

A rally on Friday, which extended after the traditional COMEX close in early afternoon, set gold prices up \$11 (0.6%) for the week, while the same rally in silver only got the price back to end 6 cents (0.2%) lower from last week's close. Still, it was a new 4-month weekly closing high for gold and the second highest weekly close for silver in 8 months.

As result of gold's relative outperformance this week, the silver/gold price ratio widened out by half a point to 67 to 1, still stuck in the middle of the 5-point trading range of the past 4 months, bounded by 70 to 1 and 65 to 1. I have no strong sense of the ratio's direction in the very short term, but longer term I couldn't be surer that silver will vastly outperform gold on a relative basis and this is in keeping with my very bullish expectations for gold on an absolute basis. A little bit later, I'll come back with some new thoughts on the silver/gold price ratio. Let me first run through the usual weekly format first.

The turnover or physical movement of metal either brought in, by truck, to the COMEX-approved silver warehouses or that was removed, also by truck, from those same warehouses, accelerated this week to just over 10.3 million oz. Total holdings fell again, this week by 1.7 million oz to 358.6 million oz, another new low extending back to late-January. Holdings in the JPMorgan COMEX silver warehouse bucked the trend and climbed by 0.5 million oz to 188.1 million oz.

No detraction in any way is intended for the attention being placed on the now more than 40 million oz reduction in COMEX silver inventories, as the reduction is the deepest and fastest reduction in years, but something is missing here. As I've previously commented, it does appear the reduction in COMEX silver inventories appears to have found its way into the PSLV, given the logistical realities of the

proximity of the COMEX warehouses in New York and the PSLV depository in Canada.

Therefore, I'm not at all surprised that so many have focused on the recent sharp decline in COMEX silver inventories. But what has me absolutely flabbergasted and gob smacked is that virtually no attention has been placed on the physical movement in the COMEX silver warehouses, either for this week or for the weekly movement over the past ten years (when JPMorgan started to accumulate physical silver in April 2011).

Thanks to the magic of annualization (multiplying by 52), this week's 10.3 million oz physical turnover in the COMEX warehouses is the equivalent of 535 million oz - or nearly 70% of the Silver Institute's 2020 annual silver mine production of 784 million oz. In other words, this week the equivalent of nearly 70% of the world's silver mine production was physically moved in and out from 9 COMEX silver warehouses in and around the NYC metropolitan area. If that doesn't cause you to say Huh? then it may be time to put down that glass of scotch (or for me to pick it up). This is seriously strange.

While this week's silver movement was 40% to 50% greater than the average weekly physical movement over the past ten years, the average movement was already off the charts. No other commodity experiences this type of physical turnover. My question is two-fold, why is this physical silver movement occurring and why is no one commenting on it? As to why the physical silver movement in the COMEX warehouses is occurring, it can only be because of a great physical tightness that requires constant withdrawal and replacement.

As to why there is virtually no public commentary on this - that's where I'm really

baffled. The turnover data are part of the same daily COMEX statistics that are used to document the widely discussed decline in silver holdings, meaning everyone sees them, so it's not possible that the turnover data are not seen. Any suggestions as to why the turnover is not mentioned would be greatly appreciated – before I run out of scotch.

Not much to report on COMEX gold inventories, as they remained basically unchanged at 34.5 million oz this week. Holdings in the JPMorgan COMEX gold warehouses fell by around 70,000 oz to 12.46 million oz. Ditto the not much to report in COMEX deliveries this month. JPMorgan is a big issuer and bigger stopper in silver deliveries for customers, but hasn't done anything in its house account since issuing 644 silver contracts on first delivery day – which is fine by me.

Physical metal holdings were mostly higher in the world's gold ETFs this week, tending to confirm that the withdrawals since the price highs of last August are behind us. Likewise, there were net additions in world silver ETF holdings on balance. Holdings in the big silver ETF, SLV, were also mostly unchanged but with some turnover.

Since I have characterized the 100 million oz redemption from the SLV (following an increase of that same amount into early Feb) as conversions of shares to metal by large holders – rather than plain-vanilla investor liquidation – I thought I would fill in my thoughts a bit. I claim it is highly sensible for large holders to switch from ETF share ownership to direct metal holdings because it avoids public share ownership reporting requirements and is most likely cheaper in holding costs. And as the most liquid and largest silver ETF, such conversions are more likely to occur in SLV than any other silver ETF.

