

June 28, 2023 – The Physical Silver Vise Tightens

A number of recent events have combined to suggest that we are well into the critical stage as far as a physical crunch hitting the silver market. I understand full-well that this coming physical crunch is not at all reflected in the price, due to the still-intact COMEX silver price manipulation; but I also understand if there is one thing that can break the manipulation, it is a physical shortage of severe enough proportions.

A brief review of very recent developments include credible reports from China involving silver exchange inventory reductions and prospective surging demand due to a massive increase in planned photovoltaic (PV) solar cell production, which has extreme implications on a medium-term basis. Then there was the report of a force majeure at Newmont Gold's massive Pensaquito mine, the largest silver mine in Mexico and second largest in the world, thanks to a work dispute. Force majeure is a contract clause enacted when supply obligations cannot be met. This is, most likely, short term in nature, but barely caused an upside blip in price given the strength of the COMEX paper price manipulation.

There are some other developments that I would like to focus on in greater detail, not in any particular order of importance – mainly because all point to the looming physical silver shortage. Of course, it is necessary to include an interpretation of the data, as data without interpretation is, essentially, meaningless. The whole purpose of studying the data is to interpret what they mean.

First, was last night's new short report on SLV, the big silver ETF, which indicated a sharp increase in the short position of 4.7 million shares to 18.8 million shares (17.2 million oz), as of June 15. While I have given up trying to predict what any one short report might indicate, I would call the increase surprising, since I expect the short position on SLV to decrease as time passes.

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

While surprising and large, the increase in the SLV short position does not warrant complaints to the S.E.C. or BlackRock, since the position is still 41 million shares (70%) lower than the peak of 60 million shares last August. Instead, I find it more constructive to try to understand the motivation behind the increase in the short position. Prices of SLV and silver were steady to a bit higher over the reporting period (June 1 to June 15) and while prices did selloff sharply thereafter, making the short increase profitable on paper, there are more efficient methods of shorting silver, namely, by shorting COMEX silver futures.

Therefore, I can't help but conclude that the motivation behind the increase in the short position on SLV was an inability to secure the adequate amount of physical silver (4.3 million oz) required to satisfy the net new buying of shares over this two-week period. Subsequent counterintuitive metal deposits after the June 15 cutoff suggest such physical metal deposits may be intended to reduce the short position, but it still looks most reasonable to conclude that the physical metal wasn't readily available when the shares were bought and in violation of the terms of the prospectus. This is a sign of a growing physical criticality.

A second unusual development was the surprising near-600,000 oz redemption from the Sprott silver ETF, PSLV. It was the first withdrawal in more than recent memory. It may or may not be related to the

recent 700,000 oz deposit, but cries out for an interpretation. Hopefully, perhaps the folks at Sprott (no longer Eric Sprott) might shed some light on this, since they have generally been quite transparent in the past. But in searching for the most plausible explanation, it comes down to one of two things.

One, the silver (quite-notably in a single wholesale truck quantity) was needed more urgently elsewhere. I've remarked in the past how Ottawa, Canada, where the silver is stored is not the commercial silver distribution hub, like NY or London, but it seems logical that if the wholesale physical tightness is getting critical enough, then it follows that PSLV could be drawn into the same user-satisfying sources as the COMEX warehouses and SLV and other silver ETFs have also developed. After all, Ottawa is not exactly Timbuktu. Two, the redemption could have been a straight "conversion" of shares of PSLV into physical metal for purposes of direct ownership and lower storage fees. I'm inclined to go with the "greater need elsewhere" explanation. (I'm leaving out yesterday's massive one-day physical turnover of 4.1 million oz in the COMEX warehouses, as that's something I cover on Saturdays.

Next, was the climax of the mini-drama playing out on the COMEX of a bit over 2 million oz remaining open in this week's expiring June delivery contract. It turned out that Bank of America was the single big short and by waiting until the last moment to deliver metal it had previously contracted to deliver had tongues wagging in the blogosphere about a potential delivery default — an event that would truly be earth-shaking in financial terms.

