May 20, 2023 – Weekly Review

A fairly sharp Friday rally was not enough to prevent both gold and silver from finishing lower and at the lowest weekly close in eight weeks; with gold ending the week down by $35 (1.7%) and with silver finishing down by 13 cents (0.5%). As a result of goldâ??s weaker relative performance, the silver/gold price ratio tightened in by a point to 82.5 to 1, from last weekâ??s two-month undervaluation extreme for silver.

Barely two weeks ago, silver hit fresh one-year price highs, with gold hitting all-time highs intraday, only to have fallen by more than $2 and $100 respectively. The extent of the price declines is not particularly disturbing to this point, but the same canâ??t be said about why prices declined and might fall further. In fact, the explanation for why gold and silver prices fell and may fall more, is exactly the same explanation for why prices rose even more sharply from early March to the price peaks of two weeks ago â?? deliberate paper futures contract positioning on the COMEX.

While this is certainly nothing new for subscribers, it is still mostly outside the comprehension (or admission) of a wide swath of precious metals observers and commentators (and regulators). To be sure, the paper positioning of futures contracts dictating prices is wrong for a number of reasons, starting with that it is a perversion of US commodity law that speculative derivatives trading should ever grow so large and influential on price so as to overwhelm the price signals generated in the actual production and consumption of commodities. In other words, the â??tailâ?• of speculative futures trading should never â??wag the dogâ?• and set prices and not the actual production and consumption of any commodity.

I emphasize â??speculativeâ?• in this paper positioning to highlight that very little actual legitimate hedging is occurring. Sure, the CFTC classifies one of the two main positioning counterparties as the â??commercialsâ?• (the other being the managed money traders) and that connotes to most observers that the commercials must be hedging, but thatâ??s a crock. No one could deny that the managed money traders are speculators, mostly buying and selling on technical price signals and with the commercials taking the other side also just speculating that the managed money traders will be wrong. It has nothing to do with hedging and to call it legitimate â??market makingâ?• by the commercials is also wrong because the commercials always act collusively, rarely (never) buying on higher prices or selling on lower prices.

It is the deliberate and intentional short term price rigging generated by the commercials to induce the managed money technical funds into buying and selling that it is at the heart of an ever-widening cesspool of rigged pricing that has affected so many of our markets. Since Iâ??ll cover the precise positioning in gold and silver in a moment when I discuss this weekâ??s Commitments of Traders (COT) report, let me highlight another market where the banks (the main commercial price riggers in gold and silver) are not the collusive and controlling commercials â?? COMEX copper.

Yesterdayâ??s COT report on COMEX copper futures indicated that the managed money traders, lured into selling and selling short copper futures by commercial-generated price rigging to the downside, had established one of their largest net and gross short positions in years. The large managed money short position in copper was due to the vicious cycle of false (but effective) commercial price prompts to the downside, augmented by the effects of managed money selling further depressing prices â?? with the commercials (mostly large commodity trading houses) buying as the managed money traders sold. Whatâ??s wrong with this?

Essentially, the collusive and intentional price-rigging by the COMEX copper commercials, designed to get the managed money traders to sell, so that the commercials can buy, sends false price signals beyond the paper trading game on the COMEX to the real world of copper mining. Iâ??ve yet to read any legitimate analysis of the copper market that doesnâ??t predict the need for a lot more copper production in the years ahead and supply and demand deficits, yet here we have copper prices being artificially set (manipulated) to the downside in order to accommodate some private betting game on the COMEX. The artificial lower prices send the exact wrong signal to the copper mining companies we depend upon to increase copper mine production.

Now some may argue that the managed money traders could turn out to be correct and, for instance, the world could go into a deep economic recession or depression and nowhere near enough copper will be needed and prices could move even lower, greatly rewarding the managed money shorts. While I canâ??t argue with that, I would point out thatâ??s the last thing motivating the managed money traders into selling short copper (or anything else). The managed money technical funds donâ??t consider any fundamentals of any type â?? just whether the price is rising or falling.

Thatâ??s the problem, namely, these tradersâ?? control so many investor assets under management (hundreds of billions of dollars) that when the commercials rig prices lower or higher and the managed money traders react in unison, the amount of buying and selling generated canâ??t help but set prices to unreasonable heights or depths. In turn, this oversized speculative buying or selling sends false price signals to the real world of production and consumption, as the tail wags to dog.

The only legitimate solution is for the regulators at the CFTC to set legitimate position limits that takes into account the collective buying and selling power of the managed money traders as a whole and to crack down on the deliberate and intentional collusive commercial price prompts. It isnâ??t just in silver where this sick and perverted price rigging is occurring.

The turnover or movement of physical metal either brought into or removed from the COMEX-approved silver warehouses remained strong this week as just over 6 million oz were moved and, for the second week running, total COMEX silver holdings increased â?? this week by a sharp 3.8 million oz, to 274.2 million oz. An increase in the holdings in the JPMorgan COMEX warehouse of 2.9 million oz, to 141.9 million oz, accounted for much of the total increase. I should also mention the recent addition of a new COMEX warehouse, Asahi Depository, with 1.2 million oz, accounted for some of this weekâ??s increase.

