June 4, 2022 – Weekly Review

Following two weekly gains (after an epic four-week price smash), gold and silver prices slipped slightly this past week, with gold down $3 (0.2%) and with silver ending down 18 cents (0.8%). Silverâ??s slight relative underperformance caused the silver/gold price ratio to widen out to 84.5 to 1. As far as significant price movement, this was the week that wasnâ??t.

However, in other ways, including developments in the world of physical silver and the new COT report for both gold and silver, it was a week of some significance. Iâ??ll get into the changes in the COT report in a bit, after running through the usual weekly format first.

The turnover or physical movement of metal either brought into or removed from the COMEX-approved silver warehouses surged higher over the holiday shortened workweek, following two weeks of only â??averageâ?• movement, as more than 10.1 million oz were physically moved this week. Total COMEX silver warehouse holdings rose a scant 0.2 million oz to 336.6 million oz, although there was a steep decline in the silver holdings in the JPMorgan COMEX warehouse of 2.4 million oz to 171.6 million oz.

Despite the clear indication that the big story in the COMEX silver warehouse holdings is the motion (the physical movement) and not the ocean (total inventories), where this shortened week, the motion was 50 times larger than the change in the ocean, most of the commentary I read concerned the non-physical transfers between the eligible and registered categories. I continue to maintain that too much is made of these non-physical transfers and the conclusions made are wide of the mark to boot.

My own take on the roughly 7.5 million oz non-physical transfer from the registered to the eligible category over the last two days of May (the largest portion in the JPM warehouse) was due to customers of JPM, which had taken delivery of that amount of silver over the course of the May COMEX delivery month, switching categories (on paper) to save on storage charges. I do think this is a bullish development, just not in the manner generally presented. It doesnâ??t represent JPM or its friends and family running out of silver, but the opposite â?? they are accumulating more and intending to hold onto this newly-acquired metal at the lowest ongoing storage charges possible. (Iâ??ll touch on this again when I discuss the big outflows from the big silver ETF, SLV, in a moment).

There was a fairly large reduction in the total holdings of gold in the COMEX warehouses this week of 0.5 million oz to 35 million oz. What made the reduction somewhat unusual was this was the first week of deliveries against the big June gold contract on the COMEX, when typically, we see deposits. No change in the total holdings of the JPM COMEX gold warehouse, still at 14.44 million oz.

Deliveries on the June COMEX gold contract have been heavy, as more than 15,000 contracts (1.5 million oz) have been issued and stopped in the first week of the delivery period and with around 7000 contracts remaining open in June. The standout feature is the dominance of customers of JPMorgan in this gold delivery process, where more than 10,000 of the total contracts issued and more than 8000 of the total gold contracts stopped (taken) were by customers of JPM. There are not many real-life examples of greater market dominance or monopoly in most business settings, but, hey, you know, weâ??re talking about JPMorgan, where I continue to believe it is JPM telling the US Government how things will be and not vice versa.

The bottom line on COMEX gold deliveries is that once you net out what customers of JPM have done so far and strip away everything else, customers of JPM have issued 2000 gold contracts and that without these customers dominating both sides of the June delivery process, there isnâ??t much left to see. This circumstance is largely the same in the silver delivery process on the non-traditional June delivery month, where of the more than 1500 total silver contracts issued so far, customers of JPM have issued just over 1400 contracts and stopped more than 600 contracts â?? on a net basis, issuing just under 800 contracts (4 million oz).

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

Itâ??s not the size of the issuances and stops by the customers of JPMorgan, but the sheer dominance of the process by one bank. Why the CFTC and the Justice Departmentâ??s Antitrust Division are not all over this has already been answered by JPM being large and in charge. Hey, Iâ??m just glad JPMâ??s activities are flat-out bullish in the main.

Regarding physical metal flows in the worldâ??s gold and silver ETFs, it was a week of outflows â?? somewhat counterintuitive given the price action. More than half a million oz came out of the gold ETFs, mainly GLD, and more than 10 million oz came out of the big silver ETF, SLV, this week (and nearly 30 million oz over the past month).