On Saturday, I alleged that the CME Group (owners/operators of the COMEX) had bungled things by not addressing the delay of June silver deliveries earlier, by allowing the situation to fester — thereby inflaming existing sentiments of a looming delivery default in COMEX silver. I would point out that, to my knowledge, COMEX silver is about the only market ever mentioned in terms of a possible delivery default and the CME Group should be well-aware of this; making its lack of action sooner all the more blameworthy.

But the emergence of Bank of America as the chief culprit of the mini-drama causes what seems to me to be a further confirmation of past personal findings. As I believe you are aware, I've been highly-critical of BofA, ever since it emerged, a few years ago, as a prime player in OTC precious metals derivatives in the "quarterly derivatives reports of the Treasury Dept's Office of the Comptroller of the Currency." According to the most recent OCC report, the most reasonable conclusion I reach is that BofA is short a billion oz of silver and 37 million oz of gold.

I admit to being insulting in my characterization of BofA, demeaning its basic intelligence and lack of hands-on experience as a proprietary trader of precious metals. Prior to the last three years, Bank of America was a non-entity as an institutional player in precious metals, where its Merrill Lynch unit functioned primarily as a brokerage. In all this time, no one has ever claimed otherwise or taken issue with my characterization of BofA's experience, to my knowledge.

Therefore, I can't help but feel that BofA, by unnecessarily waiting until the last possible moment to deliver against its short position in the June COMEX silver contract, confirmed my take of it being as dumb as dirt in precious metals dealings. BofA gained nothing by waiting to deliver, except garnering unwanted attention — no upside, only possible downside in reputational tarnishing.

Most importantly, BofA's apparent bungling also points to the growing criticality of the physical silver shortage, as no matter how you interpret its actions, the prime takeaway message is tightness in silver.

As far as a possible delivery default, while COMEX silver is, most assuredly, the most likely candidate for such a theoretical default, such an event would be so extreme in undermining how all our markets actually function, as to be almost unthinkable.

Ironically, the current market structure in COMEX silver futures offers even less of a reason for a delivery default, as those traders most responsible for the long-term price manipulation — the former largest commercial shorts — are holding less of a concentrated short position than ever before (as I've been reporting). Since a delivery default would most likely occur when those shorts can't come up with the physical goods, I find it reasonable and encouraging that the former big shorts have reduced their silver short positions as much as they have and seemingly, no longer in apparent grave danger by an excessively large concentrated short position.

Of course, should the big former COMEX commercial shorts add aggressively to their short positions on the next silver rally, that would argue forcefully against my silver price explosion premise — same as it ever was. I can't back away from this premise, nor is there any need to. The big former commercial shorts will either stand aside, allowing silver prices to explode, or they will add to shorts aggressively. I don't control what they will or won't do, all I can do is call them as I see them.

A short while back, in attempting to answer (highly legitimate) questions about whether the coming silver rally could be capped and contained as was the \$6 silver rally from early March into early May — despite the lack of aggressive new shorting by the 4 biggest former commercial shorts — I responded that could only occur if the market structure replicated what had existed into early March. Specifically, it largely came down to the size of the raptor (smaller commercial) net long position and the size of managed money technical fund short position (not the big current managed money short).

In the COT report of March 7, the raptors were net long 45,500 silver contracts, while the gross short position of the managed money traders was also just over 45,000 contracts. Within a month and on the \$5 rise in silver prices, the raptors had sold just over 23,000 long contracts, while the managed money gross short position had been bought back just over 25,000 contracts. In essence, this was a large part of the total positioning that had occurred from March 7 to April 4 and the rally occurred without any notable increase in the big 4 short position for the first time ever. In a very real sense, raptor long liquidation was enough to cap the rally.

