May 27, 2023 – Weekly Review/FT Copper Article

For the third straight week, gold and silver prices fell; withÂ gold ending the week $34 (1.7%) lower and with silver finishing 56 cents (2.3%) lower. Both gold and silver closed at nine-week price lows. As a result of silverâ??s slight relative underperformance, the silver/gold price ratio widened out by half a point to 83 to 1. Earlier in the trading week, the price ratio had traded a couple of points higher.

At this weekâ??s price lows (set in late overnight trading on Thursday), the three-week selloff had retraced 50% of the $260 gold and $6 silver rallies that began in early March â?? a throwback to a long ago and now primitive technical consideration. More technical emphasis seems to involve moving average penetrations and, on the selloff, silver has managed to close below two (the 50-day and 100-day maâ??s), while gold has closed below its 50-day moving average. This leaves room for further downside, according to past managed money behavior.

Of course, future COMEX positioning between the commercials and managed money traders represents the sole reason gold and silver prices may fall further, stacked up against a list of bullish reasons that seems both large and growing. And should the commercials succeed in rigging prices lower and further inducing managed money selling, at some point, the sole reason for prices to fall, not only ceases to exist, but also becomes the prime reason for prices to then rise â?? jumping to the very top of the long list for prices to rise.

How far along in the process we are until the sole bearish reason becomes the top bullish factor is why I study the COMEX market structures via the weekly Commitments of Traders (COT) report. Over the decades, no data source has come close to explaining and predicting silver and gold price movement than the COT reports. At the same time, this data series is dynamic â?? meaning that while the data is completely objective, as well as the premises behind it, changes in the size and composition of the traders over the years and decades necessarily demands changing interpretations of the data.

For instance, after JPMorgan took over Bear Stearns in 2008, it was easy to identify JPM as the big COMEX silver and gold manipulator given its obvious controlling concentrated short position in each metal â?? and why (I believe) I was always able to get away with labeling JPM as the big silver and gold crook with no blowback. But after accumulating a massive amount of physical silver and gold at bargain prices thanks to its suppression of prices (by being heavily short on the COMEX), JPMorgan abandoned the short side on the COMEX in 2020.

Other changes (not quite as dramatic as JPMâ??s sudden entrance and departure from the short side) have occurred since â?? all requiring a revision in some way for how the data in the COT report is interpreted. Most recently has been the stunning refusal of the largest COMEX commercial shorts to add new short positions on the recent $6 silver rally for the first time ever (in 40 years), as well as the unprecedented emergence of a single big managed money trader into the ranks of the four largest shorts on higher prices.

Iâ??m highlighting Â these recent and unprecedented changes in trader profiles in COMEX silver futures as a prelude to trying explain and interpret yesterdayâ??s COT report on silver, which featured far less commercial buying than I expected and no net managed money selling. Up front, I canâ??t tell if itâ??s a one-week aberration or something related to the recent unprecedented changes. More a bit later.

The turnover or physical movement of metal either brought into or removed from the COMEX-approved silver warehouses continued frantic, as this week another 7 million oz were physically turned over; the fourth week out of the past seven that the weekly movement has exceeded 7 million oz. By the way, a weekly turnover of 7 million oz equals an annual turnover rate of 365 million oz, or more than a 130% annual turnover rate of the total 272.1 million oz – down 2.1 million oz for the week (holdings in the JPM warehouse fell 0.6 million oz to 141.3 million oz). If one subtracts the 103 million oz held in NY for the silver ETF, SLV, which never seems to move, that would mean an annual turnover rate of 365 million oz or over 200% of the 170 million oz COMEX warehouse total (ex the amount held for SLV).

Any way you slice it, the physical turnover rate in the COMEX silver warehouses is startling when compared to any other commodity and thatâ??s been the case for 12 straight years, when I first noticed it and began reporting on it in April 2011. Maybe thereâ??s something wrong with me (OK, no maybe about it), but this is like looking at a dog with two heads and not noticing anything unusual â?? as far this glaring daily statistic going unnoticed in the silver community.

Once again, my only explanation for why this near-incredible physical turnover exists is due to an almost insatiable demand for physical silver (mostly from users as opposed to investors) that requires constant replenishment for the silver ordered out. I also would point out, in the name of consistency, that the only possible reason this documented turnover hasnâ??t resulted in soaring silver prices is because of the presence of the much stronger and singular cause of the suppression in silver prices â?? the 40-year COMEX paper price scam.