But there is one thing I haven't mentioned that, if true, would be quite bullish to the price of silver. If I'm correct and large holders have converted shares of SLV to direct metal ownership over the past weeks and months, that means that should they decide to now buy more shares, they have more room to buy shares without concerns of running up against new share ownership reporting requirements - a clearing of the reporting decks, as it were, to facilitate new buying.

Turning to yesterday's Commitments of Traders (COT) report, while I prefaced my contract predictions as not firmly-held, the numbers came in nearly exactly as expected in gold and better than I expected in silver. Seeing as gold and silver prices were quite strong (gold by \$70 and silver by \$1.50) over the reporting week, there was no way there would be anything but managed money buying and commercial selling - the question was by how much and by which commercial categories. Such positioning, of course, is what determines price.

In COMEX gold futures, the commercials increased their total net short position by 25,200 contracts to 227,100 contracts. While this was a significant increase and put the total commercial short position back to levels not seen since late Feb/early March, gold prices were \$100 lower back then and you can't make an omelet if you don't crack some eggs. I was afraid the increase would have been even greater. All told, the COT gold market structure is still on the quite bullish side, although sharp selloffs can't be ruled out.

By commercial categories, the 4 big shorts added over 6200 contracts to 151,603 (15.2 million oz), while the next 5 thru 8 largest traders added 5200 more shorts to a big 8 short position now at 216,433 contracts (21.6 million oz). The smaller gold commercials (the raptors) sold 13,900 contracts (more than the big 8 combined) and

flipped back to a net short position of 10,700 contracts. I always prefer it when the biggest shorts, particularly the big 4, don't take the lead in shorting. JPMorgan may have peeled 2000 contracts off their gold long position and now holds roughly 4000 contracts long.

One thing I have been meaning to mention about JPM's gold and silver near-flat COMEX short positions for what is now more than a year. I have claimed that JPMorgan has been laying low (pretending not to exist in COMEX paper positioning), but I never fully-explained why I think that has been the case. The explanation is simple - what the heck would you expect for an entity that agreed to the terms of a deferred criminal prosecution with the Justice Department? The ink is hardly dry on that agreement last fall and has some years to run before JPM can go back to more overt criminal behavior. In the meantime, don't expect JPMorgan to behave in COMEX futures trading as it did up until last year. These guys ain't dumb.

On the buy side of gold, it was mostly the managed money traders buying into the commercial selling, as these traders bought 27,990 net contracts, nearly evenly split between new longs of 13,861 contracts and the buyback and covering of 14,129 short contracts. The resultant net managed money long position of 81,613 contracts is still net bullish in my eyes. One twist this week was that the other large reporting traders were net sellers of nearly 6500 net gold contracts, with the bulk of the sales being new shorts sales (which was fine by me) and with the smaller non-reporting traders as net buyers of 3700 contracts (which I wouldn't call bullish, but not monumental).

In COMEX silver futures, the commercials increased their total net short position by 4700 contracts, to 73,300 contracts. This is the largest commercial short position

May 15, 2021 - Weekly Review

since the price highs of Feb 2, so I can't represent it as bullish, although this week's increase was a lot less than I was fearing. By commercial categories, the 4 big shorts did add just over 2000 new shorts to 59,179 contracts (296 million oz), and the next 4 largest shorts added 800 new shorts in increasing the big 8 short position to 78,074 contracts (390 million oz). The raptors sold 1900 longs and now hold 4800 silver contracts net long, their lowest net long position since late-January. I'd continue to call JPM flat as it awaits further ink-drying on its deferred prosecution agreement.

They say everything is relative and I think that's the case with this week's silver report. While the total commercial net short position is now the highest since the price top of Feb 2 and that the big 4 short position has increased by just under 5000 contracts over the past 4 weeks, I can't help but note the 4 big shorts seem to be less aggressive than at recent times past.

As examples I would point out that while the total commercial net short position is roughly equal to the position of Feb 2, the big 4 short position is 6000 contracts (30 million oz) less today than it was then. And over the past four reporting weeks, while the total commercial net short position grew by nearly 18,000 contracts, the big 4's share, at 5000 contracts, was much less than it typically is on previous price-topping occasions (when big 4 shorting is typically dominant).

Please recall, in my letter to Acting Chairman Behnam of March 5, I pointed out that the big 4 were the sole short sellers over the price-topping week of Feb 2, when they sold more than 6600 new silver shorts. Compared to this rally, the 4 big shorts are behaving much differently. Now whether that is due to my allegations that the Commission may be acting on or not, only time will tell - but it is markedly different -

at least to this point.