Since I see zero signs of net investor liquidation, based upon the low trading volumes and flat to higher prices over the past three weeks, the most plausible explanation for the big silver redemptions in SLV are deliberate conversions of shares to metal, which lowers the cost of ownership (similar to the transfers from registered to eligible on the COMEX) and eliminates any share reporting requirements. I claim this is bullish because it portends not only strong ownership, but creates the possibility of pending purchases of new shares without exceeding SEC share reporting requirements.

Turning to yesterdayâ??s new Commitments of Traders (COT) report, there were a number of surprises, including a much better showing in gold than expected and somewhat less than that in silver in one, but not other measures. As a reminder, the reporting week ended Tuesday featured a sharp selloff into the cutoff day, in which commercial buying and managed money selling was anticipated. We did get that result in gold, but not so much in silver, and Iâ??ll try to explain why in a moment.

In COMEX gold futures, the commercials bought and reduced their total net short position by 11,900 contracts to 200,100 contracts. This is the lowest (most bullish) total net commercial short position since one week in March of 2021 and before that back until June 2019 (when I started my running financial scoreboard on the 8 big shorts). More importantly, at least to me, were the changes in the commercial categories (since I make such a big deal of the concentrated short position of the 4 and 8 largest traders).

This reporting week, the 4 biggest gold commercial shorts bought back 11,761 short contracts (effectively, nearly all the commercial buying) and reduced their concentrated short position to 136,136 contracts (13.6 million oz). This is the lowest big 4 short position since the four-week period straddling the yearend 2021 and before that, we have to do back to the summer of 2020 to find a lower big 4 short position. Thus, it would appear that the 4 largest commercial shorts in COMEX gold are better positioned for a gold rally than has been the case in quite some time.

Somewhat surprisingly, the next 5 thru 8 largest commercials shorts also bought back around 1700 short contracts, reducing the big 8 short position to 222,955 contracts (22.3 million oz). This is the lowest big 8 short position since Sep 28. Swimming against the flow of big 4 and 8 commercial short covering was selling by the smaller commercial raptors of 1600 long contracts, which reduced the raptors net long position to 22,900 contracts. Iâ??m at a loss to explain why there was so much big concentrated short covering with the gold raptors not participating at all on the buy side, but it looks bullish to me.

On the sell side of gold, it was mostly a managed money affair, as these traders sold 10,264 net contracts, consisting of the sale and liquidation of 8443 long contracts, and the new sale of 1821 short contracts. As a result, the managed money net long position of around 51,000 contracts is, essentially, quite close to the lowest levels seen over the last three years, and down by the same 100,000 net contracts as the commercial net short position since the gold price peak of $2060 of February, suggesting not much additional room for significant selling on the part of the managed money traders.

This, of course, is important since, while the commercials would likely buy as many contracts as the managed money traders wished to sell, the cold reality is that the commercials can only buy as many contracts as are offered to them for sale by the managed money traders. And once the commercials are convinced that the managed money traders have reached their capacity to sell, then there is little reason at that point for the commercials to delay the start of the next up cycle in price. Aside from clairvoyance or a crystal ball sÃ©ance, the only reliable gauge for how many contracts the managed money traders are capable of selling is the historical limits they have reached in the past, with particular significance placed on more recent historical extremes as opposed to extremes of many years ago. On this metric, gold looks good to go to the upside.

Finishing up on gold, there was another reduction in the concentrated long position of the 4 largest longs of 3000 contracts (and on the long side of the other large reporting category), suggesting the big gold whale Iâ??ve spoken of for months, now holds a net gold futures long position of no more than 12,000 contracts (of a position as high as 40,000 contracts). However, as has been the case all along, I canâ??t tell whether the position was liquidated straight away, or if the futures contract position was transferred into physical gold via COMEX deliveries.

In COMEX silver futures, the commercials increased their total net short position by a minor 600 contracts to 23,900 contracts. While the increase was minor, it did come in the face of expectations of further commercial buying and managed money selling (as was the case in gold), given the sharp selloff into the end of the reporting week. Â Therefore, an explanation is called for. Best I can tell, the fairly sharp rally early on the Friday before Memorial Day was the culprit for what was a rather large amount of short covering by the managed money traders on that day.

