

## March 20, 2021 – Weekly Review

Gold and silver prices finished slightly higher for the second week running, with gold ending \$17 (1%) higher for the week and silver closing 32 cents (1.2%) higher. As a result of the near even relative percentage performance, the silver/gold price ratio tightened ever so slightly to 66.2 to 1. Of course, the price ratio remains quite close to 7 year lows favoring silver and it shouldn't be long before new mile markers favoring silver are recorded, despite my current very bullish take on gold.

Stepping back just a bit, the standout feature of the past eight months and since yearend has been the much deeper price decline in gold, while silver is down much less; accounting for the improvement in the silver/gold price ratio for the very first time on overall declining absolute prices. Heretofore, the silver/gold price ratio only tightened in silver's favor on price rallies in both metals.

No one should be surprised that silver has gained relative to gold, as it was (and still is) dirt cheap on just about every measure possible and the flow of news pertaining to silver has never been more bullish than it is currently. The only surprise has been gold's subpar performance, which also flies in the face of everything usually thought to be bullish for the yellow metal.

My conclusion has been that the COMEX commercial shorts, both big and not so big, have pulled out every dirty trick in their tool kit to pressure gold's price lower and get the non-commercials (primarily the managed money traders) to sell every contract that could be sold – which the commercials then bought. Much of this effort in gold has been designed to accomplish the same thing in silver and while the effort has succeeded to some extent, there appears to be too much going on in silver away from the COMEX paper positioning game to pressure silver prices to the same extent as gold.

But there is a limit to how much non-commercial selling the commercials can arrange and from everything I look at, that limit has been reached. Whether my speculation turns out to be accurate is less important than knowing a rally of significant proportions seems assured once the paper flush out is complete. And just as silver has outperformed gold on the overall price weakness from the summer and yearend, its outperformance seems destined to accelerate as gold and silver prices rally significantly ahead.

Most remarkable of all is how the 4 big shorts in COMEX silver have been able to keep a lid on prices in the face of everything that's occurring in the real world, specifically concerning just about everything physical – both on a retail and wholesale basis. The events that are transpiring are nothing that anyone has ever witnessed. These events are coming so fast and furious that it is hard to keep a proper perspective. The only thing – and I do mean only thing – that has prevented silver from soaring to this point is the desperation of the 4 big COMEX silver shorts not to throw in the towel and release the price from their death grip. Based on everything I think I know, nothing can prevent that grip from being broken.

The turnover or physical movement of metal either brought into or removed from the COMEX-approved silver warehouses absolutely soared once again this week, as 12.3 million oz came in or out from the 9 COMEX warehouses in and around the NY metropolitan area. Once again, this is physical metal in the form of 1000 oz bars being taken out of the warehouses and loaded on trucks, or loaded off trucks and deposited into the warehouses. This physical movement must not be confused with paper trading in

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any way, shape or form.

On an annualized basis (a highly sophisticated mathematical formula which involves multiplying by 52) this week's physical movement equates to 640 million oz or 80% of annual world mine production. Do you not find it unusual that such a large percentage of the world's annual mine production of a vital and highly-desired world commodity would find its way to being physically moved around in just 9 warehouses in the NY area in such a frenetic manner? Particularly when this frantic physical movement has been occurring for a decade in COMEX silver and not in any other commodity?

Over the past 6 weeks, close to 60 million oz of silver have been physically moved in and out from the COMEX warehouses or 10 million oz per week or at an annualized rate of 520 million oz a year, which is 65% of total annual mine production. Why is this occurring?

A new twist is that over the past 4 weeks, there has been a net reduction of 25 million oz in total COMEX warehouse silver inventories to 371.5 million oz, with 6.1 million oz leaving this week. Over this same 4 weeks, some 6.3 million oz have come out of the JPMorgan COMEX silver warehouse, including 1.7 million oz this week, leaving 190.7 million oz in the JPM warehouse.

