May 14, 2022 – Weekly Review

For the fourth consecutive week, gold and silver finished sharply lower, with gold finishing the week down by $73 (3.9%), and silver ending down by $1.25 (5.6%). As a result of silverâ??s relative underperformance, the silver/gold price ratio widened out to 85.7 to 1, the most undervalued silver has been relative to gold since July 2020, which is no big surprise since the absolute price hit its lowest level since then. That silverâ??s fundamentals and COMEX market structure are now screamingly bullish, makes this perhaps the best time to switch gold positions into silver or just buy silver outright.

With markets of all types in a state of turmoil and disarray, one would think this would be a great time to buy silver and gold and yet prices over the past month have been in a virtual freefall. Particularly in the case of silver, all manner of logic appears to have been cast aside. With stocks and bonds down many trillions of dollars year to date and with crypto-currencies losing $200 billion in a matter of days and $800 billion over the course of a month, itâ??s important to recognize that the full dollar value of all the silver in the world in the good-delivery, industry standard form of 1000 oz bars is now worth only $40 billion, down from $50 billion a month ago.

Of course, there has to be a reason why silver (and gold) is down so much in the face of events that would normally call for sharply higher prices and while it must get repetitive to hear me explain that same reason over and over again â?? that is so much better than wandering in the desert, unaware of whatâ??s causing prices to plummet when they should be soaring. Repetitive or not, paper positioning of futures contracts on the COMEX is solely responsible for the current price plunge and soon will be the cause for the coming rally, as the data in the Commitments of Traders (COT) reports continue to indicate. Iâ??ll dig into the newest report published yesterday in a moment, which continued to amaze in silver, including a new twist I wouldnâ??t have expected.

The turnover or physical movement of metal either brought into or removed from the COMEX-approved silver warehouses continued the recent surge, as 10.9 million oz were physically moved this week, as total COMEX silver holdings rose by 3.6 million oz to 338.8 million oz. Holdings in the JPMorgan COMEX warehouse rose a slight 0.2 million oz to 177.4 million oz.

Since I spent so much time on the unprecedented and persistent physical movement of silver into and out from the COMEX warehouses last week, Iâ??ll not repeat my rant today, but it confounds me how everyone watching the inner workings of the silver market is not a buzz about the 53 million oz of silver being physically moved in and out of the COMEX warehouses these past 5 weeks (to say nothing of the 2.5 billion oz moved over the past 11 years). This is basic stuff. Instead, there is a running commentary of how much is in the eligible or registered categories and who is stopping or issuing deliveries, which strikes me as chasing oneâ??s tail and is about as productive as spitting into the wind.

Total holdings in the COMEX gold warehouses, remained unchanged at 36 million oz, although there was some turnover during the week. Ditto for the holdings in the JPM gold warehouse, stuck at 14.54 million oz.

Nothing special to report on the ongoing COMEX gold and silver deliveries this month, except to say it is somewhat unusual for May gold deliveries to have exceeded silver deliveries, since this is an â??off-monthâ?• for gold, whereas May is a traditional silver delivery month. While JPMorgan leads the list of issuers and stoppers for both gold and silver, its customers are net stoppers, which I feel is good. Even better is that JPM has done nothing in its house account,

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

There were substantial redemptions in both the big gold and silver ETFs, with GLD shedding 1.2 million oz and SLV 7.3 million oz. After considering the price beating of late in silver, I am still a bit flabbergasted how little silver has departed the silver ETFs. This is just another proof that physical silver is not being dumped on the market â?? just a mountain of paper silver, as was evident, yet again, in yesterdayâ??s COT report. Please remember, itâ??s one thing to claim the sale of excessive amounts of paper silver is responsible for the crushing of the price, but another thing altogether when a federal agency publishes the data indicating this is so.

With silver prices so much weaker than gold prices over the reporting week ended Tuesday – gold was down by about $30, not yet penetrating its 200-day moving average (until after the cutoff) and silver was down as much as $1.50 and well-below all three of its key moving averages â?? the reasonable expectation was for more managed money selling and commercial buying in silver versus gold, which was the case. The only real question was which commercial categories would be the most aggressive in the expected commercial silver buying â?? the big 4 and 8 shorts or the smaller raptors, already heavily long.

In COMEX gold futures, the commercials reduced their total net short position by a scant 4100 contracts to 227,800 contracts. While this weekâ??s reduction was less than overwhelming, the total commercial net short position was the lowest (most bullish) since Feb 8, just as the price of gold was embarking on a rally of $250 (now, completely unwound). Undoubtedly, the total commercial short position is now lower, as a result of trading and price action since the Tuesday cutoff.

It was an interesting story by gold commercial categories. The 4 largest shorts bought back 7000 short contracts, reducing their concentrated short position to 159,434 contracts (15.9 million oz). The 5 thru 8 next largest commercial shorts also bought back close to 2800 shorts and the big 8 short position fell to 249,151 contracts (24.9 million oz). This was the lowest (most bullish) big 8 short position since Feb 15.

I was surprised that the gold raptors actually sold off 5600 longs, reducing their net long position to 21,400 contracts. However, explaining the departure in behavior between the big shorts and the raptors, there was a sharp $40 rally in gold early in the reporting week and this, obviously, was what prompted the raptor selling. I would be doubly-surprised if the raptors werenâ??t big buyers on the gold price smash on Thursday and Friday.

