June 5, 2021 – Weekly Review

A sharp price plunge on Thursday was nearly, but not quite made back on Friday, as gold prices fell $12 (0.6%) and silver by 14 cents (0.5%) for the week. The nearly equivalent percentage performance left the silver/gold price ratio close to unchanged at just under 68 to 1 for the third week and still stuck in the tight five-month trading range of 70 to 1 on the high side and 65 to 1 on the low side.

But donâ??t be lulled into thinking silver has reached some natural free-market equilibrium level relative to gold, as it is still massively undervalued both relative to gold and on an absolute basis. Current prices for both silver and gold are merely a function of COMEX paper positioning and have little to do with real supply/demand forces.

Still, at weekâ??s end, it was a price performance not at all much different from last weekâ??s multi-month closing highs for both metals and it wouldnâ??t take much more of a higher weekly close in silver, say 50 cents or so, to establish weekly closing highs going back 8 years or so. After I run through the usual weekly format, Iâ??ll introduce a new thought that is quite â??way-out thereâ?• and that may prove I see something quite profound in silver or that I have finally lost my mind.

The turnover or physical movement of metal either brought into or removed from the COMEX-approved silver warehouses amounted to 5.5 million oz this week, about a million oz greater than the weekly average over the past ten years. Then again, this was a four-day holiday week, so the daily movement was substantially greater than average. Total COMEX silver inventories rose (for a change) by 1.6 million oz to 354.7 million oz â?? still lower by 45 million oz than the all-time highs of earlier this year. The silver holdings in the JPMorgan COMEX warehouse rose by 0.5 million oz to 186.9 million oz.

No ranting and raving from me today on the highly unusual physical movement of silver brought in and out from the COMEX warehouses over the past ten years, alone among all commodities, other than to say I just donâ??t get how this easily-documented data can be so universally ignored by virtually everyone in the world of silver.

There was a slight increase of 0.1 million oz to 34.7 million oz in total COMEX gold warehouse holdings this week, but as you may know, COMEX gold holdings are an island of stability lately compared to silver holdings. No change in the JPMorgan COMEX gold warehouses, still stuck at 12.46 million oz.

The COMEX gold deliveries continue to wind down, with more than 20,000 total contracts (2 million oz) having been delivered and around 1700 contracts, effectively, still open in the June contract. Thus, at this point, it still looks like the total gold deliveries will fall far short of previous traditional COMEX delivery months. As to what that means, Iâ??m not at all sure as the possibilities are too numerous and speculative to examine.

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

Physical metal continues to flow into the worldâ??s gold and silver ETFs, particularly in the case of silver. Just about all the major silver ETFs, save SLV, the largest, are at record levels of physical silver holdings. I still maintain that the only reason that SLV is not at record levels is due to conversions of shares to metal by larger holders, something SLV is highly suitable to accommodate. As I commented last week, there is no doubt much retail investor interest has continued in the Sprott ETF, PSLV, and I think thatâ??s terrific. Â But at the same time, there have been strong increases in the holding of other silver ETFs, although admittedly not as dramatic as the increases in PSLV.

Please keep in mind that because silver in the form of 1000 oz bars is the cheapest silver of all, it makes sense that the silver ETFs are drawing investor interest and that should continue

I know that the SLV is regularly criticized by many in the reddit crowd and elsewhere, but I continue to disagree with that criticism. Hereâ??s something not widely advertised â?? over the past month, more silver has come into the SLV than all the other silver ETFs combined and more than twice as much has come into SLV than PSLV. Defending SLV makes me feel a bit like Rodney King â?? canâ??t we all just get along?

A number of subscribers pointed out that I was incorrectly identifying the reddit silver enthusiasts in confusing them with the #wallstreetbets community and for that I apologize. As it turns out, the group I identified doesnâ??t particularly care for silver and it is the other group – #Wallstreetsilver â?? that are the silver enthusiasts. Lesson learned.

Sticking for a moment on the reddit group that doesnâ??t care much for silver, this is the group behind the great speculation in GameStop earlier this year and currently in AMC â?? the theater chain whose stock has soared far above its real value â?? as even its staunchest supporters readily admit. I think the current speculative mania that grips our nation and the world is insane and bound to end in tears, but there is nothing I can do about it. The most amazing thing is that the mania has yet to come to silver, but Iâ??m convinced it will once the business about the concentrated short position is resolved.