So we have two unusual developments to consider; one, the frenetic turnover, which regular readers know I have showcased for 10 years running, which is unprecedented in its own right and now is combined with a rather notable sharp reduction in total COMEX silver inventories. Statistics are statistics, quite meaningless on their own, unless they can explain something rational. Complicating matters is that while the daily and weekly movements are easy to compile and document, there is enough information that is unknown, such as who the owners are or were involved in the physical movement, that we are forced to fill in the blanks by reasoned speculation.

Here's my best guess - the movement over the past 10 years and occurring and increasing to this day suggests a great demand for physical silver. After all, no one is going to physically move around something at great expense for kicks and giggles. The silver leaving is needed elsewhere and new stuff has to be brought in to keep the process going. This implies great and persistent demand. The very recent declines in total inventories are not likely to be tied to investors seeking to move their metal to a better storage location because the COMEX warehouses are a great place to hold silver.

Therefore, it seems most plausible to me that the silver leaving the COMEX (and please remember that the total turnover is much greater than the net reductions) must have a user demand component. Whether that demand is being caused by the upheaval in shipping and supply lines in general or simply because demand exceeds supply can't be known, but something is causing silver to be both moved even more frantically than previously and now we are witnessing sharp reductions in total inventories. How can that not be wildly bullish for the price?

COMEX gold warehouse inventories continue to fall, this week by another 0.9 million oz to 37.5 million oz. Total COMEX gold inventories are now down close to 2 million oz over the past 3 weeks. Gold holdings in the two JPMorgan gold warehouses fell this week by 0.4 million oz to 13.57 million oz.

Gold holdings in the world gold ETFs finally appear to be stabilizing after falling significantly and persistently since the price top in August and since yearend. There is the matter of the approaching end to the first quarter, but if prices continue to firm up and not decline further, typically the gold ETF outflows should cease.

In silver, less metal came out of SLV this week (around 4 million oz) than over the past 6 weeks (as I suggested last week) and it looks to me that the conversions of shares to metal has largely run its course. Metal still seems to be flowing into the PSLV and other silver ETFs, but that's explained by the bulk of the share to metal conversions having occurred in the largest and most liquid silver ETF, SLV. The big difference remains between gold and silver ETF flows is that there has been obvious collective net investor selling in the gold ETFs, whereas that collective net investor liquidation has not only not occurred in the silver ETFs, but just the opposite, namely, strong net investor buying — coupled with massive conversions of shares to metal in SLV — which gives the appearance of net investor selling.

I haven't mentioned retail investment demand in silver too much, but it has remained white-hot and features sky-high premiums and long delivery delays. Over time, this persistent strong retail demand (for smaller sized forms of silver) will and does draw from the 1000 oz bar market — it just takes a bit of time. But make no mistake, physical demand for silver, both in smaller retail forms and in the wholesale 1000 oz bar market, is hitting on all possible cylinders.

Turning to yesterday's Commitments of Traders (COT) report, the headline number of the total commercial net short position came in exactly as expected, namely, with no big changes, befitting a reporting week with little overall price change and relatively low trading volume. There were, as always, some interesting category changes.

In COMEX gold futures, the commercials increased their total net short position by a scant 1600 contracts to 209,500 contracts, the smallest change in 6 weeks and tending to confirm suggestions that the selloff has run out of road. By commercial category, the big 4 increased their net short position by 2700 contracts (to 146,752 contracts or 14.7 million oz), while the next 4 largest shorts bought back around 1900 short contracts and the smaller raptors added 2500 new shorts. The 8 big shorts now hold 197,734 net short contracts or 19.8 million oz. I'd peg JPMorgan as still net long 8000 gold contracts, possibly a bit more.

A recurring question I get and think about on my own often, is are there any signs of any breaking of the ranks by the 8 big concentrated shorts? As the gold price downward rigging from yearend and more recently has demonstrated, there has been strong evidence of commercial collusion on the way down in the manner of the Three Musketeers, as I recently commented. Yet at the same time, evidence has emerged that there has been an abandonment of short positions by the smaller traders in the big 8 gold short component, as well as by the raptors (the smaller commercials apart from the big 8).