Total COMEX gold warehouse inventories were unchanged (due to rounding) at 22.6 million oz and there was a very slight increase to 8.77 million oz in the JPM gold warehouse.

Holdings in the worldâ??s gold ETFs were a tiny bit higher and the same for holdings in the silver ETFs, although there were 1.5 million oz redeemed in the big silver ETF, SLV. I would note that the combined silver holdings in SLV and the COMEX silver warehouses are now at just over the 742 million oz level, not that far below my 750 million oz â??bottom of the barrelâ?• premise a few months back. Obviously, there has been a heck of a lot more (well over 150 million oz) of physical turnover than the net change in holdings and I still insist thatâ??s due to continued near-incessant demand.

Turning to yesterdayâ??s new COT report, I turned out to be quite close on my expectations for around a 10,000-contract reduction in the total commercial net short position in silver, as well as an even larger reduction in the silver gross managed money long position (although I was secretly hoping for more). That was offset by missing more than by a bit in gold, where I was looking for around a 20,000-contract reduction in the total commercial net short position and missed by almost 50% (and even more on a managed money basis).

The only redeeming feature was my certainty that there would be a reduction in the commercial short position, given the price decline over the reporting week, thus preserving 40 years of similar experience. One would think that after 4 decades of a price pattern that always featured commercial buying and managed money selling on every significant price decline that the CFTC would begin to grasp that this rigid pattern might be due to rigged collusive commercial behavior. Not to make light of it (or date myself), I canâ??t help but think of the cartoon bird character of my childhood who thought he saw a cat; with the difference being that Tweety Bird did realize he did see a cat, whereas the CFTC still hasnâ??t acknowledged that which is clearly visible.

https://www.youtube.com/watch?v=k-tzTsbWswY

In COMEX gold futures, the commercials reduced their total net short position by 11,000 contracts, to 211,600 contracts. While this is the lowest total commercial net short position in 7 weeks, it can hardly be considered as anything other than only a slight step towards the typical reduction seen on past occasions of gold price declines intended to flesh out managed money selling and allow commercial buying. Of course, itâ??s always possible for the rigid pattern of the past to suddenly change and that has to be taken into consideration.

By commercial categories in gold, theÂ 4 big shorts bought back 1100 short contracts and held 177,945 contracts (17.8 million oz) short as of Tuesday. The next 5 thru 8 largest commercial shorts also bought back just over 1200 shorts and the big 8 short position fell to 234,824 contracts (23.5 million oz). Rounding up the commercial buying was raptor (smaller commercial) buying of 8500 contracts, which increased their total net long position to 23,200 contracts.

The reason the commercial buying was so subdued in gold was due to very limited managed money selling, as these traders only sold 7003 net contracts, pretty evenly divided between the liquidation of 3677 longs as well as the new sale of 3326 shorts. The resultant managed money net long position of 103,983 contracts (139,786 longs versus 35,803 shorts) must still be considered as large and bearish when looking at positioning over the past few years, but it is still possible for it to grow larger on higher prices. Explaining the difference between what the commercials bought and the managed money traders sold was net selling of 9000 contracts by the other large reporting traders offset by 5000 contracts of net buying by the smaller non-reporting traders â?? with both of these categories impossible to predict in advance (at least for me).

I did mention that I was worried that commercial price rigging in gold might be used to pressure silver prices lower and it seems to me that turned out to be a valid concern and remains so at this point, particularly considering the mostly typical commercial category positioning in gold (where only the lack of big 5 thru 8 shorting on the rally stood out), as compared to the still rather shocking refusal of the 4 big commercial shorts in silver to have added aggressively to shorts on the $6 rally from early March.

One final note on the gold COT report. This report should mark the end of the phony spread creation typically seen to about two weeks or so before the start of a major delivery month in gold (or silver). Over the past three reporting weeks, including this week, close to 40,000 total contracts have been added to gold total open interest â?? and which has absolutely no influence on price, other than confuse the dickens out of anyone trying to read deep meanings into the sharp increase in total open interest. Most or all of this phony spread creation will disappear over the next week or so due to the phony spreads being liquidated â?? no doubt to even more confusion.

In COMEX silver futures, the commercials reduced their total net short position by 9100 contracts to 37,100 contracts. This is the lowest total commercial net short position in a month, as well as being the largest weekly reduction since Feb 28. As was the case in gold, all three commercial categories in silver were buyers, with the big 4 buying back about the same 1800 contracts they sold last week and the big 4 short position, when calculated mechanically falling, to 37,417 contracts (187 million oz) and with the big 5 thru 8 buying back 200 shorts, leaving the big 8 short position at 61,801 on a straight calculation. Again, speaking strictly mechanically (multiplying the total open interest by the posted net short percentages listed) the raptors were buyers of 7000 longs, increasing the raptor net long position to 24,700 contracts.