So, in order for there to be a repeat of what occurred on the \$5 silver rally from March 7 to April 4, in which the 4 big commercial shorts didn't add aggressively to their short positions, I believe we would have to see a raptor net long position of close to 45,000 and a managed money technical fund short position of the same amount (not including the big non-technical fund managed money short) — same as existed on March 7. The key component here is for the commercials (the raptors) to induce the managed money technical fund traders to add tremendous numbers of new shorts.

While I would certainly allow for this positioning to possibly occur, it would take lower prices, say well-below silver's 200-day moving average on heavy trading volume (always required to effect large positioning changes). So far, while silver prices did fall below the 200-day moving average, the fall was rather brief (one or two days) and on extremely light trading volume. In the most recent COT report (as of June 20), the raptors were net long around 14,000 contracts and the managed money technical fund shorts held around 20,000 short contracts (once the 7000-contract short position of the big non-technical fund short was subtracted). Thus, we are still a long way off from replicating the positions that existed on March 7.

Which brings us to this Friday's COT report. Since gold and silver prices were generally lower over the reporting week ended yesterday, with gold ending about \$25 lower and at multi-month lows and with silver down as much as a dollar and briefly penetrating its 200-day ma before recovering, it is reasonable to expect positioning improvement (commercial buying and managed money selling).

Further, there was a massive 29,000 contract reduction in silver's total open interest – which looks like mostly phony spread liquidation and not connected to significant net positioning change. Remember, the pattern for phony spread creation is up to the week or two before a big first delivery day, followed by phony spread liquidation into first delivery day – which for silver is this Friday – meaning the cycle worked as intended this time.

Super-imposed over all this was extremely light actual trading volume (once spread trading activity was subtracted in silver). In fact, the true actual trading volume in silver was lower than I can previously recall. Again, it's hard to imagine truly significant positioning changes on such light trading volume, making it difficult for the silver raptors to significantly increase their net long position. I'm not saying that silver prices can't be (artificially) be driven lower from here, but we would appear to be running out of time in doing so, particularly in the face of all the accelerating signs of physical shortage.

In the meantime that what I've been saying all along – department, posted public comments from Commissioner Christy Goldsmith Romero yesterday about copper and other metals struck me like a ton of cathodes. It's rare for a commissioner to zero in on one commodity, particularly in using verbiage like guarding against excessive speculation and price manipulation.

<https://www.cftc.gov/PressRoom/SpeechesTestimony/romerostatement062723>

I can't help but assume the commissioner doesn't read all the articles I send her, particularly in regard to copper, where prices are clearly set by the excessive speculation of the managed money traders on the COMEX (and on the LME). Drawing from the data published by the Commission in the COT reports, the 60-cent decline in copper prices from mid-April to the end of May was caused by the selling of 45,000 net COMEX copper contracts and the rally of 40 cents from then to mid-June was caused by the net buying of 45,000 COMEX copper contracts by these same managed money traders (with each contract covering 12.5 tons).

As I understand the commissioner's statement, she is concerned there might not be the freest market price discovery process in place to create the massive amounts of copper needed in the years ahead. Rather than some big new study into what makes copper prices tick and to be on alert for excessive speculation, perhaps Commissioner Goldsmith Romero might review the COT data with staff and see that excessively speculative managed money positioning is what drives prices in many

markets. I can't help but think that what we have here is a failure to communicate.

In closing, considering the growing criticality of the physical silver shortage and the highly-unique COMEX market structure set up, most of my time is spent contemplating the coming silver price explosion, mostly in terms of when will it ignite and how far it will carry. Even if the collusive COMEX commercials succeed in rigging silver prices lower in the short run, even that is bullish in that no one would ever proclaim that a physical shortage brought about by artificially-suppressed prices will do anything but intensify with even lower prices.

Ted Butler

June 28, 2023

Silver – \$22.85 (200-day ma – \$22.47, 50-day ma – \$24.28, 100-day ma – \$23.42)

Gold – \$1922 (200-day ma – \$1858, 50-day ma – \$1986, 100-day ma – \$1952)

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