

June 26, 2021 – Weekly Review

Following last week's deliberate blast to the downside, gold and silver prices stabilized and finished a bit higher this week, with gold finishing \$18 (1%) higher and with silver up by 33 cents (1.2%). Silver's slight relative outperformance caused an equally slight tightening in the silver/gold price ratio to just over 68 to 1. Despite last week's price crushing, the ratio has remained locked in the same five-point trading range of the past same number of months.

I caught a headline on a popular precious metals website this week, quoting a well-known market commentator, with the headline that he expected gold to exceed \$2000 and silver to exceed \$50. In percentage terms, should that come to fruition, it would mean gold should climb by a bit over 10%, while he expected silver to rise by close to 100%. Maybe I'm a little slow on the mathematical calculation updraft, but why would anyone even mention an investment asset thought to rise by so little, compared to one thought to rise by so much?

Along the lines of price expectations, I received an email from a longtime subscriber sensing that I had lost a bit of my enthusiasm for the prospects of a silver price surge. I hope that's not a widely-held opinion, because nothing could be further from the truth. Perhaps it has to do with how long I have been studying silver and what I believe is the natural tendency of tempering one's words as one ages (I was in my late 30's when I first seriously locked onto silver some 35 years ago).

Truth be told, I consider silver to be much more of a sure thing today than ever before. When I look at other investment assets, like stocks or real estate or cryptocurrencies, I can easily envision either sharply lower or higher prices (although I do admit to a bias for lower prices in stocks and crypto's). With interest rates, it's hard to envision sharply lower rates (since we're so close to zero), but the case for sharply higher rates is certainly not assured. With silver, imagining sharply higher prices is as easy as falling off a log, and I am hard-pressed to imagine significantly lower prices under almost any future conditions. If I have conveyed anything but that along the way, then to use words from the movie, "Cool Hand Luke", I have been guilty of a failure to communicate.

I'm pretty sure I have conveyed my long-held premise that the price of silver (and gold and other commodities) is largely set by paper contract positioning on the COMEX and that is borne out in the weekly Commitments of Traders (COT) report. These positioning changes, along with the concentrated short position in COMEX silver futures lies at the heart of the manipulation argument. More often than not, particularly when there are large price moves (up or down) I make specific contract predictions, not something I am aware of anyone else engaging in.

It goes without saying that every significant down move in price, such as was seen in the reporting week covered in yesterday's COT report, is the result of technical fund (managed money) selling and commercial buying. Any deviance from this COMEX positioning outcome would be more out of place to me than if the tides or the earth's rotation ceased.

However, to this day, whenever silver or gold prices get blasted to the downside, there is the inevitable market commentary that the commercials are short selling aggressively despite the forensic evidence that the commercials are always big buyers on such declines. (I believe the persistence of those adhering to this false narrative has contributed mightily to me having no hair on the top of my

head). I'll get into the specifics of yesterday's report, which came remarkably close to my expectations, in a moment following the usual weekly format.

The turnover or physical movement of metal either brought into or removed from the COMEX-approved silver warehouses slipped a bit this past week to 4.1 million oz, but still close to the weekly average of the past decade. Total COMEX silver inventories fell by 1.2 million oz to 354.4 million oz, about a million oz or so above the lows set a few weeks back. Not that much adheres to past patterns in general nowadays (aside from the ironclad positioning and price changes on the COMEX), but I still find it a bit odd that COMEX silver inventories haven't grown more ahead of next week's first delivery day on the big July contract. No change this week in the silver holdings in the JPMorgan COMEX warehouse, still stuck at 187.5 million oz.

COMEX gold warehouse holdings rose by 0.1 million oz to 35.2 million oz, this week. Holdings in the JPMorgan warehouses rose by 0.15 million oz to 12.78 million oz.

Deliveries in the COMEX June contracts seem to be turning out pretty much as expected since the beginning of the month, with gold deliveries heavier than normal on a long-term basis, but off the pace of the past year or so. All eyes are now on the upcoming silver deliveries next week for July silver, with all that matters to me being what JPMorgan may deliver from its house account. As I hope you know, I feel that JPM is the only entity (in the world) capable of delivering large quantities of physical silver, as a result of it accumulating 1.2 billion oz over the past decade.

In ETF developments, much silver (close to 15 million oz) has been redeemed from the big silver ETF, SLV, over the past couple of weeks, while silver has come into the other silver ETFs, particularly but not exclusively the PSLV. All the silver ETFs, away from SLV are at or near record levels of holdings. I think the first 7 or 8 million oz redeemed from the SLV was plain-vanilla investor liquidation on the price blast down a week ago, but the next 7 or 8 million oz redeemed subsequently smacks of conversions of shares to metal by a large holder. These conversions, in my opinion, are bullish in that it frees the convertor to buy more without concerns of having to report holdings.

