highs. Iâ??m not much of a technician, but since a fresh one-week price low which reverses to close higher for the week is considered to be a key reversal, the multi-week action in gold causes me to sit up and take notice. Silver prices also made fresh three-week lows early yesterday to reverse higher on the day, but only back to barely unchanged for the week. In a moment, Iâ??ll explain why I found silverâ??s price action to be just what the doctor ordered â?? in this case, Dr. Bull.

For the week, gold closed $21 (1.1%) higher, while silver was essentially flat. As a result of goldâ??s outperformance, the silver/gold price ratio widened out by a full point to 85.5 to 1. If my reading of the tea leaves is close to correct, it wonâ??t be long until itâ??s asked how the heck did silver get so darned undervalued relative to gold and so darned cheap, period.

Early yesterday morning, about an hour *after* the devastating new inflation report had been issued and gold and silver prices were still flirting with the lows for the day and the past three weeks, I had a moment of clarity about something I was already quite clear on, namely, how COMEX paper positioning was the sole price determinant to the exclusion of everything else. I know Iâ??ve said these words more times than can be recounted, but the price action early yesterday was like Saint Mother Theresa appearing in a personal visitation nodding approvingly at that sentiment.

Think of it, the whole financial world was on knifeâ??s edge, fearing a negative CPI print and the moment the negative figures were released, interest rates surged and stocks plunged and the premier inflation-hedge safe havens for hundreds, if not thousands of years, gold and silver, plunged. WTF? It was the equivalent of having to check to see if I was still a boy or had I turned into a girl? At that moment, any doubt (not that I had any) was removed that nothing matters to gold and silver prices except COMEX futures contract positioning.

Of course, itâ??s a lot more than the rather brief, but highly counterintuitive gold and silver price reaction early yesterday that prompts these thoughts. After all, with silver about the only commodity still less than half its price highs of the past, in the face of supply/demand fundamentals arguing for prices being at least at (to say nothing about double or triple) the old highs, something has to account for the greatest price disparity ever. That â??somethingâ?• struck home yesterday morning in a moment of clarity that nearly included heavenly visits.

How much proof would a reasonable person need to see before he or she grasped that there was something messing up the price discovery process when the premier and age-old inflation hedges reacted in the opposite direction to the worst inflation data in 40 years? To be frank, buying or holding silver as an inflation hedge is way down on my personal list of reasons to favor silver, but neither would I argue with those who felt that way. But, letâ??s face it â?? it was downright freakish to see gold and silver plunge shortly after yesterdayâ??s inflation report.

But all is not lost. So egregious was yesterdayâ??s early price action in gold and silver in proving that COMEX positioning was the sole driver of price up until that point, that it now looks like we may have seen the final curtain call on a non-stop performance that has endured for 40 years. Just to be clear on what I am saying, it is this â?? after 40 years of a continuous silver price suppression by commercial traders on the COMEX, in which nothing else mattered to price than futures contract positioning, I see signs that may be completely reversed going forward. This is not intended to overly sensationalize anyoneâ??s expectations for silver, just me analyzing what I see as how the data may likely play out. Iâ??ll get into this in a moment.

The turnover or physical movement of metal either brought into or removed from the COMEX-approved silver warehouses remained super-strong this week as 9 million oz were moved and as total inventories rose by 1 million oz to 337.6 million oz. Holdings in the JPMorgan COMEX warehouse fell a slight 0.1 million oz to 171.5 million oz.

Therefore, as is almost always the case each week, the physical movement of silver (the motion) was 9 times greater that the change in total inventories (the ocean). I read just about everything I can on silver and I donâ??t recall any mention of this continued physical silver movement â?? forget how important it might be. Instead, I read breathless reports of shrinking COMEX inventories (which havenâ??t shrunk in months), with a special emphasis on category changes between registered and eligible.

Having close to 50 years-experience in dealings in COMEX silver, including making and taking silver deliveries, Iâ??ve never heard anyone with similar long experience waste much time discussing the differences between registered and eligible silver; the discussion seems to be occurring among those with little or no actual experience. Of course, that doesnâ??t mean experience alone decides the issue, but even the reasons given for the recent switches from registered to eligible is in dispute. I claim it has to do with customers of JPMorgan seeking to lower the storage costs on metal recently acquired and intended to be held long term, while Iâ??ve read reports interpreting this as JPM losing silver. Go figure.

Gold holdings in the COMEX-approved warehouses continue to decline, this week by 400,000 oz (actually a bit more, due to rounding) to 34.6 million oz, the lowest level in a few months. About half the drop came courtesy of a drop in the JPM COMEX warehouse to 14.22 million oz. Â Of course, one needs to distinguish between world inventories and COMEX warehouse holdings in gold and silver. Even though COMEX gold holdings are more than 3 times greater than they were prior to great inflow of mid-2020, total holdings are about 1% of the 3 billion oz of gold bullion in the world. In silver, the 337 million oz in the COMEX warehouses are close to 17% of the total 2 billion silver oz in total world inventories.