On Jan 5 (with gold around \$1900) and with the total commercial net short position at 320,900 contracts, the commercial category breakdown was the big 4 were short 167,822 contracts, the big 5 thru 8 traders short an additional 112,071 contracts and the raptors short around 41,000 contracts. As of Tuesday (with gold around \$1730), the total commercial net short position was 209,500 contracts, down 111,400 contracts from Jan 5. However, the 4 big shorts only accounted for 21,000 contracts of the total reduction, while the next 5 thru 8 largest shorts accounted for 61,000 contracts of the total

short covering, and with the raptors accounting for 29,000 contracts of short covering since Jan 5.

What this means is that while the total commercial gold net short position has fallen sharply since Jan 5, it has actually become much more concentrated, with a much greater amount of shorts held by the big 4 relative to the other commercial categories. In fact, you have to go back to January 2019, more than two years ago, to find a lower big 5 thru 8 short position than exists currently. Another way of stating this is that on Jan 5, the 4 big shorts held 52% of the total commercial short position, today the 4 big shorts hold 70% of the total commercial net short position.

Don't let these comparisons cause your eyes to glaze over because they lead to and tend to confirm a conclusion already reached on these pages, namely, the question of whether the 8 big shorts (as well as the smaller raptors) will add aggressively to new short positions on the next gold price rally. On the one hand, now that the big 5 thru 8 and the raptors have succeeded in buying back so many gold short positions, I suppose it frees them up to add aggressively on the next rally, same as they've always done in the past.

On the other hand, the buyback of these short positions have come at a great loss to all parties involved. Yes, they bought back at much lower prices than prevailed at yearend and over the summer, but they bought back at significantly higher prices than when the shorts were established at in the summer of 2019. This is the point behind my running calculations of the total losses to the 8 big shorts in gold and silver since that time.

So while the 5 thru 8 big gold shorts and the raptors have cleared the decks and are in position to add new shorts on higher prices, the matter of the massive losses they took (for the very first time) in order to buy back those shorts is likely still fresh on their minds. No one can say what these traders will do, but I can't shake the sense that they will not be anywhere near as aggressive in adding shorts as they were prior to their rotten financial performance since the summer of 2019. Once bitten, twice shy and all that jazz.

The good news of course, is that we'll see how it plays out in future COT reports. But remember, if the 5 thru 8 big traders and the raptors don't add aggressively on the next rally, gold prices will soar. And yes, a similar setup exists in silver.

Getting back to the gold COT report, there were some interesting changes in the non-commercial categories. The managed money traders were pretty big buyers of 11,691 net contracts, consisting of the new purchase of 4446 long contracts and the buy back and covering of 7245 short contracts. I would attribute the managed money buying as strictly a function of them having sold so aggressively on the gold selloff and the resultant washed out condition of the market structure so as to be a meaningless blip. The managed money net long position in gold is still shockingly low and phenomenally bullish.

Of course, with so many more managed money contracts bought than commercial contracts sold, it begs the question as to who did sell. This week, the always impossible to predict other large reporting traders sold 6655 net gold contracts (fairly evenly split between long liquidation and new shorting) combined with net non-reporting selling of 3400 contracts. No deep conclusions here.

In COMEX silver futures, the commercials reduced their total net short position by 2400 contracts to 52,800 contracts. This is the lowest (most bullish) commercial short position since Sep 8 and on its

face is significant. By commercial category, the 4 big shorts increased their concentrated short position by a tiny 80 contracts to 57,432 contracts (287.2 million oz) and the 5 thru 8 next largest shorts added maybe another 50, contracts or so to a big 8 short position now amounts to 74,614 contracts (373 million oz). All the commercial buying was done by the raptors (the smaller commercial apart for the big 8) which bought 2500 net contracts, adding to a net long position now totaling 21,800 contracts. Iâ??d still peg JPM as flat, perhaps maybe a tiny bit long.