Going into this COT report, I indicated that I wasn't likely to rev up the campaign to elected officials about the CFTC not abiding by the implications in its response to me, and after the report, I must give it more time. To this point, the 4 big shorts are acting differently than they have in the past, but whether that's real or a temporary mirage, will only be known in the fullness of time. It should be no secret that the desired path is for the Commission to do the right thing and for us all not to have to endure a moment more than necessary in enduring the ongoing silver price manipulation.

Finishing up on the silver COT report, the managed money traders were buyers of "only" 3937 net contracts, mainly because they bought 6640 new longs (as expected), but added 2703 new shorts (which was completely unexpected). I can't call the resultant net managed money long position of 46,491 contracts particularly bullish on a purely historical basis, but neither would I call it bearish. I certainly would call every other aspect that I can uncover about silver currently as ultra-bullish and can't help but feel we may be in the foothills of that time when the COT market structure no longer matters - if you can believe that coming from someone (me) who was baptized holding the COT report.

The bottom line to all this is that the increase in commercial selling perhaps enhances the odds of a short-term selloff, but even if we get that selloff, it shouldn't last long - if it materializes at all. We are setting up, if we are not already there, for a moonshot ahead, particularly in silver. To that end, I'd like to return to my opening comments about the silver/gold price ratio, courtesy of a very interesting research paper I ran across on copper (you know I always like to take the more winding

route). First, here's a link to the copper report -

<https://f.hubspotusercontent40.net/hubfs/4043042/Commentaries/2021.Q1%20Commentary/2021.Q1%20Goehring%20%26%20Rozencwajg%20Market%20Commentary.pdf>

As you'll see, the researchers present copper in a more bullish vein than any comparable opinion I've run across - estimating that copper could hit as much as \$15 a pound from current all-time highs of \$4.65 over the next decade. And while I found their thinking on other commodities, including gold, and energy to be insightful, I was struck by their thoughts on silver.

First, they were highly skeptical that there existed a large short position in silver and that the reddit crowd had failed miserably in its attempt to squeeze the shorts into early February. Since silver has been trading basically sideways (to higher) since then, I don't see how failure or success (if that's the real issue) could be declared at this point. As far as whether a big short position exists in silver, I did email the authors; offering to prove the existence of the silver short position from public government data in five minutes should they be interested - and I'll let you know if I hear back from them.

More to the point, while the report didn't seem to be particularly bullish on silver (or even gold in the short term), it ended up concluding that due to money creation and the like, that gold could reach a peak of \$15,000 an ounce by the end of the next long term upswing and that it was likely that silver, as a result of a tightening in the silver/gold price ratio to a target of 20 to 1, would equate to a silver price of \$750 - meaning they expected gold to climb more than 8-fold in price and silver by 30-fold. How anyone could have such extreme upside price targets and be concerned about

short term weakness escapes me.

But my real point is this - there is a mathematical quality about the silver/gold price ratio that I never quite realized before. The first near 60-point decline in the silver/gold price ratio, as occurred from the lows of last March to currently (125 to 1 down to 67 to 1 presently) had the effect of increasing the absolute price of silver by a bit more than 100% or 125% (\$12 to \$27). However, the next big long-term decline in the silver/gold price ratio will have an almost exponential impact on the absolute price of silver.

Forget \$15,000 gold (not that I could rule it out in our everything else has gone price bonkers world); a 20 to 1 silver/gold price ratio would mean \$92 silver at current gold prices. At \$2500 gold, it would mean \$125 silver. At \$3000 gold, it would mean \$150 silver. At \$5000 gold, silver would be at \$250 if the price ratio fell to 20 to 1. Play with the numbers yourself. And remember, this came from a report not particularly bullish on silver. For their sake, I hope they don't become convinced that silver has been suppressed by a documented concentrated short position, as their heads will likely explode with bullishness.

The late, slight upturn in gold prices this week added a bit more than \$200 million to the 8 big COMEX gold and silver shorts' total losses, bringing their total losses to \$12.2 billion.

Ted Butler

May 15, 2021

Silver - \$27.50 (200 day ma -\$25.74, 50 day ma - \$25.96, 100 day ma - \$26.24)

May 15, 2021 - Weekly Review

Gold - \$1843 (200 day ma - \$1854, 50 day ma - \$1757, 100 day ma - \$1796)