This in no way negates the premise that a large short position by the managed money traders is every bit the type of rocket fuel buying I wrote about on Wednesday (and in the past) and, in fact, confirms the premise. At the price highs of that Friday, May 27, silver prices traded as high as $22.50, or a full $2 higher than the low-price print of a week earlier. A $2 move on one contract equals $10,000 and while Iâ??m not saying the managed money traders which sold on the price lows put all their short positions on at the price lows, some did and those that did lost around $30 million on the nearly 4500 silver short contracts bought back at the price highs of the 27th.

Itâ??s true that none of the key moving averages were upwardly penetrated on the price rally to $22.50, but, apparently, the risk of loss was great enough (and for very good reason) to cause this reporting weekâ??s short covering by the managed money traders. And this is in keeping with my discussion about how the managed money traders are quite sensitive to avoid generating large losses. So, while I was disappointed when first reading how many short contracts the managed money traders had bought back and covered, there was an important additional development that blunted my disappointment.

As it turned out, there was very little commercial selling into the managed money silver short-covering. Instead, the biggest sellers into the managed money short-covering buying were the traders in the other large reporting category, who were net sellers of 4000 contracts. It wouldnâ??t have been the end of the world had the commercials been the main sellers to the managed money buyers, since the resulting change in the market structure wasnâ??t particularly large and certainly nowhere near enough to change the overall market structure from the extremely bullish reading it was and is still. But it is measurably better that the commercials werenâ??t the big sellers, as Iâ??ll describe in a moment.

This week, there was a sharp drop in the concentrated short position of the 4 largest silver shorts of 3200 contracts to 47,873 contracts (239 million oz) and the only plausible explanation is that the short covering was by the big managed money trader who entered into the ranks of what is most usually an exclusive commercial affair over the past few prior weeks. My best guess is that the big managed money short bought back and reduced its short position enough to knock it out from the big 4 category and now there are two managed money shorts in the big 5 thru 8 category. The big 5 thru 8 category did increase by 500 contracts this week to 70,410 contracts (352 million oz), with the true commercial-only component being around 62,000 contracts.

Best I can tell, the raptors, the smaller commercials apart for the big commercial shorts, are still holding roughly 40,000 net silver contracts (200 million oz) long, having changed very little this reporting week. This is largely confirmed by the increase in net buying in the swap dealersâ?? category, where not coincidently, the net long position of these commercial traders hit the highest level in more than three years.

The managed money traders did buy 3910 net silver contracts this week, consisting of the sale and liquidation of 561 long contracts and the buyback and covering of 4471 short contracts, as just discussed. It still looks very much like there is little real room for managed money long liquidation and at least 20,000 contracts or more of managed money short covering, plus anywhere around 20,000 contracts of new managed money long creation on higher silver prices. Which brings me to a matter that has been very much on my mind.

Given the still spectacularly bullish market structure that exists in both COMEX gold and silver and knowing that in silver there are at least 20,000 contracts or more of rocket fuel type buying from managed money short covering (while in gold, the managed money buying to come is much more of the new long buying type), the key question is still how the commercials, particularly those that have established big short positions in the past will react to the coming near-certain managed money buying.

In other words, my recent thoughts have been dominated by what type of price rally we are likely to see, once the moving averages in both gold and silver are penetrated to the upside. Those averages, by the way, are still $1.50 or more above current silver prices, but only $50 or less above the two remaining moving averages in gold. Since we know the moving averages will be upwardly penetrated in time, the question centers on whether the coming rally will be of the $200 to $250 variety typical in gold and $4 or $5 rally in silver of late, or much more?

The difference between what kind of rally magnitude we will see is completely dependent on how aggressive the commercials, particularly the largest would-be commercial short sellers are in reaction to the managed money buying. More times than I care to recall at similar such junctures in the past, I have always suspected the commercials would stand aside and let prices rip higher. Every single time, however, the big commercials loaded up on the short side on the rallies and we never got the â??big oneâ?• I expected in silver.