The latest short report for securities, as of June 15, indicated another increase in the short position on SLV, this time by 3 million shares to 29.5 million shares (ounces minus the accumulated 7.5% discount). This is the largest short position on SLV in quite some time and in terms of percent of total shares outstanding, it has crept up to 4.9% – not particularly excessive in typical stock terms, but still almost double what it was not that long ago.

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

I would imagine the short position on SLV has contracted on the recent big selloff, although this is a particularly difficult report to handicap (at least for me). Should the short position in SLV not contract in the next short report (or actually increase), I may have to remind BlackRock of its prior concern about the short position in the now-infamous prospectus changes back in February. On the other hand, I am not dismayed by the increase in the short position, as I believe it represents physical tightness in silver and the necessity of the short sellers to add short positions because physical material is not available.

Turning to yesterday's COT report, it was known going into its release that there were going to be significant positioning changes and that those changes had to involve large amounts of managed money selling and large amounts of commercial buying. There has never been an occasion over the

past nearly 40 years when on severe price declines in silver (or other COMEX metals), the technical funds haven't sold or the commercials haven't bought. I would (once again) ask you to think about that for a moment.

If ever there was a true North Star or axiom in the financial world that has never been violated â?? this, is it. The only other occurrence that comes close to the commercials always buying and the managed money traders always selling on price decline in silver (or gold) is the equation where as interest rates rise or fall, bond prices move in the opposite direction. But in the case of interest rates and bonds, this is a mathematical formula â?? there is no such formula in silver. The only possible (we're far beyond plausible here) explanation in silver is price manipulation. It's not possible that the commercials could always be buyers on price declines away from they are gaming the managed money traders.

Stepping back just a bit, although not widely known or articulated near enough, this is the phenomenon behind the widespread intuitive recognition that silver, of all commodities, is manipulated in price. No other commodity is perceived as being manipulated as much as silver â?? not even gold. Sooner or later, the intuitive recognition that silver is manipulated in price (think reddit/wallstreetsilver), will come to focus on the inviolate and highly unnatural positioning changes in silver, along with the concentrated short position. It's a miracle it has taken so long.

Going into yesterday's report, I had given a range of what I thought the positioning changes would be in gold (35,000 to 50,000 contracts) and silver (15,000 to 20,000 contracts). While the actual changes reported were a bit less in terms of the commercial positioning changes, the managed money changes nearly fell into my expected ranges. It was no surprise, certainly, that these were the most significant changes in many months, befitting the dramatic price plunge.

Let's face it â?? the commercials rigged a two-day selloff which penetrated all three key moving averages in both gold and silver for the first time ever (as far as I know) and that had to be intentional. The intention was to induce as much managed money selling as was possible â?? which turned out to be successful to the max.

In COMEX gold futures, the commercials reduced their total net short position by 28,800 contracts to 202,400 contracts. This the lowest (most bullish) commercial short position since early May, but effectively, among the lowest commercial short positions since the summer of 2019. One oddity of the report was that the 4 biggest shorts didn't buy back any shorts at all and, in fact added a small number, around 1100 contracts to a short position amounting to 138,906 contracts (13.9 million oz). The next largest 5 thru 8 traders did buy back around 4000 short contracts and the big 8 concentrated short position fell to 206,997 contracts (20.7 million oz), among the lowest big 8 short position of the past couple of years.

The standout commercial buyers, therefore, were the smaller commercials who I identify as the raptors (after the vicious smaller velociraptors of Jurassic Park). These traders bought a remarkable 25,900 contracts and completely eliminated what had been a 21,300 short position and ended up with 4,600 contracts net long. As a result, the only reasonable conclusion was that the raptors were the main culprit behind the price blast to the downside. I'm not particularly concerned that the 4 largest shorts added a moderate number of new shorts considering they had already bought back a disproportionately large number of short contracts going into this report. But my overall conclusion is that this suggests a level of collusion among the commercials even greater than I had previously

assumed. Too bad the regulators refuse to consider this.

On the sell side of gold, it was mostly a managed money affair, as these traders sold 34,256 net contracts, consisting of the sale and liquidation of 28,508 long contracts and the new sale of 5748 short contracts. The managed money net long position of 63,000 contracts is among the lowest of the past two years and very bullish on its face. After reducing their net long position from the start of the year, I was encouraged to see the other large reporting traders as buyers of more than 8000 gold contracts on the price plunge.

Another thing I found encouraging about the gold COT report was that the managed money traders only increased their gross short position, as just mentioned, by 5748 contracts. While I would have preferred them adding even more shorts than they did, it occurs to me that this might be a sign that these traders may have learned the lesson that going short on selloffs is mostly a losing proposition in the end. As you know, were the managed money traders to add large numbers of new shorts, that would necessarily entail lower prices — so if they don't put on large numbers of shorts, prices are much less likely to fall.