On the sell side of gold, the managed money traders sold 5855 net contracts, consisting of the sale and liquidation of 4897 longs, as well as the new sale of 958 short contracts, largely matching the total commercial buying. The concentrated long position of the 4 largest traders slipped by 1500 contracts, meaning the gold whale holds less than 15,000 long contracts. Bottom line is that the gold market structure is bullish and even more so in trading since the cutoff.

In COMEX silver futures, the commercials reduced their total net short position by another hefty amount, 8800 contracts, to 30,500 contracts. This is the lowest (most bullish) commercial net short position since Oct 12.Â Most startling was that the raptors (the smaller commercials apart from the big 8), continued to do almost all of the commercial buying for the fourth straight week. This week, the raptors accounted for 8200 contracts of the commercial buying, or 93% of the total commercial buying. The net long position of the raptors was 38,300 contracts as of Tuesday, one of the largest on record and the largest since May 5, 2020, just as silver was embarking on rally that would take it from $15 to near-$30, in a matter of three months or so.

The 4 big silver shorts bought back a tiny 650 contracts and the big 4 short position was 47,394 contracts (237 million oz), the lowest it has been since Feb 15. The big 5 thru 8 shorts did mostly nothing and the big 8 short position was 68,806 contracts (344 million oz), as of Tuesday.

On the sell side of silver, the managed money traders sold even more that the commercials bought, as these traders sold an astounding 13,344 contracts, consisting of the sale and liquidation of 830 long contracts and the remarkable new short sale of 12,514 contracts. The rather slight long liquidation confirmed expectations that the managed money gross long position was scraping bottom, with not much further room for significant liquidation. And while managed money new shorting was the expected cause of the sharp price decline, actually seeing how many new shorts were added was a bit of a shock (of the bullish variety).

As a result of the extraordinarily large short selling by the managed money traders, the net managed money long position was less than 2000 contracts (39,862 longs versus 38,016 shorts), the lowest since late September, but more importantly, is actually lower now that it was after silver sold off to under $12 in the spring of 2020. As a reminder, I consider managed money shorts to be â??rocket fuelâ?• when prices move higher.

A big surprise for me was the continued heavy buying by the other large reporting traders, who bought 4358 net silver contracts, including new longs in the amount of 3895 contracts. The net long position of these traders is now more than 17,200 contracts, up more than 13,000 contracts over the past four weeks of the epic silver price decline to the highest level since the price lows of 2020. This buying stands out to me because this category of traders, unlike the managed money traders, trade for their own accounts, and not by managing money for other investors, and to me are more aware of the risks and rewards of positions they take.

Plus, there is no big buying of a concentrated nature in this category, meaning lots of individual traders seeming to be agreeing that silver possesses outstanding value at current prices (a notion most would agree with). The silver whale is still in the swap dealer commercial category and is holding around 15,000 contracts. This other large reporting trader category buying is completely separate (and unabashedly bullish, at least to me).

Over the past three reporting weeks in which silver prices fell more than $5 or nearly 20%, the managed money traders sold nearly 39,000 net silver contracts, or 195 million oz of paper silver, including long liquidation and new short selling. Thatâ??s close to three full months of world silver mine production. It is not possible that any commodity would not fall at least 20% and likely much more, should speculators sell the equivalent of three full months of equivalent world production. Make no mistake, the managed money traders are speculators, not commercial hedgers, so the selling of three full months of production was not a hedging event â?? strictly a speculative phenomenon.

Yes, the managed money traders were hoodwinked and tricked into selling by the commercials who control the price-rigging strings, but where the heck are the regulators who sit by and watch a world commodity in a current physical shortage by any reasonable measure get smashed to 2-year lows, and all the while publish data that clearly indicate overwhelming speculative selling? Forget my contention for a moment that the managed money traders are getting snookered by the commercials into selling â?? COT report data show only speculative selling over the past three reporting weeks and that should be enough to get the CFTC and the CME Group off their butts and do their jobs of ensuring that speculators are not running the show â?? as thatâ??s clearly contrary to US commodity law.

Even more remarkable is that the raptors have done the heavy buying (along with the other large reporting traders), in accounting for more that 85% of the commercial buying, leaving the big 4 and 8 commercial shorts in the dust. Yes, the 8 big shorts have benefitted mightily by the smash in prices, but have done virtually nothing to reduce the concentrated short position in silver â?? which is still the largest concentrated short position of any commodity in real world terms.

Of course, it is deplorable that the COMEX silver price manipulation has become so egregious and in-your-face and the regulators should be ashamed of themselves for sitting by and doing nothing, but the flip side to all this is that it hard to imagine a more bullish set up in silver. I am both offended and damaged by the obvious manipulation, but I am also wildly ecstatic about what it portends for sharply higher prices. Quite frankly, I am thunderstruck by how bullish both the actual fundamentals and COMEX market structure has become in silver.

As of yesterdayâ??s close, the total loss to the 8 big COMEX gold and silver shorts was reduced by $2.2 billion, to $6.9 billion â?? the lowest total loss since March 31, 2020.

As a reminder, in all likelihood, there will be no article published this Wednesday, due to my travels back to Maine.

Ted Butler

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Silver – $21.12Â Â Â (200 day ma – $23.72, 50 day ma – $24.43, 100 day ma – $23.92)

Gold – $1810Â Â Â Â Â Â (200 day ma – $1837, 50 day ma – $1928, 100 day ma – $1883)

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