Turning to yesterdayâ??s Commitments or Traders (COT) report, I didnâ??t expect much in real positioning change and none was reported as far as the headline total commercial net short position. I was keen to see what individual category changes may have occurred, particularly concerning what the 4 big shorts may have done and I was not disappointed.

To spare you the suspense, the 4 big shorts were the only commercial buyers in both silver and gold, with the other commercials, the 5 thru 8 big shorts and the raptors (the smaller commercials) as sellers. Deliveries may have played a role in this reporting weekâ??s results (as expected), but that matters little in the overall scheme of things. As a reminder, when deliveries are issued and stopped, there is an automatic closeout of the same number of long and short contracts.

In COMEX gold futures, the commercials reduced their total net short position by 2700 contracts to 248,200 contracts. This is the second largest (bearish) commercial short position since late February, higher only in the prior reporting week. No doubt the larger commercial short position of late (along with the larger corresponding managed money long position) has accounted for a recent turn to caution by some in the business and was instrumental in Thursdayâ??s sharp selloff. It may turn out that gold prices correct a bit here, but Iâ??m not in that camp â?? for better or worse. Iâ??m still more persuaded by the behavior of the 4 big shorts in both gold and silver.

As it turns out, this reporting week, the 4 big shorts in gold reduced their concentrated short position by a fairly remarkable near 7000 contracts to 138,443 contracts (13.8 million oz). This is the lowest big 4 short position since last August. The 5 thru 8 next largest shorts actually increased their net short position by 2500 contracts, but the big 8 short position fell to 211,823 contracts (21.2 million oz) as a result of the larger short covering by the big 4. The raptors also added 1800 new shorts and hold a net short position of 36,400 contracts, the largest since mid-February.

Itâ??s hard to know which commercial category was more behind the sharp selloff on Thursday and weâ??ll have to wait until next Friday to see which commercials did the buying on the price drop. We do know that the commercials as a whole bought the price selloff as that is as ingrained in price change as the regularity of the tides.

The managed money traders were buyers in gold of 2718 net contracts, consisting of the purchase of 3408 new longs and the sale of 690 new shorts. The unusual circumstance of the managed money traders buying nearly the same number of contracts as the commercials bought was explained by the net selling of more than 3600 contracts by the other large reporting traders and 1800 contracts of net selling by the smaller non-reporting traders. Again, deliveries may has played a role in these changes.

In COMEX silver futures, the commercials reduced their total net short position by 800 contracts to 71,500 contracts. The standout feature (at least to me) was that the 4 big shorts did all the buying, as was the case in gold. In silver, the 4 big shorts reduced their net short position by 1500 contracts to 58,340 contracts (292 million oz). The next 5 thru 8 largest shorts added 600 new shorts, but larger big 4 buying reduced the big 8 short position to 78,594 contracts (393 million oz). The raptors sold off 400 longs and as of Tuesday were 6900 contracts net long. Iâ??m continuing to peg JPMorgan as flat in both COMEX gold and silver or more correctly – not detectable.

The managed money traders in silver, unlike their counterparts in gold, were net sellers of 2987 contracts, consisting of the sale and liquidation of 2509 long contracts, as well as the new sale of 478 short contracts. The other large reporting traders were net flat and the smaller non-reporting traders were net buyers of nearly 2200 contracts.

Since I have been nearly obsessed (maybe scratch the â??nearlyâ?•) with concerns over the concentrated short position of the 4 largest traders, this weekâ??s COT results only enhance my obsession. In last weekâ??s review, the last three paragraphs concerned the unusual lack of much increase in big 4 selling in silver and actual big 4 buying in gold since April 27, despite a notable increase in overall commercial selling. Â This weekâ??s results only add to my sentiments that the CFTC may have finally come to grips with the concentrated short position being manipulative to gold and particularly, to silver prices and has communicated this to the 4 largest shorts.