No big change in the June COMEX gold and silver deliveries, namely, lots of gold deliveries, with both the issuer and stopper side dominated by customers of JPMorgan, with those customers issuing a rather minor net 2000 contracts. A similar story in silver. Nothing much for me to see here, so Iâ??ll move along.

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

There were continued withdrawals (redemptions) in the worldâ??s gold and silver ETFs, but at a diminishing pace, particularly in GLD, the big gold ETF and in SLV, the big silver ETF. I still believe the previous large redemptions in SLV were deliberate conversions of shares to metal for the main purpose being to clear the deck for future additional purchases.

I still read of mostly disdain and mistrust of both the big gold and silver ETFs in many quarters, which I donâ??t agree with, particularly in the case of SLV. Iâ??ve heard these complaints for what is now more than 16 years, since SLV was introduced. Please understand that Iâ??m in no position to personally guarantee that there will never be a problem with any of these ETFs as many insist, but it puzzles me that such animosity exists.

After all, in the case of SLV and the silver ETF copycats that followed (no insult intended), some 1.2 billion oz or 60% of the worldâ??s 2 billion oz of silver bullion in existence is held in these ETFs. For someone who is convinced to my soul how silver prices have been manipulated by the COMEX commercial crooks, I can only shudder at the thought of how much longer (decades) the manipulation would have continued were it not for 1.2 billion oz having been bought by the ETFs.

The new short report for securities for positions held as of May 31, featured (finally) a fairly sharp reduction in the short position on SLV (the only gold or silver ETF that really matters in the shorting issue) of close to 6 million shares to 30.75 million shares (ounces).Â While still too large, in my opinion, it is a welcomed relief to see a large reduction in the short position on SLV, because it fits in with my extreme bullishness at this point and also eliminates or delays any rattling of BlackRockâ??s cage (and subsequent blowback).

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

Turning to yesterdayâ??s new Commitments of Traders (COT) report, the gold report was aces, and more managed money silver shorts bolted from the short side than I expected (hoped) to see. But based upon price and trading action since the Tuesday cutoff, I canâ??t help but be super-excited about price prospects from here. As a reminder, there was a bit more of an upside price bias in silver relative to gold in the reporting week ended Tuesday, so the reported results did, more or less, match the price action.

In COMEX gold futures, the commercials reduced by a scant 200 contracts, their total net short position to 199,900 contracts. You can count on one hand the number of times the total commercial short position in gold has been less than 200,000 contracts over the last two or three years and still have fingers left to count. Needless to say, the gold market structure as of Tuesday was uber-bullish and check last weekâ??s review for the details of how bullish. The only question is how much bullish fire-power was used up on yesterdayâ??s price reversal, but from what I can tell, not all that much.

Continued unexpected and quite bullish news was contained, once again, by the commercial category breakdown, particularly considering how little net commercial overall positioning change was reported. The 4 largest commercial shorts bought back a very impressive 5200 short contracts, reducing their concentrated short position to 130,944 contracts (13.1 million oz). This is the lowest (most bullish) big 4 short position in 3 years. The big 5 thru 8 commercial short traders bought back 1300 shorts and the big 8 short position is down to 216,429 contracts (21.6 million oz), the lowest big 8 short position in nearly two years. The raptors (obviously deleted from the commercialsâ?? email list) did all the selling this week, in peeling off 6400 longs and reducing their net long position to 16,500 contracts.

The managed money traders in gold bought 6738 net contracts, consisting of new longs in the amount of 2484 contracts and the buyback and covering of 4254 short contracts. Making up for the difference between what the commercials didnâ??t sell and the managed money traders bought was selling by the other large reporting traders of just over 4000 net contracts, with a further net sale of 3800 contracts by the smaller non-reporting traders No change in the remaining low level of 12,000 contracts by the (former) big gold whale.

In COMEX silver futures, the commercials increased their total net short position by 4100 contracts to 28,000 contracts â?? still a very low and extremely bullish number of contracts. There was hardly any change in the big 4 short position, now back to an all-commercial composition, which was up by 26 contracts to 47,899 contracts (239 million oz). The big 5 thru 8 traders actually dropped by 1600 contracts to 68,808 short contracts (344 million oz) and the reduction was due to another managed money trader covering short positions enough to leave only one managed money trader in the big 5 thru 8 short category â?? meaning the true pure commercial big 8 (now 7) short traders are short around 65,000 contracts.

This also means that the raptors (the smaller commercials apart from the 8 big commercial shorts) did most of the commercial selling- selling off maybe 4000 contracts and leaving them net long to the tune of 36,000 to 37,000 contracts.

The managed money traders did the bulk of the buying in silver, in buying 3781 net silver contracts, consisting of the sale and liquidation of 334 long contracts and the buyback and covering of 4115 short contracts. I didnâ??t want to see that many managed money short positions bought back, particularly in light of last weekâ??s short covering of 4700 contracts by these traders, but, hey – there are lots of things Iâ??d prefer not to see nowadays.