In my defense, we always got the rallies predicated by extremely bullish market structure set ups, and on which it wasnâ??t particularly hard to adjust oneâ??s positions (if you were so inclined) and I know that many use this thinking for just that purpose. After all, there is hard to find fault with capturing the bulk of a multi-dollar silver or hundred-dollar gold move â?? except in the event that the move turns out to be much greater. Itâ??s hard to be satisfied, after waiting for decades, with taking a few dollars profit in silver and missing out on a move many, many times greater. Fortunately, no one has to make such a distinction at this moment, as the move up has yet to take hold.

But once the coming up move does commence, it should quickly become apparent whether it will be the same-old type of rally that the big commercials will snuff-out with non-economic (manipulative) short sales, expressly designed and intended to do just that, namely, cap and contain the rally. Thatâ??s why I was not disappointed overall with the managed money silver short covering in the current reporting week, since there was no evidence of commercial short selling, or even selling of the long liquidation type.

If ever there has been a time when the shackles should be cast off the price of silver, surely that time has never been better than now. Think of all the truly significant changes that have occurred leading up to this moment. Heck, I can hardly believe that JPMorgan and its friends and family have accumulated physical silver (and gold) for the better part of a decade and completely removed itself from the short side and brushed off the regulators like no more than pesky insects â?? even though Iâ??m the originator of this data.Â Or how silver stands out â?? of all commodities â?? as being the cheapest of all, despite nothing but ultra-bullish developments, including being the only commodity to have experienced its own grassroots movement on Reddit.

In fact, all that has prevented silver from being priced double or triple its current price is the continual shorting by the largest commercials whenever prices rise. So, unless you believe (and I donâ??t) this manipulative commercial short selling will last forever, the flip-side of that is that the short selling will cease at some point. Which point? This brings back the longstanding discussions with my departed friend and silver mentor, Izzy Friedman. I always maintained the commercials would stop shorting when it was in their own best interest, namely, when they were least short – like now. Izzy always stood by his full pants down premise, in which the big shorts would be overrun when maximum short (which, by the way, I didnâ??t strongly disagree with, just that it was my second choice in a two-horse race).

To date, neither of us has been correct on the one issue we most strongly agreed upon, since we have yet to witness the big move higher, of which we were both convinced. So, while the issue has yet to be decided, current circumstances indicate the chance is now much greater the big commercial shorts might stand aside on the next rally, automatically converting any move to the big move.

Something else has entered into my thinking. The unusually large raptor long position in silver raises the possibility that some of these traders might be more aware of the powerful position they find themselves in than in the past. Iâ??m counting on the raptors selling out their long positions on higher prices, but to the extent any of them decide to hold for even sharply higher prices, that increases the pressure on the big shorts to have to short even more.

At yesterdayâ??s closing prices, the silver raptors were out a bit over $200 million in total open losses for the 40,000 contracts they are long, an improvement of $250 from where silver prices were at the recent lows. One dollar higher from here and the raptors will be holding at no loss (based upon their average price of $23) and with the managed money traders, particularly the shorts, looking to buy aggressively. This has got to be the best position the raptors have ever been in. What happens if only a few of them recognize just what a position of strength they are in and press their advantage by not rushing to sell? All heck could break out and silver prices could move higher and faster than any of us fully recognize.

Finally, there is the not small matter of there being 4 new commissioners on the CFTC, all with the same not much more than two full months on the job and by all open appearances, all being extremely interested in regulatory matters and in doing the right thing. I base this on all of their public statements since being in office. None of these women (nice for a change) seems the type interested in abiding by past regulatory failures in silver at the expense of preserving an old agency line and depriving the public of what it was they swore to uphold. This is a wild-card in a poker game about to get very interesting.

The total loss to the 8 big COMEX gold and silver shorts declined ever-so-slightly over the past week to $8.1 billion.

Ted Butler

June 4, 2022

Silver – $21.94Â (200 day ma – $23.55, 50 day ma – $23.39, 100 day ma – $23.78)

Gold – $1854Â Â Â Â (200 day ma – $1841, 50 day ma – $1896, 100 day ma – $1889)

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