Total COMEX gold warehouse increased again, for the tenth week running, this week by nearly 0.3 million oz to 22.9 million oz (the highest lever YTD). Holdings in the JPM COMEX gold warehouse held steady at 8.77 million oz.

In physical ETF flows, around 250,000 oz were deposited in the worldâ??s gold ETFs, while about 2 million oz were redeemed from the worldâ??s silver ETFs. The flows into and out from the big silver ETF, SLV, continued to be large and extremely counterintuitive. Early in the week, nearly 3 million oz were deposited into SLV and then 3.3 million oz were redeemed on one day. I say counterintuitive because trading volume was rather subdued in SLV, meaning the flows had little to do with net investment buying or selling and most likely be attributed to other reasons â?? like metal being deposited to close out short positions (in time) and redeemed due to greater need for the metal elsewhere.

Speaking of the short position in SLV, the new short report published mid-week, indicated a slight decline in the short position of 1.5 million shares to just over 16 million shares (14.6 million oz), as of May 15.

https://www.wsj.com/market-data/quotes/etf/SLV

While I still contend that the short position is, effectively, even lower due to otherwise unexplained large metal deposits earlier, it is important to recognize that the reported short position in SLV is still down massively from the peak short position of 60 million shares back in August. And I canâ??t help but conclude that my complaints to the S.E.C. and BlackRock (the trustâ??s sponsor) were instrumental in the recent very sharp reduction in the short position. The rather sudden reduction by more than 70% from the peak didnâ??t happen for no reason at all and I contend not being able to refute my contentions that the large short position in SLV was both fraudulent to shareholders and manipulative to silver prices made behind-the-scenes regulatory pressure the most likely reason for the reduction. It also implies strongly that massively large short positions in SLV are a thing of the past.

Turning to yesterdayâ??s COT report, about the only prediction I made that was on the mark, was my expectation for a 25,000-contract reduction in the total commercial short position in gold, which came in as a 24,500-contract reduction (although I was hoping for more). However, the managed money net selling in gold was less than 11,000 contracts. In silver, the commercials only reduced their total net short position by around 2000 contracts (and not the 5000 to 10,000 contracts I expected) and the managed money traders in silver only sold a grand total of 60 (yes, 60) net contracts. Let me run through the numbers and then try to make some sense of them.

In COMEX gold futures, the commercials bought and reduced their total net short position by the just-mentioned 24,500 contracts, to 187,000 contracts. While this is the lowest total commercial short position since March 21, it is still larger by 68,000 contracts from where it was two weeks earlier, on March 7. By commercial categories, this week all three categories were buyers, with the 4 largest shorts buying back 6400 shorts and holding a short position of 171,511 contracts (17.2 million oz) as of Tuesday. The next 5 thru 8 largest shorts bought back 1300 shorts and the big 8 short position fell to 227,084 contracts (22.7 million oz). The raptors (the smaller commercials apart from the big 8) added 16,900 new longs to a net long position totaling 40,100 contracts.

On the sell side of gold, the managed money traders sold â??onlyâ?• 10,844 net contracts, consisting of the sale and liquidation of 11,236 longs and the buyback and covering of 392 short contracts. The resultant managed money net long position of 93,139 contracts (128,550 longs versus 35,411 shorts) is also â??onlyâ?• lower by around 21,000 contracts from the peak on May 2, not the size of reduction typically associated with major price bottoms, although I would imagine further improvement since the Tuesday cutoff.

Explaining the large difference between what the commercials bought and the managed money traders sold was combined net selling of around 13,000 contracts by the other large reporting traders (7500 contracts) and the smaller non-reporting traders Â (5500 contracts), both mostly in the form of long liquidation.

In COMEX silver futures, the commercials reduced their total net short position by 2100 contracts to 35,000 contracts. This is the lowest commercial short position since April 4, although Iâ??m scratching my head as to why it wasnâ??t much lower. By straight mathematical calculation (multiplying total open interest by the percentage of that held by the 4 and 8 largest shorts) the big 4 short position fell by around 900 contracts to 36,514 contracts (183 million oz), while the big 5 thru 8 traders stood pat and the big 8 short position fell to 60,947 contracts.

But as Iâ??ve been reporting of late, there appears to be a large managed money short in the usual commercial-only composition of the big 4 shorts and while this big managed money short appears to have bought back and covered around 1500 short contracts this reporting week (about the same amount added the prior week), the big managed money short position appears to still be around 9000 contracts. Subtracting this 9000-contract managed money position from the mathematically-calculated big 4 position of 36,514 contracts would result in a 27,500-contract commercial-only short position â?? roughly the same as it was last week and still, essentially, at historic lows.