This is the highest raptor net long position since mid-August and normally I would classify it as, not necessarily as bearish, but more bearish than bullish since these traders are usually very quick on the trigger to sell on rallies and then looking to rebuy on selloffs. But these are very strange times in silver concerning the obvious signs of physical tightness, so I suppose itâ??s possible the raptors might be better informed of those tight physical conditions and perhaps not so quick to sell this time.

Using the same format as I just employed in gold and for the same reason, since Jan 5, when the total commercial net short position was 77,500 contracts (with silver around \$27.50), the 4 big shorts held 62,482 short contracts, the next 5 thru 8 largest shorts held 18,304 additional shorts and the raptors were net long 3300 contracts. As of Tuesday (with silver around \$26) and the total commercial net short position lower by 24,700 contracts, the 4 big shorts hold 5050 fewer shorts, the next 5 thru 8 traders hold 1100 fewer shorts, while the raptors hold 18,500 more long contracts.

Stated somewhat differently, on Jan 5, the 4 big shorts held just under 81% of the total commercial net short position and as of last Tuesday these same 4 traders held 109% of the total net commercial short position. Clearly, as was the case in gold, the concentrated short position of the 4 largest traders in silver is much more concentrated than it was on Jan 5.

So here we have a much more concentrated short position in silver set against a backdrop of the greatest physical tightness, verging on shortage in both retail and wholesale forms of silver ever seen, the spontaneous outbreak of an Internet movement (Reddit) focusing on the short position in silver and direct questions being asked of the federal regulator to explain how the concentrated short position could possibly be legitimate (and not being answered). You got to be kidding me.

While the numbers in gold in terms of short contracts reduced might seem more impressive than in silver, donâ??t let that fool you. The current concentrated short position of the 4 largest gold traders (14.7 million oz) is only one half of one percent (0.5%) of the 3 billion oz of gold in bullion form, while the concentrated short position of the 4 largest silver shorts (287 million oz) is more than 14% of the 2 billion oz of silver bullion in the world, or more than 28 times larger than gold short position. Since when did it makes sense to hold the most concentrated short position in a commodity staring down the gun barrel of a physical shortage and amid signs the other commercials might not be playing along?

Finishing up on the silver COT report, the managed money traders sold 1732 net contracts, almost all of which were new short sales and making the market structure setup even more bullish. The other large reporting traders sold around 800 net contracts, the vast majority being long liquidation.

Finally, the clock is ticking for the CFTC to respond to any letters it may have received or will receive from elected officials regarding the letter I posted on March 5. As I explained mid-week, it really doesnâ??t matter much to the market what it says or when it replies, in my view itâ??s more a case of how it will affect the agency going forward. If the Commission sides with the big shorts, as has been its custom over the years, it could prove fatal for the agency which has had brushes in the past with losing

its independence and being folded into the much larger SEC. If it comes out (as it might and should) that the CFTC has been highly negligent for decades in not recognizing the obvious COMEX silver manipulation under its nose, despite constant warnings, that could be the ticket for its loss of independence.

As of the close yesterday, the 8 big shorts in COMEX gold and silver ended the week worse off by more than \$450 million, bringing their total losses to more than \$9.6 billion. Again, the big shorts have whittled down their open short positions and their total losses, but if their short positions have reached the maximum extent of reduction as is possible (as appears to me to be the case), their total losses can only grow from here.

That means the commercials now have big losses already booked and accrued at the start of a potential price move higher – a position they have never been in before. The big question remains how aggressively they may or may not add to short positions on the coming rally in these circumstances. Oh, and with JPMorgan safely and profitably removed from the short equation and holding massive quantities of physical metal

Ted Butler

March 20, 2021

Silver – \$26.32 (200 day ma – \$24.44, 50 day ma – \$26.42, 100 day ma – \$25.59)

Gold – \$1742 (200 day ma – \$1859, 50 day ma – \$1796, 100 day ma – \$1834)

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