In COMEX silver futures, the commercials reduced their total net short position by 13,300 contracts to 57,700 contracts, the lowest (most bullish) short position since April 13. By commercial categories, the 4 biggest shorts bought back 3700 contracts and reduced their concentrated short position to 53,414 contracts (267 million oz). Last Saturday, I had predicted the big 4's short position would fall below 53,000 contracts, so I was off by several hundred contracts (which to me was like getting a blue bike for Christmas, instead of a red one. There is a bike shortage, after all).

The 5 thru 8 largest silver shorts bought back 2400 short contracts and the big 8 short position is now 71,511 contracts (358 million oz), the lowest it has been since March 30. The raptors (the smaller commercials) were the largest silver buyers, as they added 7700 longs to a long position amounting to 13,800 contracts.

On the sell side of silver, it was mostly a managed money affair, as these traders sold 14,733 net contracts, consisting of the sale and liquidation of 16,253 long contracts and the buyback and covering of 1520 short contracts. I was surprised that the managed money traders bought back shorts rather than add new shorts, but as I just described in gold, I found this encouraging in that it suggests no big new managed money shorting from here and the lower prices that would portend. Finally, the other large reporting traders were net buyers of around 2500 contracts.

Bottom line is that while I certainly didn't predict the sharp price blast to the downside, now that it has occurred, I can fully explain it as yet another commercial price rig, perhaps the last one we'll see for a while. There can't possibly be any explanation away from the commercials having engineered the price decline, since they gained the most. Certainly, no one could possibly suggest that the managed money traders colluded to collectively hurt themselves. Maybe I'm a hopeless optimist, but this last price rig down appears to be so blatant and obvious so as not to be confused with anything other than an outright manipulation — even by those conditioned to deny a silver manipulation exists to the bitter end.

While I would never rule out the possibility of some further downside price probes by the commercials to uncover any managed money traders that might still be induced into selling (considering how close we still are to the recent lows), the great wave of selling and lower prices appears behind us. Now it

becomes a question of what transpires on the next rally, which to my mind appears close at hand. Here, I am referring to whether the big shorts add to short positions on higher silver prices, as has always occurred in the past.

In fact, this recent price blast lower only raises the issue of whether the big shorts add to short positions on the next rally. As outlined last week, the big 4 concentrated short position in silver hit a yearly high on Feb 2, at 65,262 net contracts (326 million oz) at the peak of the silver price surge. That concentrated short position has now fallen to 53,414 contracts (267 million oz), down nearly 12,000 contracts (60 million oz) as of last Tuesday, and close to the lowest level since the epic price lows of March 2020.

I continue to believe that the CFTC privately informed the big silver shorts to knock it off around the same time it finally responded to me on May 3 and after some fits and starts, the big shorts have largely complied. In fact, I believe the latest price blast lower was the big shorts's final attempt to clear the decks and reduce their concentrated short position as much as they could. Therefore, I will be surprised and not a little disappointed if the big shorts add aggressively to their silver short positions ahead. Regardless of any disappointment I may feel in that circumstance, I do still intend to take the matter up with those legislators with direct oversight of the Commission, should the concentrated short position increase materially.

On the bright side, should the big shorts refrain from adding shorts as they have on every silver rally over the past 4 decades, as I expect, then we are talking about a whole new price world for silver. Freed from the shackles of price suppression by the 4 big COMEX shorts a whole new price world should feature gains almost beyond belief. One of the great unintended consequences of our brave new financial world of previously unimaginably high prices for stocks, cryptocurrencies and real estate is that it smooths the way for shockingly higher silver prices. So let there be no mistake in my current outlook for silver prices – pick an impossibly high price and then double or triple it.

A quick word on copper. I'm still ultra-bullish on copper's long term price outlook and the recent price downdraft has featured heavy managed money selling to the point where the managed money net and gross long position is now lower than it has been in more than a year. I was a bit surprised that the managed money traders hadn't added more new shorts in the latest COT report, but as I believe the case to be in silver and gold, that's likely an indication that no big shorting by the managed money traders will emerge in copper – limiting further downside.

The slight bounce in gold and silver prices this week added nearly \$500 million to the 8 big COMEX gold and silver shorts's total losses, now amounting to \$10.4 billion at yesterday's close. I am mindful of this Wednesday's end to the second quarter and first half, so maybe the big shorts have some continued motivation to pressure prices until then – but the bulk of the blood-letting and commercial buying should be behind us. I'm concerned, perhaps, about the next few days, but not anything much beyond that.

Ted Butler

June 26, 2021

Silver – \$26.18 (200 day ma – \$25.82, 50 day ma – \$27.12, 100 day ma – \$26.64)

Gold – \$1782 (200 day ma – \$1838, 50 day ma – \$1833, 100 day ma – \$1793)

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