It would also mean the big 8 commercial-only short position was around 52,000 contracts – meaning that the raptors (the smaller commercials) added around 2800 new longs and hold a 17,000-contract net long position as of Tuesday.

While I was taken aback by the paucity of the number of contracts bought by the commercials this week, I was shocked by the even lower number of net contracts sold by the managed money traders â?? yes, only 60. The managed money longs sold and liquidated 1867 long contracts, while there were 1807 short contracts bought back by the big managed money short Â (based on an actual decrease by one in the number of traders in this category, to 25). The resultant net managed money long position of 12,680 contracts (43,270 longs versus 30,590 shorts) compares favorably relative to gold, but still leaves room for further reduction. Explaining the difference between what the commercials bought and the managed money traders sold was long liquidation of more than 1800 contracts by the other large reporting traders.

So, what to make of what I would call the rather disappointing COT report in gold and silver? Iâ??m not sure. It may be but a pause in much greater managed money net selling to come on lower prices or a result of the unprecedented developments in silver, as far as the extremely low true commercial-only concentrated short position and the large managed money short. It did appear to involve short covering competition by the big managed money short that prevented at least 1800 more contracts that the commercials were able to buy, but one shouldnâ??t extrapolate too much on one weekâ??s data. We have no choice but to let things unfold as they will.

In the interim, I must repeat that the sole bearish factor at work, COMEX paper positioning, is and will turn into the most bullish factor as long as the commercialsÂ can rig prices lower and induce managed money selling. That point of maximum inducement is only known for sure in hindsight Â and while by historical measures it appears there is more to go, in addition to the two unprecedented recent developments in silver (the low commercial-only component of the big 4 concentrated short position and the big managed money short position) there is the drumbeat of signals from the physical silver market that promises that when the turn up in prices occurs, it should be like no other that preceded it.

Admittedly, it is painful to bear witness to the deliberate price-rigging lower and suffer the markdowns in account values and the emotional damage that comes with that â?? particularly when the game is so darn obvious and illegal. But if life is a series or rationalizations, the greatest rationalization is knowing there is a limit to this move to the downside, at which point the COMEX commercials will have drained every drop of blood from the stone they are capable of draining.

Most grating of all, is that the sick game being played out on the COMEX is occurring on the watch of the federal regulators expressly created to prevent such price manipulations, the CFTC.Â Rather than just dwell on the manipulation in silver, let me extend just how far the same manipulation has come to infect other markets, in this case copper, which happens to be more than eight times larger than silver, in terms of the dollar value of eachâ??s annual mine production.

The Financial Times and Copper

An interesting article was published this week in the Financial Times of London about copper that I intend to critique. Please know that I find the FT to be a high-quality and almost venerable publication and that I hold no bias against it or other similar publications, such as the Wall Street Journal or the NY Times (both of which Iâ??ve always subscribed to). Itâ??s just that I feel the FTâ??s piece on copper almost demands that I speak out. (You may have to sign up for a free limited subscription to open the article) â??

https://www.ft.com/content/479c524f-c5ea-45a2-8bc3-c66eaf4f83a5

I would note that I openly admit to being bullish on copper and this article is, essentially, quite bearish, so let that factor into your judgement of my critique. In fact, the price of copper had already fallen by about 15% over the month prior to the article, to six-month lows â?? so my first fault is that the article looked like so many Iâ??ve seen previously, in which a laundry list of reasons is published informing us of the reasons for a price movement after the fact. This confirms the old adage that price makes the news and not vice versa. I believe it has toÂ do with the human condition that demands an explanation for why any price has fallen or risen, regardless of the validity of the explanation – which, in turn, requires that someone provide the explanation. In this case, the FT rode to the rescue.

No doubt, many of the details of FTâ??s explanation sounded erudite (if not confusing, even to this long-time commodity analyst), so all had the appearance of filling the knee-jerk demand for why copper prices fell. However, one, in particular made no sense to me. The chart that indicated how copper inventories falling in China and rising in the West seemed like a wash or arbitrage to me and since the beginning of April or a bit earlier, the combined inventories fell quite a lot from previous peaks. At best, perhaps a 30,000-ton increase in combined inventories may have occurred, but that still left combined copper inventories down by 70% or more from a few years ago.