However, the big news and standout feature was the continued short selling by a single large managed money trader to the point where this trader is now short at least 10,500 contracts, placing it more squarely in the big 4 short category, probably up to the third largest trader from the fourth largest. This turns the mechanically-calculated big 4 and big 8 short position on its head, as the inclusion of this large managed money trader as the third largest silver short automatically reduces the big 4 commercial-only component down to 27,000 contracts and the big 8 commercial-only component down to 51,300 contracts. It would also reduce the true raptor net long position down to 14,200 contracts.

While I had no prediction for the commercial category changes or whether the big managed money short would stay or go (or add), it was and is uppermost on my mind. Of course, Iâ??m delighted with the results this week as nothing could be better than to see continued declines in the commercial-only component of silverâ??s concentrated short position, seeing as this is a signature issue for me â?? having petitioned the regulators for decades about this key issue. Seeing it unfold in real time is nothing less than other-worldly. Add in the also unprecedented occasion of a managed money trader coming into the ranks as a big 4 short seller (on mostly higher prices) and you have the makings of something so extraordinary to these old eyes that words can hardly describe.

As to how these two unprecedented developments, one long-expected and the other not expected at all, will get resolved, Iâ??m convinced the former big commercial silver shorts will continue to buy back short positions as long as the managed money longs Â continue to sell (as will the big 5 thru 8 and raptors). Once the managed money long position is sufficiently liquidated (with or without managed money technical fund new shorting on still lower prices), I still believe that the big commercial shorts will refrain from adding aggressively to new shorts on the inevitable turn up in silver prices â?? resulting in the long-awaited silver price explosion.

As far as what the new big managed money short will do from here, aside from one known certainty, Iâ??m not sure. After all, who can go spouting off what will occur in completely unprecedented circumstances? I do know, beyond any doubt, that the big managed money short (who is definitely not technically-motivated), as well as any future technically-oriented managed money traders who may come on to the short side in silver will end up buying back any added short sales – for the simple reason that every managed money trader, regardless of the motivation for establishing the original short position, stands a zero chance of physical delivery to close out the very open short position. Any newly added managed money short position put on, either on the rally of the past two months or on the current and prospective decline ahead, must be bought back. Period.

The big commercial silver shorts may have hoodwinked the CFTC for decades into believing these short sellers were somehow hedging and this permitted the Commission to look away and pretend that everything was on the up and up as the commercials never once bought back short positions on higher prices; but it is not possible for even the most irresponsible of regulators to allow any managed money trader to claim a hedging exemption. Simply put â?? all managed money traders which go short will buy back those short positions at some point â?? pure and simple.

The only question is the manner by which every managed money short position will be bought back. Should the collusive COMEX commercials succeed in rigging prices sufficiently low enough to induce new managed money technical fund short selling, I can tell you from experience that these traders will buy on higher prices and nearly-guaranteed losses, as this type of short selling has always been the â??rocket fuelâ?• for higher prices.

On the other hand, the new big managed money silver short established at higher prices, being unprecedented to start with, is almost impossible to decipher as far as to how and when the short position will be bought back â?? with the only certainty being that the short position will be bought back. If this unprecedented short position is bought back on lower prices, it will provide stiff buying competition for the certain commercial buying on lower silver prices. If the current big managed money short position is bought back on higher prices, it will add the same price thrust upward that technically-oriented managed money short buyback has provided (as rocket fuel). I wish I could tell you which it will be, but a manâ??s got to know his limitations. All I think I can do is monitor it as future COT reports unfold.

Finishing up on the silver COT report, the managed money traders sold 12,649 net contracts, consisting of the sale and liquidation of 11,080 longs and the new sale of 1569 short contracts. I didnâ??t mention it but it appeared to me this new short selling was on the part of the big managed money short because there was no change in the number of traders (26) in the managed money short category. The total managed money net long position fell to 12,740 contracts (45,137 longs versus 32,397 shorts). Explaining the difference between what the commercials bought and the managed money traders sold was net buying of 4000 contracts by the other large reporting traders.

Comparatively speaking, both the overall silver market structure is much more bullish than the structure in gold; with almost no comparison between the shockingly bullish low commercial-only component in silverâ??s concentrated short position and the concentrated short position in gold. It is for these reasons that Iâ??m still concerned about gold price weakness pressing silver prices lower, although that is, admittedly, hard to see at times.

While I have concerns about further prices weakness ahead, I am more convinced than ever that we are setting up for the final price explosion in silver dead ahead. Thereâ??s no telling what maytranspire as far as lower prices ahead, given the treachery of the collusive COMEX commercials; but itis far more certain that when the commercials are done doing their dirty deeds, the silver path upwardtruly looks massive.

Ted Butler

May 20, 2023

Silver – $24.00Â Â Â Â (200-day ma – $21.93, 50-day ma – $24.31, 100-day ma – $23.51)

Gold – $1980Â Â Â Â Â Â Â (200-day ma – $1833, 50-day ma – $1995, 100-day ma – $1934)

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