I fully admit that this may be a premature and erroneous conclusion on my part and will be determined by whether we witness an aggressive increase in short selling by the 4 largest traders ahead. In that unfortunate event, the only possible remedy would be to petition those elected officials with direct jurisdiction over Commission matters. But so far, at least, it does appear my speculation that the Commission may be dealing with the manipulative impact of the concentrated short position is still in play â?? as long as the big 4 short position doesnâ??t increase notably.

Itâ??s not my personal style to try to put myself at the center of things and thatâ??s why I donâ??t do many interviews or try to attract undue attention. I have been fixated in my efforts to end what I believe is a suppression of the price of silver since discovering it more than 35 years ago. With that preface, please forgive me if what I say comes across as self-promoting, as thatâ??s not my intent.

I believe (until proven otherwise) that my letter to the Commission on March 5, which highlighted the role of the 4 big silver shorts into Feb 2, finally resonated with the Commission about the importance of this matter. Searching for a way to legitimately respond to the concerns I raised, the Commission discovered there were no legitimate explanations possible. Â Pressed by an energetic staffer at my local congressmanâ??s office, the Commission continued to stall, even resorting to having the director of its government relations division personally calling the staffer in a bid for more time, an almost unheard-of breech of protocol.

Out of time, the Commission finally responded on May 3 in as markedly a different kind of a response as was possible compared to its previous public responses in 2004 and 2008. Up until that point and certainly back on Feb 1, when the Acting Chairman issued a public statement indicating he would get to the bottom of what was going on in silver, I believe the Commission was still tilted towards blaming the longs and the reddit traders as being behind the turmoil and volatility in silver. I further believe that changed when the Commission actually got down to actually considering matters more fully in light of the concerns I raised. Again, Iâ??m sorry if that comes across as self-centered on my part and as and when that proves to be the case â?? by a sharp increase in the big 4 short position – I will fully admit to judging things wrong.

However, even if Iâ??m correct and the Commission has finally recognized the full extent of the concentrated short positionâ??s impact on the price of silver and has informed the big shorts to knock it off, that doesnâ??t mean it would welcome an immediate explosion in the price (as all of us would). It makes more sense that it would do what it could to moderate any price increase brought about by the big shorts closing out their manipulative short positions. The problem with that desire to moderate any price gains is that this is largely a mechanical process â?? since the big 4â??s massive short position doesnâ??t lend itself to a moderate resolution, other methods might try to be employed. What other methods?

Hereâ??s where it gets a little nutty and I fully stipulate to that up front. By some strange coincidence, almost at the same time I first discovered the COMEX short selling manipulation in 1985, the US Mint began its American Bullion Coin Program. This was a program designed to offer coin collectors the opportunity to buy and secure low-cost gold and silver coins and 36 years later, itâ??s no exaggeration to say that the program proved to be the most successful bullion coin program in history. However, from the get go, there were complications when it came to silver.

In 1985, the Silver Users Association was still going strong and a force to be reckoned with. Originally, the coins in the American Bullion Coin Program were supposed to be minted from gold and silver mined in the US (to support domestic producers). That provision was enacted in gold (even though the US Government had the largest stockpile of gold in the world), but at the last minute, the SUA got the program changed in silver and the metal for the silver coins would come from government stockpiles â?? so as not to exert upward price influence on silver. For the next 15 years, until the year 2000 or thereabouts, all the metal for Silver Eagles came from US government stockpiles, which were then depleted. Since the year 2000, the silver used to mint Silver Eagles was bought on the open market, same as for gold.

As the most popular silver coin in history, Silver Eagles have come to consume a lot of silver. Last year, some 30 million oz were consumed in minting Silver Eagles alone, with millions more ounces needed for other silver coins from the US Mint. And back when I claim JPMorgan was buying (and melting) Silver Eagles from 2011 to 2016, the US Mint was using 40 million ounces of silver regularly on an annual basis strictly for Silver Eagles.

As recently as the first quarter of this year, the US Mint had minted 16 million Silver Eagles, an annual rate of nearly 50 million oz. Then suddenly, in early April, the US Mint stopped producing Silver Eagles under some mighty flimsy excuses. More recently, the Mint tried to blame the lack of its coin production on there being a worldwide shortage of silver, later revised to a nonsensical shortage of blanks needed to produce Silver Eagles and other silver coins â?? even though other mints throughout the world experienced no such shortages, including the Royal Canadian Mint.