All that said, based upon the price action since the Tuesday cutoff and considering how much â??rocket fuelâ?• may have been expended and lost through Tuesday, please allow me to share with you what I can only describe as what may sound like Iâ??m more of a bullish lunatic on silver (and gold) at this point than ever, because thatâ??s the truth. Mostly, it has to do with the truly rotten silver price performance on Thursday and into yesterday morning and, remarkably, with the somewhat anemic silver price rally (relative to gold) into yesterdayâ??s close. I know itâ??s hard to accept at face value the notion that the much weaker than gold rally in silver yesterday would get me wilding bullish, but please hear me out.

Since I believe that silver has been manipulated and suppressed in price for decades by the COMEX commercials and that the manipulation will end and end suddenly and dramatically based upon a sudden change in the behavior by those same commercials deciding to manipulate no more â?? all that remains, as far as Iâ??m concerned, is trying to determine beforehand when that moment may be. I fully understand those who have come to see the manipulation Iâ??ve described as never ending, since itâ??s gone on for so long, but I donâ??t accept that â?? instead, the long duration of the manipulation just means that much more water has passed under the bridge, which must result in an even bigger bang to the upside whenever the manipulationâ??s end arrives.

Letâ??s face it, if we do see a sudden and violent price explosion in silver, I would hope many more would come to grasp just how long the COMEX silver manipulation had been in force, but after the explosion is a separate matter to trying to predict the timing beforehand. In this case, I want to speak up beforehand and avoid having to explain afterward why I thought something might happen, but failed to say so in a timely manner.

Having the largest managed money short position (and lowest managed money long position) possible, is of primary importance to the commercials. Such a managed money position means the smaller commercials (the raptors) are maximum long and the big traditional commercial shorts are minimally short. Essentially, thatâ??s what the current COMEX silver market structure indicates. At such market structures, itâ??s virtually assured that silver prices will rise and that the commercials will benefit the most as the managed money traders buy and the commercials sell.

Also, at such junctures in the past, the raptors sell out longs and book profits and the big COMEX commercials shorts lay on new short positions, with both types of commercial selling eventually absorbing all the managed money short covering and new buying these traders are capable of buying. This is the old wash, rinse, repeat pattern weâ??re all way too familiar with. But, if there is going to be a break in this pattern someday, as I contend, it stands to reason that the break will be decided by those traders in control and from every possible perspective, the traders in control of the manipulation are the commercials, not the managed money traders.

Therefore, it would follow that if the commercials were to decide to pull the plug on the silver manipulation by choice, it would be at a time when it was most advantageous to them and right now is such a time, given the market structure. Moreover, I canâ??t shake the feeling that the commercials on the COMEX arranged for the extreme price weakness in silver on Thursday and early Friday for which they are fully-capable, for the express purpose of bringing the maximum number of managed money shorts back onto the short side which they had exited through Tuesday.

Finally, in an effort to prevent and discourage too many silver managed money shorts from bolting from the short side on a rally (these are very skittish shorts prone to run and buyback at the first hint of a strong silver price rally), the COMEX commercials did their best to keep the price rally in silver yesterday from getting too strong and preventing too many managed money shorts from rushing to cover, hopefully explaining my bullish excitement at yesterdayâ??s anemic silver price rally.

Simply put, I canâ??t see how the market structure in COMEX silver (and gold) could get much better than it is currently. Â By my definition, thatâ??s the ideal time for the commercials to do, quite literally, nothing (just not selling aggressively on higher prices) and by doing nothing, silver prices will soar because it will only make the managed money shorts that much more anxious to buy back (thus driving prices higher still). Â Therefore, I feel right now the chances for an immediate silver price explosion are more likely than ever before.

Can I guarantee such a silver price explosion is at hand? Â Of course not. But not to lay out the possibility would be a disservice on my part to subscribers. And while I do see gold prices moving sharply higher by a couple to a few hundred dollars based upon conditions similar to those that exist in silver, these are two different commodities in terms of market capitalization and potential physical shortages. Besides, gold is only 10% or so below its recently-achieved all-time price highs, while silver is more than 50% below its all-time highs of yesteryear.

No one could argue that gold has been more manipulated and suppressed in price than silver, so it follows naturally that the bigger price pop to come must be in silver. And just to put price expectations in perspective, where I can see hundreds of dollars higher in gold, I see a move in silver involving tens of dollars per ounce in relatively short order.

With goldâ??s rally this week, the upward penetration of its two remaining key moving averages is now only $15 or so away and when those averages are upwardly penetrated, itâ??s hard to see how that wonâ??t generate significant buying by the managed money traders and other price-momentum traders (which are virtually omnipresent in all markets). While silverâ??s key moving averages are still as much as more than $1.50 above current prices, someday relatively soon, that will be a move made in a day and likely, much more.

The rally in gold prices this week added more than $400 million to the 8 big COMEX gold and silver shortsâ?? total loss, to $8.5 billion.

Ted Butler

June 11, 2022

Silver – $21.93Â Â Â (200 day ma – $23.52, 50 day ma – $23.06, 100 day ma – $23.73)

Gold – $1875Â Â Â Â Â Â (200 day ma – $1843, 50 day ma – $1887, 100 day ma – $1890)

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