Cutting to my real point of contention with the FTâ??s article was what wasnâ??t said. While the article dealt with issues I can only classify as minor and questionable, it left out completely the 800 lbs. gorilla in the middle of the room â?? paper positioning in the futures market. Bear in mind that LME copper trading is nearly twice the size of similar trading on the COMEX, and both markets are, essentially, similarly and proportionately positioned, so you can rely on the figures Iâ??m about to offer from last weekâ??s COT report as greatly understating the combined COMEX/LME actual positioning.

Over the COT reporting week of April 18, in which copper price traded over $4.15, the net managed money long position in COMEX copper futures grew to just over 18,000 contracts. Four reporting weeks later, as of the COT report for positions held as of May 16, and in which copper prices fell toÂ under $3.67, the managed money net long position had flipped to the short side to the tune of 24,000 contracts. This indicates that the managed money traders on the COMEX were net sellers of 42,000 copper contracts over this four-week period (and undoubtedly much more in LME positioning).

Since one COMEX copper futures contract is the equivalent of 12.5 tons, this means that the managed money traders were net sellers of 525,000 tons of paper copper over the four reporting weeks ending 5/16. Â Yet nowhere in the FT article was there any mention of this â?? only, at best, some questionable increase in copper inventories of perhaps 30,000 tons. As a brief reminder, the net selling by the managed money traders on the COMEX alone (leaving out the much larger LME positioning) was close to 18 times larger than the possible increase in combined copper warehouse inventories.

But itâ??s not just the Financial Times and other respectable publications overlooking the sledge hammer effect that oversized and speculative managed money futures positioning has on prices. Unfortunately, the regulators at the CFTC and their counterparts in the UK, continue to be, apparently, clueless as to what is transpiring – which is strictly forbidden by US commodity law.Â Itâ??s nice that the CFTC seems to spend a lot of time going after crooked retail gold and silver dealers, most often long after the fraud and theft have been perpetrated on innocent retail investors and where restitution is mostly impossible; but I would remind the CFTC that its main mission as the Commodity Futures Trading Commission is the proper regulation of the futures market, not the retail precious metals dealer network. If anyone at the agency can explain how purely speculative futures trading by the managed money traders (no doubt prompted by the collusive commercials) is not a price manipulation by these traders, I wish they would do so and put this matter to rest (although I wonâ??t be holding my breath).

Of course, as is the case in silver and gold, whenever the managed money traders hit the point of maximum selling in copper, prices will turn sharply higher as the managed money then all race to the other (buy) side of the boat. Whatâ??s wrong with this particular brand of price discovery (price-setting) is that it sends false price signals to those that matter most â?? the miners and producers of copper (and silver).

Capital will only flow into new mine production capacity when prices induce that flow. Â As long as large-scale, but essentially, private speculative betting games determine prices on the leading commodity exchanges, the mining community is being denied the price incentive to increase production, just about guaranteeing we will face production limitations and shortages in the future â?? all due to todayâ??s speculatively-derived prices.

In the case of silver, the COMEX price manipulation and suppression has existed for so many decades, that the physical shortage has already arrived, so, in a real sense, itâ??s already too late to ramp up mine production, no matter what. Thatâ??s because it takes years, if not a decade, to bring a greenfield project into production. That means silver mine production wonâ??t increase meaningfully in the short run regardless of how high prices might spike. I think itâ??s important to keep this in mind in terms of proper time perspective.

On the one hand, the great current imponderable concerning time is how long before the commercials induce maximum managed money selling on the COMEX. To my mind that is a question delineated in days or weeks or perhaps a bit more than that. Now compare that to the time-line it will take for capital to flow into creating new silver mine production capable of delivery newly-mined silver, which starts at years from now. Even re-starting mothballed projects takes a good deal of time â?? certainly relative to how long it might take the crooked and collusive commercial on the COMEX to induce maximum managed money selling.

It’s easier said than done, but try to treat any further price rigs to the downside as just another step closer to maximum commercial rigging to the downside and what should be the final price low in silver, perhaps forever or some long time that rhymes with that.

I know itâ??s the official kick-off for summer and a three-day weekend, but hereâ??s a deep nod of respect and remembrance for all those who laid down their lives defending our country.

Ted Butler

May 27, 2023

Silver – $23.44Â Â (200-day ma – $22.01, 50-day ma – $24.49, 100-day ma – $23.47)

Gold – $1944Â Â Â Â Â (200-day ma – $1837, 50-day ma – $2000, 100-day ma – $1941)

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