There is no doubt in my mind that the US Mint stopped producing Silver Eagles and other silver coins due to something else, namely, the decision not to inflame the ongoing and developing worldwide silver shortage. It has to do with the numbers. Each month, the world produces from all sources (mining plus recycling) around 70 to 75 million oz of silver (850 to 900 million oz annually). By the US Mint suddenly suspending Silver Eagle sales, some 4 million oz per month is taken off the demand side, not an insignificant amount for any world commodity, but particularly for a commodity â?? silver â?? in an obvious shortage situation.

Please remember that all prices are determined by supply and demand at the margin. The last few ounces demanded or supplied are what determines price â?? period. The 4 million silver ounces not provided to the coin collectors in the US Mintâ??s Bullion Coin Program goes an incredibly long way to artificially influencing silver prices to be much lower than they would be if the US Mint produced the coins. Thatâ??s no accident, but something as deliberate and intentional as is possible.

Again, admitting that I could turn out to be wrong, the Mintâ??s decision to suddenly stop producing and selling silver coins is directly related to the CFTCâ??s decision to convince the 4 big shorts to stop suppressing silver prices through continued uneconomic and manipulative concentrated short sales. Getting the US Mint to stop selling Silver Eagles is an attempt to offset the incredibly bullish impact of getting the 4 big shorts to stop suppressing the price of silver. Â Certainly, the timeline of my letter to the CFTC and its eventual response fits like a glove with the US Mintâ??s sudden suspension of Silver Eagle and other coin production.

While I understand the decision to suspend Silver Eagle sales as an offsetting and somewhat neutralizing price impact to ordering the 4 big COMEX to stop adding new short positions, there is a not-minor problem with it â?? itâ??s patently illegal. The law that allowed for the original enactment of the American Bullion Coin Program in 1985 was abundantly clear that the Mint had to produce enough coins in order to meet public demand. Unless the law was clandestinely revised without notice, it is illegal for the US Mint to stop producing and selling Silver Eagles and other coins unilaterally â?? regardless of what impact it might have on silver prices.

Besides, this is not a decision that would be made by the US Mint on its own. The Mint is part of the US Treasury Department and wouldnâ??t dare enact a change so radical as stopping production of Silver Eagles on its own. Without a doubt, the Mint was ordered to do so, and its hard to see such a decision being made at less than the Secretary level. All this just attests and confirms the seriousness of the concentrated short position in COMEX silver, as I have maintained for 35 years.

Iâ??m a big believer in the principle that honesty is the best policy and while it may hurt after being less than honest for so many decades, itâ??s time for the CFTC and now the Treasury Dept. to be honest about silver. The world is not going to end when silver explodes in price and trying to concoct crazy and illegal schemes to prevent the explosion could result in unintended consequences for those involved in attempting to delay the inevitable.

The natural and inevitable result of the decades-long artificial price suppression of silver has to be a physical shortage â?? which we are now staring down the gun barrel at. Attempts to avoid the obvious at this point could (and should) prove counterproductive to those involved. This is like fooling with Mother Nature â?? the only thing that will cure a shortage brought about by low prices are high prices. The public should not be made to pay (by arbitrarily limiting Silver Eagle production) in order to hide and offset the end of the 4 big shortsâ?? price suppression.

The decline in gold and silver prices from last Friday trimmed the 8 big shortsâ?? total losses in COMEX gold and silver futures by $300 million to $13.5 billion, still much closer to the $14 billion worst ever quarterly finish at yearend and quite a distance from the $8.3 billion loss at the end of the first quarter on March 31. Weâ??re now less than a month from the end of the second quarter.

Ted Butler

June 5, 2021

Silver – $27.92Â Â Â (200 day ma – $25.84, 50 day ma – $26.54, 100 day ma – $26.47)

Gold – $1894Â Â Â Â Â Â (200 day ma – $1846, 50 day ma – $1803, 100 day ma – $1795)

Date Created
2021/06/05